



**EUROCHEM GROUP**

**INTERNATIONAL ACCOUNTING STANDARD No. 34**

**CONSOLIDATED CONDENSED INTERIM (NINE MONTHS)  
FINANCIAL INFORMATION AND REVIEW REPORT**

**30 SEPTEMBER 2014**

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as at and for the nine months ended 30 September 2014

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## ***Report on the Review of the Consolidated Condensed Interim Financial Information as at and for the Nine months ended 30 September 2014***

To the Shareholders and Board of Directors of EuroChem Group:

### **Introduction**

We have reviewed the accompanying consolidated condensed interim statement of financial position of EuroChem Group AG and its subsidiaries (together, the "Group") as at 30 September 2014 and the related consolidated condensed statements of profit and loss and other comprehensive income for the three and nine months then ended, and cash flows and changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

*ZAO PricewaterhouseCoopers Audit*

13 November 2014

Moscow, Russian Federation



Note 30 September 2014 31 December 2013

**ASSETS**

<b>Non-current assets:</b>			
Property, plant and equipment	6	4,454,233	4,670,781
Mineral rights		414,716	466,771
Goodwill		356,707	387,335
Intangible assets		176,305	213,866
Investment in associates	7	136,302	107,905
Restricted cash	11	2,544	2,706
Originated loans	10	40,170	12,700
Derivative financial assets	16	-	32,502
Deferred income tax assets		199,294	182,393
Prepayment for acquisition of subsidiary		34,016	-
Other non-current assets		34,342	21,995
<b>Total non-current assets</b>		<b>5,848,629</b>	<b>6,098,954</b>
<b>Current assets:</b>			
Inventories	8	636,284	692,677
Trade receivables	9	335,910	363,439
Prepayments, other receivables and other current assets	9	341,176	266,770
Originated loans	10	4,838	3,000
Derivative financial assets	16	-	10,130
Fixed-term deposits	11	253,553	74,605
Cash and cash equivalents	11	547,930	505,738
<b>Total current assets</b>		<b>2,119,691</b>	<b>1,916,359</b>
<b>TOTAL ASSETS</b>		<b>7,968,320</b>	<b>8,015,313</b>

**LIABILITIES AND EQUITY**

<b>Equity attributable to owners of the parent:</b>			
Share capital	12	111	-
Equity not directly owned by the Company		-	3,716,670
Retained earnings and other reserves		3,510,050	-
		<b>3,510,161</b>	<b>3,716,670</b>
Non-controlling interests		1,508	5,167
<b>Total equity</b>		<b>3,511,669</b>	<b>3,721,837</b>
<b>Non-current liabilities:</b>			
Bank borrowings and other loans received	13	1,875,378	2,005,907
Bonds issued	15	873,834	1,050,543
Derivative financial liabilities	16	61,312	4,350
Deferred income tax liabilities		187,750	197,859
Other non-current liabilities and deferred credits		144,697	155,884
<b>Total non-current liabilities</b>		<b>3,142,971</b>	<b>3,414,543</b>
<b>Current liabilities:</b>			
Bank borrowings and other loans received	13	525,073	255,758
Bonds issued	15	126,690	-
Derivative financial liabilities	16	24,396	6,883
Trade payables		243,621	260,900
Other accounts payable and accrued expenses		350,809	307,965
Income tax payable		17,374	16,026
Other taxes payable		25,717	31,401
<b>Total current liabilities</b>		<b>1,313,680</b>	<b>878,933</b>
<b>Total liabilities</b>		<b>4,456,651</b>	<b>4,293,476</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,968,320</b>	<b>8,015,313</b>

Approved on behalf of the Board of Directors  
 13 November 2014

Dmitry Strezhnev  
 Chief Executive Officer

Andrey Ilyin  
 Chief Financial Officer

The accompanying notes on pages 5 to 27 are an integral part of this consolidated condensed interim financial information.

**EuroChem Group**  
**Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income**  
**for the three and nine months ended 30 September 2014**

(all amounts are presented in thousands of US dollars, unless otherwise stated)



	Note	Three months ended		Nine months ended	
		30 September 2014	30 September 2013	30 September 2014	30 September 2013
Sales	17	1,186,922	1,241,819	3,941,627	4,208,889
Cost of sales	18	(707,360)	(793,989)	(2,384,369)	(2,657,410)
<b>Gross profit</b>		<b>479,562</b>	<b>447,830</b>	<b>1,557,258</b>	<b>1,551,479</b>
Distribution costs	19	(184,790)	(193,483)	(553,513)	(580,144)
General and administrative expenses	20	(55,846)	(51,427)	(162,067)	(151,129)
Other operating income/(expenses), net	21	48,965	(26,676)	13,572	(9,079)
<b>Operating profit</b>		<b>287,891</b>	<b>176,244</b>	<b>855,250</b>	<b>811,127</b>
Share of profit from associates	7	4,777	7,392	14,093	12,823
Dividend income		-	-	-	3,651
Gain/(loss) on disposal of available-for-sale investments, net		-	(46,970)	-	(46,970)
Interest income		3,005	2,407	7,535	5,997
Interest expense		(51,061)	(43,982)	(119,488)	(123,748)
Financial foreign exchange gain/(loss), net		(370,714)	31,645	(441,565)	(150,438)
Other financial gain/(loss), net	22	(96,486)	21,771	(126,746)	(29,220)
<b>Profit/(loss) before taxation</b>		<b>(222,588)</b>	<b>148,507</b>	<b>189,079</b>	<b>483,222</b>
Income tax expense	23	(17,900)	(55,896)	(125,986)	(176,181)
<b>Profit/(loss) for the period</b>		<b>(240,488)</b>	<b>92,611</b>	<b>63,093</b>	<b>307,041</b>
<b>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods</b>					
Currency translation differences, net of tax		(468,183)	66,389	(525,618)	(95,811)
Revaluation of available-for-sale investments, net of tax		-	(32,711)	-	(45,293)
Disposal of available-for-sale investments – reclassification of revaluation to profit or loss, net of tax		-	46,970	-	46,970
<b>Total other comprehensive income/(loss) for the period that may be reclassified to profit or loss in subsequent periods</b>		<b>(468,183)</b>	<b>80,648</b>	<b>(525,618)</b>	<b>(94,134)</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>(708,671)</b>	<b>173,259</b>	<b>(462,525)</b>	<b>212,907</b>
<b>Profit/(loss) of the period attributable to:</b>					
Owners of the parent		(240,472)	92,661	63,177	307,187
Non-controlling interests		(16)	(50)	(84)	(146)
		<b>(240,488)</b>	<b>92,611</b>	<b>63,093</b>	<b>307,041</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the parent		(708,363)	173,585	(461,493)	213,528
Non-controlling interests		(308)	(326)	(1,032)	(621)
		<b>(708,671)</b>	<b>173,259</b>	<b>(462,525)</b>	<b>212,907</b>
Earnings/(loss) per share – basic and diluted	24	(240)	93	63	307

The accompanying notes on pages 5 to 27 are an integral part of this consolidated condensed interim financial information.



	Note	Nine months ended	
		30 September 2014	30 September 2013
<b>Operating profit</b>		855,250	811,127
Income tax paid		(131,208)	(208,943)
<b>Operating profit less income tax paid</b>		<b>724,042</b>	<b>602,184</b>
Depreciation and amortisation	18, 19, 20	210,862	231,222
Net loss on disposals and write-off of property, plant and equipment		8,874	3,850
Change in provision for impairment of receivables and provision for obsolete and damaged inventories, net		18,309	2,942
Other non-cash (income)/expenses, net		30,916	30,039
<b>Gross cash flow</b>		<b>993,003</b>	<b>870,237</b>
Changes in operating assets and liabilities:			
Trade receivables		(50,349)	(14,924)
Advances to suppliers		15,857	49,233
Other receivables		(69,383)	(3,687)
Inventories		(67,560)	(26,961)
Trade payables		(24,927)	(21,001)
Advances from customers		(2,963)	(10,633)
Other payables		(5,936)	(9,243)
Restricted cash, other assets and liabilities		(329)	(1,438)
<b>Net cash – operating activities</b>		<b>787,413</b>	<b>831,583</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on property, plant and equipment and intangible assets		(734,048)	(723,761)
Purchase of mineral rights		(32,661)	-
Payment related to mineral rights acquisition		(376)	-
Investment in associates	7	(37,500)	(19,909)
Prepayment for acquisition of subsidiary		(37,500)	-
Prepayments for other non-current assets		-	(329)
Proceeds from sale of property, plant and equipment		1,397	2,609
Proceeds from sale of available-for-sale investments		-	3,081
Cash proceeds/(payments) on derivatives, net		(1,805)	-
Dividends received and refunded withholding tax on dividends received		439	4,214
Net change in fixed-term deposits		(214,966)	79,556
Originated loans		(2,308)	(32,700)
Interest received		6,732	5,211
<b>Net cash – investing activities</b>		<b>(1,052,596)</b>	<b>(682,028)</b>
<b>Free cash inflow/(outflow)</b>		<b>(265,183)</b>	<b>149,555</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings and other loans received	13	1,653,089	1,740,150
Repayment of bank borrowings and other loans	13	(1,482,966)	(1,471,897)
Prepaid and additional transaction costs		(18,231)	(1,498)
Interest paid		(96,997)	(99,852)
Cash proceeds/(payments) on derivatives, net	16	2,818	3,451
Acquisition of additional interest in subsidiaries		(2,754)	(382)
Purchase of ordinary shares of MCC EuroChem	25	(50,000)	(369,500)
Proceeds from sale of ordinary shares of MCC EuroChem	25	365,000	-
Share capital of the Company issued and paid in	12	111	-
<b>Net cash – financing activities</b>		<b>370,070</b>	<b>(199,528)</b>
Effect of exchange rate changes on cash and cash equivalents		(62,695)	(4,267)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>42,192</b>	<b>(54,240)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>11</b>	<b>505,738</b>	<b>508,488</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>11</b>	<b>547,930</b>	<b>454,248</b>

The accompanying notes on pages 5 to 27 are an integral part of this consolidated condensed interim financial information.

**EuroChem Group**
**Consolidated Condensed Statement of Changes in Equity for the nine months ended 30 September 2014**
*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

	Attributable to owners of the parent				Total	Non-controlling interests	Total equity
	Share capital	Equity not owned directly by the Company	Cumulative currency translation differences	Retained earnings and other reserves			
<b>Balance at 1 January 2013</b>	-	<b>3,510,025</b>	-	-	<b>3,510,025</b>	<b>6,177</b>	<b>3,516,202</b>
<b>Comprehensive income/(loss)</b>							
Profit/(loss) for the period	-	307,187	-	-	307,187	(146)	307,041
<i>Other comprehensive income/(loss)</i>							
Currency translation differences	-	(95,336)	-	-	(95,336)	(475)	(95,811)
Revaluation of available-for-sale investments	-	(45,293)	-	-	(45,293)	-	(45,293)
Disposal of available-for-sale investments	-	46,970	-	-	46,970	-	46,970
<i>Total other comprehensive income/(loss)</i>	-	<i>(93,659)</i>	-	-	<i>(93,659)</i>	<i>(475)</i>	<i>(94,134)</i>
<b>Total comprehensive income/(loss)</b>	-	<b>213,528</b>	-	-	<b>213,528</b>	<b>(621)</b>	<b>212,907</b>
<b>Transactions with owners</b>							
Transactions with ordinary shares of MCC EuroChem	-	(391,800)	-	-	(391,800)	-	(391,800)
Acquisition of additional interest in subsidiaries	-	156	-	-	156	(538)	(382)
<b>Total transactions with owners</b>	-	<b>(391,644)</b>	-	-	<b>(391,644)</b>	<b>(538)</b>	<b>(392,182)</b>
<b>Balance at 30 September 2013</b>	-	<b>3,331,909</b>	-	-	<b>3,331,909</b>	<b>5,018</b>	<b>3,336,927</b>
<b>Balance at 1 January 2014</b>	-	<b>3,716,670</b>			<b>3,716,670</b>	<b>5,167</b>	<b>3,721,837</b>
<b>Comprehensive income/(loss)</b>							
Profit for the period	-	303,649	-	-	303,649	-	303,649
<i>Other comprehensive income/(loss)</i>							
Currency translation differences	-	(57,503)	-	-	(57,503)	-	(57,503)
<i>Total other comprehensive income/(loss)</i>	-	<i>(57,503)</i>	-	-	<i>(57,503)</i>	-	<i>(57,503)</i>
<b>Total comprehensive income</b>	-	<b>246,146</b>	-	-	<b>246,146</b>	-	<b>246,146</b>
<b>Transactions with owners</b>							
Reclassification from capital contribution to bank borrowings and other loans received (Note 13)	-	(50,000)	-	-	(50,000)	-	(50,000)
Transactions with ordinary shares of MCC EuroChem (Note 25)	-	300,000	-	-	300,000	-	300,000
<b>Total transactions with owners</b>	-	<b>250,000</b>	-	-	<b>250,000</b>	-	<b>250,000</b>
<b>Balance before the restructuring</b>	-	<b>4,212,816</b>	-	-	<b>4,212,816</b>	<b>5,167</b>	<b>4,217,983</b>
<b>Reorganisation under the parent company</b>	111	-	-	5,000	5,111	-	5,111
<b>Changes due to restructuring</b>	-	<b>(4,212,816)</b>	<b>(311,690)</b>	<b>4,524,506</b>	-	-	-
<b>Comprehensive loss</b>							
Loss for the period	-	-	-	(240,472)	(240,472)	(84)	(240,556)
<i>Other comprehensive loss</i>							
Currency translation differences	-	-	(467,167)	-	(467,167)	(948)	(468,115)
<i>Total other comprehensive loss</i>	-	-	<i>(467,167)</i>	-	<i>(467,167)</i>	<i>(948)</i>	<i>(468,115)</i>
<b>Total comprehensive loss</b>	-	-	<b>(467,167)</b>	<b>(240,472)</b>	<b>(707,639)</b>	<b>(1,032)</b>	<b>(708,671)</b>
<b>Transactions with owners</b>							
Acquisition of additional interest in subsidiaries	-	-	-	(127)	(127)	(2,627)	(2,754)
<b>Total transactions with owners</b>	-	-	-	<b>(127)</b>	<b>(127)</b>	<b>(2,627)</b>	<b>(2,754)</b>
<b>Balance at 30 September 2014</b>	111	-	<b>(778,857)</b>	<b>4,288,907</b>	<b>3,510,161</b>	<b>1,508</b>	<b>3,511,669</b>

The accompanying notes on pages 5 to 27 are an integral part of this consolidated condensed interim financial information.





## 1 The EuroChem Group and its operations

The EuroChem Group comprises the parent entity, EuroChem Group AG (the “Company”) and its subsidiaries (collectively the “Group” or “EuroChem Group”). The Company was incorporated under the laws of Switzerland on 16 July 2014 and has its registered office at: Alpenstrasse 9, 6300, Zug, Switzerland.

EuroChem Group AG became the parent company of the Group after EuroChem Group SE contributed 89.83% of the shares of JSC Mineral Chemical Company “EuroChem” (hereinafter – “MCC EuroChem”) to the Swiss-based Company. At 30 September 2014, EuroChem Group SE owned 100% of the share capital of the EuroChem Group AG.

A company that holds business interests beneficially for Mr. Andrey Melnichenko and his family owns 100% of Linea Ltd registered in Bermuda, which in turn owns 92.2% (31 December 2013: 92.2%) of EuroChem Group SE, the remaining 7.8% (31 December 2013: 7.8%) is held indirectly by Mr. Dmitry Strezhnev, CEO of the Group.

The Group’s principal activity is the production of mineral fertilisers (nitrogen and phosphate based) as well as mineral extraction (iron-ore, apatite, baddeleyite and hydrocarbons), and the operation of a distribution network. The Group is developing potassium salts deposits with a view to starting the production and marketing of potassium fertilisers. The Group’s main manufacturing facilities are based in the Russian Federation, Lithuania and Belgium.

## 2 Basis of presentation and significant accounting policies

This consolidated condensed interim financial information has been prepared in accordance with IAS 34, “Interim Financial Reporting” and should be viewed as a continuation of the consolidated financial statements of EuroChem Group issued by its former parent JSC Mineral Chemical Company “EuroChem” prior to the change in the corporate structure following the re-domiciliation of the corporate headquarters to Zug, Switzerland.

This consolidated interim financial information supplements the annual financial statements prepared in accordance with International Financial Reporting Standards and the principal accounting policies applied therein are consistent with those of the consolidated financial statements for the year ended 31 December 2013, except for the following changes:

- change in the presentation currency of the Group from the Russian rouble to the US dollar since the management considers the US dollar to be more appropriate for the understanding and comparability of consolidated financial information;
- policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2014 (Note 3).

**Functional and presentation currency.** The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates.

While the Company’s functional currency is the US dollar (US\$), the functional currency for each of the Group’s subsidiaries is determined separately. For Russian subsidiaries, the functional currency is the Russian rouble (“RUB”); the functional currency for most of the Group’s subsidiaries located in Europe is the Euro (“EUR”); and, for subsidiaries located in Lithuania the functional currency is the Lithuanian Lita (“LTL”).

The presentation currency of the Group is the US dollar. This is the first consolidated condensed interim financial information presented in US dollars. The results and financial position of each of the Group’s subsidiaries were translated to the presentation currency as required by IAS 21, “The Effects of Changes in Foreign Exchange Rates”:

- (i) assets and liabilities for each consolidated condensed statement of financial position presented are translated at the closing rate at the date of that consolidated condensed statement of financial position;





## **2 Basis of presentation and significant accounting policies (continued)**

- (ii) income and expenses for the consolidated condensed statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historical rate; and
- (iv) all resulting exchange differences are recognised as currency translation differences in other comprehensive income.

At 30 September 2014, the official exchange rates were: US\$ 1 = RUB 39.3866, US\$ 1 = EUR 0.7885 (31 December 2013: US\$ 1 = RUB 32.7292, US\$ 1 = EUR 0.7278). Average rates for the nine months ended 30 September 2014 were: US\$ 1 = RUB 35.3878, US\$ 1 = EUR 0.7374, (nine months ended 30 September 2013: US\$ 1 = RUB 31.6170, US\$ 1 = EUR 0.7591).

**Capital reorganisation.** The capital reorganisation of the Group (Note 1) representing transfers of subsidiaries between entities under common control was accounted for using the predecessor basis method, under which the acquiree (the Company) incorporates the assets and liabilities of the Group at their pre-combination carrying amounts without fair value uplift. This consolidated condensed interim financial information of the Group with its new parent company includes the Group's carrying amounts with comparative information for each of the periods presented.

**Income taxes.** Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

**Changes in presentation.** Starting from 1 January 2014, certain changes have been applied to the presentation of the notes:

- Segmental results of EuroChem Agro companies' (distribution network) are reallocated from Nitrogen and Other to the Distribution segment (Note 5).
- Sales are presented by product groups with indication of sales volumes (Note 17).
- The cost of sales line "Materials and components used or resold" is divided into the lines "Raw materials", "Other materials" and "Goods for resale" (Note 18).

The comparative figures are presented and reallocated respectively to reflect these changes.

## **3 Adoption of new or revised standards and interpretations**

The following new standards, amendments to standards and interpretations became effective from 1 January 2014:

- IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014);
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period);



### **3 Adoption of new or revised standards and interpretations (continued)**

- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning on or after 1 January 2014).

Unless otherwise described above, these standards, amendments to standards and interpretations did not have any impact or did not have a material impact on this consolidated condensed interim financial information.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 September 2014, and have not been early adopted by the Group:

- IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial information;
- Amendments to IAS 19 – Defined benefit plans: Employee contribution (issued in November 2013, effective for annual periods beginning on or after 1 July 2014);
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);
- Improvements to International Financial Reporting Standards (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014);
- Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its consolidated financial information;
- Amendments to IAS 16 and IAS 41, Agriculture: Bearer plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IAS 27, Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to have any impact or to have a materially impact on the Group's consolidated condensed interim financial information.

### **4 Fair value of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.



#### **4 Fair value of financial instruments (continued)**

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

##### ***Financial instruments carried at fair value***

Fair values of derivatives financial assets and liabilities were determined based on derived quoted market prices and were included in level 2.

Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

***Financial assets carried at amortised cost.*** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used depend on the credit risk of the counterparty. The carrying amounts of trade receivables and originated loans approximate their fair values. Their fair values are within level 2 of the fair value hierarchy.

***Liabilities carried at amortised cost.*** The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The fair value of borrowings and issued bonds at 30 September 2014 and 31 December 2013 are disclosed in Notes 13 and 15. The fair value of borrowings and issued bonds were included in level 2 and 1, respectively.

#### **5 Segment information**

The Group has five reportable operating segments identified by the management: nitrogen, phosphates, potash, distribution and other. The development and approval of strategies, market and risk analysis, the investment focus, technological process changes, and the setting of goals and priorities of the Group are undertaken in line with these segments:

- Nitrogen – the production and sale of nitrogen mineral fertilisers and organic synthesis products and the extraction of hydrocarbons (natural gas and gas condensate) where natural gas is used as the raw material for the production of nitrogen fertilisers and gas condensate is sold;
- Phosphates – the production and sale of phosphate mineral fertilisers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the development of several deposits of potassium salts (“potash”) under the licences acquired by the Group for production of potassium fertilisers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilisers (including those not produced by the Group), seeds, crop protection and other items, via a distribution network comprising distribution centers located in Russia, the CIS and sales offices located in Germany, Spain, Italy, Greece, France, Turkey, Mexico, Singapore and China.
- Other – certain logistics and service activities, central management, investment income and other items.



## 5 Segment information (continued)

On a monthly basis, the Management Board reviews the financial reports of the Group, evaluates the operating results and allocates resources between the operating segments. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between segments are carried out on an arm's length basis. The Management Board assesses the performance of the operating segments based on, among other factors, a measure of profit before taxation adjusted by interest expense, depreciation and amortisation, financial foreign exchange gain or loss, other non-cash and extraordinary items, excluding net profit for the period attributed to non-controlling interests (EBITDA). Since this term is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

In 2014, the Group is considering a change in its management and organisational structure to a divisional model. The management anticipates starting to report its operating results based on the new divisional organisational structure in 2015.

The segmental results for the nine months ended 30 September 2014 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	1,230,615	1,021,567	2,252,182	658,248
Phosphates	929,996	315,871	1,245,867	326,714
Potash	-	-	-	(17,248)
Distribution	1,686,738	11,747	1,698,485	64,341
Other	94,278	592,940	687,218	87,831
Elimination	-	(1,942,125)	(1,942,125)	(28,918)
<b>Total</b>	<b>3,941,627</b>	<b>-</b>	<b>3,941,627</b>	<b>1,090,968</b>

The segmental results for the nine months ended 30 September 2013 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	1,354,259	917,104	2,271,363	651,179
Phosphates	1,301,701	96,773	1,398,474	345,507
Potash	-	-	-	(15,385)
Distribution	1,395,859	6,652	1,402,511	49,394
Other	157,070	530,236	687,306	40,031
Elimination	-	(1,550,765)	(1,550,765)	(4,411)
<b>Total</b>	<b>4,208,889</b>	<b>-</b>	<b>4,208,889</b>	<b>1,066,315</b>

The segmental results for the three months ended 30 September 2014 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	399,850	312,456	712,306	212,885
Phosphates	262,559	108,598	371,157	112,737
Potash	-	-	-	(6,428)
Distribution	498,974	6,202	505,176	24,373
Other	25,539	206,923	232,462	41,913
Elimination	-	(634,179)	(634,179)	(20,907)
<b>Total</b>	<b>1,186,922</b>	<b>-</b>	<b>1,186,922</b>	<b>364,573</b>

The segmental results for the three months ended 30 September 2013 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	386,006	286,974	672,980	154,716
Phosphates	405,654	37,312	442,966	114,999
Potash	-	-	-	(8,845)
Distribution	405,406	2,238	407,644	(3,851)
Other	44,753	188,903	233,656	9,347
Elimination	-	(515,427)	(515,427)	(7,689)
<b>Total</b>	<b>1,241,819</b>	<b>-</b>	<b>1,241,819</b>	<b>258,677</b>



## 5 Segment information (continued)

A reconciliation of EBITDA to profit before taxation for the nine months ended 30 September 2014 and 2013 and the year ended 31 December 2013 is provided below:

	Note	Nine months ended		Year ended
		30 September 2014	30 September 2013	31 December 2013
<b>EBITDA</b>		<b>1,090,968</b>	<b>1,066,315</b>	<b>1,348,994</b>
Depreciation and amortisation	18, 19, 20	(210,862)	(231,222)	(310,104)
Write-off of idle property, plant and equipment	6, 18, 21	(3,144)	(1,349)	(18,516)
Loss on disposal of available-for-sale investments		-	(46,970)	(46,970)
Interest expense		(119,488)	(123,748)	(161,809)
Financial foreign exchange gain/(loss), net		(441,565)	(150,438)	(184,997)
Other financial gain/(loss), net	22	(126,746)	(29,220)	(29,663)
Non-controlling interests		(84)	(146)	(198)
<b>Profit before taxation</b>		<b>189,079</b>	<b>483,222</b>	<b>596,737</b>

A reconciliation of EBITDA to profit before taxation for the three months ended 30 September 2014 and 30 September 2013 is provided below:

	Note	Three months ended	
		30 September 2014	30 September 2013
<b>EBITDA</b>		<b>364,573</b>	<b>258,677</b>
Depreciation and amortisation	18, 19, 20	(67,731)	(72,525)
Write-off of idle property, plant and equipment	6, 18, 21	(1,153)	(59)
Loss on disposal of available-for-sale investments		-	(46,970)
Interest expense		(51,061)	(43,982)
Financial foreign exchange gain/(loss), net		(370,714)	31,645
Other financial gain/(loss), net	22	(96,486)	21,771
Non-controlling interests		(16)	(50)
<b>Profit/(loss) before taxation</b>		<b>(222,588)</b>	<b>148,507</b>

The analysis of Group sales by region was:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Europe	393,132	328,403	1,416,734	1,322,430
Russia	255,037	243,433	786,912	788,472
Asia	149,841	249,876	538,926	717,788
Latin America	174,685	146,842	426,844	433,496
North America	87,449	101,173	416,808	413,299
CIS	90,336	118,991	238,768	353,825
Africa	29,270	35,716	93,385	129,732
Australasia	7,172	17,385	23,250	49,847
<b>Total sales</b>	<b>1,186,922</b>	<b>1,241,819</b>	<b>3,941,627</b>	<b>4,208,889</b>

The sales are allocated to regions based on the destination country. During the nine months ended 30 September 2014, the Group had sales to Russia representing 20.0% of total Group revenues (nine months ended 30 September 2013: sales to Russia and China represented 18.7% and 11.0% of total Group revenues, respectively).

During the nine months ended 30 September 2014 and 30 September 2013, there were no sales in excess of 10% to one customer.



## 6 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were:

	Note	2014	2013
<b>Carrying amount at 1 January</b>		<b>4,670,781</b>	<b>4,207,705</b>
<i>Including advances given to construction companies and suppliers of property, plant and equipment</i>		191,802	157,068
Additions		833,411	778,386
<i>Including changes in advances given</i>		(24,424)	41,806
Disposals		(7,127)	(4,337)
Disposal of property, plant and equipment related to sale of subsidiaries	25	(23,627)	-
Depreciation charge for the period		(209,607)	(230,422)
Idle property, plant and equipment write-off	18, 21	(3,144)	(1,349)
Currency translation differences		(806,454)	(232,409)
<b>Carrying amount at 30 September</b>		<b>4,454,233</b>	<b>4,517,574</b>
<i>Including advances given to construction companies and suppliers of property, plant and equipment</i>		137,438	188,355

The analysis of the Group's assets under construction is:

	30 September 2014	31 December 2013
Construction in progress	2,107,506	1,916,896
Advances given to construction companies and suppliers of property, plant and equipment	137,438	191,802
Evaluation expenses	9,642	9,388
<b>Total assets under construction</b>	<b>2,254,586</b>	<b>2,118,086</b>

### *Idle property, plant and equipment write-off*

During the nine months ended 30 September 2014, the Group decided to mothball certain production equipment with a net book value of US\$ 3,144 thousand (nine months ended 30 September 2013: net book value of US\$ 1,349 thousand) and recognised a loss of US\$ 3,144 thousand in this consolidated condensed interim financial information (nine months ended 30 September 2013: US\$ 1,349 thousand) (Note 18, 21).

### *Evaluation expenses at the Darganovsky and Ravninny potash fields*

At 30 September 2014, the Group has capitalised expenses relating to the evaluation stage of the Darganovsky and Ravninny potash fields of US\$ 9,642 thousand, including borrowing costs capitalised of US\$ 1,555 thousand (31 December 2013: US\$ 9,388 thousand, including borrowing costs capitalised of US\$ 623 thousand). These expenses were recognised in property, plant and equipment. In most cases, these expenses were paid in the period when the services were provided.

### *Borrowing costs capitalised*

During the nine months ended 30 September 2014, borrowing costs totalling US\$ 21,778 thousand (nine months ended 30 September 2013: US\$ 10,059 thousand) were capitalised in property, plant and equipment at an average interest rate of 4.79% p.a. (nine months ended 30 September 2013: 5.23% p.a.).

### *Payables to suppliers of property, plant and equipment*

As at 30 September 2014, trade payables included payables to suppliers of property, plant and equipment amounting to US\$ 84,631 thousand (31 December 2013: US\$ 42,451 thousand).





## 7 Investment in associates

As at 30 September 2014, the Group's investments in associates were as follows:

	30 September 2014	31 December 2013
Investment in associate OJSC "Murmansk Commercial Seaport"	102,329	107,905
Investment in associate OJSC "Astrakhan Oil and Gas Company"	33,973	-
<b>Total investments in associates</b>	<b>136,302</b>	<b>107,905</b>

Movements in the carrying amount of the Group's investment in associates were:

	2014	2013
<b>Carrying amount at 1 January</b>	107,905	-
Acquisition of interest in associates	37,500	101,925
Share of profit from associates	14,093	12,823
Currency translation difference	(23,196)	(4,748)
<b>Carrying amount at 30 September</b>	<b>136,302</b>	<b>110,000</b>

### *Investment in associate OJSC "Murmansk Commercial Seaport"*

The aggregated assets, liabilities, revenues and results of associate as at 30 September 2014 are as follows:

Current assets	99,881
Non-current assets	102,089
Current liabilities	12,510
Non-current liabilities	43,757
<b>Net assets</b>	<b>145,703</b>
Sales for the nine months ended 30 September 2014	110,973
Net profit for the nine months ended 30 September 2014	32,231

### *Investment in associate OJSC "Astrakhan Oil and Gas Company"*

In February 2014, the Group acquired 20.1% of the issued capital of OJSC "Astrakhan oil and gas Company" located in Astrakhan region of Russian Federation for US\$ 37,500 thousand paid in cash.

The Group is performing the valuation of the fair value of the Associate's identifiable assets and liabilities and intends to finalise the fair value measurement within 12 months of the acquisition date.

## 8 Inventories

	30 September 2014	31 December 2013
Finished goods	261,509	293,037
Materials	213,820	233,817
Catalysts	94,218	101,806
Work in progress	75,341	74,225
Less: provision for obsolete and damaged inventories	(8,604)	(10,208)
<b>Total inventories</b>	<b>636,284</b>	<b>692,677</b>





## 9 Trade receivables, prepayments, other receivables and other current assets

	30 September 2014	31 December 2013
<b>Trade receivables</b>		
Trade receivables denominated in RUB	33,222	56,490
Trade receivables denominated in US\$	122,657	125,826
Trade receivables denominated in Euro	183,933	161,639
Trade receivables denominated in other currencies	13,735	27,179
Less: impairment provision	(17,637)	(7,695)
<b>Total trade receivables – financial assets</b>	<b>335,910</b>	<b>363,439</b>
<b>Prepayments, other receivables and other current assets</b>		
Advances to suppliers	60,644	90,124
VAT recoverable and receivable	185,453	139,863
Income tax receivable	3,108	5,660
Other taxes receivable	2,551	11,141
Other receivables	19,211	19,070
Less: impairment provision	(7,686)	(6,588)
<b>Subtotal non-financial assets</b>	<b>263,281</b>	<b>259,270</b>
Receivable relating to sale of ordinary shares of MCC EuroChem (Note 25)	70,000	-
Receivable from parent for contribution into Company (Note 25)	5,000	-
Other receivables	1,109	6,536
Interest receivable	1,786	964
<b>Subtotal financial assets</b>	<b>77,895</b>	<b>7,500</b>
<b>Total prepayments, other receivables and other current assets</b>	<b>341,176</b>	<b>266,770</b>
<b>Total trade receivables, prepayments, other receivables and other current assets</b>	<b>677,086</b>	<b>630,209</b>
including		
Financial assets	413,805	370,939
Non-financial assets	263,281	259,270

## 10 Originated loans

	Note	30 September 2014	31 December 2013
<i>Current originated loans</i>			
Unsecured US\$-denominated loan to the partner of the Hong Kong joint venture, fixed interest rate 6.5% p.a.		3,000	3,000
Unsecured US\$-denominated loan to parent company, fixed interest rate 5.5% p.a.	25	1,800	-
Unsecured RUB-denominated loan to associate, interest rate 12.6% p.a.		38	-
<b>Total current originated loans</b>		<b>4,838</b>	<b>3,000</b>
<i>Non-current originated loans</i>			
Unsecured US\$-denominated loans to related party which is the entity under common control with the Group, interest rates ranging from 1.57% to 2.62% p.a.	25	13,170	12,700
Secured US\$-denominated loans to related parties which are the entities under common control with the Group, fixed interest rate 8.0% p.a.	25	27,000	-
<b>Total non-current originated loans</b>		<b>40,170</b>	<b>12,700</b>
<b>Total originated loans</b>		<b>45,008</b>	<b>15,700</b>



## 10 Originated loans (continued)

Movements in Group's originated loans during nine months ended 30 September 2014 and 30 September 2013 were as follows:

	Note	2014	2013
<b>Balance as at 1 January</b>		<b>15,700</b>	-
Originated loan recognised from sale of K+S Group shares to parent company		-	39,504
Originated loans to parent company	25	1,800	20,000
Originated loan to associate		38	-
Originated loans to other related party	25	470	12,700
Reclassification of intragroup loans provided to subsidiaries before disposal	25	27,000	-
Foreign exchange gain/(loss), net		5,834	(447)
Currency translation differences		(5,834)	1,020
<b>Balance as at 30 September</b>		<b>45,008</b>	<b>72,777</b>

In July 2014 the Group sold two subsidiaries, engaged in shipping operations (Note 25) and reclassified the intragroup loans provided to these subsidiaries before disposal amounting to US\$ 27,000 thousand to non-current originated loans. These loans are secured with two vessels owned by the disposed subsidiaries.

## 11 Cash and cash equivalents, fixed-term deposits and restricted cash

	30 September 2014	31 December 2013
Cash on hand and bank balances denominated in RUB	41,687	19,451
Bank balances denominated in US\$	117,423	178,131
Bank balances denominated in EUR	166,921	216,686
Bank balances denominated in other currencies	9,472	13,095
Term deposits denominated in RUB	102,731	30,123
Term deposits denominated in US\$	50,708	35,211
Term deposits denominated in EUR	40,341	1,635
Term deposits denominated in other currencies	18,647	11,406
<b>Total cash and cash equivalents</b>	<b>547,930</b>	<b>505,738</b>
Fixed-term deposits in RUB	214,596	71,545
Fixed-term deposits in US\$	36,562	2,826
Fixed-term deposits in EUR	2,176	234
Fixed-term deposits in other currencies	219	-
<b>Total fixed-term deposits</b>	<b>253,553</b>	<b>74,605</b>
Non-current restricted cash	2,544	2,706
<b>Total restricted cash</b>	<b>2,544</b>	<b>2,706</b>

Term deposits at 30 September 2014 and 31 December 2013 are held to meet short term cash needs and have various original maturities but can be withdrawn on request without any restrictions.

Fixed-term deposits have various original maturities and can be withdrawn with early notification and/or with penalty accrued or interest income forfeited.

At 30 September 2014, US\$ 2,544 thousand of non-current restricted cash (31 December 2013: US\$ 2,706 thousand) was held in bank accounts as security deposits for third parties.

## 12 Equity

**Share capital.** As described in Note 1, the Company was established on 16 July 2014. As at 30 September 2014, the nominal registered amount of the Company's issued share capital is Swiss francs (CHF) 100 thousand (US\$ 111 thousand). The total authorised number of ordinary shares is 1,000 shares with a par value of CHF 100 (US\$ 111) per share. All authorised shares have been issued and fully paid.



## 12 Equity (continued)

**Other reserves.** At 30 September 2014, other reserves of the Company included:

- capital contribution by EuroChem Group SE of 89.83% of the share capital of MCC EuroChem (or 61,082,665 ordinary shares); and
- cash contribution of US\$ 5,000 thousand recorded as a receivable from EuroChem Group SE as at 30 September 2014 which was paid in October 2014 (Note 9, 25).

The share capital of MCC EuroChem consisted of 68 million shares and amounted to RUB 6.8 billion (US\$ 244,824 thousand) at 31 December 2013. After the capital reorganisation of the Group (Note 1) all components of equity related to MCC EuroChem, the former parent company have been appropriately restated.

## 13 Bank borrowings and other loans received

	Note	30 September 2014	31 December 2013
<i>Current bank borrowings and other loans received</i>			
Short-term bank loans, denominated in US\$		175,000	30,000
Current portion of long-term bank loans in RUB		253,893	76,384
Current portion of long-term bank loans in US\$		100,000	148,573
Current portion of long-term bank loans in EUR		-	4,935
Less: short-term portion of transaction costs		(3,820)	(4,134)
<b>Total current bank borrowings and other loans received</b>		<b>525,073</b>	<b>255,758</b>
<i>Non-current bank borrowings and other loans received</i>			
Long-term bank loans, denominated in RUB		812,459	611,075
Long-term bank loans, denominated in US\$		1,411,996	1,618,207
Long-term bank loans, denominated in EUR		-	46,881
Long-term loan from shareholder, denominated in US\$	25	15,000	-
Less: current portion of long-term bank loans in RUB		(253,893)	(76,384)
Less: current portion of long-term bank loans in US\$		(100,000)	(148,573)
Less: current portion of long-term bank loans in EUR		-	(4,935)
Less: long-term portion of transaction costs		(10,184)	(40,364)
<b>Total non-current bank borrowings and other loans received</b>		<b>1,875,378</b>	<b>2,005,907</b>
<b>Total bank borrowings and other loans received</b>		<b>2,400,451</b>	<b>2,261,665</b>

Movements in Group's bank borrowings and other loans received during nine months ended 30 September 2014 and 30 September 2013 were as follows:

	2014	2013
<b>Balance as at 1 January</b>	<b>2,261,665</b>	<b>2,185,330</b>
Reclassification from capital contribution	50,000	-
Bank loans received, denominated in RUB	770,754	-
Bank loans received, denominated in US\$	837,996	1,740,150
Bank loans received, denominated in Ukrainian Hryvna	4,339	-
Loan received from shareholder, denominated in US\$	40,000	-
Bank loans repaid, denominated in RUB	(459,299)	-
Bank loans repaid, denominated in US\$	(899,207)	(1,449,630)
Loan repaid to shareholder, denominated in US\$	(75,000)	-
Bank loans repaid, denominated in EUR	(45,152)	(22,267)
Bank loans repaid, denominated in Ukrainian Hryvna	(4,308)	-
Capitalisation and amortisation of transaction costs, net	25,568	14,907
Foreign exchange (gain)/loss, net	311,160	104,336
Currency translation differences, net	(418,065)	(141,400)
<b>Balance as at 30 September</b>	<b>2,400,451</b>	<b>2,431,426</b>



### 13 Bank borrowings and other loans received (continued)

The Group's bank borrowings and other loans received mature:

	30 September 2014	31 December 2013
- within 1 year	525,073	255,758
- between 1 and 2 years	763,120	610,189
- between 2 and 5 years	1,112,258	1,358,264
- more than 5 years	-	37,454
<b>Total bank borrowings and other loans received</b>	<b>2,400,451</b>	<b>2,261,665</b>

At 30 September 2014 and 31 December 2013, the fair value of current bank borrowings and borrowings bearing floating interest rates was not materially different from their carrying amounts.

The fair value of the non-current borrowings bearing fixed interest rate is estimated based on expected cash flows discounted at a prevailing market interest rate. At 30 September 2014, the fair value of the borrowings estimated with interest rate of 9.32% and 11.4% exceeded their carrying amount by US\$ 380 thousand on the net basis (31 December 2013: fair value estimated with interest rate of 6.81% exceeded the carrying amount by US\$ 17,038 thousand).

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Under the terms of loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and cross-default provisions.

#### *Interest rates and outstanding amounts*

In September 2013, the Group obtained a credit facility of US\$ 1.3 billion bearing interest at 3-month Libor +1.8% and maturing in September 2018. At 30 September 2014, the outstanding amount was US\$ 1.3 billion (31 December 2013: US\$ 1.3 billion).

In 2011, the Group signed a RUB 20 billion 5-year non-revolving fixed-interest rate loan facility with a leading Russian bank. As at 30 September 2014, the outstanding amount was RUB 20 billion (31 December 2013: RUB 20 billion).

In 2010, the Group signed a 10-year export credit agency-backed loan facility with a floating interest rate based on 6-month Libor for financing the construction of the cage shaft at the Gremyachinskoe potash deposit. In 2012, due to the termination of a construction contract, US\$ 261 million of the initial credit limit was reduced to US\$ 109.5 million. In September 2014 this loan was fully repaid before its stated maturity (31 December 2013: the outstanding amount was US\$ 94.9 million).

In 2012, the Group signed a US\$ 100 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor which was converted to a 4-year facility in 2014. As at 30 September 2014 the outstanding amount was US\$ 100 million (31 December 2013: US\$30 million).

In March 2012, the Group signed a US\$ 83.3 million credit line agreement with a European commercial bank, bearing a floating interest rate based on 1-month Libor and maturity in August 2015. As at 31 December 2013, the outstanding amount was US\$ 75.2 million. In June 2014 the loan was fully repaid before its stated maturity.

In 2010, the Group signed a EUR 36.7 million 13-year export credit agency-backed loan facility with a floating interest rate based on 6-month Euribor for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company. After the end of the availability period in February 2013, the credit limit was reduced to the utilised amount of EUR 35.9 million. In August 2014 this loan was fully repaid before its stated maturity (31 December 2013: the outstanding amount was EUR 34.1 million).



### **13 Bank borrowings and other loans received (continued)**

#### *Interest rates and outstanding amounts (continued)*

In 2010, the Group signed a US\$ 250 million 5-year credit line agreement bearing a floating interest rate based on 1-month Libor with a European commercial bank. At 31 December 2013, the outstanding balance of the facility was US\$ 148 million. In June 2014, the loan was fully repaid before its stated maturity.

In October 2013, the Group signed a revolving fixed-interest rate loan facility for 90 million Ukrainian Hryvnas in order to finance activities at Ukrainian-based subsidiary of the Group. During the nine months ended 30 September 2014, the facility was utilised and the disbursed amounts were fully repaid (31 December 2013: the outstanding amount was nil).

In October 2013, the Group signed a US\$ 100 million revolving fixed interest rate credit facility with a Russian bank, the credit limit of which was subsequently increased to US\$ 200 million. In May 2014, the Group signed another credit facility with the same bank. In accordance with the terms agreed upon with the bank the combined credit limit on both of the facilities may not exceed US\$ 700 million. The funds through this facility may be obtained in multiple currencies. At 30 September 2014, the outstanding amount was RUB 12 billion. (31 December 2013: nil).

In October 2013, the Group signed a US\$ 250 million 2-year loan agreement bearing a floating interest rate. At 30 September 2014, the outstanding amount was US\$ 111,996 thousand. (31 December 2013: nil).

In 2012, the Group signed a US\$ 75 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor, which was converted to a 4-year facility in June 2014. At 30 September 2014, the outstanding amount was US\$ 75 million (31 December 2013: nil).

In April 2014, the Group repaid a US\$ 50 million capital contribution, which initially had been recognised as a component of the equity, was subsequently reclassified and presented in the consolidated condensed statement of financial position as a loan received due to the termination of the original agreement under which the contribution was made.

In April 2014, the Group obtained a 5-year fixed interest loan from shareholder of US\$ 40 million. This new loan replaced the US\$ 50 million loan which had been repaid earlier. In September 2014 this loan was partially repaid bringing the outstanding balance as at 30 September 2014 to US\$ 15 million. In October 2014, the loan agreement with shareholder was renewed. The renewal will allow the Group to re-borrow an additional US\$ 23 million starting October 2014 with final settlement date of October 2019.

In July 2014, the Group obtained fixed interest loans of RUB 15 billion from a Russian commercial bank. As at 30 September 2014 these loans were fully repaid.

#### *Collaterals and pledges*

At 31 December 2013 and 30 September 2014, the Group did not have assets pledged or held as collateral to secure borrowings and other loans received listed above.

### **14 Project finance**

In August 2014, the Group signed a US\$ 750 million Non-recourse Project Finance Facility Agreement maturing in 8 years after Financial Closing Date with a floating interest rate based on 3-month Libor for financing of Usolsky potash project located at the Palashersky and Balakhontsevsky blocks of the Verkhnekamsky field of potassium and magnesium salt in the Perm region of the Russian Federation. At 30 September 2014 the Financial Closing Date has not occurred and the facility has not yet been utilised. At 30 September 2014 the costs associated with arrangement of the facility (including consultants fees, coordinators fees, agency fee and up-front fee) in the amount of US\$ 16,859 thousand have been paid.



## 14 Project finance (continued)

Due to non-recourse nature of the facility, the facility will be presented as a separate line in the non-current liabilities section and is to be excluded from financial covenants calculations in accordance with the Group various debt, project, finance, legal and other documents.

As at 30 September 2014, 100% of the issued share capital of EuroChem Usolsky Mining S.à r.l., the project owner and wholly-owned subsidiary of the Group, were pledged as collateral under the terms of project finance facility agreement. The carrying value of the assets related to the project described above amounted to US\$ 656,564 thousand.

## 15 Bonds issued

	30 September 2014		31 December 2013	
	Fair value	Carrying amount	Fair value	Carrying amount
<i>Current bonds</i>				
8.9% RUB-denominated bonds due June 2018/callable by investors in July 2015	124,789	126,947	-	-
Less: transaction costs	-	(257)	-	-
<b>Total current bonds</b>	<b>124,789</b>	<b>126,690</b>	<b>-</b>	<b>-</b>
<i>Non-current bonds</i>				
5.125% 750 million US\$-denominated bonds due December 2017	736,245	750,000	756,443	750,000
8.9% RUB-denominated bonds due June 2018/callable by investors in July 2015	-	-	153,991	152,769
8.25% RUB-denominated bonds due November 2018/callable by investors in November 2015	122,846	126,947	153,166	152,769
Less: transaction costs	-	(3,113)	-	(4,995)
<b>Total non-current bonds</b>	<b>859,091</b>	<b>873,834</b>	<b>1,063,600</b>	<b>1,050,543</b>
<b>Total bonds issued</b>	<b>983,880</b>	<b>1,000,524</b>	<b>1,063,600</b>	<b>1,050,543</b>

The fair value of the outstanding US\$-denominated bonds and RUB-denominated bonds was determined with reference to their quotations on the Irish Stock Exchange and the Moscow Stock Exchange, respectively.

## 16 Derivative financial assets and liabilities

At 30 September 2014, the derivative financial assets and liabilities were:

	Assets		Liabilities	
	Non-current	Current	Non-current	Current
RUB/US\$ non-deliverable forward contracts with a nominal amount of RUB 10,000 million	-	-	30,870	-
RUB/US\$ non-deliverable forward contracts with a nominal amount of RUB 11,500 million	-	-	-	17,983
Cross currency interest rate swap	-	-	30,442	6,413
<b>Total</b>	<b>-</b>	<b>-</b>	<b>61,312</b>	<b>24,396</b>





## 16 Derivative financial assets and liabilities (continued)

At 31 December 2013, the derivative financial assets and liabilities were:

	Assets		Liabilities	
	Non-current	Current	Non-current	Current
RUB/US\$ non-deliverable forward contracts with a nominal amount of RUB 19,000 million	32,502	-	-	-
RUB/US\$ non-deliverable forward contracts with a nominal amount of RUB 6,600 million	-	9,991	-	-
EUR/US\$ deliverable forward contracts with a nominal amount of US\$ 3,575 thousand	-	139	-	-
Cross currency interest rate swap	-	-	4,350	6,487
Call options on iron ore	-	-	-	396
<b>Total</b>	<b>32,502</b>	<b>10,130</b>	<b>4,350</b>	<b>6,883</b>

Movements in the carrying amount of derivative financial assets/(liabilities) were:

	1 January 2014	Gain/(loss) from changes of fair value, net	Cash (proceeds)/ payments on derivatives, net	Currency translation difference	30 September 2014
<b>Operating activities</b>	<b>(257)</b>	<b>235</b>	<b>-</b>	<b>22</b>	<b>-</b>
Call options on iron ore	(396)	366	-	30	-
Foreign exchange deliverable forward contracts, net	139	(131)	-	(8)	-
<b>Investing activities</b>	<b>2,687</b>	<b>(4,331)</b>	<b>1,805</b>	<b>(161)</b>	<b>-</b>
Foreign exchange non-deliverable forward contracts, net	2,687	(4,331)	1,805	(161)	-
<b>Financing activities</b>	<b>28,969</b>	<b>(119,408)</b>	<b>(2,818)</b>	<b>7,549</b>	<b>(85,708)</b>
Cross currency interest rate swap	(10,837)	(28,221)	(2,818)	5,021	(36,855)
Foreign exchange non-deliverable forward contracts, net	39,806	(91,187)	-	2,528	(48,853)
<b>Total derivative financial assets and liabilities, net</b>	<b>31,399</b>	<b>(123,504)</b>	<b>(1,013)</b>	<b>7,410</b>	<b>(85,708)</b>

During the nine months ended 30 September 2014, the Group entered into four RUB/US\$ non-deliverable forward contracts to sell a notional amount of RUB 5,500 million, one of which was used to offset another forward contract dated May 2012 with a notional amount of RUB 4,100 million. As of 30 September 2014, all of these contracts matured. The net settlement amount paid by the Group in respect of these forwards was US\$ 1,805 thousand.

Changes in the fair value of derivatives related to the operating activities of the Group amounting to US\$ 235 thousand were recognised as a gain within "Other operating income and expenses".

Changes in the fair value of derivatives related to investing and financing activities totalling US\$ 123,739 thousand were recognised as a loss within "Other financial gain and loss" (Note 22).





## 17 Sales

The external sales by product group for the nine months ended 30 September 2014 and 2013 were:

	Nine months ended			
	30 September 2014		30 September 2013	
	Sales volume (thousand metric tonnes)	Sales (thousand US\$)	Sales volume (thousand metric tonnes)	Sales (thousand US\$)
<b>Nitrogen products</b>	<b>5,667</b>	<b>1,708,614</b>	<b>5,507</b>	<b>1,779,873</b>
Nitrogen fertilisers	5,656	1,706,587	5,491	1,777,049
Other products	11	2,027	16	2,824
<b>Phosphate products</b>	<b>1,786</b>	<b>832,275</b>	<b>1,766</b>	<b>871,905</b>
Phosphate fertilisers	1,581	728,641	1,548	761,726
Feed phosphates	205	103,634	218	110,179
<b>Complex fertilisers</b>	<b>1,227</b>	<b>542,192</b>	<b>1,194</b>	<b>586,632</b>
<b>Other fertilisers</b>	<b>35</b>	<b>13,110</b>	<b>24</b>	<b>9,399</b>
<b>Iron ore concentrate</b>	<b>4,160</b>	<b>364,378</b>	<b>4,265</b>	<b>479,664</b>
<b>Apatite and baddeleyite concentrates</b>	<b>-</b>	<b>25,876</b>	<b>-</b>	<b>45,938</b>
Apatite concentrate	4	736	109	26,429
Baddeleyite concentrate	7	25,140	5	19,509
<b>Industrial products</b>	<b>-</b>	<b>334,577</b>	<b>-</b>	<b>307,221</b>
Organic synthesis products	436	259,140	416	227,715
Other products	-	75,437	-	79,506
<b>Hydrocarbons</b>	<b>95</b>	<b>44,269</b>	<b>102</b>	<b>44,343</b>
<b>Other sales</b>	<b>-</b>	<b>76,336</b>	<b>-</b>	<b>83,914</b>
Logistic services	-	12,972	-	10,846
Other products	-	21,196	-	22,108
Other services	-	42,168	-	50,960
<b>Total sales</b>		<b>3,941,627</b>		<b>4,208,889</b>

The external sales by product group for the three months ended 30 September 2014 and 2013 were:

	Three months ended			
	30 September 2014		30 September 2013	
	Sales volume (thousand metric tonnes)	Sales (thousand US\$)	Sales volume (thousand metric tonnes)	Sales (thousand US\$)
<b>Nitrogen products</b>	<b>1,782</b>	<b>506,672</b>	<b>1,590</b>	<b>453,303</b>
Nitrogen fertilisers	1,778	505,945	1,584	452,290
Other products	4	727	6	1,013
<b>Phosphate products</b>	<b>529</b>	<b>253,415</b>	<b>554</b>	<b>263,839</b>
Phosphate fertilisers	466	222,034	479	225,535
Feed phosphates	63	31,381	75	38,304
<b>Complex fertilisers</b>	<b>378</b>	<b>158,237</b>	<b>387</b>	<b>180,661</b>
<b>Other fertilisers</b>	<b>25</b>	<b>8,607</b>	<b>16</b>	<b>5,461</b>
<b>Iron ore concentrate</b>	<b>1,432</b>	<b>103,171</b>	<b>1,570</b>	<b>169,718</b>
<b>Apatite and baddeleyite concentrates</b>	<b>-</b>	<b>7,675</b>	<b>-</b>	<b>12,959</b>
Apatite concentrate	-	-	31	6,800
Baddeleyite concentrate	2	7,675	2	6,159
<b>Industrial products</b>	<b>-</b>	<b>114,963</b>	<b>-</b>	<b>114,200</b>
Organic synthesis products	150	91,377	159	82,944
Other products	-	23,586	-	31,256
<b>Hydrocarbons</b>	<b>31</b>	<b>14,240</b>	<b>35</b>	<b>15,632</b>
<b>Other sales</b>	<b>-</b>	<b>19,942</b>	<b>-</b>	<b>26,046</b>
Logistic services	-	5,084	-	5,430
Other products	-	3,375	-	3,110
Other services	-	11,483	-	17,506
<b>Total sales</b>		<b>1,186,922</b>		<b>1,241,819</b>



## 18 Cost of sales

The components of cost of sales were:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Raw materials	350,498	390,712	1,082,407	1,190,613
Goods for resale	92,572	113,530	283,383	384,993
Other materials	58,913	56,283	163,123	162,033
Energy	54,604	63,422	172,248	184,506
Utilities and fuel	26,017	28,906	96,555	104,993
Labour, including contributions to social funds	75,419	78,029	245,271	257,483
Depreciation and amortisation	56,112	58,347	172,638	187,389
Repairs and maintenance	26,437	23,052	64,817	61,804
Production overheads	16,084	25,837	64,901	67,535
Property tax, rent payments for land and related taxes	13,330	14,627	43,211	44,167
Idle property, plant and equipment write-off	1,178	59	2,462	1,349
Provision/(reversal of provision) for obsolete and damaged inventories, net	353	937	978	891
Changes in work in progress and finished goods	(66,294)	(72,188)	(15,605)	(5,082)
Other costs	2,137	12,436	7,980	14,736
<b>Total cost of sales</b>	<b>707,360</b>	<b>793,989</b>	<b>2,384,369</b>	<b>2,657,410</b>

## 19 Distribution costs

Distribution costs comprised:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Transportation	134,836	142,642	409,096	429,692
Export duties, other fees and commissions	204	1,666	1,569	4,339
Labour, including contributions to social funds	17,090	18,482	53,770	56,348
Depreciation and amortisation	7,052	9,298	24,371	29,257
Repairs and maintenance	3,585	6,112	9,255	19,247
Provision/(reversal of provision) for impairment of receivables, net	9,006	(26)	13,328	(347)
Other costs	13,017	15,309	42,124	41,608
<b>Total distribution costs</b>	<b>184,790</b>	<b>193,483</b>	<b>553,513</b>	<b>580,144</b>

## 20 General and administrative expenses

General and administrative expenses comprised:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Labour, including contributions to social funds	26,925	23,252	82,618	71,759
Depreciation and amortisation	4,567	4,880	13,853	14,576
Audit, consulting and legal services	5,850	5,739	18,544	16,219
Rent	2,029	1,404	5,325	4,087
Bank charges	1,519	1,817	4,651	6,146
Social expenditure	1,461	1,694	2,920	3,593
Repairs and maintenance	570	909	1,559	2,526
Provision/(reversal of provision) for impairment of receivables, net	2,908	2,288	4,003	2,398
Other expenses	10,017	9,444	28,594	29,825
<b>Total general and administrative expenses</b>	<b>55,846</b>	<b>51,427</b>	<b>162,067</b>	<b>151,129</b>



## 20 General and administrative expenses (continued)

The total depreciation and amortisation expenses included in all captions of the consolidated condensed statement of profit or loss and other comprehensive income amounted to US\$ 210,862 thousand (nine months ended 30 September 2013: US\$ 231,222 thousand).

The total staff costs (including social expenses) included in all captions of the consolidated condensed statement of profit or loss and other comprehensive income amounted to US\$ 381,659 thousand (nine months ended 30 September 2013: US\$ 385,590 thousand).

## 21 Other operating income and expenses

The components of other operating (income) and expenses were:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Sponsorship	7,258	6,914	14,696	19,637
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	479	(1,137)	7,085	(837)
Foreign exchange (gain)/loss, net	(55,069)	12,347	(30,332)	(11,961)
Idle property, plant and equipment write-off	(25)	-	682	-
(Gain)/loss on sales and purchases of foreign currencies, net	(1,843)	(175)	(2,486)	(2,444)
Other operating (income)/expenses, net	235	8,727	(3,217)	4,684
<b>Total other operating (income)/expenses, net</b>	<b>(48,965)</b>	<b>26,676</b>	<b>(13,572)</b>	<b>9,079</b>

## 22 Other financial gain and loss

The components of other financial (gain) and loss were:

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Changes in fair value of foreign exchange non-deliverable forward contracts	73,234	(20,126)	95,518	18,169
Changes in fair value of cross currency interest rate swap	23,246	(3,600)	28,221	5,261
Gain on disposal of subsidiaries	(1,611)	-	(1,611)	-
Unwinding of discount on deferred payables	1,417	1,689	4,015	4,973
Unwinding of discount on land restoration obligation	200	266	603	817
<b>Total other financial (gain)/loss, net</b>	<b>96,486</b>	<b>(21,771)</b>	<b>126,746</b>	<b>29,220</b>

## 23 Income tax

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Income tax expense – current	39,470	42,493	145,852	172,139
Deferred income tax – origination and reversal of temporary differences	(21,364)	94	(18,820)	(9,267)
Prior periods adjustments recognised in the current period for income tax	(206)	9,606	(1,046)	9,606
Reassessment of deferred tax assets / liabilities due to change in the tax rate	-	3,703	-	3,703
<b>Income tax expense</b>	<b>17,900</b>	<b>55,896</b>	<b>125,986</b>	<b>176,181</b>

The Group companies are subject to tax rates depending on the country of domicile.



## 23 Income tax (continued)

Subsidiaries located in the Russian Federation apply tax rate of 20.0% on taxable profits during the nine months ended 30 September 2014 (nine months ended 30 September 2013: 20.0%), except for several subsidiaries which applied reduced income tax rates within a range from 15.5% to 19.3% according to regional tax law and agreements with regional authorities.

Two major manufacturing entities located in European Union, Lifosa AB in Lithuania and EuroChem Antwerpen NV in Belgium, apply tax rates of 15.0% and 33.99% on taxable profits, respectively (nine months ended 30 September 2013: 15.0% and 33.99%).

The rest of the subsidiaries are subject to the tax rates on taxable profit ranging from 10.0% to 39.3%.

## 24 Earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Company has no dilutive potential ordinary shares, therefore, the diluted earnings or loss per share equals the basic earnings or loss per share.

After the capital reorganisation of the Group (Note 1), comparative information about earnings per share has been recalculated with weighted average number of ordinary shares issued by the Company.

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Net profit/(loss) for the period attributable to owners of the parent	(240,472)	92,661	63,177	307,187
Weighted average number of ordinary shares outstanding	1,000	1,000	1,000	1,000
<b>Basic and diluted earnings/(loss) per share</b>	<b>(240)</b>	<b>93</b>	<b>63</b>	<b>307</b>

## 25 Balances and transactions with related parties

Parties are considered to be related if the parties are under common control or if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The relationships with those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

Financial statements caption	Nature of relationship	30 September 2014	31 December 2013
<b>Statement of financial position</b>			
Non-current originated loans (Note 10)	Other related parties*	40,170	12,700
Current originated loans (Note 10)	Parent company	1,800	-
Prepayments, other receivables and other current assets:			
Receivable relating to sale of ordinary shares of MCC EuroChem (Note 9)	Parent company	70,000	-
Receivable from parent for contribution into the Company (Note 9)	Parent company	5,000	-
Other receivables	Other related parties	10	1,037
Bonds issued	Other related parties	2,500	2,500
Loan received from shareholder (Note 13)	Other related parties**	15,000	-
Trade payables	Other related parties	1,115	2,311
Other accounts payable and accrued expenses			
Payable relating to buy-back of ordinary shares of MCC EuroChem	Other related parties*	85,000	-



## 25 Balances and transactions with related parties (continued)

Financial statements caption	Nature of relationship	Three months ended		Nine months ended	
		30 September 2014	30 September 2013	30 September 2014	30 September 2013
<b>Statement of profit or loss and other comprehensive income</b>					
Sales	Other related parties	155	2,522	864	3,158
Distribution costs	Associates	(485)	(2,886)	(1,951)	(7,814)
Distribution costs	Other related parties	-	(225)	(1,081)	(3,088)
Interest expense	Other related parties**	(484)	-	(2,210)	-

Financial statements caption	Nature of relationship	Nine months ended	
		30 September 2014	30 September 2013
<b>Statement of cash flows</b>			
Proceeds from sale of available-for-sale investments	Parent company	-	3,081
Non-current originated loans	Other related parties	(470)	(12,700)
Current originated loans	Parent company	(1,800)	(20,000)
Loan received from shareholder	Other related parties**	40,000	-
Loan repaid to shareholder	Other related parties**	(75,000)	-
Interest paid	Other related parties**	(2,210)	-
Purchase of ordinary shares of MCC EuroChem	Parent company	(20,000)	(369,500)
Purchase of ordinary shares of MCC EuroChem	Other related parties*	(30,000)	-
Proceeds from sale of ordinary shares MCC EuroChem	Parent company	65,000	-
Proceeds from sale of ordinary shares MCC EuroChem	Other related parties*	300,000	-

\* Related parties represented by the companies under common control with the Group

\*\*Related party represented by the company ultimately controlled by one of the Group's shareholder

**Transactions with ordinary shares of MCC EuroChem.** During the nine months ended 30 September 2014, the Group had the following transactions with the ordinary shares of MCC EuroChem, the wholly-owned subsidiary of the Group:

- sale to the company which is under common control with the Group of 1,680,674 of the ordinary shares (or 2.47% of the issued share capital) for US\$ 300 million; buy-back of 644,258 of the ordinary shares (or 0.947% of the issued share capital) for US\$ 115 million, out of which US\$ 85 million was accounted for as "Other account payables" in the consolidated condensed statement of financial position as at 30 September 2014 and was paid in October 2014.
- buy-back from EuroChem Group SE, the parent company of the Group, of 112,045 of the ordinary shares (or 0.16% of the issued share capital) for US\$ 20 million; sale of 756,303 of the ordinary shares (or 1.11% of the issued share capital) for US\$ 135 million, out of which US\$ 70 million was accounted for as "Other account receivables" in the consolidated condensed statement of financial position as at 30 September 2014 and was received in October 2014.

**Disposal of subsidiaries.** In July 2014 the Group sold two subsidiaries, engaged in shipping operations, to EuroChem Group SE, the parent company of the Group. The Group recognised a gain on disposal of US\$ 1,611 thousand.

**Management compensation.** The total key management personnel compensation included in the profit or loss was US\$ 7,469 thousand and US\$ 8,344 thousand for the nine months ended 30 September 2014 and 30 September 2013, respectively. This compensation is paid to seven individuals (starting from middle of May 2014 to six individuals) who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.



## **26 Contingencies, commitments and operating risks**

### **i Capital expenditure commitments**

As at 30 September 2014, the Group had contractual commitments for capital expenditures of US\$ 692,478 thousand (31 December 2013: US\$ 739,413 thousand), including amounts denominated in different currencies, major of which are RUB and EUR (US\$ 330,086 thousand and US\$ 285,008 thousand, respectively). Management estimates that, out of these, approximately US\$ 300 million will represent cash outflows in 2014.

US\$ 152,053 thousand and US\$ 296,117 thousand of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash licence areas, respectively (31 December 2013: US\$ 121,673 thousand and US\$ 297,085 thousand, respectively).

### **ii Tax legislation**

The management of the Group believes that its interpretation of the tax legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained.

Given the scale and international nature of the Group's business, intra-group transfer pricing is an inherent tax risk as it is for other international businesses. Changes in tax laws or their application with respect to matters such as transfer pricing in the countries where the Group has subsidiaries could increase the Group's effective tax rate.

The majority of Group's subsidiaries are located in Russian Federation and required to comply with Russian tax, currency and customs legislation which is subject to varying interpretations. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments than the Management of the Group, and it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review with possible extension of this period under certain circumstances.

Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group recognises provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 30 September 2014 and 31 December 2013.

### **iii Insurance policies**

The Group obtains risk insurance cover as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), general liability, physical property and business interruption insurance at nitrogen and phosphate production plants, as well as insurance policies related to trade operations, including export shipments, and credit insurance of trade debtors.

The Group also carries voluntary life and accident insurance for employees.

### **iv Environmental matters**

The Group is subject to federal, state and local environmental regulations in the regions in which it operates. Environmental regulation in the Russian Federation, where the majority of Group's subsidiaries located, is evolving and the enforcement posture of government authorities is continually being reconsidered.

The Group periodically evaluates its obligations under environmental regulations and an immediate response is formulated as required. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates and that there are no significant liabilities for environmental damage.





## **26 Contingencies, commitments and operating risks (continued)**

### **v Legal proceedings**

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group.

In October 2012, the Group filed a claim against SHAFT SINKERS (PTY) LTD and ROSSAL 126 (PTY) LIMITED (formerly known as SHAFT SINKERS (PTY) LTD.), ("Shaft Sinkers"), the contractor involved in the construction of the mining shafts at the Gremyachinskoe potash deposit, seeking US\$ 800 million compensation for the direct costs and substantial lost profits arising from the delay in commencing potash production, due to the inability of that construction company to fulfil its contractual obligations. Based upon the damages report provided by an independent expert, the amount of the claim was increased up to the US\$ 1.06 billion which includes net wasted costs to the amount of US\$ 248 million and lost profits in the amount of US\$ 812 million.

In December 2012, Shaft Sinkers filed a counterclaim against the Group, seeking US\$ 44 million without Russian VAT of 18% or US\$ 52 million with VAT under the construction contract. In its counterclaim, Shaft Sinkers admits that it will give credit, in respect of any sums awarded to it, for a deduction of US\$ 30.6 million in respect of advance payments made by the Group with the result that the maximum net claim from Shaft Sinkers is US\$ 14 million. Management believes that this counterclaim is without merit.

The above disputes are subject to arbitration as specified in the contract.

In March 2013, the Group filed a claim against International Mineral Resources B.V. ("IMR") which, the Group believes, held a controlling interest in Shaft Sinkers, claiming IMR is responsible for its subsidiary's actions. In July 2013, the Dutch Court granted EuroChem definitive leave for levying the requested prejudgment attachments against IMR's Dutch assets, while fixing the amount for which the leave is granted, including interest and cost at EUR 886 million. The court held an in-depth hearing on 21 January 2014 where it considered the arguments and witnesses of both sides. Following that hearing, the court rejected IMR's request to suspend the case and stated that IMR would not be permitted to submit any additional evidence. On 25 June 2014, the Dutch court denied the Group's claim against IMR. On 18 September 2014, the Group filed a writ supported by newly discovered additional evidence with the Dutch appeal court. The management of the Group believes that it has very strong evidence to support its case against IMR.

### **vi Operating environment of the Group**

The Group operates in the fertilisers industry primarily in the Russian Federation and European countries. The highly competitive nature of the market makes prices of the key Group products relatively volatile.

Possible deteriorating economic conditions may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed or fulfil the obligations undertaken.

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes all necessary measures are being taken to support the sustainability and growth of the Group's business in the current circumstances.





## **26 Contingencies, commitments and operating risks (continued)**

### **vi Operating environment of the Group (continued)**

Under the terms of valid licences for the exploration and development of mineral resource deposits, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of the construction of mining facilities and commencement of the extraction of mineral resources by certain dates. If the Group fails to materially comply with the terms of the licence agreements, there are circumstances whereby the licences can be revoked. The management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licences.

During the nine months ended 30 September 2014, political and economic instability in Ukraine increased significantly. Sales to Ukraine accounted for 4.8% of total revenue in the nine months ended 30 September 2014. Group assets in Ukraine are insignificant and have been provided for accordingly. The management is monitoring and assessing the situation and believes that it would be able to redirect sales to other markets at minimal costs should its ability to maintain profitable business in the Ukrainian market be impaired.