Our performance

This financial performance analysis is based on the audited consolidated financial statements of Acron Group prepared in accordance with the international financial reporting standards ("IFRS") and should be reviewed jointly with it. It is based on a comparison of the results of the financial year that ended December 31, 2012 and the financial year that ended December 31, 2011. In addition to the IFRS financial results and indices, this section contains management financial and operational information.

Dividends

Acron's shareholders approved the recommendation by the Board of Directors to pay interim dividends for nine months of 2012 in the amount of RUB 46 per share. Thus, the amount of dividends paid was RUB 1,853 million, or 16% of IFRS net profit for the nine months of 2012.

Debt structure

The net debt index was down 3% to RUB 32,671 million at the end of 2012. Relative debt remained unchanged, with the net debt/EBITDA ratio at 1.6. As of December 31, 2012, the Group had aggregate loan, borrowing and lease payables of RUB 61,559 million, a year-on-year increase of RUB 13,116 million, 38% for short-term loans and 62% for long-term loans. The debt increase is driven by the Group's vigorous investment and financial activity.

Net debt index (RUB m)

	2012	2011
Long-term borrowings	**38,176**	32,391
Short-term borrowings	**23,383**	16,052
Total debt	**61,559**	48,443
Less:		
Cash and cash equivalents	**27,453**	13,509
Irrevocable bank deposits	**1,435**	1,121
Net debt	**32,671**	33,813
EBITDA	**19,924**	20,856
Net debt/EBITDA	**1.6**	1.6

The major borrowers among the Group's companies are its production facilities (Acron, Dorogobuzh and Hongri Acron), AS BCT and YSF.

Principal creditor banks included Sberbank of Russia, Bank VTB in Veliky Novgorod, Sviaz-Bank, UniCredit Bank, Raiffeisenbank, Nordea Bank Finland Plc. Estonia Branch, China Construction Bank, HSBC and other Russian and international banks.

During 2012, the Group aggressively obtained US dollar-denominated and Russian rouble-denominated loans. As of 31 December 2012, the share of dollar-denominated loans increased to 68%, up from 65% in 2011; the share of rouble loans and borrowings decreased to 23%, down from 25% in 2011.

In October 2012, the Group made a public offering of its exchange-traded rouble bonds with a 9.75% per annum coupon rate and a par value of RUB 5,000, to be redeemed in October 2015. No options are provided for this bond issue.

Our performance
continued

Financial performance

Revenue

In physical terms, the Group's fertiliser and industrial products sales volume was up 1% year-on-year and surpassed the record high sales volume of 6 mt to reach 6.6 mt with recently started sales of apatite-nepheline ore.

Acron Group's sales (kt)

	2012	2011	Change (%)
Ammonia	**158**	195	(19)
Nitrogen fertilisers	**2,329**	2,019	15
Complex fertilisers	**2,354**	2,493	(6)
Organic and non-organic compounds	**990**	1,085	(6)
Resale of third-party products	**219**	228	(4)
Fertiliser and industrial products	**6,050**	5,994	1
Apatite-nepheline ore	**564**	–	–

Most of the Group's revenue is generated by sales of nitrogen and complex fertilisers. In 2012, Russia, China, Brazil, the US and Thailand were the Group's key markets by volume.

In 2012, the Group's revenue was up 9% to RUB 71,112 million. This positive dynamic was driven by an increase in nitrogen fertiliser sales.

Changes in the revenue geography were driven by a 25% increase in sales to the most dynamic Asian markets. The 28% revenue increase in the Russian market resulted from higher product prices, the start of apatite-nepheline ore sales and higher additional revenues from other operations. Export to the CIS was down 24% due to deceleration of economic growth in the region and stronger competition.

Revenue by region (RUB m)

	2012	2011	Change (%)
Russia	**13,138**	10,284	28
European Union	**8,570**	8,597	–
Commonwealth of Independent States	**3,327**	4,357	(24)
US and Canada	**5,943**	5,633	6
Latin America	**10,983**	11,049	(1)
China	**18,605**	15,584	19
Asia (excl. China)	**9,279**	6,640	40
Other regions	**1,267**	3,287	(61)
Total	**71,112**	65,431	9

Cost of sales

In 2012, the total cost of the Group's sales amounted to RUB 40,440 million, up 14% year-on-year. This increase was due to higher prices for natural gas, raw materials and energy, as well as higher staff costs, but was partially offset by a change in inventory of finished goods and work in progress.

Cost of sales (RUB m)

	2012	2011	Change (%)
Change in inventories of finished goods and work in progress	(1,908)	(1,699)	12
Staff costs	4,614	4,040	14
Materials and components used, including:	19,079	16,522	15
Phosphate	4,951	4,223	17
Potash	6,643	5,729	16
Coal	1,175	1,003	17
Sulphur	1,109	1,158	(4)
Other	5,201	4,409	18
Fuel and energy	4,081	3,729	9
Natural gas	7,884	7,349	7
Depreciation and amortisation	1,970	1,917	3
Impairment (reversal)/loss	(102)	(164)	(38)
Services	502	109	361
Production overheads	546	309	77
Repairs and maintenance	3,256	2,984	9
Social expenditure	518	361	43
Total	**40,440**	35,457	14

Change in inventories of finished goods and work in progress

In 2012, the index of change in inventories of finished goods and work in progress was negative RUB 1,908 million (increase in inventory). This change was caused by increased inventory at Acron and Dorogobuzh production facilities and the trading companies Agronova Europe AG and Agronova International Inc. Hongri Acron, by contrast, reduced inventories of finished goods and work in progress.

Staff costs

Staff costs only include the cost of production personnel. The cost of administrative staff is included in selling, general and administrative expenses. In 2012, staff costs reflected in the cost of sales were up 14% to RUB 4,614 million.

Total staff costs reflected in the cost of sales and in selling, general and administrative expenses in 2012 amounted to RUB 6,959 million, up 18% year-on-year (against RUB 5,913 million in 2011). Higher staff costs were mainly triggered by an increase in the number of personnel. In 2012, the Group's total average staffing was up 10% year-on-year, to 15,644 (against 14,160 in 2011). This staffing increase was necessitated by expansion of the Group's business and construction of new production facilities.

Our performance
continued

Materials and components used, Fuel and energy, Natural gas

Materials and components used, fuel and energy and natural gas account for the majority of costs. In the reporting year, these costs increased due to higher prices for all primary resources in Russia and greater resource consumption in China caused by expanded production output.

Inputs and energy consumption

	2012			2011			2010		
	Price (RUB*)	**Quantity**	**Amount (RUB m)**	Price (RUB*)	Quantity	Amount (RUB m)	Price (RUB*)	Quantity	Amount (RUB m)
Acron and Dorogobuzh									
Natural gas (m^3 million)	**3,446**	**2,288**	**7,885**	3,217	2,285	7,350	2,891	2,223	6,427
Acron	3,418	1,528	5,225	3,185	1,468	4,676	2,861	1,474	4,216
Dorogobuzh	3,498	760	2,660	3,274	817	2,673	2,951	749	2,211
Apatite concentrate (`000 t)	**5,123**	**699**	**3,579**	4,250	746	3,171	3,913	725	2,840
Acron	4,948	481	2,378	4,131	484	2,001	3,814	486	1,855
Dorogobuzh	5,510	218	1,201	4,468	262	1,170	4,113	239	984
Sylvite (potassium chloride) (`000 t)	**10,278**	**458**	**4,411**	7,397	493	3,532	5,358	464	2,486
Acron	10,145	316	3,208	7,330	323	2,364	5,263	310	1,633
Dorogobuzh	10,578	142	1,500	7,405	170	1,282	5,549	154	853
Bonuses for NPK supplies to Russian market			(297)			(114)			–
Energy (kWh m)	**2,279**	**1,055**	**2,404**	2,352	1,064	2,503	2,079	1,042	2,166
Acron	2,278	782	1,781	2,351	771	1,813	2,046	768	1,572
Dorogobuzh	2,282	273	623	2,354	293	690	2,166	274	594
Thermal power (`000 Gcal) **Acron**	**649**	**1,147**	**744**	618	931	575	535	999	535
Hongri Acron									
Phosphate ore (`000 t)	**3,366**	**407**	**1,372**	2,690	391	1,052	2,416	361	873
Potash (`000 t)	**14,628**	**153**	**2,232**	13,578	153	2,082	10,508	149	1,562
Coal (`000 t)	**6,133**	**192**	**1,175**	6,073	165	1,003	5,279	165	871
Sulphur (`000 t)	**8,027**	**138**	**1,109**	7,677	151	1,158	5,250	155	811

*Inclusive of transportation costs and related expenses; unit prices: natural gas – per 1,000 cubic meters; phosphate and potash inputs, coal and sulphur – per 1 tonne; energy – per 1,000 kWh; thermal power – per 1 Gcal.

Transportation expenses

In 2012, transportation costs were up 3% year-on-year, partially due to an overall increase in sales volume. It is important to note that container transport costs decreased 23%, while conventional bulk shipment costs increased 25%, since large sea vessels freight rates were considerably lower.

Transportation expenses (RUB m)

	2012	2011	Change (%)
Railway tariff	**2,177**	2,078	5
Freight	**929**	1,011	(8)
Maintenance	**669**	613	9
Container transport	**974**	1,268	(23)
Handling of goods	**1,516**	1,216	25
Other	**486**	400	22
Total	**6,751**	6,586	3

Selling, general and administrative expenses

Selling, general and administrative expenses were up 20% in 2012 to RUB 5,476 million (2011: RUB 4,574 million). For the most part, this increase was due to higher administrative staff costs (up 25%) and higher representation expenses.

EBITDA

EBITDA is calculated as earnings before tax, interest, depreciation and amortisation adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. In 2012, EBITDA amounted to RUB 19,924 million, down 4% year-on-year. Profitability in 2012 decreased to 28% (against 32% in 2011) because production costs outpaced fertiliser prices.

EBITDA calculation (RUB m)

	2012	2011
Operating profit, plus:	**18,729**	27,731
Depreciation and amortisation	**1,970**	1,917
Foreign currency losses	**(497)**	(252)
Gain on disposal of investments	**(309)**	(4,188)
Gain on disposal of licenses, land and leasehold	**–**	(4,839)
Loss on disposal of property, plant and equipment	**31**	487
EBITDA	**19,924**	20,856

Finance income/(costs)

In 2012, the Group's finance income amounted to RUB 1,560 million (against RUB -401 million in 2011). This considerable increase is related to the positive effect of revaluation of the Group's currency assets and liabilities due to appreciation of USD against RUB. Foreign currency net gains were RUB 1,222 million in 2012 (against net losses of RUB 1,268 million in 2011).

Profit

In 2012, the Group's profit was down 27% to RUB 14,861 million (against RUB 20,328 million in 2011). This decrease is due to the fact that the Group sold its exploration permits for RUB 4,839 million (before tax) and disposed of its investments in a subsidiary that held shares of JSC Apatit for RUB 4,260 million (before tax). Adjusted net profit for 2011 (before these transactions) was RUB 13,210 million. Thus, the adjusted net profit margin increased to 21% in 2012 from 20% in 2011. These indices demonstrate the increased financial efficiency of the Group's core business.

Our performance
continued

Changes in key balance indicators

Property, plant and equipment

In the reporting period, the Group's PP&E was up 43% to RUB 47,866 million, against RUB 33,472 million in 2011 due to investments in acquisition and construction of new fixed assets, specifically in development of Oleniy Ruchey apatite-nepheline ore deposit and construction of a new urea unit. The share of the total book value of the Group's assets in 2012 was up to 31%, against 29% in 2011.

Exploration and evaluation licences and expenditure

This item reflects the Group's investments in raw material assets. During the reporting period, exploration and evaluation licences and expenditures increased 8% to RUB 26,371 million. The increase was due to capitalisation of interest on a loan issued to acquire a potash exploration licence in Russia and expenditures for exploration of permits in Canada in the amount of RUB 2,026 million. Most of the investments (94%) related to the Talitsky area of the Verkhnekamsk potassium-magnesium deposit.

Available-for-sale investments

In the reporting year, this item was up 24% to RUB 24,681 million, mainly due to the acquisition of a stake in Azoty Tarnów (Poland).

Non-controlling interest

The Group's equity held by minority shareholders in its subsidiaries is recorded in the non-controlling interest line under equity. In the reporting period, this item increased by a factor of 5.6 to RUB 15,698 million, against RUB 2,781 million in 2011. This change is due to the acquisition of a 38.05% stake in Verkhnekamsk Potash Company by Vnesheconombank, Raiffeisenbank and Eurasian Development Bank.

Cash flows

Operations

Net cash generated from operating activities was down 10% in 2012 to RUB 9,294 million (against RUB 10,374 million in 2011). The decrease was due to lower operating profit, higher inventories and influence of currency fluctuations on the items that are not part of operating activity. The higher inventories were mainly due to the start of operations of the Group's new facility – the Oleniy Ruchey mine. In the course of commencement of operations and commissioning and start-up works at the mine, high inventories of ore and work-in-progress were generated.

Despite the increase in inventories of raw materials, spare parts and finished products, the Group's working capital increased to a lesser extent (up RUB 2,520 million against RUB 3,285 million in 2011). This was due to a decrease in the total amount of trade receivables, advances to suppliers and a decrease in other accounts receivable.

Investing activities

In 2012, net cash used in investing activities was RUB 19,908 million (against RUB 602 million in 2011). In the reporting year, net cash used in investing activities was primarily affected by the following events:

- Purchase of property, plant, equipment and intangible assets worth RUB 16,122 million. These expenses covered overhauls of production facilities, financing of the Oleniy Ruchey mine and construction of the Talitsky mine;
- Purchase of available-for-sale investments in the amount of RUB 3,876 million (against RUB 46 million in 2011); the largest item was the Group's investment in Azoty Tarnów in Poland.

Financing activities

Cash flows from financing activities in 2012 totalled RUB 25,478 million (against RUB -3,862 million in 2011). The main component of cash flows from financing activities was the proceeds from borrowings earmarked to finance the Group's investments. This item was also affected by cash inflow in the amount of RUB 12,755 million from Vnesheconombank, Raiffeisenbank and Eurasian Development Bank, which hold equity capital in Verkhnekamsk Potash Company.

Our performance
continued

Segment information

Business segments represent components of the Group's business that engage in economic activity that may yield a return or result in losses. Segment financial information includes revenues and EBITDA. Detailed information on business segments is represented in Note 6 to Acron's IFRS financial statements.

Information on reportable segments for the year ended December 31, 2012 (RUB m)

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Mining	Other	**Total**
Segment sales	36,059	15,226	11,432	3,181	49,515	681	2,580	**118,674**
Intersegment sales	(29,484)	(11,148)	(373)	(2,013)	(2,391)	(91)	(2,062)	**(47,562)**
External sales	6,575	4,078	11,059	1,168	47,124	590	518	**71,112**
EBITDA	13,524	4,587	565	878	1,042	(671)	(1)	**19,924**

Information on reportable segments for the year ended December 31, 2011 (RUB m)

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Other	**Total**
Segment sales	33,246	16,729	9,151	2,830	44,311	2,030	**108,297**
Intersegment sales	(24,986)	(11,274)	(325)	(1,792)	(3,159)	(1,330)	**(42,866)**
External sales	8,260	5,455	8,826	1,038	41,152	700	**65,431**
EBITDA	12,717	6,453	854	728	18	86	**20,856**

Production

The Group's commercial product output in 2012 was up 1% and totalled 5.887 million tonnes. The production portfolio has changed: nitrogen fertiliser output increased 9% due to the launch of a new urea unit and an increase in both commercial urea output (37%) and UAN output (25%). NPK output decreased 4% due to short-term delays in apatite concentrate supplies to the Group's Russian facilities. Dry blended fertiliser output in China was up 28% in view of demand growth.

The Group's Russian facilities were its most profitable assets, with the EBITDA margin at 30-38%, against 38-39% in 2011. The decrease in profitability was due to significantly higher prices for potash and phosphate raw materials: up 44 and 24%, respectively. The EBITDA margin at Hongri Acron decreased to 5% in 2012 from 9% in 2011 due to higher prices for raw materials in China: phosphate was up 25% and potash was up 8%.

The Group has been vigorously investing in expanding its production capacity to sustain its high performance. In 2012, capital expenditure at production sites totalled RUB 4,617 million. One major project was the construction of a new 350,000 tpa urea unit. Furthermore, the Group has been investing in construction of a new 700,000-tpa ammonia unit at Acron's site in Veliky Novgorod.

Logistics

In the reporting year, cargo traffic at the Group's sea port terminals was up 22% to 3.5 million tonnes. Cargo throughput for third-parties was up 25% year-on-year to account for almost half of total performance. Logistics generate a sustainable EBITDA margin at 26-28%. The Group will further increase performance at its logistics facilities with its own and third-party cargo volumes.

Trading

The Group's consolidated sales were 6.050 million tonnes against in-house commercial product output of 5.887 million tonnes. The excess results from the Group's commitment to expanding the trading services it provides for third-party producers.

As a secondary segment, distribution generates the minimum profit required to secure its normal operations. The major objective of this segment is entry into promising sales markets. In recent years, the Group has achieved a strong footprint in rapidly growing markets in Asian and Latin American countries due to the efficient functioning of its trading companies under the international brand Agronova. The Russian Agronova distribution network is one of the largest and most efficient in the Russian mineral fertiliser market.

Mining

Mining is the Group's most intensively developing business segment. In the reporting year this segment turned a profit for the first time since the launch of phosphate production. It is expected to generate substantial cash flows in future. In 2012, investment in mining projects totalled RUB 9,628 million. The Group's major investment concern is the Oleniy Ruchey mine. In July 2012, North-Western Phosphorous Company started commissioning the Oleniy Ruchey mine. The first tonnes of apatite concentrate were shipped in December 2012. The Group plans to fully cover demand for phosphate raw materials at Acron and Dorogobuzh by mid-2013.