Annual Report
2013

What quality means to us

PHOSAGRO®

Headquartered in Russia, we are the world's largest producer of high-grade phosphate rock and Europe's largest producer of phosphate fertilizers. We control a high-quality, premium phosphate resource and we leverage this exceptional asset through our vertically integrated, flexible production and distribution model to deliver tailored fertilizers across the globe.

For further information and to download our Sustainability Report please visit our website www.phosagro.com

What quality means to us

Quality defines our business. It is how we generate strong returns for our shareholders and create value for our broader stakeholders. It starts with our competitive advantage in controlling one of the highest-quality phosphate resources in the world – our igneous apatite-nepheline reserves at the Khibiny deposit in northern Russia.

Our production model enhances the value of our phosphate rock through a vertically integrated, flexible production model to produce 25 different grades of high quality fertilizers for farmers in Russia and across the world. We maximise our returns through flexible production which is able to rapidly adapt to changes in demand. We combine this with a netback driven sales strategy, enabling us to deliver our fertilizers to markets that will give us the greatest return, whatever the market conditions. All of our operations are underpinned by high-quality processes and sustainable business practices, as we detail both in this report and in our 2013 Sustainability Report, which is available at www.phosagro.com

This symbol directs you to further information on our website.

S R This symbol directs you to more information in the Sustainability Report 2013.

This symbol directs you to more information within this report.

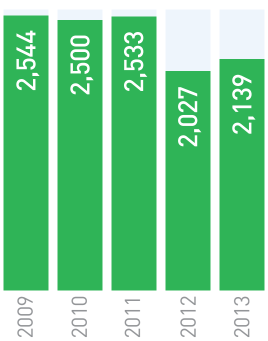
Contents

Highlights at a glance

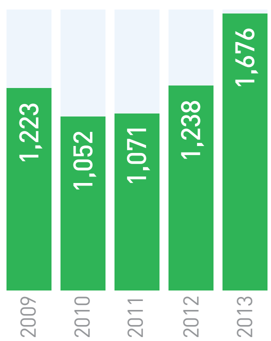
Operational highlights 2013

Despite challenging market conditions, our fertilizer production increased by 9% and sales increased by over 11% year-on-year. This included an increase in nitrogen fertilizer production of more than 19% and in our phosphate-based fertilizer production of more than 6%.

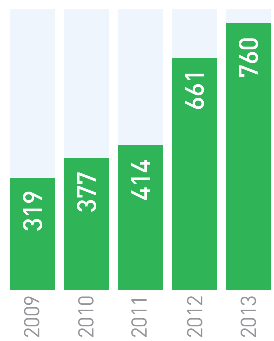
DAP/MAP sales, kt



Fertilizer and MCP sales to Russia and CIS, kt

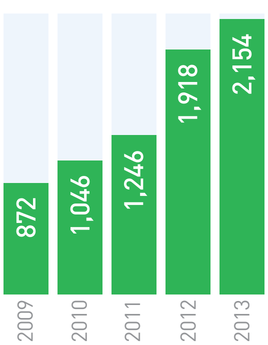


Fertilizer and MCP sales to Asia[1], kt

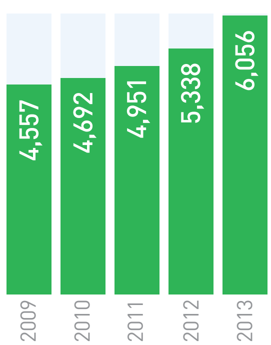


1. Excluding India.

NPK/NPS sales, kt

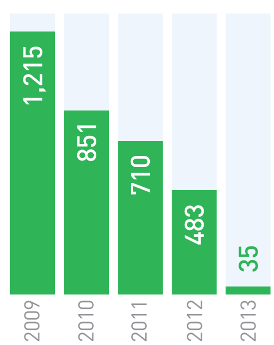


Downstream product sales[1], kt



1. Phosphate-based fertilizers, MCP, STPP, and nitrogen fertilizers.

Fertilizer and MCP sales to India, kt

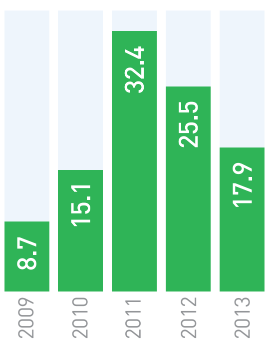


For KPIs see page 32.
For Operational review see page 42.
For Finance review see page 46.

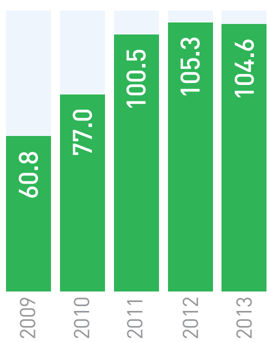
Financial highlights 2013

Our financial position remained strong although the net debt/EBITDA ratio of 1.8x at the end of our reporting period exceeded our target level of 1.0x. Our EBITDA margin deceased by 10 p.p. to 23%, impacted by significant drops in DAP and urea prices in 2013.

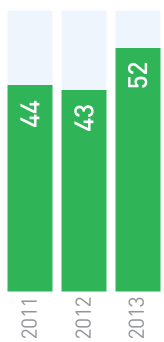
Cash flow from operating activities, RUB bln



Revenue, RUB bln

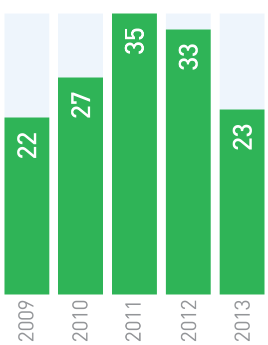


Payout ratio[1], %

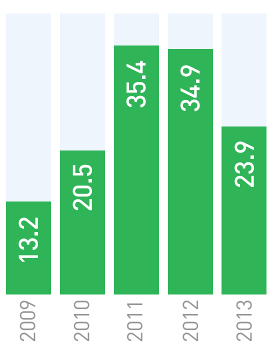


1. Since IPO in 2011 (2011 April-December).

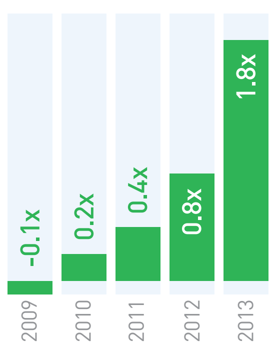
EBITDA margin, %



EBITDA, RUB bln



Net debt/EBITDA ratio



Source: PhosAgro

Responding to a challenging year

This year, the robustness of PhosAgro's business model and strategy was fully illustrated: 2013 was the most difficult year for the fertilizer industry since 2009 and our vertically integrated, flexible production model enabled us to respond successfully to these market conditions.

As discussed in our Market review, 2013 saw considerable volatility in pricing. This was caused by stagnation in global consumption combined with a number of other factors, notably India's budget constraints, currency devaluations in key markets, a delayed spring planting season and the breakup of the Uralkali/Belaruskali consortium. The strength of our business enabled us to respond to these challenges, and unlike many of our competitors we continued to capture value – indeed we maintained 100% production capacity and significantly increased both fertilizer production and sales. We succeeded in doing so in a market environment where some producers' margins dropped even below levels experienced in 2009 with DAP prices bottoming at just US$ 350 per tonne – while we continued to generate sustainable cash flow for our shareholders. This is where the high quality of our phosphate ore, its low processing costs and our self-sufficiency in inputs truly came to the fore: the strength and quality of our business has been tested and proven.

Our Board and people

Clearly, the most important personnel development this year was the appointment of our new CEO Andrey A. Guryev. Andrey has worked within PhosAgro for close to a decade, and prior to his appointment was Deputy CEO of Sales and Logistics for two years, during which time PhosAgro significantly increased sales volumes to both domestic and international markets. I would sincerely like to thank his predecessor, Maxim Volkov, and I know Andrey will build on his excellent legacy.

We also had two additional Board retirements in Vladamir Litvinenko and Vasily Loginov and I would like to welcome our two new board members, Andrey G. Guryev and Yuriy Krugovykh, who both bring deep experience to PhosAgro. We also continued to strengthen our governance processes and this year we approved a new anti-corruption policy.

We also continued to more tightly integrate and centralise our management, and in particular I would like to thank the many individuals who continued to work to ensure we operate safely for the protection of all our workforce. To add further robustness to our approach, a new health, safety and environment policy was approved; applicable to all our subsidiary businesses. In this regard, I would like to express my deep regret for the two fatalities we did experience this year and my personal commitment to eliminating all fatalities and serious injuries from our business.

Our strategy

We continued with our strategy to consolidate and streamline our business. In 2013 we finalised our 100% ownership of OJSC Apatit and consolidated the phosphate assets of Metachem by increasing our stake in the business from 74.76% to 100%. In addition, we continued to centralise our Group operational management team at Cherepovets.

Our responsibilities

This year we took a very important step in increasing our transparency and illustrating our commitment to quality across our entire business with the release of our first ever Sustainability Report. I would recommend you read this report in conjunction with our Annual Report. In our Sustainability Report we set out in detail our commitments to our people, our communities and the environment and our overarching desire to effectively leverage our high-quality phosphate ore by operating responsibly and to best practice standards. I would like to thank all our people who contributed to this important next step in our business reporting.

Results and dividend

PhosAgro raised more than US$ 210 million through a new share issue via a second public offering (SPO). These proceeds were used by the Group to consolidate minority stakeholdings in key production facilities, as well as for ongoing modernisation and the development of projects in line with our strategy. The SPO also increased PhosAgro's total free float to 19.2%, which further increased to 20.3% after Maxim Volkov, our former CEO, left the Board in February 2014. This increase in the free float is a further important step in our journey to provide increased transparency and management accountability to shareholders (which is also reflected in the issuing of our Sustainability Report).

As I have noted above, it was a very challenging year due to a combination of the unstable price environment and the necessity to continue with our CAPEX programme for modernisation and building additional capacity, all with the best available technology. As we did not expect such a significant drop in DAP prices (nor did our broader industry peers), it was too late to cut our CAPEX programme for 2013. Despite severe market conditions, PhosAgro continued to generate sustainable cash flow and pay out dividends higher than the upper limit stated in our dividend policy.

Looking forward

The success we have had during one of the most challenging times for our industry gives me great confidence that we have the right strategy in place to steadily increase value for our shareholders and our broader stakeholders – in full awareness that we are subject to the cyclical nature of the commodities sector. This year, we continued to strengthen our business, both through the consolidation of our Group structure and through capital investment. These steps have been taken with the single aim of ensuring we are a profitable, sustainable business for the long term.

Sven Ombudstvedt

Chairman of the Board of Directors

What quality means to us

Quality production

Building on the quality of our resource base and through a combination of acquisitions and organic growth, we have in place a fully integrated production model that is both cost efficient and flexible in production capacity, which enables us to rapidly respond to changing market demands and competition.

For more about our quality production see pages 40-41.

Quality resource

The value we bring starts with the quality of our phosphate igneous resource. Our resources under development are of 2.05 billion tonnes of apatite-nepheline ore and this is one of the purest of the large ore bodies in the world.

For more about our quality resources see pages 12-13.

Quality people

It is our team of talented people led by our Board of Directors' operating to the highest standards of corporate governance, that enables us to maximise the value in our unique set of resources and production advantages.

For more about our quality people see pages 56-57.

Quality products

Our high-quality fertilizers are uniform in grain size and contain properties, including low concentrations of harmful impurities such as cadmium, which maintain the safety and quality of the product prior to soil application.

For more about our quality products see pages 8-9.

Quality environment

All our activities are underpinned by our commitment to being a sustainable business. In practice, this means that we have a workplace that offers our 18,870 employees promising career opportunities in a safe and healthy environment.

For more about our quality environment see pages 52-53.

Quality for consumers

Our flexible production facilities allow PhosAgro to tailor our products to meet the needs of our customers. They help to enhance the recovery of depleted soils to encourage strong and vigorous root and shoot growth, early harvest maturity and sustainable agriculture.

For more about quality for customers and consumers see pages 22-23.

Quality logistics

In recent years we have taken measures to improve the accessibility of our products to our consumers, including the introduction of container transport, which in contrast to bulk transport increases our flexibility in supplying products to international markets.

For more about our quality logistics see pages 16-17.

Quality products

Delivering top-quality products

Our products are an essential element in creating foodstuffs for the world's population – they enhance yields and increase nutrient value. Our products fall predominantly into two major categories: phosphate-based products (DAP, MAP, NPK, MCP and STPP) and nitrogen fertilizers.

S R For more about our quality products see pages 8-13 in our Sustainability Report.


25 fertilizer products are sold in
100 countries

Expanding our global presence

We are one of the world's leading and lowest-cost producers of phosphate based fertilizers. Our focus is on producing quality products for our customers, achieving our strategic goals and ensuring that we deliver value to our key stakeholders.

We are the number one global producer of high grade (39%) P_2O_5 phosphate rock.

We are among the top three global producers of concentrated phosphate fertilizers[1].

Our 2.05 billion tonnes of apatite-nepheline ore is one of the purest of the large ore bodies in the world.

Our igneous phosphate ore has some of the lowest cadmium levels in the world.

We have one of the highest levels of upstream and downstream integration in the industry.

We are the only company where the majority of our production lines are fully flexible.

We are substantially self-sufficient in key feedstocks and fully self-sufficient in phosphate rock.

We are the number one supplier to the fast-growing Russian market.

We have distribution centres strategically located near Russia's major agricultural regions.

We sell our products based on the best netback price that we can obtain to approximately 100 countries.

Opened Singapore trading office to access growth potential in Southeast Asia, the main region outside Russia and premium market where PhosAgro sells its NPK fertilizers.

We produce 25 tailored grades of fertilizer to meet farmers' specific needs.

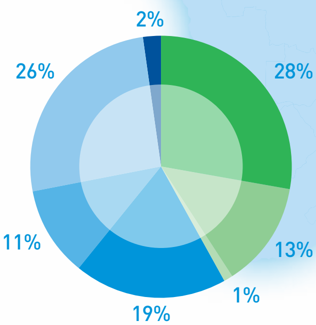
1. Excluding Chinese producers.

PhosAgro global sales in 2013

For more information on our business model please see pages 28-29.

1. Excluding India.

Fertilizers and feed phosphate sale volumes by region in 2013, %



- Russia and CIS
- Asia
- India
- Europe
- Africa
- Latin America
- North America[2]

2. USA and Canada.
Source: PhosAgro.

India case study

India DAP imports in 2013 equalled 3.7 million tonnes, a decline of 37%, or 2.5 million tonnes compared to 2012, and twice lower than the record import volumes in 2010.

The decline in India's imports was due to the government decision to cut subsidies. We responded by diverting our products to markets with better netback sales, including the premium markets of Asia and Europe.

For the full case study in the Market review see page 21.

China case study

Despite having the highest phosphate application rates in the world, China cannot achieve the best yields. Accordingly they need to continue to increase imports of soft commodities year-on-year to feed almost 1.4 billion people.

This reinforces our confidence in DAP/MAP demand and pricing.

For the full case study in the Market review see page 19.

Quality resource

Unlocking the potential of our premium resource base

Due to the exceptional purity and nature of our igneous ore, fewer resources – such as pure water, energy and feed stocks – are required in the production process. This allows us to produce a wide range of top-quality fertilizer grades and remain one of the lowest cash cost producers.

For more about our quality resources see pages 14-15.

PhosAgro's phosphate rock P_2O_5 content

39%

Competitors' phosphate rock

28–32%

Source: Fertecon, IMC, USGS 2011.

Benefits of our quality resource

PhosAgro quality
We produce high-quality concentrated and complex fertilizers. The high quality of our products helps to increase crop output and quality. This means that farmers benefit significantly from using our fertilizers.

We use our own high-quality raw materials from igneous phosphate ore (phosphate rock with high phosphate content and low levels of impurities).

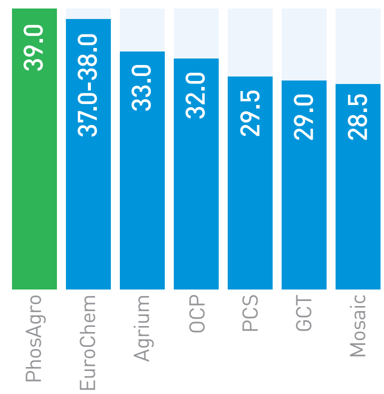
Companies that use high-quality phosphate rock benefit from lower processing costs for the manufacture of end products, which enables them to achieve higher profits on both phosphate rock and fertilizer sales. This has been confirmed by research recently published by CRU. It gives us a sustainable advantage due to the low cost associated with the processing of our phosphate rock.

The quality of phosphate rock is based on the phosphorus nutrient content, its makeup and the level of impurities. Certain impurities that remain in end products can have negative effects on human health. Some phosphate rocks contain traces of heavy metals, one of the most hazardous being cadmium. The higher the concentration of cadmium in raw materials used for fertilizer production the greater the risk of soil contamination, resulting in higher cadmium content in associated crops and potential consumption by people or animals. Premium fertilizer markets like Europe, and particularly Scandinavian countries, bar certain fertilizer products with high cadmium levels. Igneous phosphate rock is characterised by low levels of cadmium.

Impurities may reduce the efficiency and uptime of production lines, or require additional resource consumption, depending on type and concentration. These ore impurities include chlorides, magnesium, magnesium oxides, iron and aluminium. Chloride and fluorides in phosphate rock also significantly speed up equipment corrosion.

Our phosphate rock contains almost no chloride and the level of silica in our phosphate rock is sufficient to bond with and remove fluorides during the fertilizer production process by creating hydrofluosilicic acid.

Phosphate rock grade, %



Source: Fertecon, PhosAgro, companies' data.

World's premium phosphate resource base

Location[1]	PHOSAGRO	Morocco	USA	Jordan	China	Tunisia
World phosphate rock reserves, bln t	2.05	50	1.4	1.5	3.7	0.1
Ore type	Igneous	Sedimentary	Sedimentary	Sedimentary	Sedimentary	Sedimentary
AL_2O_3 content	13.0-14.0% High	Very low	Very low	Very low	Very low	Low to moderate
Minor Element Ratio (MER)[2]	0.02-0.04	0.02-0.04	0.05-0.1	0.02-0.03	More than 0.05	0.05
Cadmium content[3]	Less than 0.1	15-40	9-38	5-6	2	40
Level of radioactivity	Very low	Moderate	Moderate to high	Low to moderate	Low to moderate	Moderate
Hazardous metals content	Very low	Moderate	Moderate to high	Low	Low to moderate	Low to moderate

Source: Fertecon, IMC, USGS 2011.

● Positive effect on quality ● Negative effect on quality

1. Primary global DAP/MAP producing regions.
2. Average Minor Element Ratio (MER) greater than 0.1 not sustainable for production of high-quality DAP.
3. Average cadmium content in ppm.

This acid is then used to create the commercial products aluminium fluoride and sodium silicofluoride.

High magnesium oxide, iron or aluminium levels inhibit the ammoniation process during MAP/DAP production, and increase viscosity and sludge formation. Because of the similar effect that magnesium, aluminium and iron oxides have on this chemical process, they are grouped together under the MER indicator. If the MER level is above 0.1, producers of high-quality DAP face significantly increased production costs.

Generally, higher phosphorus content decreases per-unit production costs for phosphate-based fertilizer products due to lower transportation and processing costs for phosphate rock. In addition, our consumption of other resources is lower than that of peers who use phosphate raw materials of sedimentary origin. For example, the lower ratio of calcium to phosphor in our phosphate rock means we consume less sulphuric acid. We consume 190 kg less sulphuric acid per tonne of phosphate rock processed than producers that use more widely available phosphate raw materials of sedimentary origin. In addition, our consumption of energy and highly-purified water is significantly lower, while we also produce less phosphogypsum, one of the principal solid wastes resulting from the production of phosphate-based fertilizers.

CRU report on phosphate resource quality

CRU has conducted research to determine how the quality of phosphate rock affects production costs for fertilizer producers. The research, which covered the majority of the world's deposits, defined the production costs associated with impurities contained in phosphate rock.

CRU chose K10 phosphate rock, made by OCP (Morocco), for the benchmark in its analysis of costs associated with producing phosphate-based fertilizers. This grade of rock was chosen as it is produced in large volumes and is sold into many markets.

In determining the level of premium, CRU analysts took the following into account:

- The selected benchmark rock concentrate (K10) contains about 52% CaO, which is higher than most other sites. Phosphate rock containing 48-52% CaO was attributed a value premium of up to US$ 10/t;
- Small value adjustments were made based on the MER (typically ±US$ 2/t) and fluoride content (typically ±US$ 3/t).

There are a number of important characteristics which are not included in the quality valuations such as product variability, content of organic matter, and the maintenance cost implications of different rock characteristics.

The contribution of each quality premium or discount that a consumer can be expected to place relative to the benchmark rock concentrate that CRU made is shown in the diagram below.

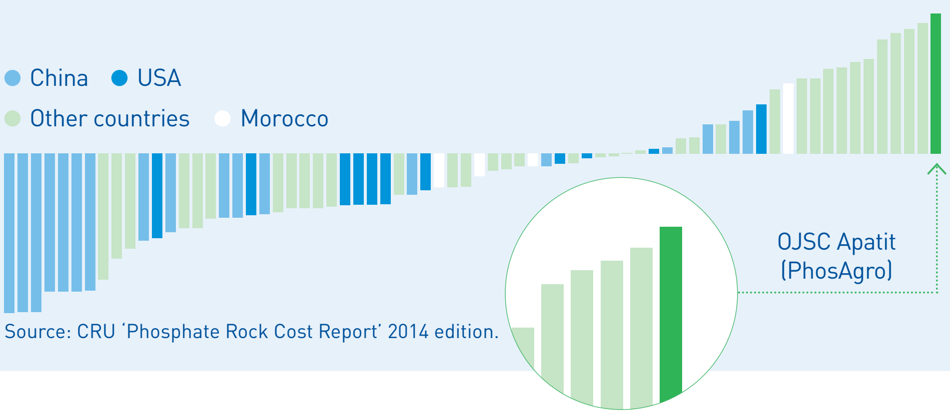
P_2O_5 content is the principal determining factor in the quality adjustment, so the largest price premiums are commanded by miners of igneous rock deposits that produce very high P_2O_5 concentrates – most notably, producers in Russia, Brazil and sub-Saharan Africa. These concentrates have been attributed a price premium of US$ 30-40/t compared to K10.

Concentrates grading less than 32% P_2O_5 are attributed a price discount not only because of the lower P_2O_5 content, but also because this often corresponds to higher MER, CaO: P_2O_5 ratio and fluoride levels than in the benchmark rock.

This low-grade P_2O_5 content is associated with higher wear on equipment. This is due to the high content of harmful impurities, but also due to the need to process a lot more raw materials for the production of one ton of phosphoric acid. However, the additional costs of maintaining this equipment have not been taken into account when determining the discount or premium.

CRU only calculated premiums and discounts for the phosphate rock containing more than 29% P_2O_5. Rock with P_2O_5 levels lower than this are rarely used in the production of phosphoric acid due to the sharp increase in CaO associated with lower P_2O_5 levels, which subsequently requires more sulphuric acid per tonne of phosphoric acid.

Premium/discount relative to K10, US$/t



Source: CRU 'Phosphate Rock Cost Report' 2014 edition.

Quality logistics

Embracing global market opportunities

We have the largest distribution network in Russia, and sell our products based on the best netback price that we can obtain to 100 countries. Through the use of containers, which offer far greater logistics flexibility than bulk vessels, we are also able to deliver our product into regions with less developed infrastructure, for example into certain regions in Africa, Latin America and Asia.

For more about our quality logistics see page 46.

Total volume of container sales

501kt

Our flexible business model enables flexible geography of sales

+35%

y-on-y increased sales to Russia and CIS

+72%

y-on-y increased sales to premium European markets

Maintaining growth in turbulent market conditions

Global fertilizer markets were affected by a deteriorating economic environment in major fertilizer importing countries and weaker soft commodities prices. In addition, changes in sales strategies of potash producers after the Uralkali-Belaruskali breakup led to a decrease in potash prices and stagnation in the global NPK fertilizer market.

Pricing and demand challenges

The continuing economic downturn in India resulted in a decision to cut subsidies in April 2013. As India accounts for about 30% of the global DAP trade, instability in phosphate fertilizer prices and volumes during 2013 was primarily due to this decision, which resulted in a decline in phosphate fertilizer imports. This reduction was related to the country's budget deficit, and was also accompanied by an average 13% devaluation of the rupee over the year.

According to the IFA, India DAP imports in 2013 equalled 3.7 million tonnes, a decline of 37%, or 2.1 million tonnes compared to 2012, and twice lower than the record import volumes in 2010. This negative impact on prices and volumes was further compounded by the expectation of higher major crops production in the 2013/2014 agricultural season and put additional pressure on prices.

In the first half of 2013, the negative impact of India's subsidy cut accompanied by a cold spring in the US and Europe did not help seasonal price recovery.

In August 2013, Uralkali's announcement of its split from the consortium with Belaruskali contributed to stagnation in demand for all concentrated fertilizers. As a result, spot prices continued declining in the second half of 2013 and finally, in November 2013, prices reached their lowest levels since the 2009 crisis, bottoming out at US$ 343 FOB Tampa per tonne and forcing major fertilizer producers to cut back production in late 2013.

Volatility and recovery

In December 2013, the limited supply compounded by low prices pushed purchases in Latin American and European markets ahead of the planting season and early 2014 saw an increase in demand for DAP/MAP from Brazil, Western Europe and Australia, as well as from the US market. This factor, combined with a cut in supply from non-integrated and high-cost producers, led to a sharp recovery of fertilizer prices over a four week period from the second half of December 2013 and into January 2014 to more sustainable prices. DAP recovered back to July 2013 levels and, with further spring demand, to US$ 500 FOB Tampa.

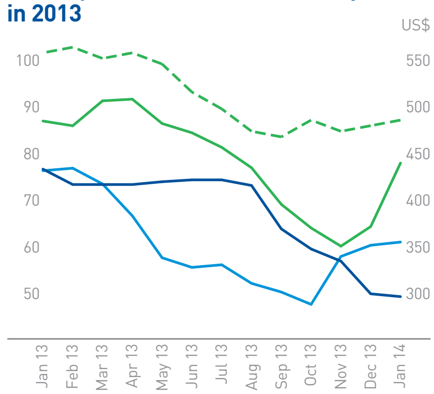
In potash, a significant decrease in prices in 2013 promoted accelerated growth in demand at the end of the year and the beginning of 2014, which resulted in the stabilisation of the NPK market (and prices. These recent price trends are in line with IFA forecasts of consumption growth in 2014 of 2.3% to 183 million tonnes of nutrients with a higher pace in consumption of phosphate and potash fertilizers.

In addition, according to CRU forecasts, the global DAP trade will increase by 8% in 2014, supported by a recovery in DAP imports to India, while world MAP imports will be at the same high level. Importantly, we do not expect that China can significantly increase its market share in world DAP exports due to increasing cash costs for its producers given declining quality of their phosphate rock and the resulting increase in processing costs.

PhosAgro: capturing value in a volatile market

Despite the volatility in 2013, our flexible production model enabled us to continue to capture strong margins – selling to customers offering us the best available netback price for concentrated fertilizers or NPKs. This is why, for example, we sold so little product to India in 2013, which made up less than 1% of our export sales in the year. This flexibility, combined with our low cost position, explains our ability to maintain 100%

Price dynamics of DAP, urea and potash in 2013



— DAP, FOB Tampa

— Potash, FOB Vancouver

— Urea, FOB Yuzhny

-- INR/US$ (rebased to 100)

Source: Argus-FMB, Fertecon, Bloomberg.

capacity utilisation, compared to many of our competitors who have cut back production with prices falling below their cash cost of production.

During 2013 and early 2014, our sales efforts continued to be driven by our policy of targeting premium markets, the main driver of our decision to open a trading arm in Singapore, a hub for the fast-growing Asian region. Even in the fourth quarter of 2013 – the worst for the industry since the global financial crisis – we ran our business at 100% capacity and sold most of our production to premium and fast-developing markets such as Europe, Brazil and Southeast Asia. As a result, we increased our European sales by 72% year-on-year and increased Asia sales by 15%.

Encouraging growth in our domestic markets

We are Russia's leading supplier of phosphate-based fertilizers and growth in this market is exceeding growth in the majority of our other markets. This is largely due to the historical underuse of phosphorus in the decade subsequent to the collapse of the Soviet Union.

In response to this demand, we have built the strongest distribution system in the country and are able to sell directly to farmers. In 2013, during a challenging time for the fertilizer industry, we achieved a sales record for our business, selling 1.7 million tonnes to Russia and the CIS, our largest volume in the 10 year history of our operations.

Case study

Supply opportunities in China

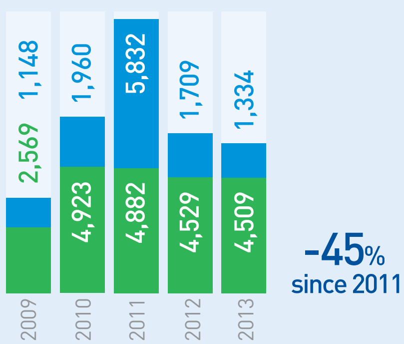
China is the world's leading consumer of phosphate and, following their food safety programme in the mid-2000s, they stopped exporting phosphate rock and built significant new phosphoric acid capacities.

After commissioning significant capacities in 2007, China began exporting substantial volumes of DAP. In response, as well as to divert production to local requirements, the Chinese Government imposed export duties of 110% on DAP/MAP during the planting season. In 2013, China decreased export duties to 80% on DAP/MAP during the planting season and have also expanded the export window from four to five months. In 2014, China continued softening its stance and reduced export duties to 15% compounded with the additional payment of 50 RMB (US$ 8) per tonne exported during the planting season and limited export duties to 50 RMB during the export window. Although the government had already eased export duties in 2013, we saw a declining export trend in China (chart 1).

At price levels of around US$ 400 DAP Tampa in 2013, China announced significant capacity reductions to 60-70%. However, given that the Chinese government has announced that good-quality phosphate rock resources in China are depleting, with less content of P_2O_5 and growing impurities, the cost of processing will steadily increase. China's capacity increases have slowed to around 2 million tonnes P_2O_5 of additional capacity by 2018. Counterbalancing this more moderate increase is the fact that almost 4 million tonnes P_2O_5 of capacity at old non-integrated plants is expected to be shut down over the same time period (chart 2).

In addition, despite having the highest phosphate application rates in the world, China can still not achieve the best yields. Accordingly, they need to continue to increase imports of soft commodities year-on-year to feed almost 1.4 billion people. This clearly reinforces our confidence in DAP/MAP demand and pricing.

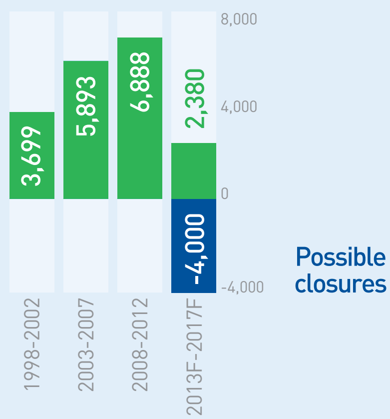
1. Chinese phosphate-based fertilizer exports, kt



● DAP/MAP ● NP/TSP

Source: CRU, CFMW, IFA.

2. Commissioning and closures of H_3PO_4 capacities in China, kt of P_2O_5



Strong fundamentals underpin long-term fertilizer growth

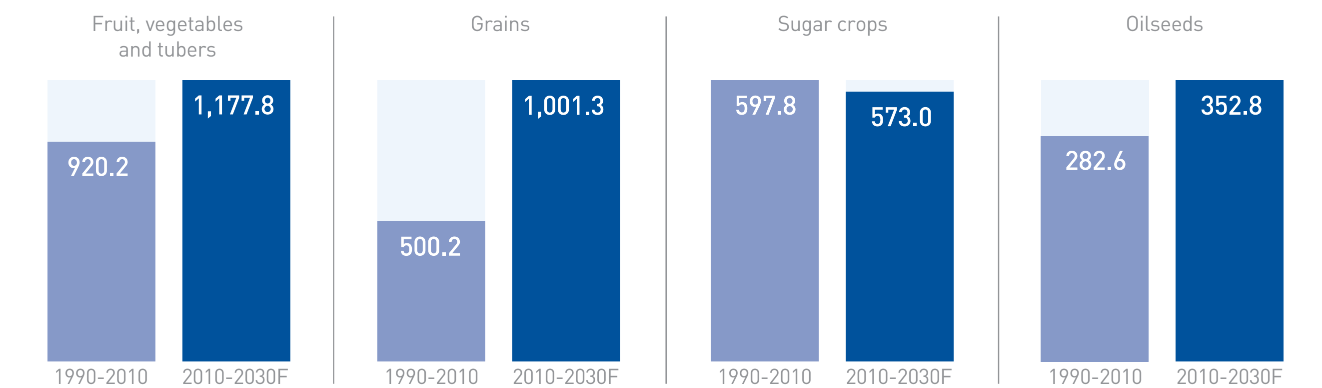
Despite recent volatility, long-term trends favour our industry. As populations grow and concurrently reduce the availability of agricultural land through urbanisation, yield rates per hectare of land must be maximised. In addition, increasing purchasing power in the world's largest countries is leading to dietary changes and higher consumption of meat, requiring larger quantities of grains as feedstock, which in turn is driving demand for mineral fertilizers. Increased use of crops in the production of biofuels is also driving growth.

These factors, combined with the fact that arable land per capita is decreasing (especially in high population countries such as China and India), makes a clear case for continued growth in fertilizer demand to at least another 15 years – particularly in those regions which still under-apply fertilizers when compared to developed countries.

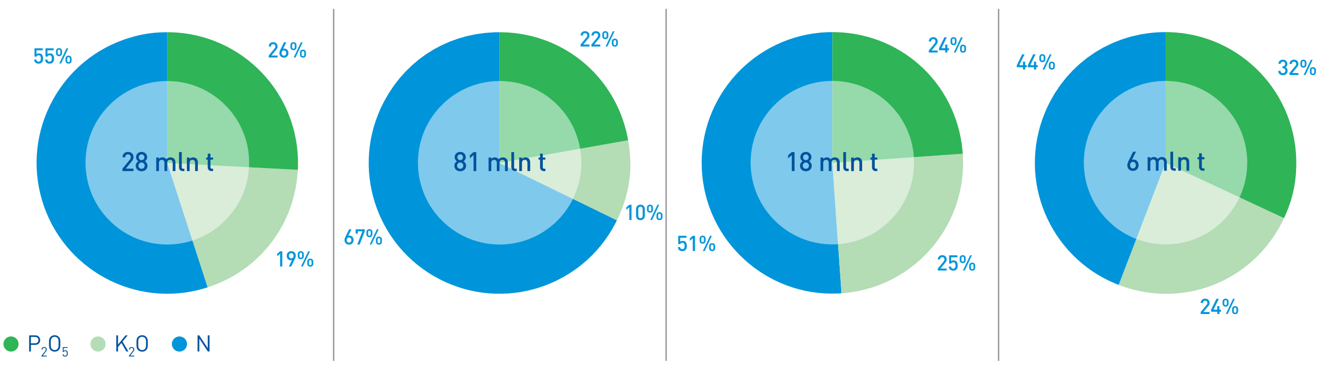
In volumes, the most significant growth is in fruits and vegetables, as populations switch to healthier diets, particularly in developed countries. This shows a strong growth engine for phosphate consumption because oilseed, fruit and vegetables have the highest phosphate requirements.

Crop yields will also need to increase with an increase in phosphate application: India, Russia and Brazil remain far below developed countries across most key crops, providing huge opportunity for our industry. Of particular relevance to our market sector is that estimated annual growth in oilseeds and vegetables is well above agricultural product growth rates, both of which are major phosphate consumers.

Growth rates forecast of major crop production , mln t



Fertilizer consumption by major crops, mln t of nutrients



Source: Integer.

Case study

Demand dynamics in India

India is the largest global importer of phosphate-based fertilizers – primarily DAP – which means that changes to the country's import policies can have a significant impact on the global phosphate-based fertilizer market.

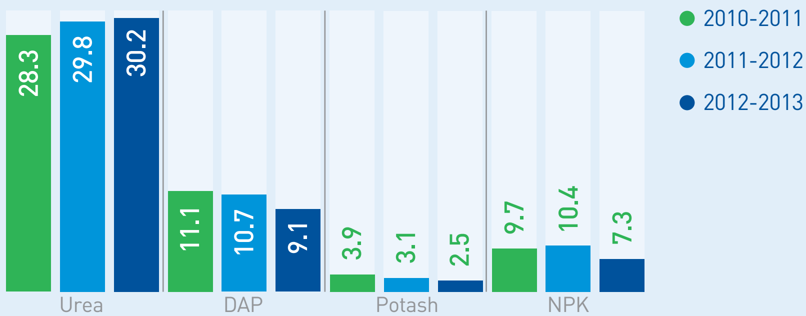
The market for phosphate-based fertilizers in India has undergone significant changes since 2010 after a new system of subsidies was introduced whereby the subsidy level for each nutrient was fixed at the beginning of the financial year. Due to budgetary problems in 2013, subsidies for expensive potash and phosphate fertilizers have continuously declined, while urea subsidies have remained at high levels. Between 2010 and 2013, subsidies for urea have increased by 50% to US$ 5.5 billion, while subsidies for phosphate and potash fertilizers have declined by a total of 30% to US$ 0.5 billion.

This has resulted in fewer imports and as a consequence less consumption. At the same time use of urea, the cheapest fertilizer compared to others, continued to grow (chart 1).

The subsidies reduction also led to nutrient imbalances, caused by the under-application of phosphate, beginning in the winter of 2012 (chart 2).

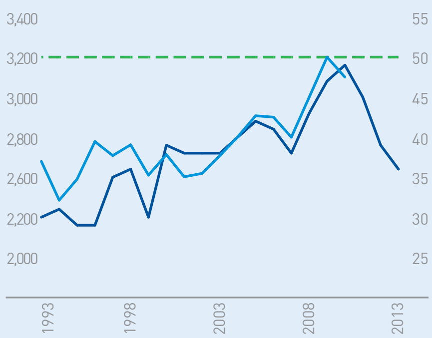
As a result, we should expect to see significant deterioration in yields (due to a three year time lag from application to yield). This is clear from 20 years of the wheat and rice harvest production data which illustrates that the best phosphate application years of 2009-2011 also resulted in the best crop yields, enabling India to move from being a net importer of wheat to commencing wheat exports in 2011.

1. Fertilizer sales in India, mln t



Source: FAI, CRU.

2. P_2O_5: N ratios vs wheat yields in India, kg/ha



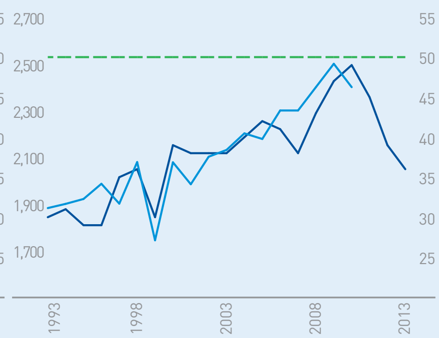
— Wheat yield (-3 year gap), lhs

— Current P_2O_5/N ratio, % (rhs)

-- Normal P_2O_5/N ratio, % (rhs)

Source: CRU, FAI.

2. P_2O_5: N ratios vs rice yields in India, kg/ha



— Rice yield (-3 year gap), lhs

— Current P_2O_5/N ratio, % (rhs)

-- Normal P_2O_5/N ratio, % (rhs)

Source: CRU, FAI.

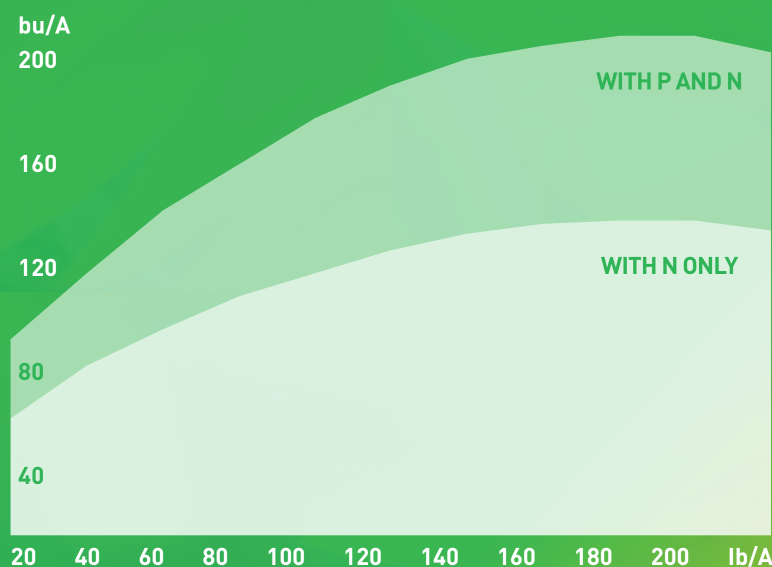
With 2012 and 2013's substantial under-application, the country is regressing to the low yield environment of the early 2000s, and will again need to import wheat and rice to feed the world's second biggest population. In the context of rapidly reducing yields, the expectation is that India's DAP purchases in 2014 should increase to around 5 million tonnes.

Quality for customers

Maximising consumer value

We can offer our customers a tailored product geared to their unique agricultural environment, enhancing the recovery of depleted soils to encourage strong and vigorous root and shoot growth, early harvest maturity and sustainable agriculture. We also enable end consumers to enjoy healthy foods rich in essential phosphate. Because of our products' purity, we also assist in preventing the circulation and accumulation of elements harmful to human health in the food chain.

Effect of N and P on corn yield



For more about quality for customers and consumers see pages 12-13.

Source: IPNI (Phosphorus Nutrition of Corn).

A year of strategic growth

This year has been a challenging year for the fertilizer industry; however, I am pleased that we have many highlights to report. In particular, the robustness of our strategy and the strength of our lower-cost, vertically integrated production and distribution model was clearly illustrated by us achieving 100% production capacity utilisation throughout 2013 – and this includes increased production capacity compared to 2012.

Flexibly responding to market conditions

Our flexibility enabled us to adapt to difficult market conditions by switching production between concentrated fertilizers and NPK in order to get the best margin. For example, we sold almost nothing to low price markets: sales to India accounted for less than 1% or 35 kt of our export sales, with our products directed to markets with a far better netback sales profile. For example, we increased deliveries to premium European markets by 72% year-on-year, to 1,156 kt. In our domestic market, we increased sales to Russia and CIS by 33% and 46% this year, reaching a record sales volume of 1.7 million tonnes.

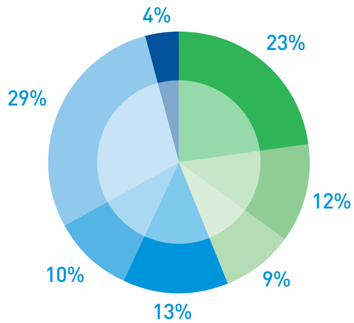
Increased production and sales

In 2013, our fertilizer production increased 9% year-on-year, and sales increased even more – by over 11% year-on-year. The launch of our new urea capacity in the second half of 2012 also brought strong results this year, supporting our nitrogen fertilizer year-on-year performance, with production in 2013 up 19.3% and sales up 15.3%.

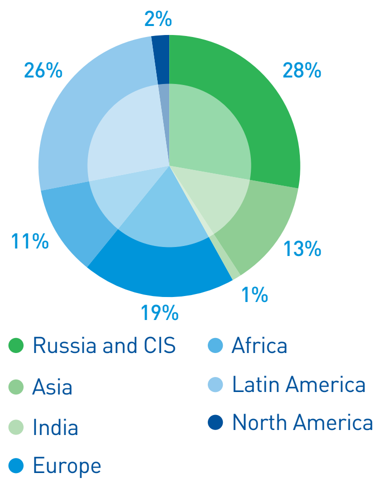
We also increased our phosphate-based fertilizers production and sales by more than 6% and 10% respectively. This is a significant achievement, considering the market context we were operating in 2013: DAP consumption stalled due to a combination of India's subsidy cut, the devaluation of the rupee and additional market pressure in the second half of 2013 following the widely publicised breakup of the Uralkali/Belaruskali consortium.

Our EBITDA margin did decrease by 10 p.p. with average DAP FOB Tampa price dropping by 17% from US$ 535 in 2012 to US$ 442 in 2013, together with average Urea FOB Baltics declining by 18% from US$ 402 in 2012 to US$ 329 in 2013. In addition total nutrient demand amounted to US$ 178.6 million, a small (0.5%) increase on last year's level vs. 1.3% of expected growth.

Fertilizers and feed phosphate sale volumes by region in 2012, %



Fertilizers and feed phosphate sale volumes by region in 2013, %



Source: PhosAgro.

100%

production capacity utilisation in 2013

1.7 mln t

of fertilizers sold to Russia and CIS in 2013

"We consolidated 100% of OJSC Apatit shares, giving us full control over our high-quality resource base.

Furthermore, we raised our ownership stake to 100% of Metachem, fully consolidating our phosphate assets. Also in line with our strategy to further consolidate our stakes in key production subsidiaries, the Management Board approved a voluntary tender offer for the purchase of PhosAgro-Cherepovets minority shareholders.

Financial strength

Despite the challenges in the market, our financial position remained strong, although our net debt/EBITDA ratio of 1.8x at the end of our reporting period did exceed our target level of 1.0x. However, assuming a normal course of business and excluding the effect of the Apatit buyout, our net debt/EBITDA ratio was 1.4x. We also were not able to meet our target of keeping our capital expenditure to below 50% of EBITDA, as no one in our industry expected such a dramatic decline in fertilizer prices in the second half of the year, when it was already difficult to cut our CAPEX programme.

Increasing capacity

In line with our strategy to increase production capacity with a focus on sustainable low-cost production, we commenced construction of our new energy-efficient 760 kt per annum/ 2,200 tonnes per day ammonia production plant at PhosAgro-Cherepovets, which will enable us to be self-sufficient in ammonia. At Metachem, we have also been undertaking construction of our new PKS capacity of 100 kt per annum in response to farmers' requests, which will be online in 1H 2014. To support our steadily increasing production capacity, in October 2013 we opened a new trading branch in Singapore. This is another exciting step for our business and gives us a sales presence in one of the most high growth regions in the world. The office's focus is regional mineral fertilizer sales and it is also giving us enhanced flexibility to work with a broader range of clients – which is already bringing results: this year we increased our sales to the premium NPK markets of Asia by more than 15%.

Consolidating and optimising

Our plans to consolidate and optimise our business continued in 2013. As our Chairman discusses, we consolidated 100% of OJSC Apatit shares, giving us full control over our high-quality resource base. Furthermore, we raised our ownership stake to 100% of Metachem, fully consolidating our phosphate assets. Also in line with our strategy to further consolidate our stakeholdings in key production subsidiaries, the Management Board has approved a voluntary tender offer for the purchase of PhosAgro-Cherepovets minority shareholders. This continuing consolidation process is possible due to our ability to raise long-term financing at a low cost. In February 2013, we successfully placed our debut US$ 500 million five-year Eurobond with a coupon rate of 4.204% with proceeds from the issue primarily used for consolidation. A secondary public offering (SPO) conducted by our shareholders provided an additional source of financing as the selling shareholders re-invested 45% from the SPO in an additional share issue. This streamlining of our corporate structure was reflected in our ongoing streamlining of our workforce, in line with our strategy to increase our operating efficiency.

In 2013, we also rolled out a number of new policies and processes to achieve consistency across the business, which we discuss more extensively in our first Sustainability Report, another important step for our business. This report sets out in detail how we run our business sustainably for the long term and create value for a wide range of stakeholders.

1st

Sustainability Report published

15% increase

in sales to premium NPK markets

Market environment

India accounts for approximately 30% of the global DAP trade; therefore their 15% subsidy cut combined with an average rupee devaluation of 13% in the year were the two primary, fundamental factors negatively affecting the phosphate fertilizer industry in 2013. The subsidy cut was largely due to India's significant budget deficit as a result of the country's continuing economic downturn. India's difficulties, combined with expectations of higher crop production in the 2013/2014 season resulting in decline of soft commodity prices and the delayed spring planting due to cold in Europe and the US, resulted in demand disruption and gradual price decline in the first half of 2013.

Negative market developments accelerated in August after the Uralkali-Belaruskali breakup, putting additional pressure on consumption, and were followed by a corresponding decline in prices for all concentrated fertilizers. Indeed, in November 2013, phosphate fertilizer prices dropped to their lowest levels since the crisis of 2009, well below the cash cost for most world phosphate fertilizer producers. These price levels were obviously unsustainable over the long term and led to a cut in supply from many fertilizer producers. This was the major reason for the sharp and rapid recovery of DAP prices in December to January 2014 back to July 2012 levels, and moved further to US$ 500 FOB Tampa with the onset of the spring planting season. We consider these fertilizer price levels more sustainable over the mid-term.

Outlook

Looking forward to 2014 and beyond, I am very optimistic. We are favoured both by long-term trends in the world market, as we discuss in our Market review, and by the steps we have taken to increase capacity, expand our self-sufficiency in feedstocks and optimise our business. All these factors mean we are extremely well placed to continue to capture a major share of the steadily expanding market for our products.

Our business model and strategy, which have been thoroughly tested this year, have proven their correctness and resilience and have clearly illustrated our ability to create excellent value for our shareholders. In line with our promise at IPO, we continued paying dividends and returned 52% of our profits to our shareholders in challenging market conditions.

In closing, I would like to thank our dedicated workforce who have worked exceptionally hard to produce such solid results during a challenging period for our sector and I look forward to the exciting times that lie ahead for our business.

Andrey A. Guryev

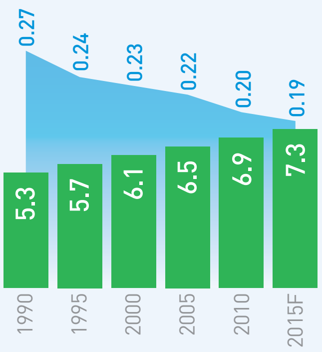
CEO and Chairman
of the Management Board

STRATEGIC REPORT
GOVERNANCE
FINANCIALS
ADDITIONAL INFORMATION

How we create value

STRONG FUNDAMENTALS AND KEY MARKET DRIVERS

Population growth and decrease of arable land per capita

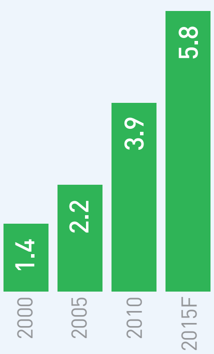


● World population, bn people

● Arable land, ha/capita

Populations are growing, reducing the availability of agricultural land, arable land per capita is decreasing and yield rates per hectare need to increase to meet demand.

Growing GDP per capita in Emerging Markets, (000) US$



Economic growth in the world's largest countries is increasing purchasing power for hundreds of millions of people, leading to dietary changes and increasing demands on agriculture.

Changing diets – growth in meat consumption, mln t

● Developed countries

● Emerging markets

Source: World Bank, FAO.

Growth in the developing world is leading to increased meat consumption, a key driver of grain consumption and necessitating additional land for feedstocks – reducing land available for agriculture and increasing yield demands.

Sustainable shareholder value

KEY STRATEGIC AND OPERATIONAL ADVANTAGES

HIGH-QUALITY RESOURCES

A very large and pure ore reserve of over 2 billion tonnes, which will last for at least 75 years. The ore also contains valuable additional elements such as AL_2O_3 and rare earth oxides. The purity of our ore also has huge cost benefits because of its lower cost of processing compared to other large ore bodies.

LOW-COST, VERTICALLY INTEGRATED PRODUCER

We are one of the most vertically integrated companies in our industry with self-sufficiency in key feedstocks – including our pure phosphate rock, ammonia and electricity and access to abundant local sulphur and natural gas. When this is combined with the purity of our ore, we are at the low end of the cash cost curve.

FLEXIBLE PRODUCTION AND SALES

We are the only business in our industry which has fully flexible production lines able to switch in only two working shifts between a large number of varieties and grades of concentrated phosphate fertilizers. We can therefore rapidly shift production to products for markets offering the greatest margin return according to seasonal cycles across the globe.

Our assets and production process

UPSTREAM

Apatit
100% ownership

Our Apatit business is the world's largest producer of high-grade phosphate ore (P_2O_5 content > 35.7%) – phosphate rock and Russia's only producer of nepheline concentrate. At Apatit, we mine and process apatite-nepheline ore, produce phosphate rock and nepheline concentrates, and other mineral concentrates including syenite, titanite and titanomagnetite.

RESEARCH & DEVELOPMENT

MCE
100% ownership

Mining and Chemical Engineering LLC develops feasibility studies, supervises construction and design projects to support and facilitate decision-making relating to our investments in construction and modernisation of production facilities, and also provides us with general engineering support.

NIUIF
94.41% ownership

NIUIF is the only research institute in Russia specialising in research and development in phosphate-based processing technologies and the production of phosphoric and sulphuric acid, phosphorus and nitrogenous mineral fertilizers and complex mineral fertilizers, including fertilizers with micronutrients.

DOWNSTREAM

PhosAgro-Cherepovets Complex

PhosAgro-Cherepovets
87.71% ownership

PhosAgro-Cherepovets is the largest producer of phosphate-based fertilizers and phosphoric and sulphuric acids in Europe, and also one of the leading producers of NPK fertilizers, ammonia and urea in the Russian chemical industry. It also produces aluminium fluoride, ammonium nitrate and other nitrogen fertilizers. It is also 80% self-sufficient in electricity – making it a leader in the sector.

Agro-Cherepovets
100% ownership

Agro-Cherepovets produces urea and, jointly with PhosAgro-Cherepovets, is one of the largest urea producers in Russia. It receives raw materials (ammonia) from PhosAgro-Cherepovets nitrogen complex by pipeline, which significantly reduces transportation costs. Together, Agro-Cherepovets and PhosAgro-Cherepovets form our PhosAgro-Cherepovets production complex.

Balakovo Mineral Fertilizers
100% ownership

BMF produces phosphate-based fertilizers and feed phosphates. It is one of Europe's largest producers of feed phosphates and the only producer of feed monocalcium phosphate. It is also the first Russian enterprise to have been certified compliant with the European GMP+ quality control standard for feed materials.

Metachem
100% ownership

Our Metachem business produces mineral fertilizers, phosphoric and sulphuric acids. It is also the only sodium tripolyphosphate producer in Russia, manufacturing products with different specifications in line with customer requirements. It also uses the only production system in Russia that makes it possible to obtain granulated potassium sulphate from a drum dryer granulator.

DISTRIBUTION & LOGISTICS

PhosAgro-Trans
100% ownership

PhosAgro-Trans is our rail transport business. It operates rolling stock within Russia and abroad, arranges cargo shipments and transhipments at the ports of St. Petersburg, Murmansk, Novorossiysk and Kaliningrad in Russia, Tallinn in Estonia and in the port of Ust-Luga. Total freight traffic of the business exceeds 11.9 million tonnes per year and it manages a fleet of approximately 6,000 rail cars.

PhosAgro-Region
99.99% ownership

We have one of the largest Russian regional distribution networks. In 2013 it included eight regional sales companies operating in major agricultural regions in Russia and 19 agricultural chemical storage facilities. PhosAgro-Region also provides clients a full range of additional services, including railcar loading and unloading, packing mineral fertilizers in big-bags, and delivery by road to clients' warehouses. Russia's largest agricultural holdings have long-standing relationships with PhosAgro-Region.

Driving growth with a sustainable strategy

Production and sales flexibility

2013 ACHIEVEMENTS

- Significant increase in sales to Russia – our domestic market – and the CIS
- Increased the number of countries where we sell our products – from 61 in 2012 to 100 in 2013
- Increased our number of fertilizer grades to 25, including grades with micro-nutrients, special coloured NPK grades and NPK grades with aroma compounds
- Expanded our sales geography due to our ability to make container shipments – which grew by 48% to 501 kt in 2013

FUTURE PLANS

- As a result of the new ammonia plant under construction at Cherepovets, we will select the optimal fertilizer grade range to maximise utilisation of our high-quality reserve base
- We will use the new PKS production line at Metachem to increase the number of fertilizer grades we produce

RELATED RISKS

- Cyclical nature of the fertilizer industry
- Potential decrease in demand for mineral fertilizers and/or phosphate rock

See our Business model and Market review sections for more details of how our flexibility adds value.

Organic growth

2013 ACHIEVEMENTS

- Signed a contract for the development and supply of equipment for our new 760 kt per annum capacity ammonia plant
- Increased fertilizer production by 9% on a y-o-y basis, mainly due to production process optimisation
- Operated our new urea plant at full capacity

FUTURE PLANS

- Complete construction of shaft no. 2 at Kirovsky underground mine. This will increase annual apatite-nepheline ore production at the mine from 12 million tonnes per annum in 2012 to 14 million tonnes per year after 2016
- Construction of new ammonia storage facilities at BMF enables the possibility of further expansion of BMF production capacity and more robust employee safety
- Continue to create organic growth through increasing productivity and new construction with cutting edge technologies, including the construction and completion of a new ammonia plant with 760 kt per annum capacity at Cherepovets by 2017
- Implementation of our investment project to increase the capacity of our aluminium fluoride production to 35 thousand tonnes per year (an increase of 12 tonnes per year)

RELATED RISKS

- Potential decrease in demand for mineral fertilizers and/or phosphate rock

See our Operational review for more details of our growth activities in 2013.

PhosAgro's strategy aims to achieve sustainable growth by extracting greater value from our unique natural resources and production assets. Our mid-term goal is to expand total fertilizer production capacity to 7.1 million tonnes per year, significantly increasing internal processing of our own high-grade phosphate rock.

Increasing operating efficiency

2013 ACHIEVEMENTS

- Increasing operating efficiency with modernisation, including:
  - Completion of our modernisation programme at the Cherepovets production complex (which commenced in 2008)
  - Increase in BMF electricity self-sufficiency to 80% due to a 75 tonne per hour evaporation rate boiler coming on-stream
  - Decentralisation of the compressed air supply systems at BMF
  - Implementation of fine sieve technology at Apatit-ANBP-3 reduced the operating costs of grinding apatite-nepheline ore

FUTURE PLANS

- Ongoing optimisation, including:
  - Continue increasing the productivity of our apatite-nepheline ball mills and reducing input consumption by completing the modernisation of the sorting system in the ore grinding cycle of ANBP-3
  - Ongoing utilisation of the full potential of our apatite-nepheline ore with the construction of new processing capacities (also enabling increased production flexibility and organic growth)
- Export of production via Russian ports and construction of own shipping terminals (shifting away from foreign ports)

RELATED RISKS

- Changes in prices for raw materials and services of natural monopolies and dominant producers, as well as tariffs for transportation and logistics

See our Sustainability Report to find out more about our resource efficiency programmes.

Consolidation

2013 ACHIEVEMENTS

- Consolidated 100% of OJSC Apatit shares
- Consolidated the phosphate assets of Metachem by increasing our stake in the business from 74.76% to 100%

FUTURE PLANS

- Complete the consolidation of ownership of PhosAgro-Cherepovets in 2014

RELATED RISKS

- Credit risk
- Liquidity risk

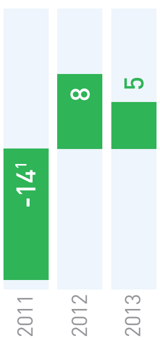
For additional details on our consolidation programme please see pages 24-27.

For more information on risks please see pages 34-39.

Introducing a new KPI system

To assist us meet the quality standards we have set ourselves and our strategic goals, we have put in place a set of Group Key Performance Indicators to measure our performance, with performance against them linked to senior management remuneration. These KPIs encompass financial and non-financial measures and are another step in our journey to operate our business efficiently and sustainably.

Total shareholder return (TSR), %

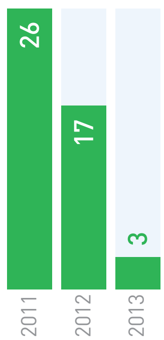


1. Since IPO in July 2011.

Definition
TSR combines share price appreciation and dividends paid to show the total return to the shareholder.

Strategic rationale
We use this KPI to monitor our relative TSR performance against peers and it is a clear indicator of the value we are creating for our shareholders.

Return spread, %

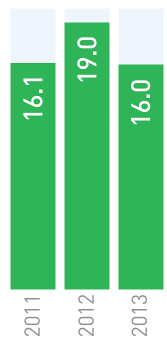


Definition
Return spread is the difference between the actual and expected return (between ROIC and WACC).

Return spread = (return on invested capital – cost of capital).

Strategic rationale
The goal is to drive ROIC above WACC, generating higher than expected equity returns and thus creating value for shareholders. We use this KPI to monitor our relative Return spread performance against peers.

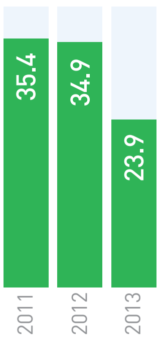
Increase in fixed costs, %



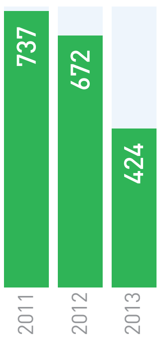
Definition
% fixed costs' growth.

Strategic rationale
This is an indicator of our success in optimising our business through our modernisation programme – using best available technology to run our business as efficiently as possible.

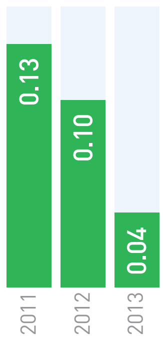
EBITDA, RUB bln



Total downtime, days



All injury frequency rate (AIFR), per 200,000 hours worked



Definition
The Company defines EBITDA as profit or loss for the period before finance income and finance costs; foreign exchange gain/loss; share of profit of associates; income tax expense or benefit; and depreciation, amortisation and impairment.

Strategic rationale
EBITDA gives insight to cost management, production and performance efficiency. It is also a valuable indicator of our solvency and cash flow and therefore our long-term sustainability and ability to deliver value for our shareholders.

Definition
Total downtime is calculated as the aggregate of the number and length of all downtime events of individual production lines and units at our production sites.

Strategic rationale
Downtime is an indicator of how effectively we are running our business operations and thus maximising the value for our shareholders.

Definition
AIFR is calculated based on the number of injuries per 200,000 hours worked. This includes medical treatment cases, and restricted work-day and lost-day injuries for employees and contractors.

Strategic rationale
We are committed to the health and safety of our employees. Protecting them from injury is both the right thing to do and helps to ensure the stability and sustainability of our business.

Managing our risk

We are exposed to a number of exogenous and endogenous risks due to the nature of our business. Our risk management framework is designed to identify, evaluate and manage the financial and non-financial risks and uncertainties our business faces.

We have established risk management system to identify, monitor and analyse our risks, and specific rules and procedures to mitigate against these risks.

The Board of Directors has overall responsibility for managing both financial and non-financial risks. Individual line managers are responsible for identifying, monitoring and managing risks within our risk management framework, which are separated into four key risk management roles as set out in our risk management framework.

The Board of Directors periodically reviews our risk management policies and systems to reflect changes in market conditions and the Company's activities.

Our material financial and non-financial risks are discussed in the table on the following pages. This year we have provided additional context to our risks by including opportunities as well as addressing changes to our risks over the past year. We have also taken the first steps in introducing risk in our strategy and in future we plan to further align our risks to our strategy and performance.

For more information on our strategic risks please see pages 30-31.

Our risk management framework

Key risk management roles

BOARD OF DIRECTORS

- Overall responsibility for management of financial and non-financial risks
- Establishes and monitors performance of risk management systems
- Holds management accountable for implementation of risk management system

AUDIT COMMITTEE

- Regular review of risk management systems and policies
- Provides recommendations to Board on changes and improvements to risk management systems

INTERNAL AUDIT DEPARTMENT

- Regular assessment of the Company's internal control and risk management systems
- Oversight of compliance of PhosAgro's financial and economic operations with Russian legislation and the Company's Charter
- Develops recommendations on strategic changes to risk management systems for Audit Committee and Board review

PHOSAGRO MANAGEMENT

- Implementation of and adherence to risk management policies
- Monitoring and management of risks relevant to job function
- Risk identification and reporting
- Operational risk management

	Description	Mitigation	Opportunities	Changes to risks
FINANCIAL RISKS				
Credit risk	The Company's credit risk is the risk of financial loss if a customer, or a counterparty to a financial instrument, fails to meet its contractual obligations.	Each new customer is analysed individually for creditworthiness, including based on external credit ratings (where available). Determining payment terms based on creditworthiness of the client along the following lines: • Large clients/traders should pay within 10 days of receiving the shipping documents. • Pre-payment is required of smaller clients, and those who have not demonstrated acceptable creditworthiness.	Further development of the use of insurance products. Creation of an in-house credit risk analysis department.	Risks increased as a result of new financing solutions for customers. In 2013 the Company began to accept notes of credit from customers for up to 120 days, and began to offer open payments with simultaneous insurance of up to 90% of payable amount. In addition, customers with strong credit ratings were allowed up to 110 days before payments became due.
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.	Have sufficient funds on hand to meet expected operational expenses for a period of 30 days, including expenses related to servicing financial obligations. The Company maintains several lines of credit with a number of Russian and international banks.	Restructuring short-term debt by attracting long-term loans or issuing long-term bonds.	Short-term liquidity risk decreased as a result of a decrease in short-term borrowings in the Company's loan portfolio, helped by the issuance in February 2013 of a five-year, US$ 500 million Eurobond, some of the proceeds of which were used to refinance short-term bank loans.
Currency risk	Risk of losses arising from unfavourable changes in foreign currency rates.	Loans and borrowings are matched against export revenue. PhosAgro applies a policy of centralised hedging against export revenue at all of its subsidiaries, actively hedging currency risk with US$/RUB swaps for terms of one to 12 months.	Use of a wider array of derivative financial instruments to hedge currency risk.	Credit risks increased as a result of the Central Bank of Russia's announcement that it plans to move to a floating ruble by 2015.
Interest rate risk	The risk that changes in interest rates will adversely impact the financial results of the Company.	At the present time PhosAgro does not hedge interest rates, as it does not view their potential impact on financial results as being material. PhosAgro may consider hedging interest rate risk using interest rate swaps if financing with floating interest rates was to be raised in the future.	Use of financial derivative instruments to hedge against interest rate risks.	Increased interest rate risk as a result of the ratings agencies reviewing the Russian Federation's credit rating.

	Description	Mitigation
NON-FINANCIAL RISKS		
Risks related to operating in the fertilizer industry, which is cyclical in nature	PhosAgro operates in a cyclical industry. Demand and prices of the Company's products are difficult to forecast, which historically have fluctuated significantly in response to changes in market conditions.	PhosAgro's phosphate-based fertilizer production lines are flexible and can switch between MAP, DAP, NPK and NPS, within two working shifts. This allows the Company to move between phosphate fertilizers and complex fertilizers at short notice in response to changes in market demand.
Risks related to a potential decrease in demand for mineral fertilizers and/or phosphate rock	Demand for mineral fertilizers and/or apatite concentrate may decrease due to: • A change in the market's supply/demand balance due to decreased fertilizer imports by India and increased exports by China as a result of relaxed export tariffs; • Reduced usage of fertilizers by farmers in markets affected by economic factors, weather conditions or other natural occurrences; • Introduction and/or extension of anti-dumping measures in importing countries leading to a decrease in supply requirements and/or a need to find other markets, resulting potentially in higher logistics costs.	Expansion of the range of fertilizers produced, including through the production of triple-nutrient fertilizers containing potash and sulphur and the production of fertilizer with microelements. Fertilizer production based on a specific customer order with a set delivery timeline. Developing container sales for international markets to prevent damage and eliminate customer rejection of products, and also to expand the customer base in markets that lack the infrastructure to handle dry-cargo vessels.
Risks related to intense competition	The Company is subject to intense competition from both domestic and foreign producers. Fertilizers are global commodities with little or no product differentiation. Customers make their purchasing decisions primarily on the basis of delivered price, and to a lesser extent on customer service and product quality. PhosAgro competes with a number of domestic and foreign producers, including state-owned and government-subsidised entities.	Our strategy is to increase our competitive advantages through vertical integration in the production of our key inputs, including phosphate rock and ammonia. The Company is also taking a number of steps to reduce production costs, including increasing labour productivity, modernisation of existing production facilities, and construction of new production facilities using cutting-edge technology. More details are available on pages 30-31.

Opportunities	**Changes to risks**
A flexible production model allows the Company to maximise profitability in periods of market growth while supporting high levels of production capacity utilisation during periods of lower demand. Diversification of the product range while optimising production and export volumes of phosphorus helps maintain profitability. Revenue from container deliveries excluding transport costs frequently exceeds revenue from bulk shipping due to lower transport costs and the premiums customers are willing to pay for smaller shipments.	Risks were reduced as a result of: • Increasing the number of grades produced from 23 to 25 • Increasing sales volumes in containers to 501 kt in 2013 by 48% • Diversifying delivery geography to 100 countries. For more on flexibility please see our strategy on pages 30-31.
PhosAgro is currently one of the lowest-cost producers of MAP/DAP globally, and we are pursuing a strategy of further increasing cost advantages through vertical integration in key feedstocks like phosphate rock and ammonia. Our management team believes that this strategy will help us to remain competitive globally in the long term. More details are available on pages 12-13.	Risks decreased as a result of: • Improved labour productivity. • Completion of our investment programmes, which in turn resulted in an improvement in production capacities and an increase in the mean time between repairs (MTBR). • Improved efficiency of production processes including: – Modernisation of the classification systems at Apatit's beneficiation plant. – Decentralisation of pressurised air delivery and construction of a new power boiler plant for energy production from steam at BMF. For more information on sustainable growth see pages 30-31.

	Description	Mitigation
NON-FINANCIAL RISKS (CONTINUED)		
Risks related to changes in prices for raw materials and services of natural monopolies and dominant producers	Growth in the cost of production is faster than key global competitors due to staged growth in prices of the main technological raw materials (natural gas, sulphur, potash chloride), the growth in the cost of energy and transport costs.	• Implementing a targeted investment programme aimed at reducing resource consumption with the use of the best available technologies. • Replacing sulphur with sulphuric acid. • Increasing the share of the Company's own energy by utilising primary and secondary power resources. • Maximum use of secondary material resources in the production of mineral fertilizers. • Identifying alternative suppliers.
Risks related to transportation and logistics	Railway transportation is PhosAgro's principal means of transporting raw materials and products. Access to rolling stock has become more complicated, mainly due to the restructuring of Russian Railways and the transfer of rolling stock to its subsidiary Federal Freight and former subsidiary Freight One. Change in the policy of shipping companies aimed at limiting or eliminating transhipment of the Company's freight, increasing the cost of transhipment and freight storage. Increase in rail freight tariffs.	We mitigate risk by managing our own transportation and logistics company, PhosAgro-Trans, for the transportation of our products, including phosphate rock and downstream products. Allocation of freight traffic to a few routes close to ports. Establishing partnerships with shipping companies that are focused on developing their port transhipment capacity, including transhipment of containers.
Risks relating to mining activities	Risks of extraction shortfalls, unexpected production stoppages, and material damages due to injuries or accidents.	• We operate four independent mines and two enrichment plants. • Implementation of an ongoing programme to explore and assess ore reserves, which ensures that production is continuous and at an even pace. • Carrying out technical audits of projects and establishing a reserve system for power generation and production capacity. • Identifying additional means to perfect production technologies.

Opportunities	Changes to risks
• Cutting the use of gas per production of ammonia by utilising local operational efficiencies via modernisation and new construction with adoption of the latest technologies. • Diversifying suppliers of sulphur-containing feedstock and sulphuric acid by purchasing from Gazprom Sulphur, Kazakh companies and producers of non-ferrous metals. • Producing more of our own power. • Increasing vertical integration in ammonia and own power generation with secondary energy resources from sulphuric acid production. • Cutting costs by signing contracts with alternative suppliers.	Continued modernisation aimed at decreasing costs and increasing vertical integration: • In 2013, BMF rolled out a new steam-powered production unit producing 75 tonnes/hour, increasing the proportion of power that BMF produces itself from 70% to 80%. • We plan to build a new ammonia plant using the latest technology, which will be below the average for the CIS of 1,155 m^3/tonnes. For more on modernisation see our strategy on pages 30-31.
• To reduce the number of empty runs made by our rolling stock, the Company is optimising its haul distance strategy. • Expanding and modernising the PhosAgro-Trans railcar fleet. • Cutting costs on transhipments by tapping into the Company's own transhipment capacity.	Risks decreased as a result of the acquisition in February 2014 of a stake in a terminal at the Ust-Luga port that will handle transhipments of mineral fertilizers. The new terminal will have a capacity of 1.5 million tonnes of fertilizer per year and is expected to come online by the end of this year.
• PhosAgro has introduced systems to monitor and control mining production units, together with other safety measures, and we are constantly looking for ways to improve them further. • Implementation of new production methods and technologies. • Increased underground extraction following construction of Shaft no. 2 at the Kirov Mine.	Risks remain ongoing.

Quality production

Supporting rapid market response

We have one of the highest levels of upstream and downstream integration in the industry – from raw materials to fertilizer production. We are also the only company where the majority of our production lines are fully flexible. Within very short time frames – between 4 and 16 hours – these lines are able to be switched between different fertilizer grades and compositions, reflecting market demand.

For more about our quality production see pages 28-29.

Only 2 shifts

to switch production lines between different fertilizer grades

Improving our performance

"Despite a decrease in domestic phosphate rock sales, due to higher internal use following the integration of Metachem, export volumes increased.

Mikhail Rybnikov

Chief Operating Officer,
OJSC PhosAgro

Phosphate segment – upstream

The upstream operations in our phosphate segment take place at Apatit, which mines apatite-nepheline ore that is processed into phosphate rock and nepheline concentrate.

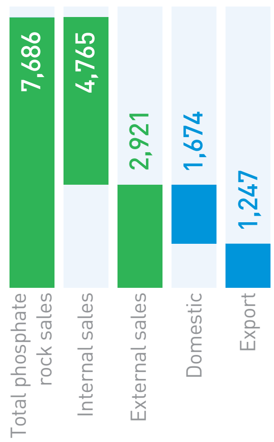
In 2013, we extracted 26.7 million tonnes of apatite-nepheline ore, close to the amount in 2012 (26.6 million tonnes). We produced 7.7 million tonnes of phosphate rock, 2.4% less than the 7.9 million tonnes we produced in 2012.

Phosphate rock intra-Group sales accounted for 62% (4,765 kt) of our total phosphate rock sales in 2013, up from 55% (4,347 kt) in 2012. This growth was primarily due to our own phosphate-based fertilizer production growth in 2013 and the start of industrial phosphate production after the consolidation of Metachem at the end of 2012.

In 2013, 22% of the phosphate rock we produced was sold to domestic external customers and 16% to international customers, compared with 33% and 12%, respectively, in 2012. Prayon (Belgium) and Yara (Norway) accounted for most of the exports. A decline in domestic sales volumes was due to higher internal use following the consolidation of Metachem and lower sales to a significant Russian customer. These volumes were redirected to export markets.

Nepheline concentrate production and sales decreased by 4.8% and 6.3% respectively in 2013. We sell all of our nepheline concentrate to Basel Cement Pikalevo, which decreased its nepheline concentrate processing in 2013.

Phosphate rock sales in 2013, kt



Source: PhosAgro.

Production and sales volumes – Apatit mine and beneficiation plant

	Production volumes			Sales volume[1]		
	2013 kmt	2012 kmt	Change y-o-y %	2013 kmt	2012 kmt	Change y-o-y %
Phosphate rock	7,713.0	7,903.6	(2.4)	2,920.50	3,541.80	(17.5)
Nepheline concentrate	990.6	1,056.7	(6.3)	991.50	1,041.30	(4.8)

1. Excluding intra-Group sales.

PhosAgro's ore resources as at 1 January 2014

Deposit	Resources, 000 t (Categories A+B+C1)	Average P_2O_5 content, %
Kukisvumchorr	412,914	14.63
Yukspor	530,488	14.19
Apatitovy Cirque	113,989	14.29
Plateau Rasvumchorr	333,979	12.98
Koashva	599,567	16.88
Njorkpahk	62,875	13.23
Total	**2,053,812**	**14.84**

Resource category classification

Category A: the deposit is known in detail; boundaries of the deposit have been outlined by trenching, drilling or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

Category B: the deposit has been explored but is only known in fair detail; boundaries of the deposit have been outlined by trenching, drilling or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

Category C1: the deposit has been estimated by a sparse grid of trenches, drill holes or underground workings. The quality and properties of the deposit are known tentatively by analogy with known deposits of the same type and the general conditions for exploitation are tentatively known. This category includes resources peripheral to the boundaries of the A and B category and also reserves allocated in complex deposits in which the ore distribution cannot be reliably determined even by a very dense grid.

Phosphate segment – downstream

The downstream operations in our phosphate segment take place at PhosAgro-Cherepovets, Balakovo Mineral Fertilizers (BMF) and Metachem. PhosAgro-Cherepovets and BMF produce phosphate-based fertilizers, and BMF also produces feed phosphate (MCP). Metachem produces industrial phosphates such as sodium tripolyphosphate (STPP) and the fertilizer sulphate of potash (SOP).

We increased our production and sales of phosphate-based fertilizers by 6.5% and 10.1% respectively and, due to our ability to quickly switch between production of MAP/DAP and NPK/NPS fertilizers, we achieved record levels of NPK and NPS sales in 2013 in spite of unfavourable market conditions.

Production of NPK fertilizers remained at the same level, 1.6 million tonnes, while sales increased by 3% to 1.7 million tonnes in 2013. In response to changes in demand, NPS production and sales increased by 32.5% and 62.7% (up 459 kt and 487 kt respectively).

Demand for sulphur-containing fertilizers has increased in recent years due to the depletion of sulphur levels in soil globally, especially in Southeast Asia and Latin America, and we were able to respond quickly with new products and grades, which drove the increase in NPS production and sales in 2013.

We also increased production and sales of MAP/DAP by 4.2% and 5.5% respectively due to our competitive position as a low-cost producer (we are positioned at the low end of the cash cost curve).

Sulphur has become increasingly important as a crop nutrient in recent years, sometimes being referred to as "the fourth major nutrient":

- Sulphur is important for the formation of amino acids, proteins and oils. It is also necessary for chlorophyll formation, and in helping to develop and activate certain enzymes and vitamins.
- Sulphur improves the efficiency of use of other nutrients like nitrogen and phosphorous.
- Higher demand for sulphur-containing fertilizers is a result of increasing crop yields, as higher crop yields and more intense land use lead to greater depletion of this nutrient.
- Other factors driving demand include successful efforts by fertilizer producers to decrease sulphur impurities in sulphur-free products, a decline in the use of sulphur-containing pesticides, and lower sulphur emissions from industrial sources[1].

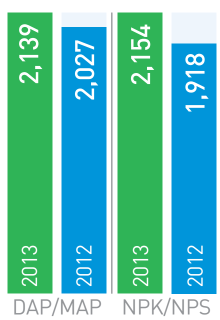
Production and sales volumes – Phosphate-based fertilizers and feed phosphates (MCP)

	Production volumes			Sales volume		
	2013 kmt	2012 kmt	Change y-o-y %	2013 kmt	2012 kmt	Change y-o-y %
DAP/MAP	2,134.1	2,047.3	4.2	2,139.0	2,027.1	5.5
NPK	1,628.4	1,644.2	(1.0)	1,666.9	1,619.0	3.0
NPS	459.1	346.4	32.5	486.6	299.1	62.7
APP	98.6	60.5	63.0	79.6	52.0	53.1
MCP	247.2	241.6	2.3	245.2	245.7	(0.2)

After consolidation of Metachem assets at the end of 2012, we began to produce chlorine-free fertilizer, sulphate of potash (SOP), which is consumed by a premium agricultural niche to feed plants sensitive to chlorine. Production and sales volumes of SOP in 2013 amounted to 52.8 and 54.8 kt respectively.

Due to our production flexibility, we were also able to maintain 100% capacity utilisation and resist the challenging market behaviour in 2013.

DAP/MAP vs. NPK/NPS sales in 2013, kt



Source: PhosAgro.

1. IPNI, Summer 2010, No. 7; The Sulphur Institute.

Nitrogen segment

Our nitrogen segment includes the assets of PhosAgro-Cherepovets, which produces ammonia, ammonium nitrate, ammonium nitrate-based fertilizers and urea, and Agro-Cherepovets, which produces urea from the ammonia produced by PhosAgro-Cherepovets.

Overall sales volumes of nitrogen fertilizers increased by 15.3%, primarily as a result of higher production due to our new urea plant, which we have successfully operated at its full capacity of 500 kt per annum in 2013, though it only started production in the second half of 2012.

As a result, urea production and sales volumes were up compared to 2012, with production increasing 28.4% to 903.1 kt, and sales up 21.6% to 872.5 kt in 2013. Correspondingly, in 2013 our self-sufficiency in ammonia decreased to 76% compared to 88% in 2012.

81% of our urea exports in 2013 were attributed to long-term contracts with Transammonia AG (Switzerland) and Keytrade AG (Switzerland), which expired in summer 2013. Following expiration of these contracts, we signed new urea sales contracts with Transammonia AG (Switzerland), for the period from July 2013 to June 2015, and with Ameropa AG (Switzerland), for the period from October 2013 to September 2014. The majority of our remaining urea sales were on the spot market or based on short-term quarterly sales contracts. We believe that this balance ensures a significant degree of stability in our urea sales volumes and prices, while at the same time enabling us to benefit from the flexibility that spot sales provide.

The ammonia we produce is used internally for the production of phosphate-based and nitrogen fertilizers. In 2013, ammonia production decreased by 4.3% compared to 2012 as a result of production pauses due to debottlenecking of ammonia production facilities. Most of the ammonia we produced was consumed within the Group to support higher phosphate-based fertilizers and urea production volumes in 2013.

In 2013, production and sales of ammonium nitrate (AN) decreased by 5.5% and 6.1% respectively, primarily as a result of our increased use of internally-produced ammonia for the production of urea and NP. The focus on urea and NP instead of AN production was driven by the higher margins these products earned compared to AN.

Production and sales volumes – Nitrogen fertilizers

	Production volumes			Sales volumes		
	2013 kmt	2012 kmt	Change y-o-y kmt	2013 kmt	2012 kmt	Change y-o-y %
AN	297.4	314.6	(5.5)	279.7	297.9	(6.1)
NP	109.1	80.3	35.9	110.0	79.4	38.5
Urea	903.1	703.1	28.4	872.5	717.6	21.6

New ammonia plant

In June 2013, we signed an agreement with Mitsubishi Heavy Industries for the construction of a new ammonia plant. The plant's capacity is 2,200 tonnes per day (760 kt per annum). Commencement of ammonia production at the plant will return us to 100% self-sufficiency in ammonia compared to our current 83%, bolstering our position as a sustainable, low-cost producer. Excess volumes of ammonia produced at the plant will provide a strong foundation for future development of our downstream fertilizer complex. Construction of the plant is anticipated to be completed in the first half of 2017.

Total CAPEX for the plant's construction is budgeted at US$ 741 million. Financing for the project was obtained through credit agreements with the Japan Bank for International Cooperation (JBIC) and a consortium of banks (Bank of Tokyo-Mitsubishi, Citibank Japan and Mizuho Bank).

A review of our financial performance

PhosAgro's 2013 financial performance demonstrated the benefits of our flexible production and sales model during a period of falling prices on key products. Consolidated revenue decreased by 1% year-on-year to RUB 104.6 billion; earnings before interest, taxes, depreciation and amortisation (EBITDA) decreased by 31% year-on-year, profit for the year decreased by 65% to RUB 8.6 billion. Cash flows from operating activities decreased by 30% to RUB 17.9 billion.

Statement of Comprehensive Income

Revenue

During 2013 our revenue and sales volumes benefited from the strategy of enhancing production flexibility, with total fertilizer production and sales volumes showing significant year-on-year growth of 9% and 11%, respectively. Our revenue decreased by 1% from RUB 105,303 million in 2012 to RUB 104,566 million in 2013 as a result of:

- a 17% decline in average DAP prices (FOB Tampa) and an 18% decline in average urea prices (FOB Baltic);
- a 4% year-on-year increase in revenue following the consolidation of Metachem in December 2012, which brought sales of technical phosphates (STTP) and potassium sulphate (SOP) amounting to RUB 4,551 million in 2013.

In 2013, our phosphate fertilizer segment contributed 87% (FY12: 87%) of consolidated revenue, while the nitrogen fertilizer segment accounted for 12% (FY12: 12%). Revenue from export sales accounted for 68% of our consolidated revenue in 2013, compared to 69% in 2012.

Key financial performance indicators

RUB m	2013	2012	% change
Revenue	104,566	105,303	(1%)
Cost of sales	(68,139)	(59,966)	14%
Gross profit	36,427	45,337	(20%)
Gross profit margin	35%	43%	
Operating profit	16,142	28,396	(43%)
Operating profit margin	15%	27%	
Profit for the year	8,576	24,510	(65%)
Profit margin	8%	23%	
EBITDA	23,934	34,917	(31%)
EBITDA margin	23%	33%	
Net debt	43,818	26,805	63%
Net debt/EBITDA ratio	1.83x	0.77x	

Revenue by region

RUB m	2013	2012	% change
Russia and CIS	41,119	40,017	3%
Europe	24,174	16,822	44%
North and Latin America	20,821	24,380	(15%)
Asia	9,055	9,051	–
Africa	7,974	7,579	5%
India	1,423	7,454	(81%)
Total	**104,566**	**105,303**	**(1%)**

In 2013, we expanded our supply of products in domestic markets (Russia and CIS), the premium markets of Western Europe, and Southeast Asia. Supply to the Indian market was limited to one delivery of NPK, due to the poor market conditions.

For more information please see Market review on pages 18-21.

Flexibility in logistics

Containers can hold up to 29 tonnes of fertilizers, and offer far greater logistics flexibility than bulk vessels. We can load a container at our production facilities, and it can then be transported by rail, truck and/or ship to anywhere in the world, which is especially convenient for places lacking the infrastructure to handle bulk fertilizer cargoes. This helped us supply NPK fertilizers to Asian countries (including Thailand, China, Indonesia, Malaysia, the Philippines and South Korea), Africa and Latin America. Netback prices for container sales are often higher than for bulk sales due to lower shipping costs and the premium we can charge for smaller volumes.

Our flexible production and sales drove exceptional growth in NPS revenues in 2013, while high levels of vertical integration and self-sufficiency helped contain costs.

Segment revenue structure

RUB m	2013	2012	% change
Phosphate-based products	91,065	91,233	–
Nitrogen fertilizers	12,810	13,048	(2%)
Other operations	691	1,022	(32%)
Total	**104,566**	**105,303**	**(1%)**

Phosphate-based products segment

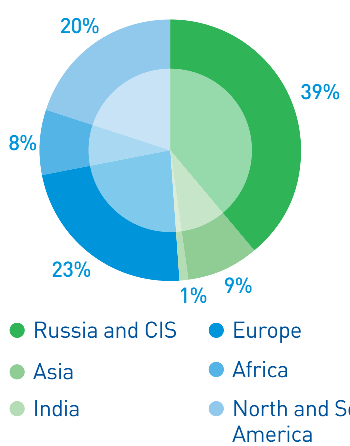
The phosphate-based products segment revenue remained consistent with 2012 and totalled RUB 91,065 million in 2013. PhosAgro increased the production of phosphate-based fertilizers and MCP by 6.5% year-on-year in 2013, while sales volumes were up 10.1% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate decreased in 2013 compared to 2012 by 2.9% and 14.6%, respectively.

Despite the significant decrease in sales prices, revenue for the phosphate-based products segment was stable in 2013, partly due to the addition of export sales of STTP (sodium tripolyphosphate) and SOP (potassium sulphate) of RUB 3,465 million and RUB 884 million, respectively, following the consolidation of Metachem at the end of 2012. Production flexibility also helped PhosAgro maintain stable revenue by increasing NPS export sales volumes by 62% year-on-year. As a result, revenue from NPS export sales increased by 33% year-on-year, from RUB 3,445 million in 2012 to RUB 4,587 million in 2013. Revenue from NPK export sales decreased by 13% year-on-year, from RUB 15,617 million in 2012 to RUB 13,657 million in 2013. This was mainly the result of a 14% decline in revenue per tonne from export sales of NPK. Revenue from DAP/MAP sales decreased by 9% year-on-year from RUB 34,182 million in 2012 to 31,264 million in 2013. This decrease was due to lower market prices (MAP/DAP price decreased by 15% on average) outweighing a 5.5% increase in DAP/MAP sales volumes. Revenue from domestic sales of phosphate rock decreased by 28% year-on-year to RUB 7,950 million in 2013 due to higher internal use following the consolidation of Metachem and higher phosphate-based fertilizer production volumes, as well as to lower sales to a significant Russian customer;

Phosphate-based products segment

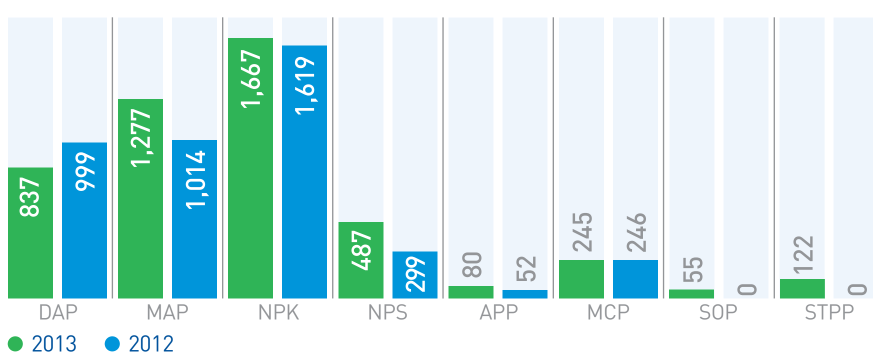
Result	2013 RUB m	2012 RUB m	y-o-y change, %
Revenue	91,065	91,233	–
Cost of goods sold	(59,588)	(54,824)	9%
Gross profit	31,477	36,409	(14%)

Breakdown of revenue by region in 2013, %



Source: PhosAgro.

Sales volumes of phosphate-based products, kt



Source: PhosAgro.

these volumes were redirected to export markets, which led to a 6% year-on-year increase in export sales of the product to RUB 8,937 million for the period.

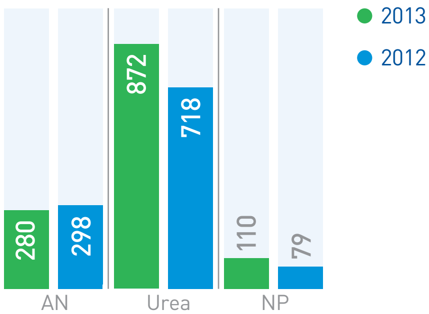
The phosphate segment's gross profit for 2013 decreased by 14% year-on-year to RUB 31,477 million, resulting in a gross profit margin of 35%, compared to 40% in 2012. This was primarily the result of a decrease in prices for our main phosphate-based products.

PhosAgro is largely self-sufficient in key raw materials for phosphate fertilizer production, and fully self-sufficient in phosphate rock. However, higher production volumes and changes in the production mix in 2013 meant the Company had to increase external purchases of other inputs, which led to an increase in cost of sales (a more detailed discussion is provided in the CoGS analysis).

Nitrogen fertilizers segment
Nitrogen segment revenue was RUB 12,810 million in 2013, a decrease of RUB 238 million year-on-year from RUB 13,048 million in 2012. Production and sales volumes of nitrogen-based fertilizers increased by 19% and 15% year-on-year, respectively, in 2013.

Urea sales volumes increased by 22% year-on-year following the launch of the new urea plant at PhosAgro-Cherepovets in the second half of 2012. Export revenue from urea increased by 8% to RUB 8,988 million (2012: RUB 8,323 million) as a result of higher export sales volumes (up 21%)

Sales volumes of nitrogen fertilizers, kt



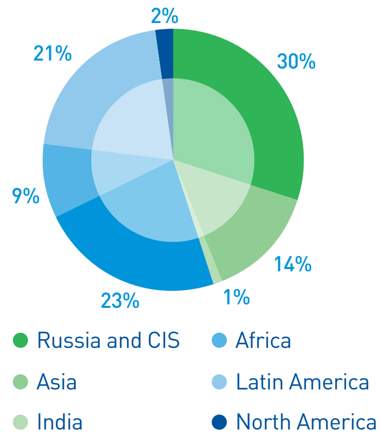
Source: PhosAgro.

and an 11% decrease in export revenue per tonne. Ammonium nitrate (AN) sales volumes decreased by 6%, which was the major factor behind the 8% decrease in revenue from AN sales from RUB 2,837 million in 2012 to RUB 2,620 million in 2013, which was partially compensated by a 9% increase in domestic prices.

Inter-segment revenues decreased by 95% year-on-year in 2013, to RUB 99 million. This was a result of the merger of Ammophos and Cherepovetsky Azot, which represented the phosphate-based and nitrogen-based segments, respectively, prior to their merger into PhosAgro-Cherepovets.

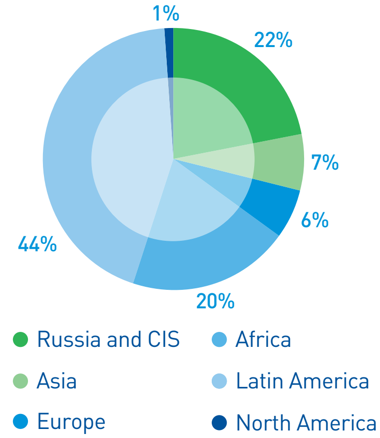
Segment CoGS and gross profit
As a result of higher expenses for purchased ammonia, nitrogen segment gross profit decreased by 62% year-on-year to RUB 2,873 million in 2013, with a gross profit margin of 22%, compared to 58% in 2012.

Breakdown of phosphate-based end-product sales by region, %



Source: PhosAgro.

Breakdown of nitrogen fertilizer sale volumes by region, %



Source: PhosAgro.

Nitrogen fertilizers segment

Result	2013 RUB m	2012 RUB m	y-o-y change, %
Revenue	12,810	13,048	(2%)
Inter-segment revenues	99	2,146	(95%)
Cost of goods sold	(10,036)	(7,632)	31%
Gross profit	2,873	7,562	(62%)

Structure of cost of goods sold

Item	2013 RUB m	2013 % of cost of sales	2012 RUB m	2012 % of cost of sales	Change y-on-y RUB m	Change y-on-y %
Materials and services	21,663	32%	18,419	31%	3,244	18%
Salaries and social contributions	12,022	18%	11,602	19%	420	4%
Ammonia	4,671	7%	2,904	5%	1,767	61%
Potash	4,114	6%	4,598	8%	(484)	(11%)
Ammonium sulphate	1,157	2%	664	1%	493	74%
Natural gas	6,300	9%	5,733	9%	567	10%
Depreciation	7,147	10%	5,933	10%	1,214	20%
Fuel	4,161	6%	4,579	8%	(418)	(9%)
Sulphur and sulphuric acid	3,428	5%	3,597	6%	(169)	(5%)
Electricity	3,478	5%	3,255	5%	223	7%
Other items	53	–	87	–	(34)	(39%)
Change in stock of WIP and finished goods	(55)	–	(1,405)	(2%)	1,350	96%
Total	**68,139**	**100%**	**59,966**	**100%**	**8,173**	**14%**

Cost of sales

PhosAgro's cost of sales increased by 14% year-on-year in 2013 to RUB 68,139 million, in line with the growth in fertilizer sales volumes of 11% and price inflation.

The increase in cost of sales was primarily due to the following changes in 2013 compared to 2012:

- A RUB 3,244 million, or 18%, increase in the cost of materials and services. The consolidation of Metachem into PhosAgro led to an increase in materials and services expenses of 7%, or RUB 1,348 million. The growth in fertilizer sales volumes by 11% led to higher consumption of related materials and services. During the reporting year there was also a significant increase in expenses for third parties' services, which was the result of personnel optimisations and outsourcing of certain functions previously performed by PhosAgro, such as transportation and maintenance.
- Higher production of NPS/NPK, which have a high nitrogen content, led to an increase in purchases of ammonium sulphate of RUB 493 million.
- A RUB 1,767 million, or 61%, increase in ammonia expenses, mainly due to higher production volumes of nitrogen-based fertilizers and changes in the product mix, which led to a 56% increase in PhosAgro's third party ammonia purchases. This was also due to a slight increase of 5% in the purchased ammonia price, to RUB 13,486 per tonne in 2013 from RUB 12,835 in 2012.
- An increase in expenditure on natural gas of RUB 567 million, or 10%, to RUB 6,300 million in 2013. Natural gas is required primarily for the production of ammonia. The price per cubic metre of natural gas rose by 8%, while natural gas consumption increased by 2% year-on-year. The price increase was due to a 15% tariff increase in the second half of 2013. The smaller rise in volume of gas purchased, by just 2%, was due to the start of the new 32 Mwt gas turbine electricity plant at Cherepovets.
- An increase in expenditure on electricity of RUB 223 million, or 7%, from RUB 3,255 million in 2012 to RUB 3,478 million in 2013. This was primarily driven by a 10% tariff hike in July 2013, and partially compensated for by decreased consumption following the start of the new 32 Mwt gas turbine electricity plant.
- Personnel costs increased 4% year-on-year, primarily due to the consolidation of Metachem. Increases due to the indexation of salaries were compensated by reduced payroll costs resulting from PhosAgro's restructuring and staff optimisation programme.
- The increase in cost of sales was partially offset by a year-on-year decrease in expenditure on potash of 11%, or RUB 484 million, to RUB 4,114 million in 2013. This was mainly due to an 8% decrease in potash purchase volumes and a 3% decrease in potash purchase prices. Potash consumption declined due to the higher share of NPK grades with low potash content in the overall production mix.

- A decrease in expenditure on fuel of RUB 418 million, or 9%, from RUB 4,579 million in 2012 to RUB 4,161 million in 2013. This was mainly due to a 6% decrease in consumption of fuel following the decrease in phosphate rock and nepheline concentrate production, as well as lower volumes of phosphate ore extracted in open-pits where diesel is primarily consumed, and to a 3% decrease in fuel purchase prices.
- A decrease in expenditure on sulphur and sulphuric acid of RUB 169 million, or 5%, from RUB 3,597 million in 2012 to RUB 3,428 million in 2013. This was driven by a decrease in purchase prices by 11% as a result of cheaper sulphuric acid supply from domestic metallurgical producers. The decrease in purchase prices was compensated by a 6% increase in purchase volumes following the consolidation of Metachem, and due to higher production volumes of phosphate-based fertilizers.

Selling, general and administrative expenses

Administrative expenses rose by 21% year-on-year to RUB 8,380 million in 2013 primarily as a result of inflation, the consolidation of Metachem and increased medical insurance coverage. In 2013, following the implementation of a new KPI-based motivation programme, all senior and mid-level management bonuses for 2013 were accrued in the 2013 financial period.

Selling expenses rose by 13% year-on-year, from RUB 7,437 million in 2012 to RUB 8,378 million in 2013. This was primarily due to higher sales volumes, as well as a 7% year-on-year increase in Russian Railways infrastructure tariff in 2013.

Restructuring costs

Restructuring costs relate to PhosAgro's restructuring and staff optimisation programme, which commenced in 2012 and comprises mainly redundancy payments and related social contributions. In 2013 these payments amounted to RUB 1,513 million. The programme is on track to be finalised in June 2014, and a provision of RUB 472 million relating to the completion of the programme has been recognised as an accrual in the 2013 financial statements.

Gross profit, operating profit, EBITDA and profit for the period

Gross profit decreased by 20% year-on-year and totalled RUB 36,427 million in 2013 (2012: RUB 45,337 million), with gross margin decreasing from 43% in 2012 to 35% in 2013.

Operating profit for 2013 declined by 43% to RUB 16,142 million (2012: RUB 28,396 million). This decline was mainly the result of a 17% decline in average DAP prices (FOB Tampa) and increased external purchases of feedstocks such as ammonia and ammonium sulphate due to changes and expansion of our product range, as was explained in the analysis of cost of sales above. As a result, our operating margin decreased from 27% in 2012 to 15%. We calculate EBITDA based on operating profit, thus the 31% decline in EBITDA in 2013 to RUB 23,934 million (2012: RUB 34,917 million) reflects the change in operating profit margin and increase in depreciation expense by 19% from RUB 6,521 million in 2012 to RUB 7,792 million.

As a result of unfavourable market conditions, our EBITDA margin decreased to 23%, compared to 33% in 2012. Our net profit for 2013 decreased by 65% year-on-year and amounted to RUB 8,576 million (2012: RUB 24,510 million).

Ruble exchange rates experienced significant volatility in 2013 and 2012. The average RUB/US$ rate for 2013 was 31.8480, an increase of 2% from the average for 2012 of 31.0930. We use foreign currency-denominated loans as a natural hedge against export sales that account for approximately 68% from total revenue in 2013. While the weaker ruble increases export sales in ruble terms, we account for the foreign exchange rate gain or loss at the end of the period on foreign currency-denominated loans. From 31 December 2012, the ruble depreciated against the US$ from 30.3727 to 32.7292 as of 31 December 2013, resulting in an exchange rate loss of RUB 2,999 million compared with a gain of RUB 1,576 million in 2012.

Our high levels of vertical integration and self-sufficiency enabled us to maintain stable profitability despite weak prices during 2013.

Statement of financial position

Net debt at 31 December 2013 stood at RUB 43.8 billion, up from RUB 26.8 billion at 31 December 2012.

Total debt at 31 December 2013 amounted to RUB 52,756 million, versus RUB 36,469 million at the end of 2012. Net debt increased due to a significant cash outflow for the Apatit minority shareholder buyout, which was funded through PhosAgro's successful long-term US$ 500 million debut Eurobond issue. Unfavourable market conditions also contributed to the growth in net debt. As a result, our net debt to EBITDA ratio increased to 1.8 as of 31 December 2013. Excluding the effect of the Apatit buyout (under normal course of business), net debt/EBITDA stood at 1.4 as of 31 December 2013. Our debt portfolio is 98% dollar-denominated, which provides a natural hedge against our export revenue, which is also primarily denominated in US dollars. The average duration of our debt portfolio at 31 December 2013 was three years.

Cash and cash equivalents stood at RUB 8,938 million as at 31 December 2013, compared to RUB 9,664 million as at 31 December 2012.

Cash flows from operating activities

Net cash flow from operating activities decreased by 30% year-on-year to RUB 17,925 million in 2013 (2012: RUB 25,463 million). This decrease was mainly due to unfavourable market conditions.

Statement of cash flows

RUB m	2013	2012	% change
Cash flows from operating activities	17,925	25,463	(30%)
Cash flows used in investing activities	(15,481)	(12,569)	23%
Cash flows used in/from financing activities	(3,665)	(20,036)	(82%)
Net (decrease)/increase in cash and cash equivalents	(1,221)	(7,142)	83%

Capital expenditure

RUB m	2013	2012	% change
Phosphate-based products/mining and beneficiation	8,451	7,822	8%
Phosphate-based products/fertilizer facilities	5,227	2,343	123%
Nitrogen fertilizers	2,192	3,700	(41%)
Other	1,792	1,016	76%
Total capital expenditures	**17,662**	**14,881**	**19%**

Cash flows used in investing activities

Net cash used in investing activities totalled RUB 15,481 million in 2013 (2012: RUB 12,569 million). The 23% increase was primarily due to higher capital expenditure, as investments in main ore shaft no. 2 at the Kirovsky underground mine (expected to enable the mine to increase production to 14 mtpa in 2-3 years), as well as the construction of new storage facilities for liquid ammonia at Balakovo Mineral Fertilizers. During 2013 we also acquired new subsidiary CJSC "Nordic Rus Holding" which owned 7.42% in OJSC "Apatit".

Cash flows used in financing activities

Net cash used in financing activities amounted to RUB 3,665 million in 2013, compared to net cash used in operating activities of RUB 20,036 million in 2012. This 82% decrease was primarily due to the fact that PhosAgro raised more debt in 2013 than in 2012, mainly for the purpose of financing the acquisition of minority shares in OJSC "Apatit", and due to decreased payments of dividends to shareholders.

Capital expenditure

Our capital expenditure, which consists of all additions to property, plant and equipment, amounted to RUB 17,662 million in 2013 (2012: RUB 14,881 million). The most significant portion of capital expenditure during 2013 was focused on the construction of the following facilities:

- ore shaft no. 2 at the Kirovsky underground mine at Apatit;
- construction of new storage facilities for liquid ammonia at Balakovo Mineral Fertilizers.

Quality environment

Best practice environmental management

Through rigorous process quality, we seek to minimise our environmental footprint and constantly seek ways to reduce our resource inputs; this both makes business sense and is the correct approach when working with non-renewable resources. More broadly, through a range of programmes and initiatives, we partner with local communities to enhance social and economic development as well as contributing to the development of our industry sector.

S R For more about our environment commitments see pages 34-41 in our Sustainability Report.

Due to the high quality of our phosphate rock, our environmental impacts are lessened.

Our approach to corporate social responsibility

Guiding all our activities is our desire to provide stable, sustainable value to our stakeholders – including employees, customers and the communities where we operate. By doing this, we will ensure our long-term competitiveness and our ability to deliver strong returns to our shareholders.

Igor Antoshin

Chairman of the Environmental, Health and Safety Committee

How we manage our business

The long-term success of our business is dependent upon many interlocking factors, which when managed successfully create a powerful set of advantages. These include ensuring we have a healthy and engaged workforce; running our business efficiently – including our resources; protecting the environment; and having the support of surrounding communities. Our approach to running our business is geared to meet these aims by undertaking our activities with socially responsible and environmentally sound practices embedded throughout: from initial scoping of projects to their commencement and day-to-day operation. By doing this, we maximise the value inherent in our business model.

This year we issued our first Sustainability Report, which can be viewed on our website at www.phosagro.com. This marked an important step in our journey to create sustainable value and to increase the transparency of our business. In this section, we have extracted key aspects of the report, although we recommend that for more detail this material be read in conjunction with that report.

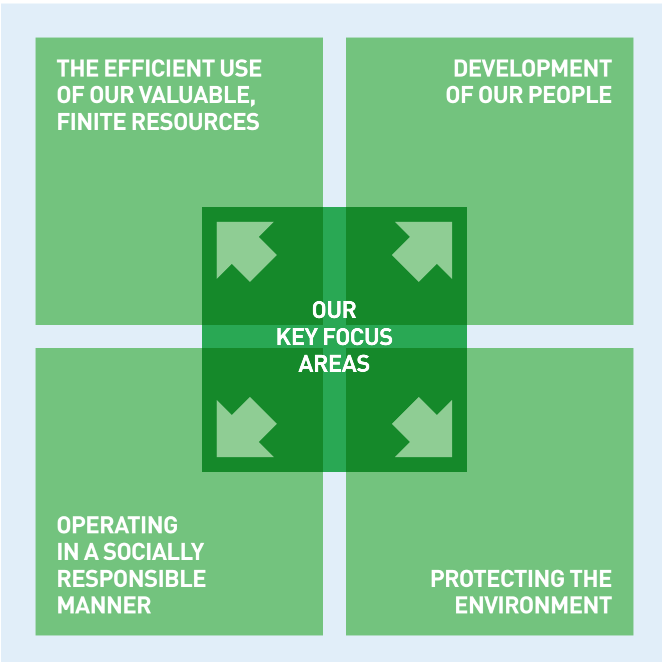
Optimising our business and developing our people

To work consistently across all our operations and maximise the value of our business model, in 2013 we continued to centralise our core management at Cherepovets, our main production hub. We also implemented new, consistent policies applicable to all our subsidiary businesses – the most important of which was our new health, safety and environment policy. These are important steps to optimise our processes and to embed a unified culture of operating sustainably. In addition, we also continued to engage with our wide range of stakeholders to enable mutual understanding. By understanding, managing and improving our business in accordance with the principles of sustainability, we will deliver greater value to our stakeholders and improve shareholder returns.

To meet our goal of being a long-term business, managed sustainably, we must ensure we recruit appropriately, that our 18,870 employees are motivated, work in a united culture and enjoy a healthy and safe working environment. In addition, we must equip our employees with the skills to enable them to meet our business goals, satisfy their personal career aspirations and ensure succession planning. A key initiative to support this is our Staff Reserve Programme.
The programme’s goal is to ensure we identify and provide additional training for employees of talent, capable of both expanding their roles and stepping into more senior positions – mitigating the risk of a shortage of talent. In 2013, we also continued to roll out additional benefits to our employees, both through more career opportunities created by our Staff Reserve Programme and more broadly, for example through our housing schemes. Through these activities, we will be an employer of choice, attracting the best and brightest applicants and ensuring we have a strong pipeline of talent for the future.

S R

For greater detail of how we are creating a vertically integrated system for attracting and retaining talent to our business, including working with schools and universities, please see our Sustainability Report 2013.



Resource efficiency and environmental protection

Throughout this year, and in previous years, we have worked to improve our mining and production processes, investing in the modernisation and technical re-equipping of our facilities. This has been with the support of NIUIF, our in-house R&D team, who provide us with new solutions and technology. This is enabling us to minimise our environmental impacts wherever possible – including reducing our emissions, and minimising our production of solid waste as well as enabling more efficient use of raw materials and energy resources. We are also continuing to develop and implement an integrated management system in accordance with international standards.

Recent projects aimed to enhance our efficiency and reduce energy and materials consumption include reducing the operating costs for grinding apatite-nepheline ore at Apatit-ANOF-3 through implementing fine sieve technology; modernisation of the compressed air supply systems at BMF, which reduced operating costs by increasing energy efficiency and reducing compressed air losses; and increasing energy efficiency and the reliability of electric power to our BMF plant with the construction of a new gas power boiler and decommissioning of the old boiler plant.

For a complete overview of our environmental performance, please see our Sustainability Report.

Social responsibility

Our social programmes are an important means of ensuring our long-term sustainability.

They encompass our employees and their families and our local communities, including schools, sporting organisations and regional government.

For our employees, we structure our support through four programmes: Health; Housing; Material Support and Social Benefits; and Comfortable Working Conditions. We support our local communities through a wide range of initiatives, with our most direct benefits flowing through the taxes and other financial payments we make, our employment of members of the local population and engaging locally based contractors. More broadly, we support economic and infrastructure development programmes that we undertake in conjunction with government authorities to meet local needs and development goals.

By supporting and creating programmes that enhance our local communities, we embed ourselves as a valued member of society. A prime example of our work in this regard is our decade old DROZD youth programme which is operating in six cities: Cherepovets, Voskresensk, Volkhov, Kirovsk, Apatity and Balakovo, with some 15,000 young people participating. It promotes education and healthy lifestyles amongst children by combining sport and education. The DROZD educational methodology is also used across 40 regions. In the formulation of many of our programmes, we often seek to meet the dual needs of both our business and society – for example by creating tailored programmes that enhance local education, while also meeting our need to recruit a well-educated workforce. This year, this included opening five specialised classes in all the cities where we have our major operations: Balakovo; Volkhov; Kirovsk; Apatit; and Cherepovets. These 'PhosAgro Classes' include targeted support for the study of mathematics, computer science, physics and chemistry.

More details of our social initiatives are available in our Sustainability Report.

Quality people

Developing skills for the future

To ensure we have in place the right people in the right roles to execute our strategic goals and day-to-day activities, we have a fully integrated approach to our people. This starts with supporting educational institutions that can assist students to acquire the necessary technical knowledge to join our industry, building close relationships with universities to recruit high-quality graduates and a set of structured programmes to support our employees, including housing schemes and social opportunities to support their families.

993

employees evaluated under the Staff Reserve Programme

RUB 45 m

invested in 2013 for the professional and personal development of our employees

For more about our quality people see our Sustainability Report on pages 28-33.

Board of Directors

Igor Antoshin

Adviser to the CEO, OJSC PhosAgro

Executive Director

Chairman of the Environmental, Health and Safety Committee, Remuneration and Human Resources Committees of the Board of Directors

Since 2013 – Adviser to the CEO, OJSC PhosAgro

Since 2006 – Member of the Board of Directors, OJSC PhosAgro

2009-2013 – Chief Executive Officer, LLC Engineering Centre of PhosAgro

2006-2009 – Chief Executive Officer, OJSC PhosAgro

2004-2006 – Chief Executive Officer, CJSC PhosAgro AG

2002-2005 – Chief Executive Officer, OJSC PhosAgro

2002-2004 – Member of the Board of Directors, OJSC PhosAgro

Education:

Graduate degree in Economics from the G.V. Plekhanov St. Petersburg State Mining University.

Mr. Antoshin directly owns shares equivalent to 1.92% of the Company's authorised capital. In addition, based on information available to the Company, Vindemiatrix Trading Limited holds shares equivalent to 2.88% of PhosAgro's share capital. Shares in Vindemiatrix Trading Limited are ultimately held by a trust, of which Mr. Antoshin is the economic beneficiary.[1]

Roman Osipov

Director of Business Development, OJSC PhosAgro

Executive Director

Member of the Strategy Committee of the Board of Directors

Since 2013 – Director of Business Development, OJSC PhosAgro

Since 2012 – Member of the Board of Directors, OJSC PhosAgro

2012-2013 – Adviser to the CEO, OJSC PhosAgro

2012 – Deputy CEO for Business Development, CJSC PhosAgro AG

2009-2012 – Chief Financial Officer, CJSC PhosAgro AG

2008-2009 – Deputy Chief Financial Officer, CJSC PhosAgro AG

2003-2008 – held various financial management positions, GAZ Group

2002-2003 – Auditor, Ernst & Young

1998-2002 – Senior Consultant, Arthur Andersen

Education:

Graduate degree from the D.F. Ustinov Baltic State Technical University.

Master of Science degree from the LETI-Lovanium International School of Management (now the International School of Management).

Mr. Osipov owns no shares in PhosAgro.

According to information available to the Company, Mr. Osipov's wife owns shares equal to 0.0002% of PhosAgro's authorised capital.

Andrey A. Guryev

CEO and Chairman of the Management Board, OJSC PhosAgro

Executive Director

Chairman of Strategy Committee, Member of the Environmental, Health and Safety Committee

Since 2013 – Member of Board of Directors, OJSC PhosAgro

Since 2013 – CEO, OJSC PhosAgro

2011-2013 – COO and Deputy CEO for Sales and Logistics, CJSC PhosAgro AG

2011-2013 – Deputy CEO, OJSC PhosAgro

2010-2011 – First Deputy CEO, OJSC PhosAgro

2008-2011 – Trader, CJSC PhosAgro AG

2008-2010 – CEO of Apsis Globe

2006-2008 – Sales Manager for fertilizer exports, CJSC PhosAgro AG

2005-2006 – Economist in Consolidation Department, CJSC PhosAgro

2004-2005 – Economist in Methodology, Planning and Accounting Department, Planning and Methodology Department and Accounting Operations Sector, CJSC PhosAgro AG

2003-2004 – Chief Specialist for the Project Drafting Department, CJSC Federal Centre for Project Finance

Education:

Bachelor's degree in Economics from the University of Greenwich (UK).

Graduated from the Russian Academy of National Economy under the Government of the Russian Federation.

PhD in Economics.

Mr Andrey A. Guryev owns no shares in PhosAgro.

According to information available to the Company, the ownership of companies holding 55.24% of PhosAgro's authorised capital, namely Dubberson Holdings Limited, Fornido Holding Limited, Carranita Holdings Limited, Dubhe Holdings Limited, Chlodwig Enterprises Limited, Adorabella Limited, Miles Ahead Management Limited and the Owl Nebula Enterprises Limited, is held in a trust, the economic beneficiaries of which are Andrey G. Guryev and members of his family.

1. Information on Director shareholdings as of 29 April 2014.

Andrey G. Guryev

Non-Executive Director

Deputy Chairman of the Board of Directors

Member of the Remuneration and Human Resources Committee

Since 2013 – Deputy Chairman of the Board of Directors, OJSC PhosAgro

Since 2006 – Vice President of the Russian Union of Chemical Sector Businesses and Organisations non-profit organisation

2001-2013 – Member of the Federation Council

Education:

Graduated from G.V. Plekhanov St. Petersburg State Mining Institute and the Lenin State Central Institute of Physical Culture.

Mr Andrey G. Guryev owns no shares in PhosAgro.

According to information available to the Company, the ownership of companies holding 55.24% of PhosAgro's authorised capital, namely Dubberson Holdings Limited, Fornido Holding Limited, Carranita Holdings Limited, Dubhe Holdings Limited, Chlodwig Enterprises Limited, Adorabella Limited, Miles Ahead Management Limited and the Owl Nebula Enterprises Limited, is held in a trust, the economic beneficiaries of which are Andrey G. Guryev and members of his family. Andrey G. Guryev's wife owns shares representing 4.82% of PhosAgro's authorised capital.

Sven Ombudstvedt

Independent Director

Chairman of the Board of Directors

Member of the Audit Committee, the Remuneration and Human Resources Committee, the Strategy Committee and the Environmental, Health and Safety Committee

Since 2011 – Chairman of the Board of Directors, OJSC PhosAgro

Since 2010 – Chief Executive Officer, Norske Skogindustrier ASA

2008-2009 – Senior Vice President, SCD SAS

2006-2008 – Chief Financial Officer and Head of Strategy, Yara International ASA

2003-2006 – Senior Vice President of Upstream Operations, Yara International ASA

2002-2003 – Senior Vice President of Corporate Strategy, Norsk Hydra ASA

Education:

Master of Science degree in International Management from the Thunderbird School of Global Management (USA).

Bachelor of Science degree in Business Administration from Pacific Lutheran University (USA).

Mr. Ombudstvedt holds 4,000 GDRs (3 GDRs represent 1 ordinary share), or the equivalent of 0.001% of PhosAgro's authorised share capital.

Yuriy Krugovykh

Deputy CEO, OJSC PhosAgro

Deputy CEO for Information Policy, CJSC PhosAgro AG

Executive Director

Member of the Strategy Committee

Since 2014 – Member of the Board of Directors, OJSC PhosAgro

Since 2012 – Deputy CEO for Information Policy, CJSC PhosAgro AG

Since 2009 – Deputy CEO, OJSC PhosAgro

Since 2008 – Adviser to the CEO, Apsis Globe

2012-2013 – Deputy COO for Social and Information Policy, CJSC PhosAgro AG

2005-2010 – Head of Internal Audit, CJSC PhosAgro AG

2002-2005 – Head of Corporate Development, CJSC PhosAgro AG

1999-2002 – Executive Director, LLC Agrofinprom

1998-1999 – Head of Internal Audit, LLC Agrofinprom

Education:

Graduated from the Higher Komsomol School of the Central Committee of Komsomol.

Mr Krugovykh owns no shares in PhosAgro.

Marcus Rhodes
Independent Director

Chairman of the Audit Committee

Since 2011 – Member of the Board of Directors, OJSC PhosAgro

2002-2008 – Audit Partner, Ernst & Young

1998-2002 – Audit Partner, Arthur Andersen

Education and memberships:
Graduate degree in Economics from the University of Loughborough (UK).

Qualified Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales (ICAEW) and member of the Non-Executive Director Group of the ICAEW.

Member of the Board of Directors of Rosinter Group, Cherkizovo Group, Tethys Petroleum and QIWI plc.

Mr. Rhodes owns no shares in PhosAgro.

Ivan Rodionov
Independent Director

Chairman of the Remuneration and Human Resources Committee,

Member of the Audit Committee

Since 2004 – Member of the Board of Directors, OJSC PhosAgro

Since 2006 – Professor, Russian State University for the Humanities

Since 2006 – Professor, Higher School of Economics

2004-2006 – Managing Director, AIG-Interros RCF Adviser

1997-2006 – Managing Director, AIG Brunswick Capital Management

Education and memberships:
Graduate degree in Economics from Lomonosov Moscow State University (Russia).

Mr. Rodionov currently serves as a member of the Boards of Directors of Rostelecom, Interagency Analytical Center, RUSS-INVEST, and Svyazinvest.

Mr. Rodionov owns no shares in PhosAgro.

EXECUTIVE MANAGEMENT

Sergey Sereda
First deputy CEO, OJSC PhosAgro

Deputy CEO for Sales and Logistics, CJSC PhosAgro AG

Since 2014 – First deputy CEO, OJSC PhosAgro

Since 2013 – Deputy CEO for Sales and Logistics, CJSC PhosAgro AG

2013 – Sales Director, CJSC PhosAgro AG

2013-2014 – Deputy CEO for Government Relations, OJSC PhosAgro

2012-2013 – Deputy CEO for Government Relations and Control, OJSC PhosAgro

2007-2012 – Chief Executive Officer, CJSC Hydrostroy Burgas

2007 – Chief Executive Officer, CJSC AgroGard

2005-2007 – Chief Executive Officer, the Chairman of OJSC AgroGard-Finance

2003-2005 – Advisor to the Chairman of the Board of Directors, Head of Internal Control and Audit Division, Director of the Voskresensk branch of CJSC PhosAgro AG, CEO of Voskresensk Mineral Fertilizers, First Deputy CEO of CJSC PhosAgro AG

Education:
Graduated from the Moscow State Institute of International Affairs with a degree in International Economic Relations.

Mikhail Rybnikov

Chief Executive Officer, CJSC PhosAgro AG

Chief Operating Officer, OJSC PhosAgro

Since 2013 – Chief Operating Officer, OJSC PhosAgro

Since 2012 – Chief Executive Officer, CJSC PhosAgro AG

2011-2012 – Chief Operating Officer, CJSC PhosAgro AG

2011 – Deputy Chief Operating Officer, CJSC PhosAgro AG

2008-2011 – Chief Operating Officer, CJSC PhosAgro AG

2006-2008 – Chief Financial Officer, CJSC PhosAgro AG

2004-2006 – Chief Financial Officer, OJSC Apatit

2001-2004 – Chief Financial Officer, Deputy Chief Executive Officer for Economic Affairs and Finance, OJSC Ammophos

1998-2001 – Deputy Chief Executive Officer for Economic Affairs and Finance, OJSC Voskresensk Mineral Fertilizers

Education:

Master's degree in Economics from Lomonosov Moscow State University (Russia).

Alexander Sharabaiko

Adviser to the CEO, CJSC PhosAgro AG

Chief Financial Officer, OJSC PhosAgro

Since 2014 – Adviser to the CEO, CJSC PhosAgro AG

Since 2013 – Chief Financial Officer, OJSC PhosAgro

2012-2014 – Chief Financial Officer, CJSC PhosAgro AG

2011-2012 – Head of Corporate Finance, OJSC Uralkali

2010-2011 – Financial Adviser to Chief Executive Officer, OJSC Silvinit

2005-2010 – held various positions from Chief Specialist to Chief Financial Officer at LLC Mineral Group

2003-2005 – 1st Class Analyst at Securities and Investments Department, OJSC Silvinit

1998-2003 – held various positions at Belaruskali Production Association

Education:

Bachelor degree in Economics with Honours from Belarus State Economic University (Belarus).

MBA in Finance from Nottingham University Business School (UK).

Aleksey Sirotenko

Head of Legal, CJSC PhosAgro AG

Deputy CEO for corporate and legal affairs, OJSC PhosAgro

Since 2011 – Head of Legal, CJSC PhosAgro AG

Since 2010 – Deputy Chief Executive Officer for Corporate and Legal Matters, OJSC PhosAgro

2006-2011 – Head of Legal Department, CJSC PhosAgro AG

2005-2006 – Deputy Chief Executive Officer for Legal Affairs, CJSC Lukoil-Neftekhim

2000-2005 – Head of Legal Department, Interkhimprom Group

Education:

Graduate degree in Law from Lomonosov Moscow State University (Russia).

Siroj Loikov

Human Resources and Social Policy Director, CJSC PhosAgro AG

Human Resources Director, OJSC PhosAgro

Since 2013 – Human Resources Director, OJSC PhosAgro

Since 2013 – Human Resources and Social Policy Director, CJSC PhosAgro AG

2011-2013 – Human Resources Director, CJSC PhosAgro AG

2009-2011 – Human Resources Director, CJSC Russian Standard

2008-2009 – Personnel Development Director, Metinvest Ukraine

2005-2008 – Human Resources Director, Leman Commodities S.A.

1996-2005 – held various positions at British American Tobacco (UK, Uzbekistan and Russia offices)

Education:

Bachelor of Science degree in Business Management from Nottingham Trent University (UK).

Graduate degree in International Economic Relations from the Tashkent State University of Economics (Uzbekistan).

Corporate governance

Commitment to good corporate governance is fundamental to our business and is essential to our long-term sustainability. Our governance system has been designed to enable a productive and transparent relationship between the Company and its stakeholders, and to contribute to achieving stable results and sustainable value for all our stakeholders.

Our corporate governance governs how decisions from shareholders' meetings, the Board of Directors and senior management are made and implemented throughout the Company; and it also includes the business intelligence and risk management systems we use for decision-making as well as the processes to monitor and control our operations.

We have extensive dialogue with shareholders and important information received from regular meetings with investors is reported to the Board of Directors, which the Board can then analyse and decide whether or how to react to this information.

Our Shareholders' Meeting is the principal forum through which the owners of the Company exercise their ability to decide on the most significant issues affecting our business. These include appointing corporate bodies, approving the financial statements and amending the by-laws. The Board of Directors provides overall guidance to the Company, except in areas that are the remit of the Shareholders' Meeting. It sets targets and oversees implementation by the Management Board and CEO. The Management Board and the Chief Executive Officer manage the day-to-day operations of the Company and implement the strategy approved by the Board of Directors.

Our corporate governance principles

ACCOUNTABILITY

The Board of Directors is accountable to PhosAgro's shareholders, and is responsible for:

- Formulation of the Company's strategy;
- Establishing and maintaining systems that enable it to monitor PhosAgro's performance; and
- Holding management accountable for successful implementation of the strategy.

TRANSPARENCY

We strive to ensure the appropriate disclosure of reliable information on all significant issues relating to our operations, including financial status, social and environmental performance, operating results, ownership and governance structure.

EQUALITY

PhosAgro's corporate governance system is designed to protect shareholders' rights and ensure equal treatment of all shareholders.

RESPONSIBILITY

PhosAgro values the rights of all stakeholders, and seeks to cooperate with a wide range of individuals and institutions to find ways to ensure the Company's financial stability and its successful, sustainable development.

The General Shareholders' Meeting

The General Shareholders' Meeting is the Company's highest governing body, and is convened by the Board of Directors at least once a year. The Annual General Meeting is held between 1 March and 30 June each year. Extraordinary General Meetings may be convened by the Board of Directors on its own initiative or at the request of the Review Committee, the external auditor, or a shareholder owning individually or together with other shareholders at least 10% of the issued voting shares.

The General Shareholders' Meeting has the exclusive authority to make decisions on a number of matters, including:

- amendments and additions to the Company's Charter, or adoption of a new version of the Charter;
- the re-organisation or liquidation of the Company;
- election and removal of members of the Board of Directors;
- increases or reductions in the Company's share capital;
- approval of the Company's external auditor;
- approval of the Company's annual reports and financial statements;
- distribution of profits, including payment of dividends;
- payment of remuneration to the members of the Board of Directors and the Review Committee.

Voting at a General Shareholders' Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done by cumulative voting. According to the Law on Joint Stock Companies, the quorum requirement for a General Shareholders' Meeting is that shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present.

The General Shareholders' Meeting may be held in the form of a meeting or by absentee ballot. All shareholders entitled to participate in a General Shareholders' Meeting are notified of the Meeting by a notice sent by post or in person no less than 30 days prior to an Annual Meeting, or 20 days prior to an Extraordinary Meeting. The list of persons entitled to participate in a General Shareholders' Meeting is compiled on the basis of data in the Company's register of shareholders as at the date established by the Board of Directors. General Shareholders' Meetings are usually held in Russia (Moscow).

Our Board of Directors has been chaired by an Independent Director since 2011. It operates in accordance with the Law on Joint Stock Companies, the Company's Charter, guidelines of the UK Corporate Governance Code and generally accepted good practice in corporate governance.

Key activities undertaken by the Board of Directors in 2013 included:

- Appointment of Mr Andrey A. Guryev as CEO and Chairman of the Management Board;
- Recommending dividend payments;
- Monitoring implementation of the 2013 budget and strategic plans, and approving a new budget for 2014 based on the Company's operational needs and strategic priorities;
- Approval of a resolution allowing members of the Management Board to hold management positions in other entities;
- Approval of information policy;
- Consideration and approval of anti-corruption policy.

Other issues that the Board considered included:

- Election of the Chairman and Deputy Chairman of the Board;
- Approval of the Board Committees and Committee members;
- Review of IFRS financial reporting;
- Review of the external auditor's performance and determining the auditor's remuneration;
- Approval of related party transactions.

Members of the Board of Directors

As of 31 December 2013, the Board of Directors consisted of eight members, three of whom were Independent Non-Executive Directors (INEDs). The number of Directors and the membership of the Board of Directors are determined annually by the General Shareholders' Meeting, with the term of appointment being until the next Annual General Shareholders' Meeting is held. When choosing Board members, it is of paramount importance for the Company to find the right balance between professional skills and experience, independence and industry knowledge.

According to the Corporate Governance Code of PhosAgro, which accords with the UK Corporate Governance Code and meets the requirements of the UK Financial Services Authority, the criteria of independence for members of the Board of Directors are that an Independent Director:

- cannot have had any relationship with the Company for a period of five years prior to appointment to the Board;
- cannot have any relationship with a company where any of the Company's officials is a member of the other company's Board Committee for Human Resources and Remuneration;
- cannot be related by family to any senior manager of the Company or the Chief Executive Officer;
- cannot be a representative of the Russian federal or local state authorities;
- cannot be a senior manager in any of PhosAgro's subsidiaries and/or hold more than 3% of the Company's authorised capital.

The Board of Directors constantly seeks to improve its effectiveness and to comply with the recommendations of the Russian Federal Service for Financial Markets Code of Corporate Conduct, as well as internationally recognised good practice in corporate governance. The members of the Board of Directors are elected at the Annual General Shareholders' Meeting by cumulative voting. During 2013, the Board of Directors held 13 meetings, one of which was carried out by absentee ballot.

		Board		Audit Committee		Strategy Committee		Remuneration and HR Committee		Environment, Health and Safety Committee	
Name	Year of birth	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Sven Ombudstvedt	1966	13	13	4	2	1	1	2	2	3	3
Marcus Rhodes	1961	13	13	4	4	–	–	–	–	–	–
Ivan Rodionov	1953	13	13	4	3	–	–	2	2		
Igor Antoshin	1963	13	13	–	–	–	–	2	2	3	3
Maxim Volkov	1972	13	12	–	–	–	–	–	–	3	1
Roman Osipov	1971	13	13	–	–	1	1	–	–	–	–
Andrey G. Guryev	1960	13	4	–	–	–	–	2	2	–	–
Andrey A. Guryev	1982	13	5	–	–	1	1	–	–	3	3

On 10 June 2013, Andrey A. Guryev and Andrey G. Guryev were elected to the Board of Directors. Andrey A. Guryev headed the Strategy Committee and joined the Environment, Health and Safety Committee. Andrey G. Guryev joined the Remuneration and HR Committee.

On 12 February 2014, an extraordinary shareholder meeting was held, at which the Board was re-elected and Yuriy Krugovykh took the place of Maxim Volkov.

Board Committees

The Committees of the Board of Directors are advisory and consultative bodies. The Board Committees are comprised of current members of the Board of Directors, having relevant experience and expertise in the area of each Committee's focus. The Committees can also involve external experts and consultants in their work. The primary role of the Committees is the preliminary consideration of the key issues reserved for the Company's Board of Directors.

The Committees are responsible for ensuring that issues brought before the Board have been subject to sufficient review in order to ensure that the Directors are able to cast their votes based on full and accurate information. To achieve this, Committee members maintain a regular dialogue with management, the Company's external auditor and other advisers on the issues that fall within their remit.

The Audit Committee

Marcus Rhodes
Committee Chairman

Key areas

The Audit Committee supervises the Company's financial and accounting activities. It reviews and evaluates the Company's financial statements, which are prepared by the Company and audited by the Company's external auditor. According to the Statute of the Audit Committee of PhosAgro, the Audit Committee shall consist of not less than three current members of the Board of Directors, and shall be chaired by an independent Director.

The Committee's remit includes:

- review the IFRS financials for integrity and transparency;
- analysis of financial reporting processes, including carrying out regular reviews and making recommendations;
- recommending the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor;
- analysis and support of the internal audit system and risk management procedures, including the drafting of recommendations for their improvement;
- ensuring compliance with applicable legislation and relevant standards of business conduct.

Committee members

As of 31 December 2013, the Audit Committee comprised:

- Marcus Rhodes, Committee Chairman, Independent Non-Executive Director of the Board of Directors;
- Sven Ombudstvedt, Committee Member, Independent Non-Executive Director of the Board of Directors;
- Ivan Rodionov, Committee Member, Independent Non-Executive Director of the Board of Directors.

Activities in 2013

During the reporting period, the Audit Committee held four meetings, in which matters covering all priority areas of the Company's activity were considered. Considerable focus was placed on improving internal audit procedures. In 2013 the Audit Committee focused on:

- Analysis of annual and interim IFRS financial statements;
- Developing recommendations for the Board of Directors regarding its work with the Internal Audit service;
- Review of related party transactions;
- Development of recommendations for the Board of Directors regarding the appointment of the Company's independent auditor, and analysis of the work done by the independent auditor.

The Strategy Committee

Andrey A. Guryev
Committee Chairman

Key areas

The Strategy Committee assists the Board of Directors in the development of the Company's strategy and related processes, including management of the Company's assets and the review of major innovation and investment programmes and projects. The Committee and its Chairman are appointed by the Board of Directors, which ensures that issues within the remit of the Committee are discussed and analysed thoroughly from all strategic points of view.

The Committee's main tasks include:

- Monitoring and updating the Company's mid-term and long-term strategy, and drafting policy as required;
- Evaluation of the development of the Company's subsidiaries, including review of their strategies;
- Making recommendations regarding the Company's M&A projects;
- Analysis and recommendations regarding potential strategic partnerships; and
- The decision to develop PhosAgro's first Sustainability Report.

Committee members

As of 31 December 2013, the Strategy Committee comprised:

- Andrey A. Guryev , Committee Chairman, Executive Director of the Board of Directors;
- Roman Osipov, Committee Member, Executive Director of the Board of Directors;
- Sven Ombudstvedt, Committee Member, Independent Non-Executive Director of the Board of Directors.

Activities in 2013

In 2013, the Strategy Committee held one meeting, at which it focussed on:

- Review and recommendations regarding the draft 2014 business strategy;
- Determining the key areas of focus for the Committee;
- Recommendations to the Board of Directors on the priority areas of activities of the Company in 2014.

The Remuneration and Human Resources Committee

Ivan Rodionov
Committee Chairman

Key areas

The Remuneration and Human Resources Committee's Statute requires that the Committee's Chairman is an Independent Non-Executive Director on the Company's Board of Directors, and the Chief Executive Officer cannot be a member of the Committee.

The Committee's main tasks include:

- The development of the Company's policy in relation to organising the activity and motivation of the Board of Directors;
- The development of the human resources policy in relation to the Company's senior management, and the supervision of its implementation.

Committee members

As of 31 December 2013, the Remuneration and Human Resources Committee comprised:

- Ivan Rodionov, Committee Chairman, Independent Non-Executive Director of the Board of Directors;
- Sven Ombudstvedt, Committee Member, Independent Non-Executive Director of the Board of Directors;
- Igor Antoshin, Committee Member, Executive Director of the Board of Directors;
- Andrey G. Guryev, Committee Member, Non-Executive Director of the Board of Directors.

Activities in 2013

During the reporting period, the Remuneration and Human Resources Committee held two meetings. The main issues considered by the Committee during 2013 were:

- Review of initial results of a newly introduced remuneration programme for the PhosAgro leadership team (including the CEO and his immediate subordinates – classified internally as 'N1' and 'N2'), linked to new KPIs, which include the incorporation of sustainability objectives including safety regulations and environmental compliance;
- Consideration of the process to optimise PhosAgro's workforce and relocation of management personnel to Cherepovets;
- Recommendations to the PhosAgro Board of Directors regarding the appointment of new CEO Andrey A. Guryev, as well as appointment of members of the Management Board.

The Environmental, Health and Safety Committee

Igor Antoshin
Committee Chairman

Key areas

The Environmental, Health and Safety Committee was formed to oversee the Company's activities in the areas of environmental protection, the efficient use of natural resources and energy, occupational health and safety for employees, including the avoidance of industrial accidents, and to advise the Board of Directors on such issues. The Committee and its Chairman are appointed by the Board of Directors.

The Committee's primary tasks include the following areas:

- The Company's compliance with legal and regulatory requirements relating to environmental and health and safety issues;
- The Company's development and enforcement of policies, procedures and practices beneficial to the protection of the environment and the health and safety of employees, contractors, customers and the public;
- The evaluation of the Company's efficient use of natural resources and energy, enforcement of energy saving and resource conservation activities in the Company, and providing recommendations for further implementation and improvement of these activities;
- The prevention of industrial accidents, including plans, programmes and processes established by the Company to evaluate, manage and decrease risks of industrial accidents;
- The improvement of conditions related to health and safety for the Company's employees, and the enforcement of policies for decreasing and eliminating occupational injuries.

Committee members

As of 31 December 2013, the Environmental, Health and Safety Committee was composed of:

- Igor Antoshin, Committee Chairman, Executive Director of the Board of Directors;
- Andrey A. Guryev, Committee Member, Executive Director of the Board of Directors;
- Sven Ombudstvedt, Committee Member, Independent Non-Executive Director of the Board of Directors.

Activities in 2013

During the reporting period, the Environmental, Health and Safety Committee held three meetings, at which the following issues were covered:

- Considering the draft regulations on the procedure for cooperation of OJSC "PhosAgro" and CJSC "PhosAgro AG" while preparing and disclosing information on occupational health and safety, environment protection and social accountability;
- Review and consideration of proposed new Russian environmental protection legislation and its possible impact on PhosAgro;
- Considering the results of key PhosAgro production subsidiaries in meeting regulation requirements on health and industrial safety during operations at high risk production facilities in 2013;
- A review of initiatives to create an integrated HSE management system, in line with the Company's business consolidation.

The Executive Body

Management Board

As of 31 December 2013 the Management Board consisted of:

Andrey A. Guryev	Chairman of the Management Board
Mikhail Rybnikov	Member of the Management Board
Siroj Loikov	Member of the Management Board
Sergey Sereda	Member of the Management Board
Alexei Sirotenko	Member of the Management Board
Alexander Sharabaiko	Member of the Management Board

The matters that are within the competence of the Management Board are set out in the new charter approved at the EGM, and include:

- review, revision and approval of PhosAgro's quarterly and annual budgets;
- development of PhosAgro's capital expenditure plans and strategy with respect to any new business activities;
- approval of certain transactions relating to the disposal of securities and stakes in other companies;
- arranging the preparation and provision of reports to the Board of Directors on PhosAgro's financial and operating performance;
- approval of incentivisation and similar documents that determine the compensation and benefit policies for PhosAgro employees; and
- election and removal of the secretary of the Management Board and his/her powers.

During the reporting period, the Management Board held four meetings, at which the following issues were covered:

- considering the Apatit squeeze out;
- considering the financial results of 2012 and 2013.

The Senior Management Team

We consider the Senior Management Team to be the key individuals with responsibility for PhosAgro's operating and financial performance. The Management Board effectively represents the Senior Management Team. It oversees the day-to-day operations of the Company and implements the Company's strategy.

The Chief Executive Officer

According to the Company's Charter, the CEO is appointed by the Company's Board of Directors for a period of one year and may be dismissed by a decision of the Board of Directors at any time.

The Company's Corporate Governance Code provides that the Chief Executive Officer shall act in good faith and with due diligence to further the interests of the Company and its shareholders. All issues related to the Company's day-to-day operations lie within the authority and responsibility of the CEO, except for those matters that are subject to ratification by the General Shareholders' Meeting, the Company's Board of Directors and/or the Management Board. The CEO, together with the Management Board, is responsible for ensuring that the Company's strategy and the decisions of the General Shareholders' Meeting and the Board of Directors are implemented. In order to ensure efficient corporate communications between the Company's Board of Directors and the CEO, the CEO submits regular quarterly reports to the Board.

Some of the matters for which the CEO is responsible are:

- deciding on all issues relating to the Company that do not fall within the competence of the General Shareholders' Meeting and/or the Board of Directors;
- representing the Company before all federal and local authorities, and in meetings with organisations and entities in Russia and abroad;
- hiring and dismissing Company personnel;
- carrying out all other activities and legal steps required to be conducted on behalf of the Company in accordance with the Company's Charter, decisions of the Board of Directors and the General Shareholders' Meeting, and/or in accordance with current legislation.

Andrey A. Guryev became Chief Executive Officer of the Company in 2013. For biographical details of Mr. Guryev please see the Board of Directors section.

Board and senior management remuneration

Members of PhosAgro's Board of Directors may receive remuneration and be compensated for expenses incurred in the course of their duties in accordance with decisions of the General Shareholders' Meeting. According to the Company's Corporate Governance Code, the remuneration of the Board of Directors shall be in line with current market conditions and shall be at a level that enables the Company to attract, motivate and retain highly-skilled professionals to help drive the future growth and performance of the business. At the same time, the remuneration shall not exceed the amount needed to achieve this.

Members of the Board of Directors Amount of compensation per quarter, in US$:

- Chairman of the Board 37,500;
- Other independent Non-Executive Directors – base remuneration 4,500;
- Chairman of the Audit Committee – additional remuneration 24,786;
- Chairman of the Remuneration and Human Resources Committee – additional remuneration 7,280.

Executive and Non-Executive Directors of the Board of Directors are not compensated for their service on the Board, and the total compensation for the year paid to the members of the Board of Directors shall not exceed US$ 500,000. In 2013, the members of the Board of Directors received remuneration in the sum of RUB 10.1 million (US$ 317.9 thousand).[1] The amount of remuneration and additional compensation paid to the Chief Executive Officer of PhosAgro is regulated by a contract between the Chief Executive Officer and the Company, which is signed and approved by the Company's Board of Directors. The total remuneration reflects the CEO's qualifications and takes into account the particular contribution of the CEO to the financial results of the Company.

The remuneration paid by the Company to the CEO and the five members of the Management Board (who represent the Senior Management Team), for their services to the Company during the year ended 31 December 2013 was RUB 37.5 million in salary and additional compensation (2012: RUB 18.4 million).

The remuneration of the Company's senior managers consists of base salary, which is paid monthly, plus additional compensation, paid quarterly and annually. Payment of additional compensation is based on achievement of the Company's key performance indicators, and on accomplishing additional tasks and goals, as set by the Board of Directors and CEO for the reporting quarter or year. The key performance indicators for each individual senior manager are set by period, and mainly consist of indicators for sustaining operational efficiency as well as contributing to the achievement of corporate growth and strategy. The annual additional compensation is calculated by adding percentages (as set by the Board of Directors) of:

- the Company's EBITDA for the reporting period; and
- the Company's profit for the period under IFRS.

Insider Information Policy

PhosAgro has in place a well-defined policy on insider information, which acts as one of the most important conditions in ensuring that the rights and interests of our shareholders and investors are respected. Our principles are outlined in the Regulation on Insider Information, which is available on our website. An insider is a person who has the right to access insider information as part of their job description, or in line with an internal Company document, a contract with the Company or a law or regulatory requirement. PhosAgro has established an internal structure that reports to the Board of Directors, the responsibility of which is to ensure compliance with current insider information laws and regulations.

We control insider activity by placing restrictions on the use and circulation of insider information. For example, insiders may not pass on information available to them to other individuals except in cases expressly provided for in current legislation and the Company's documents. The Corporate Secretary's office maintains lists of insiders and notifies insiders of their inclusion on these lists. The office gathers data on possible or actual disclosures of insider information and brings them to the knowledge of the Company's Board of Directors. In the event that the Company suffers a loss due to a breach of the insider information policy, the insider is required to compensate the Company for any damages.

Dividend Policy

PhosAgro's dividend policy is based on the following principles:

- shareholders' interests are to be balanced between the payment of dividends and reinvestment of profit into further development;
- there is to be a transparent and predictable dividend policy that is attractive to investors; and
- the majority of profit is to be used for reinvestment to support the Company's growth.

1. At average US$ RUB exchange rate for 2013: 31.848.

A decision on the payment of a dividend, its timing and the exact amount of such a payment is subject to approval of the General Shareholders' Meeting, based on recommendations provided by the PhosAgro Board of Directors. The Board of Directors' recommendations depend on such factors as the Company's earnings, cash requirements, and financial position. The amount of dividend payments is based on the Company's net profits for the first quarter, six months, nine months and/or full year calculated under Russian Accounting Standards (RAS), and payments are made in relation to these specific periods. A decision on the payment of an interim dividend is made at the General Shareholders' Meeting within three months of the end of the relevant period. If the dividends are approved by the General Decisions regarding ex-dividends dates are made based on the recommendations of the Board of Directors. The ex-dividends date must be set between 10 and 20 days from the date of the decision to pay dividends. Dividends must be paid to registered shareholders who are nominee shareholders that are professional securities traders or fund managers within 10 days from the ex-dividend date. Other registered shareholders must be paid within 25 days after the ex-dividend date. Holders of PhosAgro GDRs are also entitled to receive dividends in respect of shares underlying the GDRs, subject to the terms of their Depositary Agreements. According to PhosAgro's dividend policy, the Board of Directors will always try to recommend dividend payments of between 20% and 40% of the consolidated profit for the year attributable to PhosAgro shareholders calculated in accordance with IFRS.

Internal control and audit

Internal control and audit is part of PhosAgro's corporate governance process. It is incorporated into our ongoing activities and is aimed at improving risk management, control and corporate governance, so as to achieve the following:

EFFICIENT OPERATIONS

- Implementation of strategy and business plan
- Protection of the Company's assets, cost-effective and efficient use of its resources
- Timely identification and analysis of risks
- Planning and risk management, including facilitating timely and appropriate decisions to mitigate any risks the Company faces
- Establishing and maintaining PhosAgro's good reputation in the business community and among customers and investors

EFFECTIVE REPORTING

- Reliability, accuracy and completeness of financial and operational information for accounting records, financial statements and management data
- Up-to-date data for management reporting and decision-making
- Timely external reporting on results

LEGAL COMPLIANCE

- Monitoring for compliance with current legislation and internal policies, standards and procedures

The Review Committee

The Review Committee may undertake internal audit procedures either on its own initiative, or pursuant to the decision of the General Shareholders' Meeting or the Board of Directors, or at the request of shareholders owning at least 10% of the shares of the Company. The General Shareholders' Meeting elects the members of the Review Committee for the period until the next Annual General Shareholders' Meeting. The Review Committee comprises three members and is led by the Chairman of the Review Committee. Members of the Committee cannot at the same time be on the Company's Board of Directors, nor may they hold positions in the Company's executive bodies.

Internal Audit Department

The Internal Audit Department is an independent department within PhosAgro that is responsible for conducting internal audits to provide independent and objective assessment of internal controls and risk management of PhosAgro and its subsidiaries. The Department assists the Company's Board of Directors and the management team to achieve PhosAgro's strategic objectives, increase the Company's value and improve its performance. The Director of Internal Audit provides regular reports to the Audit Committee and to the CEO on the results of internal audits. The Audit Committee recommends a nominee for the position of the Director of Internal Audit for approval by the resolution of the Board of Directors.

Internal control body	Appointed by	Reports to	Functions
Review Committee	General Shareholders' Meeting	General Shareholders' Meeting	• Prepares a report on the results of operations of the Company for the prior year ahead of the Annual General Shareholders' Meeting, and gives its opinion on whether the Company's financial statements are true and accurate. • Internal audit procedures and ensure compliance with Russian Accounting Standards (RAS). • Monitor compliance with current legislation, Company Charter and internal regulations.
Audit Committee of the Board of Directors	Board of Directors	Board of Directors	• Improves efficiency and quality of work of the Board of Directors in the area of internal control. • Considers issues and provides recommendations to the Board of Directors in areas like: – external audit, internal audit; – the accuracy and efficiency of internal control procedures; – management accounting and financial reporting; – risk management procedures and systems; – how risks are reflected in the Company's reporting. • Supervises the Internal Audit Department.
Board of Directors	General Shareholders' Meeting	Shareholders	• Determines how the internal control system operates and approves various actions and policies relating to it. • Reports annually to the General Shareholders' Meeting on the reliability and efficiency of PhosAgro's internal control system.
Chief Executive Officer	Board of Directors	Board of Directors	• Functioning of PhosAgro's internal control system. • Implements internal control procedures, and ensures that they are put into practice. • Promptly informs the Board of Directors of any significant risks faced by the Company or any major weaknesses in the Company's internal control system. • Tells the Board what measures have been or will be taken to address issues and the results of these actions.
Internal Audit Department	Board of Directors	Functional: Audit Committee Administrative: CEO	• Independent and objective assessment of the Company's internal control and risk management systems. • Oversight of compliance of PhosAgro's financial and economic operations with Russian legislation and the Company's Charter. • Ensuring the completeness and reliability of the Company's accounting and financial reports. • Evaluation of the efficiency and effectiveness of business processes, including use of resources. • Participates in creation and development of unified elements of the control system within PhosAgro. • Develops recommendations on strategic changes within the Company related to improving the internal control system, risk management and corporate governance. • Develops and promotes corporate internal control policies.
External Auditor	General Shareholders' Meeting	Audit Committee	• Verification of the compliance, in terms of accuracy and completeness, of the Company's annual financial statements with IFRS. • Inspection of the financial and commercial operations of the Company and the internal control systems. • Preparation of a report, which is submitted to the Audit Committee at least once a year. • In case of a disagreement between the management of the Company and the independent auditor, the Audit Committee oversees the resolution of the disagreement. • ZAO KPMG is currently PhosAgro's external auditor.

Management Responsibility Statement

The Company's management hereby confirms that, to the best of its knowledge:

a. The financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

b. The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The consolidated financial statements for the year ended 31 December 2013 were approved by the Company's management on 16 April 2014.

Chairman of the Management Board and Chief Executive Officer

Andrey A. Guryev

Contents

Auditor's Report

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone: +7 (495) 937 4477
Fax: +7 (495) 937 4400/99
Internet: www.kpmg.ru

To the Shareholders and Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Romanenko A.M.

Director (power of attorney dated 1 October 2013 No. 84/13)
ZAO KPMG
16 April 2014
Moscow, Russian Federation

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P-18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No. 10301000804.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

	Note	2013 RUB Million	2012[1] RUB Million
Continuing operations			
Revenues	8	**104,566**	105,303
Cost of sales	10	**(68,139)**	(59,966)
Gross profit		**36,427**	45,337
Administrative expenses	11	**(8,380)**	(6,904)
Selling expenses	12	**(8,378)**	(7,437)
Taxes, other than income tax		**(2,149)**	(1,634)
Other expenses, net	13	**(1,378)**	(966)
Operating profit		**16,142**	28,396
Negative goodwill on consolidation of LLC "Metachem"		**–**	678
Finance income	14	**1,138**	2,070
Finance costs	14	**(2,272)**	(1,450)
Foreign exchange (loss)/gain		**(2,999)**	1,576
Share of profit of associates	17	**19**	166
Restructuring costs	9	**(1,985)**	(222)
Profit before income tax		**10,043**	31,214
Income tax expense	15	**(1,740)**	(6,704)
Profit from continuing operations		**8,303**	24,510
Discontinued operations			
Profit from discontinued operations, net of tax	7	**273**	–
Profit for the year		**8,576**	24,510
Attributable to:			
Non-controlling interests[2]	35	**916**	3,856
Shareholders of the Parent		**7,660**	20,654
Other comprehensive income/(loss)			
Revaluation of available-for-sale securities	17	**–**	282
Actuarial gains and losses, net of tax	27	**(111)**	(276)
Foreign currency translation difference		**247**	(396)
Other comprehensive income/(loss) for the year		**136**	(390)
Total comprehensive income for the year		**8,712**	24,120
Attributable to:			
Non-controlling interests[2]	35	**901**	3,794
Shareholders of the Parent		**7,811**	20,326
Basic and diluted earnings per share (in RUB)	25	**60**	166

1. Comparative information has been re-presented, see note (2e).
2. Non-controlling interests are the minority shareholders of the subsidiaries of OJSC "PhosAgro".

The consolidated financial statements were approved on 16 April 2014:

Chief Executive Officer
Guryev A.A.

Chief Accountant
Valenkova E.V.

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 80-121.

Consolidated Statement of Financial Position

as at 31 December 2013

	Note	**31 December 2013 RUB Million**	31 December 2012 RUB Million
Assets			
Non-current assets			
Property, plant and equipment	16	**75,928**	66,393
Intangible assets		**623**	688
Investments in associates	17	**8,485**	9,620
Deferred tax assets	18	**1,806**	–
Other non-current assets	19	**4,383**	3,071
		91,225	79,772
Current assets			
Other current investments	20	**1,585**	833
Derivative financial assets		**79**	45
Inventories	21	**12,293**	12,324
Current income tax receivable		**668**	769
Trade and other receivables	22	**11,464**	11,874
Cash and cash equivalents	23	**8,938**	9,664
Assets held for sale, net	7	**–**	346
		35,027	35,855
Total assets		**126,252**	115,627
Equity and liabilities			
Equity	24		
Share capital		**372**	360
Share premium		**7,494**	1,099
Retained earnings		**48,556**	48,294
Other reserves		**(116)**	(267)
Equity attributable to shareholders of the Parent		**56,306**	49,486
Equity attributable to non-controlling interests	35	**3,020**	12,389
		59,326	61,875
Non-current liabilities			
Loans and borrowings	26	**39,550**	14,452
Defined benefit obligations	27	**971**	1,257
Deferred tax liabilities	18	**3,304**	2,973
		43,825	18,682
Current liabilities			
Trade and other payables	29	**9,377**	12,377
Current income tax payable		**518**	676
Loans and borrowings	26	**13,206**	22,017
		23,101	35,070
Total equity and liabilities		**126,252**	115,627

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 80-121.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 RUB Million	2012 RUB Million
Operating activities			
Profit before taxation		**10,043**	31,214
Adjustments for:			
Depreciation and amortisation	10, 11, 12	**7,792**	6,521
Negative goodwill on consolidation of LLC "Metachem"		**–**	(678)
Loss on disposal of fixed assets	13	**91**	193
Finance costs	14	**2,272**	1,450
Finance income	14	**(1,138)**	(2,070)
Share of profit of associates	17	**(19)**	(166)
Foreign exchange loss/(gain), net		**3,252**	(1,203)
Operating profit before changes in working capital and provisions		**22,293**	35,261
Decrease/(increase) in inventories		**122**	(1,843)
Decrease/(increase) in trade and other receivables		**1,515**	(324)
(Decrease)/increase in trade and other payables		**(823)**	915
Cash flows from operations before income taxes and interest paid		**23,107**	34,009
Income tax paid		**(3,276)**	(7,117)
Finance costs paid		**(1,906)**	(1,429)
Cash flows from operating activities		**17,925**	25,463
Investing activities			
Loans repaid/(issued)		**785**	(153)
Acquisition of intangible assets		**(198)**	(110)
Acquisition of property, plant and equipment		**(17,795)**	(13,370)
Proceeds from disposal of property, plant and equipment		**613**	251
Cash of Phosint Trading Ltd and PhosAgro Asia Pte Ltd acquired	34	**1,143**	–
Cash paid for CJSC "Nordic Rus Holding"	34	**(1,680)**	–
Proceeds from disposal of CJSC "Pikalevskaya soda" and part of manufacturing facilities within LLC "Metachem"	7	**633**	–
Cash from disposal of investments		**107**	648
Acquisition of investments in associates		**–**	(987)
Consolidation of LLC "Metachem"		**–**	84
Additional equity contribution in associates		**–**	(511)
Finance income received		**911**	1,579
Cash flows used in investing activities		**(15,481)**	(12,569)

Consolidated Statement of Cash Flows (continued)

	Note	2013 RUB Million	2012 RUB Million
Financing activities			
Proceeds from issuance of additional shares	24	**6,407**	–
Proceeds from borrowings		**47,559**	21,375
Repayment of borrowings		**(36,979)**	(15,941)
Acquisition of non-controlling interests	24	**(11,674)**	(12,047)
Dividends paid to non-controlling interests		**(2)**	(364)
Dividends paid to shareholders of the Parent		**(7,511)**	(11,890)
Finance leases paid		**(1,465)**	(1,169)
Cash flows used in financing activities		**(3,665)**	(20,036)
Net decrease in cash and cash equivalents		**(1,221)**	(7,142)
Cash and cash equivalents at beginning of the year		**9,664**	16,946
Effect of changes in exchange rates		**495**	(140)
Cash and cash equivalents at end of the year		**8,938**	9,664

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 80-121.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

RUB Million	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Attributable to non-controlling interests	Total
	Attributable to shareholders of the Parent							
Balance at 1 January 2012	360	1,099	42,265	(305)	(133)	499	16,923	60,708
Total comprehensive income for the year								
Profit for the year	–	–	20,654	–	–	–	3,856	24,510
Revaluation of available-for-sale securities	–	–	–	282	–	–	–	282
Actuarial gains and losses, net of tax	–	–	–	–	(214)	–	(62)	(276)
Foreign currency translation difference	–	–	–	–	–	(396)	–	(396)
	–	–	20,654	282	(214)	(396)	3,794	24,120
Transactions with owners recognised directly in equity								
Effect of merger, see note 24(d)	–	–	846	–	–	–	(1,213)	(367)
Acquisition of non-controlling interest in a subsidiary, see note 24(e)	–	–	(3,583)	–	–	–	(7,527)	(11,110)
Consolidation of LLC "Metachem", see note 17	–	–	–	–	–	–	773	773
Dividends to shareholders of the Parent, see note 24(c)	–	–	(11,888)	–	–	–	–	(11,888)
Dividends to non-controlling interests	–	–	–	–	–	–	(361)	(361)
	–	–	(14,625)	–	–	–	(8,328)	(22,953)
Balance at 31 December 2012	360	1,099	48,294	(23)	(347)	103	12,389	61,875
Balance at 1 January 2013	360	1,099	48,294	(23)	(347)	103	12,389	61,875
Total comprehensive income for the year								
Profit for the year	**–**	**–**	**7,660**	**–**	**–**	**–**	**916**	**8,576**
Actuarial gains and losses, net of tax	**–**	**–**	**–**	**–**	**(96)**	**–**	**(15)**	**(111)**
Foreign currency translation difference	**–**	**–**	**–**	**–**	**–**	**247**	**–**	**247**
	–	**–**	**7,660**	**–**	**(96)**	**247**	**901**	**8,712**
Transactions with owners recognised directly in equity								
Issuance of new ordinary shares, see note 24(a)	**12**	**6,395**	**–**	**–**	**–**	**–**	**–**	**6,407**
Acquisition of non-controlling interest in a subsidiary, see note 24(e)	**–**	**–**	**(2,820)**	**–**	**–**	**–**	**(10,268)**	**(13,088)**
Dividends to shareholders of the Parent, see note 24(c)	**–**	**–**	**(4,578)**	**–**	**–**	**–**	**–**	**(4,578)**
Dividends to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
	12	**6,395**	**(7,398)**	**–**	**–**	**–**	**(10,270)**	**(11,261)**
Balance at 31 December 2013	**372**	**7,494**	**48,556**	**(23)**	**(443)**	**350**	**3,020**	**59,326**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 80-121.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

1 Background

(a) Organisation and operations

OJSC "PhosAgro" (the "Company" or the "Parent") and its subsidiaries (together referred to as the "Group") comprise Russian legal entities. The Company was registered in October 2001. The Company's registered office is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation.

The Group's principal activity is production of apatite concentrate and mineral fertilizers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

The Company's key shareholders are several Cyprus entities holding between 5% and 10% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guryev and his family members.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with the Federal Law No. 208 – FZ "On consolidated financial statements".

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Parent and most of the subsidiaries. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

The translation from USD into RUB, where applicable, was performed as follows:

- Assets and liabilities as of 31 December 2013 were translated at the closing exchange rate of RUB 32.7292 for USD 1 (31 December 2012: RUB 30.3727 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2013 of RUB 31.8480 for USD 1 (2012: RUB 31.0930 for USD 1).
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction.
- The resulting foreign exchange difference is recognised in other comprehensive income.

2 Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(e) Prior year adjustments and reclassifications

During the current period, the Group made a decision to make certain reclassifications of expenses for the year ended 31 December 2012 on materials and services, depreciation, amortisation, salaries and social contributions between cost of sales, administrative expenses, other expenses, net and restructuring costs in order to align them with the current year's presentation:

	As previously presented 2012 RUB Million	Reclassifications 2012 RUB Million	As adjusted 2012 RUB Million
Cost of sales	(60,136)	170	(59,966)
Administrative expenses	(6,646)	(258)	(6,904)
Selling expenses	(7,720)	283	(7,437)
Other expenses, net	(993)	27	(966)
Restructuring costs	–	(222)	(222)

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

3 Significant accounting policies (continued)

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the profit and loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years;
- Plant and equipment 4 to 15 years;
- Fixtures and fittings 3 to 6 years.

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 10 to 60 years;
- Plant and equipment 5 to 35 years;
- Fixtures and fittings 2 to 25 years.

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 Business combinations to business combinations which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3-10 years.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(e) Investments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. The derivatives are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognised in profit and loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

3 Significant accounting policies (continued)

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Pension plans

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight-line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

3 Significant accounting policies (continued)

(ii) Long-term service benefits other than pensions

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies' warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier (mainly for export).

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Revenue from services rendered is recognised in the profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Overburden removal expenditure

In open pit apatit rock mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable resources.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

According to the Group's approach to stripping, an ore accessible after the overburden removal process is extracted within three months. Therefore, the stripping ratio (volume of overburden removed over the volume of resources extracted) is relatively constant over the periods and stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

(s) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group's contributions to social programmes benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit and loss as incurred.

3 Significant accounting policies (continued)

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary shares outstanding increases/(decreases) as a result of a share split/(reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, related head office expenses and Group's associates.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Adoption of new and revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2013:

- Amended IAS 19 *Employee Benefits*, which makes changes to the recognition and measurement of defined benefit expense and termination benefits, and to the disclosures for all employee benefits. This amendment does not have a material effect on the Group's consolidated financial statements.
- Amended IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. This amendment does not have a significant impact on the Group's consolidated financial statements.
- Amended IFRS 7 *Disclosures – Offsetting financial assets and financial liabilities* requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. This amendment does not have a significant impact on the Group's consolidated financial statements.
- IFRS 10 *Consolidated financial statements*, which replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC-12 *Consolidation – special purpose entities*. The new standard does not have a significant impact on the Group's consolidated financial statements.
- IFRS 12 *Disclosure of interests in other entities*, which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group has expanded its disclosure about its interests in subsidiaries (see note 35).
- IFRS 13 *Fair value measurement*, which aims to improve disclosures and achieve consistency by providing a revised definition of fair value. The new standard does not have a significant impact on the Group's consolidated financial statements.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Under the interpretation, production stripping costs that provide access to resources to be mined in the future are capitalised as non-current assets if the component of the ore body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalised stripping costs should be depreciated and how capitalised amounts should be allocated between inventory and the stripping activity asset. The effect of adoption of this IFRIC is explained in note 3(r).

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and have not been applied in these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 (effective for annual periods beginning on or after 1 January 2017) was issued in November 2009 and relates to the classification and measurement of financial assets. The Group is currently assessing the impact of the standard on the consolidated financial statements and does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group does not expect the amendments to have any material effect on its consolidated financial statements.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The amendment will have an impact only on disclosures of an impairment of assets in the consolidated financial statements.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Derivative financial instruments

The fair value is assessed using discounted cash flow technique, where possible using observable inputs, which corresponds to level 2 of the hierarchy of the fair value measurements.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, and loans issued to related parties.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis, present an acceptable bank guarantee or set up a letter of credit with an acceptable bank.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Current and non-current financial assets and cash and cash equivalents

The Group lends money to related parties, who have good credit standing. Based on prior experience, management believes that there is no significant credit risk in respect of related party loans.

Cash and cash equivalents are primarily held with banks with high credit rating. In order to manage liquidity, the Group buys promissory notes of banks with high credit rating.

Notes to the Consolidated Financial Statements (continued)

5 Financial risk management (continued)

(iii) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group's policy is to provide financial guarantees only to subsidiaries or related parties.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(e) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, being the Russian Rouble (RUB). The currencies giving rise to this risk are primarily USD and Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk.

The Group matches its foreign currency cash outflows relating to bank borrowings to the foreign currency cash inflows relating to export sales. Management believes that these two cash flow streams create a natural hedge against exposure to foreign currency risk.

(f) Interest rate risk

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board's approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants, see note 26.

6 Segment information

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- *Phosphate-based products segment* includes mainly production and distribution of ammophos, diammoniumphosphate, sodium tripoly phosphate and other phosphate-based and complex (NPK) fertilizers from the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- *Nitrogen-based products segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea from the factory located in Cherepovets.

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the "other operations" line. None of these operations meet any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in internal management reports that are reviewed by the Group's CEO.

Business segment information of the Group as at 31 December 2013 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	**91,065**	**12,810**	**691**	**–**	**104,566**
Export	**60,703**	**10,153**	**–**	**–**	**70,856**
Domestic	**30,362**	**2,657**	**691**	**–**	**33,710**
Inter-segment transfers	**–**	**99**	**–**	**(99)**	**–**
Cost of goods sold	**(59,588)**	**(10,036)**	**(615)**	**99**	**(70,140)**
Gross segment profit	**31,477**	**2,873**	**76**	**–**	**34,426**
Certain items of profit and loss					
Amortisation and depreciation	**(5,683)**	**(1,797)**	**(144)**	**–**	**(7,624)**
Total non-current segment assets	**51,930**	**14,309**	**2,232**	**–**	**68,471**
Additions to non-current assets	**13,849**	**2,192**	**396**	**–**	**16,437**

Notes to the Consolidated Financial Statements (continued)

6 Segment information (continued)

Business segment information of the Group as at 31 December 2012 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	91,233	13,048	1,022	–	105,303
Export	60,759	11,404	–	–	72,163
Domestic	30,474	1,644	1,022	–	33,140
Inter-segment transfers	–	2,146	–	(2,146)	–
Cost of goods sold	(54,824)	(7,632)	(920)	2,146	(61,230)
Gross segment profit	36,409	7,562	102	–	44,073
Certain items of profit and loss					
Amortisation and depreciation	(5,089)	(688)	(135)	–	(5,912)
Total non-current segment assets	45,200	13,309	2,657	–	61,166
Additions to non-current assets	9,855	3,700	64	–	13,619

The analysis of export revenue by regions is as follows:

	2013 RUB Million	2012 RUB Million
Europe	**24,174**	16,822
North and South America	**20,821**	24,380
Asia	**9,055**	9,051
Africa	**7,974**	7,579
CIS	**7,409**	6,877
India	**1,423**	7,454
	70,856	72,163

The Group distributes its products globally through large independent traders and distributors. The sales volume may vary from one trader to another. In 2013, revenue from sales of phosphate-based products to one single trader amounted to approximately 7% (RUB 7,087 million) of the Group's total revenue. In 2012, revenue to another single trader amounted to approximately 10% (RUB 10,857 million) of the Group's total revenue.

	2013 RUB Million	2012 RUB Million
Total segment revenues	**104,566**	105,303
Consolidated revenues	**104,566**	105,303

6 Segment information (continued)

	2013 RUB Million	2012 RUB Million
Total segmental profit	**34,426**	44,073
Difference in depreciation and amortisation	**50**	(338)
Difference in timing of expenses recognition	**427**	171
Reallocation of administrative expenses	**3**	(145)
Reallocation of selling expenses	**(82)**	(160)
Reallocation of other income	**(8)**	887
Reallocation of capitalised expenses	**320**	387
Elimination of unrealised profit	**(94)**	(224)
Recognition of finance lease	**1,447**	794
Other adjustments	**(62)**	(108)
Consolidated gross profit	**36,427**	45,337

	2013 RUB Million	2012 RUB Million
Total non-current segment assets	**68,471**	61,166
Difference in the carrying value of the tangible assets	**8,080**	5,915
Consolidated non-current assets	**76,551**	67,081

7 Disposal group held for sale

During 2013 the Group sold its 100% stake in CJSC "Pikalevskaya soda" for total consideration of RUB 376 million and part of the manufacturing facilities within LLC "Metachem" for total consideration of RUB 257 million.

The disposal group comprised the following assets and liabilities.

	31 December 2013 RUB Million	31 December 2012 RUB Million
Property, plant and equipment	**–**	149
Deferred tax assets	**–**	38
Inventories	**–**	27
Trade and other receivables	**–**	112
Cash and cash equivalents	**–**	82
Trade and other payables	**–**	(62)
Assets held for sale, net	**–**	346

Notes to the Consolidated Financial Statements (continued)

7 Disposal group held for sale (continued)

Results of discontinued operations for 2013 are as follows.

	RUB Million
Revenues	**1,586**
Reversal of impairment	**240**
Expenses	**(1,506)**
Results from operating activities	**320**
Income tax expense	**(47)**
Profit for the year	**273**

A reversal of impairment loss of RUB 240 million has been included in 'profit from discontinued operations, net of tax' in the statement of profit or loss and other comprehensive income.

Cash flows from discontinued operations for 2013 are as follows.

	RUB Million
Net cash from operating activities	**422**
Net cash from financing activities	**55**
Net cash flows for the period	**477**

8 Revenues

	2013 RUB Million	2012 RUB Million
Sales of chemical fertilizers	**78,939**	79,956
Sales of apatite concentrate	**16,887**	19,452
Sales of sodium tripolyphosphate	**3,605**	–
Sales of nepheline concentrate	**704**	721
Sales of ammonium	**102**	1,023
Other sales	**4,329**	4,151
	104,566	105,303

The domestic sales of apatite concentrate for 2013 amounted to RUB 7,950 million (2012: RUB 10,976 million).

9 Personnel costs

	2013 RUB Million	2012 RUB Million
Cost of sales	**(12,022)**	(11,602)
Administrative expenses	**(4,889)**	(4,065)
Selling expenses	**(351)**	(289)
Restructuring costs	**(1,985)**	(222)
	(19,247)	(16,178)

Personnel costs include salaries and wages, termination benefits, social contributions and current pension service costs.

Restructuring costs

During 2012, the Group started implementing its plan on staff optimisation in key subsidiaries. The plan envisages a reduction in the number of employees by either outsourcing relevant functions to third party suppliers or due to internal efficiency measures. The costs relating to the programme, mainly comprising the termination benefits and related social contributions, amount to RUB 1,985 million for the year ended 31 December 2013. The programme is planned for finalisation in 2014 and a provision of RUB 472 million relating to the completion of this programme has been recognised in the accruals within trade and other payables.

10 Cost of sales

	2013 RUB Million	2012 RUB Million
Materials and services	**(21,663)**	(18,419)
Salaries and social contributions	**(12,022)**	(11,602)
Depreciation	**(7,147)**	(5,933)
Natural gas	**(6,300)**	(5,733)
Ammonia	**(4,671)**	(2,904)
Fuel	**(4,161)**	(4,579)
Potash	**(4,114)**	(4,598)
Electricity	**(3,478)**	(3,255)
Sulphur and sulphuric acid	**(3,428)**	(3,597)
Ammonium sulphate	**(1,157)**	(664)
Other items	**(53)**	(87)
Change in stock of WIP and finished goods	**55**	1,405
	(68,139)	(59,966)

Notes to the Consolidated Financial Statements (continued)

11 Administrative expenses

	2013 RUB Million	2012 RUB Million
Salaries and social contributions	**(4,889)**	(4,065)
Professional services	**(693)**	(692)
Depreciation and amortisation	**(559)**	(531)
Other	**(2,239)**	(1,616)
	(8,380)	(6,904)

12 Selling expenses

	2013 RUB Million	2012 RUB Million
Russian Railways infrastructure tariff	**(4,334)**	(3,825)
Port and stevedoring expenses	**(2,577)**	(2,309)
Materials and services	**(1,030)**	(957)
Salaries and social contributions	**(351)**	(289)
Depreciation and amortisation	**(86)**	(57)
	(8,378)	(7,437)

13 Other expenses, net

	2013 RUB Million	2012 RUB Million
Social expenditures	**(1,365)**	(825)
Loss on disposal of fixed assets	**(91)**	(193)
Decrease in provision for inventory obsolescence	**115**	7
Increase in provision for bad debt	**(65)**	(32)
Other income	**28**	77
	(1,378)	(966)

14 Finance income and finance costs

	2013 RUB Million	2012 RUB Million
Interest income	**883**	1,071
Gain on revaluation of derivative financial instruments	**172**	679
Dividend income	**24**	10
Other finance income	**59**	310
Finance income	**1,138**	2,070
Interest expense	**(2,026)**	(1,193)
Other finance costs	**(246)**	(257)
Finance costs	**(2,272)**	(1,450)
Net finance (costs)/income	**(1,134)**	620

15 Income tax expense

The Company's applicable corporate income tax rate is 20% (2012: 20%).

	2013 RUB Million	2012 RUB Million
Current tax expense	**(3,204)**	(6,431)
Origination and reversal of temporary differences, including change in unrecognised assets	**1,464**	(273)
	(1,740)	(6,704)

Reconciliation of effective tax rate:

	2013		2012	
	RUB Million	**%**	RUB Million	%
Profit before taxation	**10,043**	**100**	31,214	100
Income tax at applicable tax rate	**(2,009)**	**(20)**	(6,243)	(20)
Over-provided in respect of prior years	**30**	**–**	7	–
Income tax on intra-Group dividends	**–**	**–**	(416)	(1)
Unrecognised tax liability on income from associates	**4**	**–**	33	–
Recognition of previously unrecognised deferred tax assets	**–**	**–**	461	1
Non-deductible items	**(543)**	**(5)**	(249)	–
Decrease/(increase) in unrecognised deferred tax assets	**778**	**8**	(297)	(1)
	(1,740)	**(17)**	(6,704)	(21)

Deferred tax assets in the amount of RUB 778 million, relating to tax losses which arose prior to 2013, were recognised in the current year as management reconsidered its plans for the utilisation of such tax losses and, as a result, it became probable that such losses will be utilised and sufficient taxable profits will be available. Deferred tax assets in the amount of RUB 1,391 million, relating to tax losses of the current year, were also recognised during the current year – see also note 18.

Notes to the Consolidated Financial Statements (continued)

16 Property, plant and equipment

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2012	13,856	45,336	1,949	20,632	81,773
Reclassification	465	(2,097)	1,632	–	–
Additions	394	1,269	417	12,801	14,881
Consolidation of LLC "Metachem"	444	346	69	421	1,280
Transfers	5,504	9,685	59	(15,248)	–
Disposals	(153)	(893)	(114)	(61)	(1,221)
At 1 January 2013	20,510	53,646	4,012	18,545	96,713
Additions	**75**	**1,753**	**689**	**15,145**	**17,662**
Transfers	**3,198**	**5,620**	**3**	**(8,821)**	**–**
Disposals	**(277)**	**(1,223)**	**(120)**	**(30)**	**(1,650)**
At 31 December 2013	**23,506**	**59,796**	**4,584**	**24,839**	**112,725**
Accumulated depreciation					
At 1 January 2012	(3,722)	(20,114)	(939)	–	(24,775)
Reclassification	(37)	1,139	(1,102)	–	–
Depreciation charge	(792)	(5,040)	(471)	–	(6,303)
Disposals	43	637	78	–	758
At 1 January 2013	(4,508)	(23,378)	(2,434)	–	(30,320)
Depreciation charge	**(1,043)**	**(5,843)**	**(672)**	**–**	**(7,558)**
Disposals	**62**	**913**	**106**	**–**	**1,081**
At 31 December 2013	**(5,489)**	**(28,308)**	**(3,000)**	**–**	**(36,797)**
Net book value at 1 January 2012	10,134	25,222	1,010	20,632	56,998
Net book value at 1 January 2013	16,002	30,268	1,578	18,545	66,393
Net book value at 31 December 2013	**18,017**	**31,488**	**1,584**	**24,839**	**75,928**

(a) Impairment testing

At the reporting date the Group performed impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of five years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 12.6% (2012: 12.9%)
- Terminal growth rate 3% (2012: 3%)

Based on the analysis, no impairment loss was recognised. A 1% increase in the discount rate would not have resulted in an impairment loss in any of the cash-generating units tested.

16 Property, plant and equipment (continued)

(b) Security

Properties with a carrying amount of RUB 599 million (31 December 2012: RUB 1,270 million) are pledged to secure bank loans, see note 26.

(c) Leasing

Plant and equipment with the carrying value of RUB 4,984 million (31 December 2012: RUB 3,679 million) is leased under various finance lease agreements, see note 28.

17 Investments in associates

Phosint Limited

In September and October 2010, two Group subsidiaries, Phosint Limited (incorporated in Cyprus) and PhosAsset GmbH (incorporated in Switzerland), increased their share capital which was subscribed by a related party, resulting in the dilution of the Group's shareholding in these entities to 49%. As a consequence, these entities and Nordwest AG, a subsidiary of PhosAsset GmbH incorporated in Switzerland (further the Phosint Group) were deconsolidated from the Group. At the same time, the Group retained its right for the distribution of all accumulated earnings and reserves relating to these entities prior to the date of loss of control as determined by the executive management by reference to the IFRS financial statements of these entities. In 2011, a dividend in the amount of RUB 1,840 million was accrued and paid from Phosint Group to the Company out of the opening balance of retained earnings.

The Group's investment in Phosint Group is measured using the equity method. As at 31 December 2012 and 2013, these entities held primarily equity and debt instruments of Russian issuers recognised at fair value, loans and cash. Accordingly, the fair value of the net assets of these entities approximated the book value.

Once the total dividend distributed reaches the amount of retained earnings of Phosint Group at the date of loss of control, any subsequent dividend will be made proportionate to the shareholding in these companies.

LLC "Metachem"

In May 2011, the Group entered into an acquisition agreement for 24% of LLC "Metachem" and 21.85% of CJSC "Pikalevskaya soda" for a total consideration of RUB 313 million. In July 2011, the Group sold its investment in CJSC "Pikalevskaya soda" for RUB 145 million to CJSC "Metachem". In December 2012, the Group contributed RUB 1,200 million to the charter capital of LLC "Metachem", increasing the Group's ownership to 74.76%.

In June 2013, the Group acquired an additional 25.24% in LLC "Metachem" for a consideration of USD 30.95 million (RUB 1,012 million). The financial effect of this transaction is a decrease in non-controlling interests by RUB 818 million and a decrease in retained earnings by RUB 194 million. As a result, the Group's ownership in LLC "Metachem" increased to 100%.

CJSC "Nordic Rus Holding"

In October 2012, the Group acquired 24% of CJSC "Nordic Rus Holding" for a total consideration of USD 31.76 million (RUB 987 million). CJSC "Nordic Rus Holding" is a minority shareholder of OJSC "Apatit". In August 2013, the Group acquired 76% in CJSC "Nordic Rus Holding" for a consideration of RUB 4,676 million (USD 141.92 million), increasing the Group's ownership to 100%, see note 34(b).

Notes to the Consolidated Financial Statements (continued)

17 Investments in associates (continued)

Phosint Trading Limited and PhosAgro Asia Pte Ltd

In August 2013, the Group acquired 100% in Phosint Trading Limited, which owns 100% PhosAgro Asia Pte Ltd, for a consideration of RUB 146 million (USD 4.41 million) paid to the previous owner, Phosint Limited.

The movement in the balance of investments in associates is as follows:

	2013 RUB Million	2012 RUB Million
Balance at 1 January	**9,620**	7,910
Share in profit for the year	**19**	166
Share in CJSC "Nordic Rus Holding" at the date of acquisition of control	**(1,406)**	–
Foreign currency translation difference	**252**	(396)
Share in revaluation gain on available-for-sale securities	**–**	282
Additional equity contributions	**–**	1,081
Acquisition of CJSC "Nordic Rus Holding"	**–**	987
Consolidation of LLC "Metachem"	**–**	(410)
Balance at 31 December	**8,485**	9,620

Carrying values of the Group's investment in associates at 31 December 2013 and 2012 are as follows:

	2013 RUB Million	2012 RUB Million
Phosint Group	**7,843**	7,661
PHOSAGRO-UKRAINE	**111**	111
Khibinskaya Teplovaya Kompaniya	**400**	400
Nordic Rus Holding	**–**	1,448
Other	**131**	–
	8,485	9,620

Summary financial information for associates is as follows:

2013	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
Phosint Group	**10,291**	**(2,478)**	**7,813**	**7,054**	**(151)**
PHOSAGRO-UKRAINE	**774**	**(607)**	**167**	**805**	**44**
Khibinskaya Teplovaya Kompaniya	**3,166**	**(2,302)**	**864**	**106**	**(35)**
Other	**669**	**(150)**	**519**	**805**	**162**
	14,900	**(5,537)**	**9,363**	**8,770**	**20**

17 Investments in associates (continued)

2012	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
Phosint Group	9,435	(1,553)	7,882	2,754	325
Metachem Group[1]	4,370	(1,309)	3,061	7,017	606
PHOSAGRO-UKRAINE	352	(359)	(7)	2,112	20
Khibinskaya Teplovaya Kompaniya	1,649	(750)	899	4	2
Nordic Rus Holding[2]	5,888	(49)	5,839	–	49
	21,694	(4,020)	17,674	11,887	1,002

1. For the period ended 21 December 2012, the date of consolidation
2. For the three-month period ended 31 December 2012

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB Million	Assets 2013	Liabilities 2013	Net 2013	Assets 2012	Liabilities 2012	Net 2012
Property, plant and equipment	**11**	**(4,642)**	**(4,631)**	9	(3,990)	(3,981)
Other long-term assets	**46**	**(3)**	**43**	67	(41)	26
Current assets	**329**	**(471)**	**(142)**	271	(315)	(44)
Liabilities	**1,121**	**(30)**	**1,091**	1,055	(1)	1,054
Tax loss carry-forwards	**2,172**	**–**	**2,172**	781	–	781
Provision for tax loss carry-forwards	**(31)**	**–**	**(31)**	(781)	–	(781)
Unrecognised deferred tax assets	**–**	**–**	**–**	(28)	–	(28)
Tax assets / (liabilities)	**3,648**	**(5,146)**	**(1,498)**	1,374	(4,347)	(2,973)
Set off of tax	**(1,842)**	**1,842**	**–**	(1,374)	1,374	–
Net tax assets / (liabilities)	**1,806**	**(3,304)**	**(1,498)**	–	(2,973)	(2,973)

The unrecognised tax losses expire within six-ten years from the reporting date.

Deferred tax assets in the amount of RUB 778 million, relating to tax losses which arose prior to 2013, were recognised in the current year as management reconsidered its plans for the utilisation of such tax losses, see note 15.

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 41,763 million (31 December 2012: RUB 32,347 million). The deferred tax liability for these temporary differences has not been recognised because the Parent can control the timing of reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (continued)

18 Deferred tax assets and liabilities (continued)

(b) Movement in temporary differences during the year

	2013	Recognised in profit and loss	Recognised in other comprehensive income	2012
Property, plant and equipment	**(4,631)**	(650)	–	(3,981)
Other long-term assets	**43**	17	–	26
Current assets	**(142)**	(98)	–	(44)
Liabilities	**1,091**	26	11	1,054
Tax loss carry-forwards	**2,172**	1,391	–	781
Provision for tax loss carry-forwards	**(31)**	750	–	(781)
Unrecognised deferred tax assets	**–**	28	–	(28)
Net tax assets / (liabilities)	**(1,498)**	1,464	11	(2,973)

	2012	Recognised in profit and loss	Recognised in other comprehensive income	2011
Property, plant and equipment	(3,981)	(716)	–	(3,265)
Other long-term assets	26	198	–	(172)
Current assets	(44)	(9)	–	(35)
Liabilities	1,054	340	150	564
Tax loss carry-forwards	781	211	–	570
Provision for tax loss carry-forwards	(781)	(343)	–	(438)
Unrecognised deferred tax assets	(28)	46	–	(74)
Net tax assets / (liabilities)	(2,973)	(273)	150	(2,850)

19 Other non-current assets

	31 December 2013 RUB Million	31 December 2012 RUB Million
Advances issued for property, plant and equipment	**2,864**	1,511
Financial assets available-for-sale, at cost	**627**	753
Loans issued to employees, at amortised cost	**384**	325
Loans issued to related parties, at amortised cost	**48**	38
Financial assets available-for-sale, at fair value	**81**	75
Finance lease receivable	**74**	58
Other long-term receivables	**305**	311
	4,383	3,071

20 Other current investments

	31 December 2013 RUB Million	31 December 2012 RUB Million
Investments in debt securities, short-term	**1,473**	–
Loans issued to related parties, at amortised cost	**17**	57
Loans issued to employees, at amortised cost	**73**	82
Loans issued to associates, at amortised cost	**–**	664
Other loans issued, at amortised cost	**22**	30
	1,585	833

Loans issued to associates represented a RUB-denominated loan issued in 2012 by OJSC "Apatit" to OJSC "Khibinskaya Teplovaya Kompaniya", bearing interest of 9%. The loan was repaid in March 2013.

21 Inventories

	31 December 2013 RUB Million	31 December 2012 RUB Million
Raw materials:		
Raw materials and spare parts	**5,472**	5,918
Apatite concentrate	**923**	1,025
Apatite-nepheline ore	**1,260**	913
Finished goods:		
Chemical fertilizers	**4,029**	3,995
Apatite concentrate	**239**	178
Work-in-progress	**479**	534
Other goods for resale	**34**	19
Provision for obsolescence	**(143)**	(258)
	12,293	12,324

Notes to the Consolidated Financial Statements (continued)

22 Trade and other receivables

	31 December 2013 RUB Million	31 December 2012 RUB Million
Taxes receivable	**5,063**	4,617
Trade accounts receivable	**4,175**	4,458
Advances issued	**2,172**	2,802
Other receivables	**338**	292
Deferred expenses	**110**	33
Receivables from employees	**14**	43
Finance lease receivable	**49**	21
Provision for doubtful accounts	**(457)**	(392)
	11,464	11,874

Included in trade and other receivables are trade accounts receivable with the following ageing analysis as at the reporting dates:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Not past due	**3,758**	3,750
Past due 0-180 days	**138**	357
Past due 180-365 days	**2**	95
More than one year	**277**	256
	4,175	4,458

23 Cash and cash equivalents

	31 December 2013 RUB Million	31 December 2012 RUB Million
Cash in bank	**6,585**	7,258
Call deposits	**2,349**	2,404
Petty cash	**4**	2
	8,938	9,664

24 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**
Shares on issue at 31 December 2013, RUB 2.5 par value	**129,500,000**
Shares authorised for additional issue at 31 December 2013, RUB 2.5 par value	**994,977,080**
Shares on issue at 31 December 2012, RUB 2.5 par value	124,477,080
Shares authorised for additional issue at 31 December 2012, RUB 2.5 par value	1,000,000,000

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 *Financial Reporting in Hyperinflationary economies*.

24 Equity (continued)

In February 2006, the Company issued 1,764,001 preferred shares of class "A1" and 35,999 preferred shares of class "A2", both with a par value of 25 Russian Rubles. The issue price was 140 and 200 Russian Rubles per share for the shares of class "A1" and "A2", respectively. The total proceeds from the share issue were RUB 254 million.

During 2011, the preferred shares were converted into the same number of ordinary shares.

In December 2011, the extraordinary meeting of the shareholders decided to split each ordinary share with the par value of 25 RUB each into 10 ordinary shares with the par value of 2.5 RUB each. The share split was completed in March 2012. As a result, the Company's issued share capital is comprised of 124,477,080 ordinary shares having par value of 2.5 RUB each. The Company's authorised an additional 1,000,000,000 ordinary shares for issue with a par value of 2.5 RUB each.

In October 2012, the Board of Directors decided to increase the Company's share capital by issuing 13.5 million new ordinary shares with a par value of 2.5 RUB each. In November 2012, the Federal Financial Markets Service of Russia registered this additional share issue. In accordance with Russian legislation, the new shares may be placed within one year (with the possible extension) after the date of the state registration of the share issue and all the existing shareholders have pre-emptive rights to purchase the new shares in an amount pro rata to the number of ordinary shares they own. On 10 April 2013, the Company began the issuance of new shares with an offering price of USD 42 per ordinary share. The Company completed the new shares' issuance in May 2013 with a total of 5,022,920 ordinary shares being subscribed for. The proceeds from the share issuance were USD 210.96 million (RUB 6,635 million). Transaction costs of RUB 228 million were deducted from the share premium. As a result, the Company's issued share capital comprises 129,500,000 ordinary shares with a par value of 2.5 RUB each.

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of OJSC "PhosAgro".

Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2013, the Company had cumulative retained earnings of RUB 14,537 million (31 December 2012: RUB 11,564 million).

In April 2013, the Board of Directors proposed paying a dividend of RUB 19.9 per ordinary share to shareholders included in the register of shareholders as of 22 April 2013. The total amount of proposed dividends was RUB 2,577 million. In June 2013, the proposed dividend payout was approved by a meeting of shareholders.

In August 2013, the Board of Directors proposed paying a dividend of RUB 15.45 per ordinary share to shareholders included in the register of shareholders as of 6 September 2013. The total amount of proposed dividends was RUB 2,001 million. In October 2013, the proposed dividend payout was approved by a meeting of shareholders.

Notes to the Consolidated Financial Statements (continued)

24 Equity (continued)

(d) Merger of OJSC "Ammophos" and JSC "Cherepovetsky "Azot"

In February 2012, the shareholders of two of the Group's subsidiaries, OJSC "Ammophos" and JSC "Cherepovetsky "Azot" passed a resolution to merge into one legal entity – OJSC "PhosAgro-Cherepovets". In accordance with Russian law, those minority shareholders who voted against the merger or withheld from voting, obtained the right to put their shares to the respective entities. In April 2012, the Board of Directors of OJSC "Ammophos" and Supervisory Board of JSC "Cherepovetsky "Azot" approved the repurchase of shares from those shareholders who decided to put their shares to the respective entities for RUB 367 million. After the repurchase the Group's share in OJSC "Ammophos" and JSC "Cherepovetsky "Azot" was 94.1% and 70.6%, respectively. The legal structuring was completed in July 2012. The Group's share in OJSC "PhosAgro-Cherepovets" is 87.6%.

(e) Acquisition of non-controlling stakes in OJSC "Apatit"

In September 2012, the Group offered RUB 11,110 million in the privatisation tender for the Russian Federation's 20% stake in all issued shares of OJSC "Apatit" and signed a purchase agreement for the shares. On 4 October 2012, the Group paid for the shares and the legal title for the shares was transferred to the Group, increasing its shareholding from 57.57% to 77.57%. The carrying amount of Apatit's net assets on the date of the acquisition was RUB 37,526 million. The financial effect of this transaction is a decrease in non-controlling interests by RUB 7,505 million and a decrease in retained earnings by RUB 3,605 million.

The Government of the Russian Federation issued an Order No. 2901-R, dated 11 October 2012, which cancelled its special right to participate in the governance of OJSC "Apatit" (the "Golden Share").

In November 2012, the Group launched a mandatory tender offer to acquire ordinary and preferred shares of OJSC "Apatit". The offering price, which was determined in accordance with Russian law, was RUB 6,679.9 per ordinary share and RUB 5,344.0 per type "A" preferred share. For the purposes of the mandatory buyout the Group obtained a bank guarantee in the amount of RUB 7,785 million. The offer period expired on 17 January 2013. As at 18 January 2013, holders of 10.95% of all issued shares of OJSC "Apatit" (738,957 ordinary and 171,439 type "A" preferred shares) accepted the Company's mandatory tender offer. In January 2013, the legal title for the shares was transferred to the Group, increasing its shareholding from 77.57% to 88.52%. The financial effect of this transaction was a decrease in non-controlling interests by RUB 4,224 million and a decrease in retained earnings by RUB 1,633 million.

In April 2013, the Company sent a compulsory share purchase notification (squeeze out) to OJSC "Apatit" for the buyout of shares belonging to OJSC "Apatit" minority shareholders. The purchase price, which was determined in accordance with Russian law, is RUB 6,880 per ordinary share and RUB 5,504 per type "A" preferred share. As at 30 September 2013, holders of 4.05% of all issued shares of OJSC "Apatit" (98,913 ordinary and 238,138 type "A" preferred shares) accepted the Company's share purchase notification. The financial effect of this transaction is a decrease in non-controlling interests by RUB 1,693 million and a decrease in retained earnings by RUB 331 million.

In addition to the squeeze out, the Group purchased 76% of CJSC "Nordic Rus Holding", which owns 7.42% in OJSC "Apatit" (617,430 ordinary shares), for RUB 4,676 million (USD 141.92 million). The financial effect of this transaction is a decrease in non-controlling interests by RUB 3,507 million and a decrease in retained earnings by RUB 685 million.

25 Earnings per share

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split, see note 24(a), and effect of treasury shares. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2013	2012
Weighted average number of ordinary shares in issue	**128,027,528**	124,477,080
Profit for the year attributable to ordinary shareholders of the Parent, RUB million	**7,660**	20,654
Basic and diluted earnings per share, RUB	**60**	166

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 28(a). For more information about the Group's exposure to foreign currency risk, see note 30(a).

RUB Million	Contractual interest rate	31 December 2013	31 December 2012
Current loans and borrowings			
Secured bank loans:			
RUB-denominated	1.5%-3.25%	**76**	277
Unsecured bank loans:			
RUB-denominated	8.75%-12.0%	**–**	519
USD-denominated	LIBOR(1M)+1.4%-2.9%	**10,546**	12,502
USD-denominated	LIBOR(3M)+2.6%	**–**	7,593
USD-denominated	1.35%	**818**	–
Secured letters of credit:			
EUR-denominated	LIBOR(6M)+2.05%-2.1%	**–**	250
EUR-denominated	EURIBOR(3M)+1.95%	**–**	33
RUB-denominated	EURIBOR(6M)+0.9%	**–**	200
Unsecured loans from associates			
EUR-denominated	4.50%	**361**	–
Unsecured loans from other companies			
USD-denominated	LIBOR(12M)+1.25%	**327**	–
Finance lease liabilities:			
USD-denominated	7.1%-13.9%[2]	**769**	606
Interest payable:			
RUB-denominated		**2**	37
USD-denominated		**307**	–
		13,206	22,017

Notes to the Consolidated Financial Statements (continued)

26 Loans and borrowings (continued)

RUB Million	Contractual interest rate	31 December 2013	31 December 2012
Non-current loans and borrowings			
Secured bank loans:			
RUB-denominated	1.5%-3.25%	**–**	23
Unsecured bank loans:			
RUB-denominated	8.25%-9.15%	**207**	–
USD-denominated	LIBOR(1M)+2.1%-2.52%	**18,469**	9,971
USD-denominated	LIBOR(3M)+2.9%	**1,636**	1,519
Secured letters of credit:			
USD-denominated	EURIBOR(6M)+2.3%	**217**	336
EUR-denominated	EURIBOR(3M)+1.95%	**–**	200
EUR-denominated	EURIBOR(6M)+3.25%	**274**	481
Loan participation notes:			
USD-denominated[1]	4.204%	**16,281**	–
Finance lease liabilities:			
USD-denominated	7.1%-13.9%[2]	**2,466**	1,922
		39,550	14,452
		52,756	36,469

1. In February 2013, the Company's SPV issued a USD 500 million five-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange.
2. Contractual interest rate on financial lease agreements consists of the following components:
   - interest rate and fees to a lessor
   - insurance of property
   - property tax

See note 16(b) on the assets pledged as a security for bank loans.

In addition to the pledges the loan agreements contain a number of restrictive covenants, such as maintaining a minimum turnover on the current account, limiting the maximum joint indebtedness and minimum total assets of several Group subsidiaries, net debt to EBITDA ratio and EBITDA to interest expense ratio. The Group complied with these covenants during the year.

27 Defined benefit obligations

	31 December 2013 RUB Million	31 December 2012 RUB Million
Pension obligations, long-term	**599**	904
Post-retirement obligations other than pensions	**372**	353
	971	1,257

Defined benefit pension plans relate to three subsidiaries of the Company: OJSC "Apatit", OJSC "PhosAgro-Cherepovets" and LLC "Metachem". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in OJSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in OJSC "Apatit" upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

	RUB Million
Defined benefit obligations at 1 January 2012	922
Benefits paid	(190)
Current service costs and interest	121
Past service costs	1
Curtailment gain	(23)
Actuarial loss in other comprehensive income	426
Defined benefit obligations at 1 January 2013	1,257
Benefits paid	**(404)**
Current service costs and interest	**112**
Past service credit	**(116)**
Actuarial loss in other comprehensive income[1]	**122**
Defined benefit obligations at 31 December 2013	**971**

1. Including deferred tax benefit of RUB 11 million recognised in other comprehensive income (see note 18(b)).

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

	31 December 2013	31 December 2012
Discount rate	**7.9%**	7%
Future pension increases	**5%**	5%

Notes to the Consolidated Financial Statements (continued)

28 Leases

(a) Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,250 railway wagons. Other Group subsidiaries also entered into lease agreements in 2013 and 2012. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2013		
RUB Million	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	**1,067**	**298**	**769**
Between one and five years	**2,703**	**509**	**2,194**
More than five years	**287**	**15**	**272**
	4,057	**822**	**3,235**

	2012		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	833	227	606
Between one and five years	2,041	450	1,591
More than five years	358	27	331
	3,232	704	2,528

(b) Operating leases

During 2012-2013, LLC "PhosAgro-Trans", a Group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2013, which are recorded in cost of sales, amounted to RUB 693 million (2012: RUB 873 million).

The non-cancellable operating lease rentals are payable as follows:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Less than one year	**503**	482
Between one and five years	**376**	–
	879	482

29 Trade and other payables

	31 December 2013 RUB Million	31 December 2012 RUB Million
Trade accounts payable	**2,179**	2,578
Advances received	**1,793**	2,252
Taxes payable	**1,614**	1,157
Accruals	**1,633**	1,413
Payable for property, plant and equipment	**916**	1,138
Payables to employees	**1,092**	742
Dividends payable	**63**	2,996
Other payables	**87**	101
	9,377	12,377

30 Financial instruments

(a) Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

The Group has the following foreign currency-denominated financial assets and liabilities:

	31 December 2013		31 December 2012	
RUB Million	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets				
Receivables	**1,411**	**569**	2,530	41
Cash and cash equivalents	**4,332**	**534**	2,912	49
Non-current liabilities				
Loans and borrowings	**(39,069)**	**(274)**	(13,748)	(681)
Current liabilities				
Payables	**(53)**	**(90)**	(673)	(87)
Loans and borrowings	**(12,440)**	**(361)**	(20,701)	(283)
	(45,819)	**378**	(29,680)	(961)

Management estimate that a 10% strengthening/(weakening) of the USD and EUR against Russian Ruble, based on the Group's exposure as at the reporting date, would have decreased/(increased) the Group's net profit for the year by RUB 4,544 million, before any tax effect (2012: RUB 3,064 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

Notes to the Consolidated Financial Statements (continued)

30 Financial instruments (continued)

(b) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Fixed rate instruments		
Long-term loans issued at amortised cost	**432**	363
Finance lease receivable	**123**	79
Short-term deposits	**2,349**	2,404
Short-term loans issued at amortised cost	**1,585**	833
Long-term borrowings	**(18,954)**	(1,945)
Short-term borrowings	**(2,024)**	(1,439)
	(16,489)	295
Variable rate instruments		
Long-term borrowings	**(20,596)**	(12,507)
Short-term borrowings	**(10,873)**	(20,578)
	(31,469)	(33,085)

At 31 December 2013, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 315 million (31 December 2012: RUB 331 million).

(c) Liquidity risk

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	31 December 2013							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	**76**	**76**	**76**	**–**	**–**	**–**	**–**	**–**
Unsecured bank loans	**31,676**	**33,165**	**11,981**	**4,574**	**11,935**	**3,431**	**1,244**	**–**
Unsecured loans from associates	**361**	**375**	**375**	**–**	**–**	**–**	**–**	**–**
Unsecured loans from other companies	**327**	**329**	**329**	**–**	**–**	**–**	**–**	**–**
Letters of credit	**491**	**535**	**15**	**229**	**9**	**282**	**–**	**–**
Interest payable	**309**	**309**	**309**	**–**	**–**	**–**	**–**	**–**
Secured finance leases	**3,235**	**4,057**	**1,067**	**870**	**783**	**601**	**449**	**287**
Loan participation notes	**16,281**	**19,376**	**673**	**671**	**672**	**671**	**16,689**	**–**
Trade and other payables	**4,878**	**4,878**	**4,878**	**–**	**–**	**–**	**–**	**–**
Financial guarantees issued for associates and related parties	**2,477**	**2,477**	**83**	**–**	**10**	**3**	**36**	**2,345**
	60,111	**65,577**	**19,786**	**6,344**	**13,409**	**4,988**	**18,418**	**2,632**

30 Financial instruments (continued)
(c) Liquidity risk (continued)

	31 December 2012							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	300	357	299	58	–	–	–	–
Unsecured bank loans	32,104	33,858	21,259	8,111	3,628	860	–	–
Letters of credit	1,500	1,548	516	224	355	15	438	–
Interest payable	37	37	37	–	–	–	–	–
Secured finance leases	2,528	3,232	833	596	549	510	386	358
Trade and other payables	8,226	8,226	8,226	–	–	–	–	–
Financial guarantees issued for related parties	609	609	609	–	–	–	–	–
	45,304	47,867	31,779	8,989	4,532	1,385	824	358

(d) Fair values
Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

31 Commitments
The Group has entered into contracts to purchase plant and equipment for RUB 23,891 million (31 December 2012: RUB 4,542 million).

32 Contingencies
(a) Litigation
The Group has a number of small claims and litigations relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

(b) Taxation contingencies
The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

32 Contingencies (continued)

(c) Environmental contingencies

The environmental legislation currently effective in the Russian Federation is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigations with the Russian environmental authorities. The management believes that, based on its interpretations of applicable Russian legislation, official pronouncements and court decisions, no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management's position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

33 Related party transactions

(a) Transactions and balances with associates

(i) Transactions with associates

	2013 RUB Million	2012 RUB Million
Sales of goods and services	**9,173**	4,993
Interest income	**113**	69
Acquisition of CJSC "Nordic Rus Holding"	**(4,676)**	–
Acquisition of Phosint Trading Ltd and PhosAgro Asia Pte Ltd	**(146)**	–
Purchases of goods and services	**(833)**	**(218)**
Interest expense	**(11)**	–

(ii) Balances with associates

	31 December 2013 RUB Million	31 December 2012 RUB Million
Short-term loans issued, at amortised cost	**–**	664
Advances issued for construction of property, plant and equipment, at cost	**33**	345
Trade and other receivables	**447**	803
Trade and other payables	**(13)**	(34)
Short-term loans received	**(361)**	–

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 2,151 million (31 December 2012: nil), see note 30(c).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2013 RUB Million	2012 RUB Million
Sales of goods and services	**406**	783
Purchases of goods and services	**(289)**	(707)
Interest income	**2**	19

33 Related party transactions (continued)

(b) Transactions and balances with other related parties (continued)

(ii) Balances with other related parties

	31 December 2013 RUB Million	31 December 2012 RUB Million
Short-term loans issued, at amortised cost	**17**	57
Long-term loans issued, at amortised cost	**48**	38
Trade and other receivables	**12**	253
Trade and other payables	**(47)**	(80)
Dividends payable to shareholders of the Parent	**–**	(2,911)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 326 million (31 December 2012: RUB 609 million), see note 30(c).

(c) Key management remuneration

The remuneration of the Board of Directors and 18 members of key management personnel amounted to RUB 405 million (2012: RUB 364 million).

34 Acquisition of subsidiaries and non-controlling interests

(a) Acquisition of Phosint Trading Limited and PhosAgro Asia Pte Ltd

In August 2013, the Group acquired 100% in Phosint Trading Limited, which is the owner of 100% PhosAgro Asia Pte Ltd, for a total consideration of RUB 146 million (USD 4.41 million).

Management believes that there is no material difference between the book value and the fair value of the net assets of the acquired companies. The provisionally determined fair value of the identifiable assets and liabilities of Phosint Trading Limited and PhosAgro Asia at the date of consolidation is as follows:

	RUB Million
Property, plant and equipment	1
Inventories	92
Trade and other receivables	960
Cash and cash equivalents	1,289
Current loans and borrowings	(1,227)
Trade and other payables	(954)
Net identifiable assets and liabilities	161
Less amount of consideration paid	(146)
Negative goodwill on consolidation	15
Cash and cash equivalents acquired	1,289
Less amount of consideration paid	(146)
Net cash inflow	1,143

Notes to the Consolidated Financial Statements (continued)

34 Acquisition of subsidiaries and non-controlling interests (continued)

(b) Acquisition of CJSC "Nordic Rus Holding"

In August 2013, the Group acquired 76% in CJSC "Nordic Rus Holding", which owns 7.42% of OJSC "Apatit" (617,430 ordinary shares), for a total consideration of RUB 4,676 million (USD 141.92 million). In 2012, the Group purchased 24% of CJSC "Nordic Rus Holding" for a total consideration of RUB 987 million (USD 31.76 million).

Since the activities of CJSC "Nordic Rus Holding" were limited to holding of investments in OJSC "Apatit" and other financial assets, the acquisition was treated as an acquisition of assets rather than a business combination. Since OJSC "Apatit" was a Group subsidiary at the moment of acquisition, the excess of the consideration paid, which was determined by reference to the fair value of the shares in OJSC "Apatit over the carrying value of the minority stake in OJSC "Apatit", in the amount of RUB 685 million, was recognised in equity as a result of acquisition of non-controlling interests.

The consideration paid was allocated to financing activity in the amount equal to the fair value of the shares of OJSC "Apatit" and to the investing activity in the amount equal to the fair value of other assets acquired.

The provisionally determined fair value of the identifiable assets and liabilities of CJSC "Nordic Rus Holding" at the date of consolidation is as follows:

	RUB Million
Income tax receivable	21
Trade and other receivables	75
Current financial assets	1,592
Cash and cash equivalents	202
Net identifiable assets and liabilities	1,890
Less amount of consideration paid	(4,676)
Less fair value of the investment in associate at the date of consolidation	(1,406)
Decrease of non-controlling interest in OJSC "Apatit"	3,507
Result from consolidation	(685)

Cash and cash equivalents acquired	202
Less amount of consideration paid	(4,676)
Net cash outflow	(4,474)
Allocated to:	
Investing activity	(1,680)
Financing activity	(2,794)

35 Significant subsidiaries

Subsidiary	Country of incorporation	**31 December 2013 Effective ownership (rounded)**	31 December 2012 Effective ownership (rounded)
Apatit, OJSC[1]	Russia	**100%**	78%
PhosAgro-Cherepovets, OJSC[2]	Russia	**88%**	88%
Balakovo Mineral Fertilizers, CJSC[3]	Russia	**100%**	100%
Metachem, LLC[4]	Russia	**100%**	75%
NIUIF, OJSC	Russia	**94%**	94%
PhosAgro AG, CJSC	Russia	**100%**	100%
Agro-Cherepovets, CJSC	Russia	**100%**	100%
PhosAgro-Region, LLC	Russia	**100%**	100%
PhosAgro-Trans, LLC	Russia	**100%**	100%
PhosAgro-Belgorod, LLC	Russia	**100%**	100%
PhosAgro-Don, LLC	Russia	**100%**	100%
PhosAgro-Kuban, LLC	Russia	**100%**	100%
PhosAgro-Kursk, LLC	Russia	**100%**	100%
PhosAgro-Lipetsk, LLC	Russia	**75%**	75%
PhosAgro-Oryol, LLC	Russia	**100%**	100%
PhosAgro-Stavropol, LLC	Russia	**100%**	100%
PhosAgro-Volga, LLC	Russia	**100%**	87%
Trading house PhosAgro, LLC	Russia	**100%**	100%
Phosint Trading Limited[5]	Cyprus	**100%**	49%
PhosAgro Asia Pte Ltd[5]	Singapore	**100%**	–
CJSC "Nordic Rus Holding"[6]	Russia	**100%**	24%

1. See note 24(e) on acquisition of non-controlling stakes in OJSC "Apatit".
2. See note 24(d) on merger of OJSC "Ammophos" and JSC "Cherepovetsky "Azot" into OJSC "PhosAgro-Cherepovets".
3. Previous legal name – Balakovo Mineral Fertilizers, LLC.
4. See note 17 on consolidation of LLC "Metachem".
5. See note 34(a) on acquisition of Phosint Trading Limited and PhosAgro Asia Pte Ltd.
6. See notes 17 and 34(b) on acquisition of CJSC "Nordic Rus Holding".

Notes to the Consolidated Financial Statements (continued)

35 Significant subsidiaries (continued)

Non-controlling interests

Information of the Group's subsidiaries that have significant non-controlling interests is as follows:

2013	PhosAgro-Cherepovets, OJSC
Non-controlling interest	**12.4%**
Non-current assets	**26,385**
Current assets	**28,746**
Non-current liabilities	**(22,631)**
Current liabilities	**(8,254)**
Net assets	**24,246**
Accumulated non-controlling interests	**3,007**
Revenue	**53,753**
Net profit for the year	**811**
Profit allocated to non-controlling interests	**101**
Share of non-controlling interests in actuarial gains and losses	**(6)**

The remaining portion of profit allocated to the non-controlling interest relates mainly to OJSC "Apatit", where the Group's ownership percentage increased from 78% to 100%.

Cash flows from operating activities	5,115
Cash flows from investing activities	2,137
Cash flows used in financing activities	(7,235)

36 Events subsequent to the reporting date

In January 2014, the Group signed a USD 440.6 million loan agreement, backed by a guarantee from the Nippon Export and Investment Insurance (NEXI), with the Japan Bank for International Cooperation (JBIC) and a group of banks consisting of Bank of Tokyo-Mitsubishi (BTMU), Citibank Japan and Mizuho Bank. JBIC will provide USD 264.4 million (60% of the total) with a tenure of 13 years, while BTMU, Citi Japan and Mizuho Bank will lend USD 176.2 million (40% of the total) with a tenure of seven years. The proceeds from the loan will be used to fund construction of a new 760 ths tonnes/year ammonia plant at PhosAgro-Cherepovets in the Vologda region. The construction contract for the ammonia plant was signed with an international consortium led by Mitsubishi Heavy Industries Ltd in June 2013.

In February 2014, the Group jointly with "Ultramar" launched new subsidiary LLC "Smart Bulk Terminal" with a share capital of RUB 10,000, of which it owns 70%. The Company will organise the construction and subsequent operation of the new terminal at the port of Ust-Luga where it will handle fertilizers produced and sold by the Group.

In February 2014, the Group launched a voluntary tender offer to acquire ordinary shares of OJSC "PhosAgro-Cherepovets". The offered price, which was determined in accordance with Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. For the purposes of the voluntary buyout, the Group obtained a bank guarantee in the amount of RUB 10,800 million. The offer period expired on 6 May 2014. As of the date of the financial statements issuance, holders of 0.0058% of all issued shares of OJSC "PhosAgro-Cherepovets" (73,007 ordinary shares) accepted the Company's voluntary tender offer.

In April 2014, the Board of Directors proposed paying a dividend of RUB 19.30 per ordinary share to shareholders included in the register of shareholders as of 15 April 2014. The total amount of proposed dividends was RUB 2,499 million.

Shareholder information

Share capital

As of 31 December 2013, PhosAgro's issued share capital was RUB 323,750,000, which represents 129,500,000 ordinary shares with a par value of RUB 2.5 per share.

Stock exchanges

Since 27 February 2013, PhosAgro's shares have been traded on the A1 quotation list of the Moscow Exchange under the symbol PHOR (ISIN: RU000A0JRKT8).

Global Depositary Receipts (three GDRs represent one share) are traded on the Main Market of the London Stock Exchange under the symbol PHOR:

REGULATION S GDRS

CUSIP Number: 71922G209	ISIN: US71922G2093
Common Code: 065008939	SEDOL: 0B62QPJ1
	RIC: PHOSq.L

RULE 144A GDRS

CUSIP Number: 71922G100	ISIN: US71922G1004
Common Code: 065008939	SEDOL: 0B5N6Z48
	RIC: GBB5N6Z48.L

Citigroup Global Markets Deutschland AG acts as the depositary for the Company's GDR Programme.

Shareholding structure

Shareholders' structure of PhosAgro as of 31 December 2013

Shareholder	Number of shares	Share, %
Dubhe Holdings Limited	12,317,370	9.51
Fornido Holding Limited	12,157,625	9.39
Adorabella Limited	9,361,435	7.23
Owl Nebula Enterprises Limited	9,271,395	7.16
Dubberson Holdings Limited	8,639,705	6.67
Miles Ahead Management Limited	8,037,357	6.21
Chlodwig Enterprises Limited	7,722,380	5.96
Feivel Limited	6,223,850	4.81
Carranita Holdings Limited	4,028,519	3.11
Vindemiatrix Trading Limited	3,726,814	2.88
Vladimir Litvinenko	12,600,000	9.73
Evgeniya Guryeva	6,235,960	4.82
Igor Antoshin	2,489,540	1.92
Other shareholders[1]	26,688,050	20.61
Total	**129,500,000**	**100%**

1. Ordinary shares and GDRs

Secondary public offering

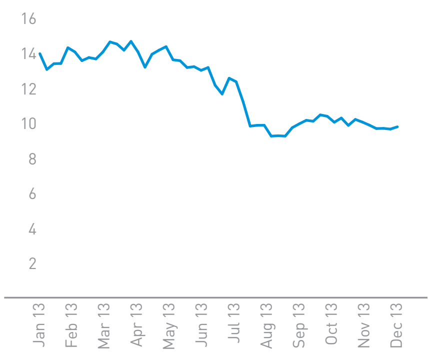
In April 2013, a group of PhosAgro's shareholders completed a secondary public offering (SPO) of 11,111,000 existing shares in the form of shares and GDRs for the price of USD 42.00 per share (USD 14.00 per GDR). This represented 9% of PhosAgro's share capital. The selling shareholders in the SPO reinvested approximately USD 210 million (45% of the SPO proceeds) into the Company by way of the purchase of new ordinary shares additionally issued by PhosAgro at the same price per share as the SPO. The SPO also increased PhosAgro's total free float to 19.2%, which increased again to 20.3% after Maxim Volkov, our former CEO, left the Board in February 2014.

Other ownership information

Based on information available to Company management, the shares of Dubberson Holdings Limited, Fornido Holding Limited, Carranita Holdings Limited, Dubhe Holdings Limited, Chlodwig Enterprises Limited, Adorabella Limited, Miles Ahead Management Limited and Owl Nebula Enterprises Limited are ultimately held on trust where the economic beneficiaries are Mr. Andrey Guryev and members of his family. Based on information available to Company management, the shares of Feivel Limited are ultimately held on trust where the economic beneficiary is Mr. Vladimir Litvinenko. The shares of Vindemiatrix Trading Limited are ultimately held on trust where the economic beneficiary is Mr. Igor Antoshin.

Share performance

PHOR LI, US$

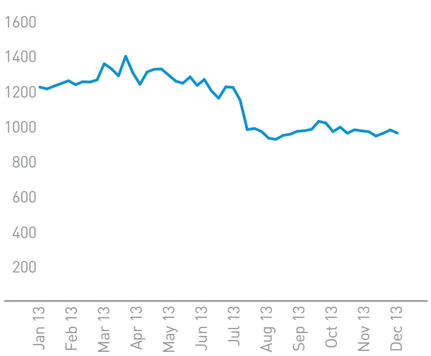


– Phor LI, US$

PhosAgro GDR performance on the LSE

High – US$ 14.77. Low – US$ 8.81.
At year-end – US$ 9.67.
Trading volume – 115.4 million GDRs

PHOR RX, RUB



– Phor RX, RUB

PhosAgro ordinary share performance on Moscow Exchange

High – 1,395 RUB. Low – 912 RUB.
At year-end – 950 RUB.
Trading volume – 2.5 million shares

Dividend payments

On 15 April 2014, PhosAgro's Board of Directors recommended a final 2013 dividend of RUB 19.3 per share (RUB 6.4 per depositary receipt), or RUB 2,499,350,000 in total. If approved by the Annual General Meeting of Shareholders (the "AGM"), the final 2013 dividend would come in addition to the RUB 2,000,775,000, or RUB 15.45 per share (RUB 5.15 per depositary receipt) already paid during 2013. In its turn, that will bring our payout ratio to 59% of net profit attributable to Parent shareholders, as well as demonstrate our commitment to PhosAgro's dividend policy and uphold the promises made to shareholders during the IPO and SPO.

Dividend taxation

PhosAgro acted as a tax agent when it paid out dividends to shareholders in 2013. The Company calculated and withheld tax on those dividends and remitted the amount of tax to the relevant authorities. Dividends paid out to shareholders were net of the amount of the tax deducted. The withholding tax rate depends on the status of the shareholder. In 2013, Russian residents, both individuals and organisations, were subject to a 9% tax rate, while non-residents were subject to a 15% tax rate. PhosAgro also took into account any double taxation treaties and, where appropriate, made tax payments in accordance with the provisions of the relevant treaty.

Due to changes in Russian Federation law relating to the payment of dividends that came into effect on 1 January 2014, existing or potential PhosAgro shareholders and holders of the Company's GDRs are advised to consult their tax advisers for tax implications with regards to dividend payments.

Information disclosure

PhosAgro strictly follows the requirements imposed by Russian securities regulations, as well as rules for the companies traded on the LSE, in its information disclosure and filings. The Company publicly discloses all required information to shareholders and investors in a timely manner through authorised newswires and the corporate website www.phosagro.com.

Shareholder contacts

PhosAgro Legal Address:
55/1, bldg. 1, Leninsky Prospekt, Moscow
119333, Russia

PhosAgro Postal Address:
55/1, bldg. 1, Leninsky Prospekt, Moscow
119333, Russia

Tel.: +7 495 232-96-89
Fax: +7 495 956-19-02

Depositary:
Citigroup Global Markets Deutschland AG
Frankfurter Welle
Reuterweg 16
60323 Frankfurt

Auditor:
ZAO KPMG
Naberezhnaya Tower Complex,
10 Presnenskaya Naberezhnaya
Moscow 123317, Russia

Tel.: +7 495 937 4477
Fax: +7 495 937 4400/99
Web: www.kpmg.ru

Registrar:
OJSC Reestr
3, bldg. 2, Zubovskaya Ploschad,
Moscow 119021, Russia

Tel.: +7 495 617 01 01
Fax: +7 495 680 80 01
E-mail: reestr@aoreestr.ru
Web: www.aoreestr.ru

Glossary

Abbrevations

GDR or depositary receipt
Global Depositary Receipt

bn
Billion

Gt
Gigatonne

km
Kilometres

kt
Thousand metric tonnes

m
Million

mln t
Million tonnes

MW
Megawatt

RUB
Russian Rouble

t
Metric tonne = 1000 kg

CFR
Cost and Freight – an Incoterms rule. CFR means that the seller must pay the costs and freight to bring the goods to the port of destination, including customs costs for exporting the goods. The buyer pays to insure the goods. Risk is transferred to the buyer once the goods are loaded on the vessel. Maritime transport only.

FOB
Free on Board – an Incoterms rule. The seller must load the goods on board the vessel nominated by the buyer; costs for delivery of the goods on board the vessel are the responsibility of the seller.

USD
United States dollars

Industry terms

Ammonia
A colourless combustible gas with the chemical formula NH_3. Ammonia is a compound of nitrogen and hydrogen, and is primarily used in the production of mineral fertilizers and a wide variety of nitrogen-containing organic and inorganic chemicals.

Ammonium nitrate or AN
A nitrogen fertilizer with a nitrogen content of approximately 34%, produced by reacting nitric acid (an intermediate chemical feedstock produced from ammonia) with ammonia (AN).

NP
(Ammonium nitrate-based fertilizers) Complex ammonium nitrate-based fertilizer with phosphorus content.

Liquid complex fertilizers or APP
Liquid phosphate- and nitrogen-based fertilizer.

Apatite
A group of phosphate minerals (phosphate ore), usually referring to hydroxylapatite, fluorapatite, and chlorapatite with the chemical formula $Ca_5(PO_4)_3(OH,F,Cl)$. Apatite is the world's major source of phosphorus, found as variously coloured, glassy crystals, masses, or nodules. The phosphorus content of apatite is traditionally expressed as phosphorus pentoxide (P_2O_5).

Apatite-nepheline ore
Ore containing minerals of apatite and nepheline.

By-product
Material, other than the principal product, that is generated as a consequence of an industrial process.

Concentrate
Material that is the result of beneficiation of an ore and which has a higher concentration of mineral values than the mineral values originally contained in the ore. Concentrates are produced in beneficiation plants.

Crushing
A mechanical method of reducing the size of rock.

Deposit
An area of reserves identified by surface mapping, drilling or development.

Diammonium phosphate or DAP
A type of multi-nutrient fertilizer containing nitrogen and phosphorous. Production of DAP is based on the neutralisation of phosphoric acid by ammonia with subsequent drying and granulating.

Downstream
The processing of apatite concentrate, natural gas, sulphur and potash into usable products such as mineral fertilizer, industrial and feed phosphates.

Drillhole
A circular hole made in rock, often in conjunction with a core barrel, in order to obtain a core sample.

Emission
Pollution discharged into the atmosphere from smokestacks, other vents at commercial or industrial facilities and from transportation exhaust systems.

Exploration
The search for minerals. Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.

Feed phosphates
Inorganic feed phosphates are a high-quality phosphorus source for animal feed. Most inorganic feed phosphates are derived from phosphate rock, which is chemically treated to make phosphorus available for animals in the form of quality feed phosphates. The main inorganic feed phosphates are calcium, magnesium, calcium-magnesium, ammonium and sodium phosphates. These phosphates are constant in composition, low in impurities and considered to be the best available sources of phosphorus for animals. An adequate supply of inorganic feed phosphates in animal feed is essential for animals' well-being.

Grade
The relative quality or percentage content of useful components.

MER or 'minor element ratio'
The sum of the iron, aluminium and magnesium content divided by the P_2O_5 content.

Monoammonium phosphate or MAP
A type of multi-nutrient fertilizer containing nitrogen and phosphorous. Production of MAP is based on the neutralisation of phosphoric acid by ammonia with subsequent drying and granulating. Monoammonium phosphate is often used in the blending of dry agricultural fertilizers.

Monocalcium phosphate or MCP
A type of feed phosphate with the highest phosphorus digestibility and content.

Nepheline
A mineral containing aluminium oxide (Al_2O_3).

Nitrogen or N
One of the primary plant nutrients essential for plant growth.

NPK
A multi-nutrient fertilizer containing nitrogen, phosphorus and potassium.

NPS
A multi-nutrient fertilizer containing nitrogen, phosphorous and sulphur.

Open-pit mine
A mine working or excavation that is open to the surface and where material is not put back into the mined out areas.

Phosphate rock
Phosphate rock (apatite concentrate or phosphorus concentrate) is an imprecise term that includes both unprocessed phosphorus-containing ore and beneficiated concentrates. Practically all production of phosphate fertilizers is based on phosphate rocks containing some form of the mineral apatite.

Phosphates
A salt or ester of phosphoric acid or a fertilizer containing phosphorus compounds.

Phosphoric acid
Mineral (inorganic) acid having the chemical formula H_3PO_4.

P_2O_5 (phosphoric pentoxide)
A term used to express the content of phosphorus in a substance.

Phosphorous or P
One of the primary plant nutrients essential for plant growth.

Potash or K
One of the primary plant nutrients essential for plant growth.

Rare earth elements/resources
A group of 15 elements with atomic numbers ranging from 57 to 71: lanthanum; cerium; praseodymium; neodymium; promethium; samarium; europium; gadolinium; terbium; dysprosium; holmium; erbium; thulium; ytterbium and lutetium.

Sedimentary
Formed by the deposition of solid fragmental material that originates from the weathering of rocks and is transported from a source to a site of deposition.

Shaft
A mine-working (usually vertical) used to transport miners, supplies, ore or capping.

Sulphuric acid
A strong sulphur-based inorganic mineral acid with the chemical formula H_2SO_4.

Tailing
The fluid slurry that is left after treatment and extraction of the economically extracted mineral.

Trenches
Lines excavated to a pre-determined depth to establish the geological structure of a deposit.

Urea
An organic compound of carbon, nitrogen, oxygen and hydrogen. It is the most widely used and highest-concentration nitrogen-based fertilizer formed by reacting ammonia with carbon dioxide at a high pressure.

Waste
Rock lacking sufficient grade and/or other characteristics of ore to be economic.

Upstream
Extraction of solid, liquid and gaseous resources from the earth using specialised equipment.

Waste water
Spent or used water from individual homes, communities, farms, or industries that contains dissolved or suspended matter.

Other terms

Basel Convention
The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal was adopted on 22 March 1989 by the Conference of Plenipotentiaries in Basel, Switzerland. The overarching objective of the Basel Convention is to protect human health and the environment against the adverse effects of hazardous wastes. Its scope of application covers a wide range of wastes defined as 'hazardous wastes' based on their origin and/or composition and their characteristics, as well as two types of wastes defined as 'other wastes' – household waste and incinerator ash.

CSR
Corporate Social Responsibility.

Environmental assessment
A process where the breadth, depth, and type of analysis depend on the proposed project. EA evaluates a project's potential environmental risks and impacts in its area of influence, and identifies ways to improve project design and implementation by preventing, minimising, mitigating, or compensating for adverse environmental impacts and by enhancing positive impacts.

FAO
Food and Agriculture Organization of the United Nations.

Feasibility study
A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.

Fertecon
Fertilizer Economic Market Analysis and Consultancy, UK.

Group
Refers collectively to OJSC PhosAgro and its subsidiaries.

Helsinki Convention
The Helsinki Convention was signed in 1974 by the then seven Baltic coastal states, and made all the sources of pollution around an entire sea subject to a single convention. The 1974 Convention entered into force on 3 May 1980. A new convention was signed in 1992 by all the states bordering on the Baltic Sea, and the European Community in light of political changes, and developments in international environmental and maritime law. After ratification the Convention entered into force on 17 January 2000. The Convention covers the whole of the Baltic Sea area, including inland waters as well as the water of the sea itself and the sea-bed. Measures are also taken in the whole catchment area of the Baltic Sea to reduce land-based pollution.

IFA
International Fertilizer Association, France.

ISO
International Organization for Standardization, the world's largest standards development organisation. Between 1947 and the present day, ISO has published more than 19,000 International Standards, ranging from standards for activities such as agriculture and construction, through mechanical engineering and medical devices, to the newest information technology developments.

LSE
London Stock Exchange.

Moscow Exchange
Russian stock exchanges, MICEX and RTS, were merged into one entity MICEX-RTS in December 2011 and rebranded as the Moscow Exchange in May 2012.

Risk assessment
Qualitative and quantitative evaluation carried out in an effort to define the risk posed to human health or the environment by the presence or potential presence and use of specific pollutants.

Names of legal entities used in this report

OJSC PhosAgro
PhosAgro

CJSC PhosAgro AG
Management Company PhosAgro AG

OJSC PhosAgro-Cherepovets
PhosAgro-Cherepovets

OJSC Ammophos
Ammophos

OJSC Apatit
Apatit

OJSC Cherepovetsky Azot
Cherepovetsky Azot

Balakovo Mineral Fertilizers LLC/ CJSC Balakovo Mineral Fertilizers
Balakovo Mineral Fertilizers or BMF

PC Agro-Cherepovets LLC/CJSC Agro-Cherepovets LLC
Agro-Cherepovets

Metachem CSJC
Metachem

OJSC NIUIF
NIUIF

PhosAgro-Trans LLC
PhosAgro-Trans

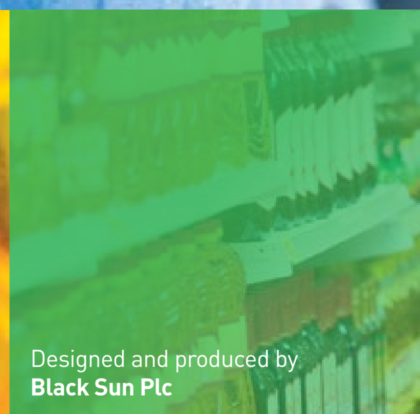
PhosAgro-Region LLC
PhosAgro-Region

Mining and Chemical Engineering LLC
Mining and Chemical Engineering or MCE

The information on mineral resources presented in this Report has been produced in accordance with the Subsoil Law, the Orders of the Ministry of Natural Resources and Environment of the Russian Federation No. 40 "On the Adoption of a Classification System for Mineral Reserves" dated 7 March 1997 and No. 278 "On the Adoption of a Classification System for Reserves and Inferred Resources in Deposits of Solid Minerals" dated 11 December 2011 and the Decree of the Ministry of Natural Resources and Environment of the Russian Federation No. 37-r "On the Adoption of Methodological Guidelines for the Application of the Classification System for Reserves and Inferred Resources in Deposits of Solid Minerals" dated 5 June 2007.

The information in this Report relating to mineral resources as at 1 January 2014 is based on information compiled by the Geology Service Department of Apatit and authorised by Mr. Sergey Glubokiy, Chief Geologist of Apatit.



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