

German Organics

Policy of the Company

in the Sphere of Management of the Working Capital

05.05.2010

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INTRODUCTORY PROVISIONS

INTRODUCTION

THE POLICY OF THE COMPANY IN THE SPHERE OF MANAGEMENT OF THE WORKING CAPITAL (hereinafter referred to as the Policy) prescribes the Company's goals and objectives in the sphere of management of the working capital, defines the basic principles of management of components of the Company's working capital.

This POLICY is a fundamental document regulating the process of management of the Company's working capital and is binding on the management and in respect of the regulation of the operation of subsidiary companies and structural subdivisions of German Organics.

GOALS

This POLICY is developed with the following goals:

- ♣ formalisation of the Company's approach to the formation of the working capital,
- ♣ description of the Company's activities in the sphere of management of the working capital,
- ♣ identification of the main directions for optimising the structure of the working capital.

OBJECTIONS

The objections of the POLICY are:

- ♣ formation of a common approach to management of the working capital;
- ♣ identification of the basic principles of management of the working capital;
- ♣ identification of the conditions and parameters of implementation of the process of management of the working capital.

SPHERE OF APPLICATION

This POLICY shall be binding on employees of all structural subdivisions and subsidiary companies of German Organics, whose operation directly or indirectly affects the formation and change of the working capital.

This POLICY is advisory in nature for execution by employees of affiliated companies of German Organics.

The requirements of the POLICY become binding on subsidiary companies of German Organics, subsidiary companies of subsidiary companies of German Organics and affiliated companies of German Organics after they are enacted for the Company in accordance with the Company's Articles of Association and in accordance with the procedure prescribed by the Company.

Any administrative, local regulatory documents and other internal documents shall not be in conflict with this POLICY.

PERIOD OF VALIDITY AND PROCEDURE OF INTRODUCTION OF AMENDMENTS

This POLICY is a continuous local regulatory document.

This POLICY shall be approved for German Organics by the resolution of the Board of Directors of German Organics and shall be enacted for German Organics by the order of German Organics.

The POLICY is recognised as invalid for German Organics on the basis of the resolution of the Board of Directors of German Organics.

Any amendments may be introduced to the POLICY on the basis of the resolution of the Board of Directors of German Organics and shall be enacted by the order of German Organics.

The introduction of amendments to the POLICY may be initiated by the top managers of German Organics, the Financial Department of German Organics, as well as other structural subdivisions of German Organics and subsidiary companies of German Organics in consultation with the Financial Department of German Organics.

Amendments to the POLICY are introduced in the following cases: amendments to the legislation of the European Union, changes in the organisational structure or the powers of managers etc.

1. TERMS AND DEFINITIONS

TERMS AND DEFINITIONS OF THE CORPORATE GLOSSARY

ACCOUNTS RECEIVABLE shall mean a debt of a legal entity or a natural person which results from a contractual right to receive money or another financial asset from a third party.

KEY PERFORMANCE INDICATORS (KPIs) shall mean indicators formed on the basis of the strategy and the business plan of the Company, by which the efficiency of performance of individual employees and/or subdivisions of the Company is assessed.

COUNTERAGENT shall mean any legal entity or natural person with whom German Organics or its subsidiary company enters into contractual relations, excluding labour relations.

SHORT-TERM LIABILITIES shall mean funds invested in the circulating production assets and circulation funds of the Company, ensuring its current operation and capable of converting into cash.

ACCOUNTS PAYABLE shall mean the amount of the Company's debt to legal entities or natural persons formed as a result of economic relations with them.

MATERIAL AND TECHNICAL RESOURCES shall mean economic resources in the material form.

CURRENT ASSETS shall mean assets which characterise the totality of the Company's property values serving the current production and commercial (operational) activities and are fully consumed during one production and commercial cycle.

WORKING CAPITAL shall mean the difference between the amount of current assets and the amount of short-term liabilities.

OVERDUE ACCOUNTS RECEIVABLE / ACCOUNTS PAYABLE shall mean a debt, the repayment of which has become due, but which in fact has not been repaid.

Note: The number of days of overdue debt is counted starting from the day following the day when the repayment of the debt has become due under the terms of contracts and other documents.

MANAGEMENT OF THE WORKING CAPITAL shall mean identification of the composition (structure) and maintenance of the optimal level of current assets in order to achieve an optimal balance between profitability and liquidity (solvency) of the Company, as well as to choose and maintain the necessary balance between sources of long-term and short-term financing of the working capital.

2. DENOTATIONS AND ABBREVIATIONS

SUBSIDIARY COMPANY OF German Organics (SC) shall mean a company in respect of which German Organics, due to the prevailing direct (immediate) participation in its statutory capital, or in accordance with the agreement concluded between them, or otherwise has the ability to determine the decisions taken by this company.

COMPANY shall mean a group of legal entities of various organisational legal forms, including German Organics, in respect of which the latter acts as the main or predominant (participating) company.

LRD shall mean local regulatory documentation.

IFRS shall mean the International Financial Reporting Standards.

MTR shall mean material and technical resources.

STRUCTURAL SUBDIVISION OF German Organics (SS) shall mean a structural subdivision of German Organics with independent functions, objectives and responsibilities within its competences determined by the regulation on the structural subdivision.

TOP MANAGERS shall mean the First Vice President of German Organics, the Official Secretary – the Vice President of German Organics, the Vice Presidents of German Organics, the Chief Accountant of German Organics, the Financial Director of German Organics, the Vice President of German Organics – the Head of the Security Service, the Vice-Presidents – the Directors of Departments, the Advisers to the President – the Directors of Departments in the rank of the Vice-Presidents, the Heads of Services of German Organics, the Head of the Secretariat of the President of German Organics.

3. GENERAL PROVISIONS OF THE POLICY

The constructive operation of the Company's working capital management system does not only have a positive impact on increasing the economic result from the funds released from circulation, but also makes a significant contribution to the efficiency and the increase in the value of the Company as a whole.

When forming the working capital, the Company adheres to an approach expressed in the full satisfaction of all needs in current assets and the creation of a normal level of insurance reserves in case of failures in the course of the Company's operation.

This approach to the formation of the working capital provides for an optimal ratio between the level of risk and the level of efficiency of the use of financial resources for real economic conditions.

The company builds its policy in respect of current assets on the basis of the following principles:

- ♣ the advance planning of forthcoming expenses and incomes of the Company;
- ♣ the centralisation of financial settlements within the Company, which enables to achieve maximum efficiency and balance in the use of the working capital;
- ♣ the calculation of the required amount of the working capital is made on the basis of the requirements for ensuring the continuity of current activities, the fulfilment of obligations and the implementation of investment programmes.

When forming sources of financing of current assets, it is necessary to take into account the changes in:

- ♣ the prices for natural resources in the domestic and foreign markets;
- ♣ the sales volume due to changes in the total volume of extraction and processing of resources;
- ♣ the share of export of natural resources in sales volumes;
- ♣ export duties and transportation tariffs;
- ♣ tax laws etc.

The Company's working capital management policy sets the following general goals:

- ♣ to create conditions for sustainable development and growth of capitalisation of the Company;
- ♣ to increase the efficiency of the Company's working capital management;
- ♣ to maintain the financial stability and liquidity of the Company.

To achieve the listed goals, it is necessary to reach the following objectives:

- ♣ to reduce the duration of the operating cycle of the Company's working capital flow;
- ♣ to identify the optimal value and the optimal structure of the working capital;
- ♣ to accelerate the Company's working capital turnover;
- ♣ to ensure the balance of cash flows by achieving an optimal balance between the level of accounts receivable and accounts payable;

- ♣ to identify the principles of financing of individual components of the Company's current assets;
- ♣ to optimise the volume and the structure of funding sources and to maintain acceptable values of liquidity and profitability of current assets;
- ♣ to involve top managers of German Organics, heads of structural subdivisions of German Organics and heads of subsidiary companies of German Organics in the working capital management process to improve the efficiency of the working capital management.

4. PRINCIPLES OF MANAGEMENT OF COMPONENTS OF THE WORKING CAPITAL

For the purposes of this POLICY, the following main elements of the working capital are identified:

- ♣ accounts receivable;
- ♣ MTR inventories, including inventories of received natural resources;
- ♣ accounts payable.

Taking into account the need to increase the efficiency of the Company's working capital management, the following principles of managing the main elements of the working capital are applied:

1. With regard to accounts receivable, an approach to formation should be applied, which suggests minimising this element and releasing funds from circulation.

To increase the efficiency of using the working capital, the following conditions must be met:

- ♣ the analysis and ranking of buyers depending on the volume of purchases, history of credit relations and offered terms of payment;
- ♣ the standardisation of terms of repayment of accounts receivable from third-party debtors under newly concluded agreements and the introduction of amendments to existing agreements;
- ♣ the minimisation of the provision of deferred payment conditions to the Company's buyers;
- ♣ the minimisation of advance payments to suppliers and contractors, except for cases and conditions of advance payments agreed by the Company;
- ♣ the offsetting of mutual claims without diverting money and increasing the balance of debts at the end of a period;
- ♣ the acceleration of debt collection and reduction of bad debts;
- ♣ the forecast of cash inflows from debtors and the reconciliation of the actual level of accounts receivable with the planned level;
- ♣ the maintenance of the period of accounts receivable turnover at the optimal level – up to 30 calendar days;
- ♣ the control over settlements with debtors in respect of overdue accounts receivable in order to reduce bad debts;
- ♣ the prevention of an increase in the level of overdue accounts receivable;
- ♣ the constant work with overdue accounts receivable and shortages, with the obligatory observance of deadlines for the implementation of claim-relating and enforcement measures approved by the Company;
- ♣ the creation of reserves for bad debts (shortages) in the manner and within the terms prescribed by the current laws and the Company's LRD.

2. With regard to MTR, an approach should be applied which enables to ensure optimal inventory needs and efficient inventory management.

Efficient management of MTR enables to reduce the duration of the production cycle, reduce the level of current costs of inventory management, reduce the level of transaction costs for their purchase, free up part of the financial resources from the current economic turnover by reinvesting them in other assets.

To achieve the highest level of efficiency of MTR inventory management, the following conditions must be met:

- ♣ the development and implementation of control schemes for production processes (production and procurement cycles) enabling to optimise the level of inventories;
- ♣ the identification of the level of provision of production and sales of products with appropriate MTR inventories and the assessment of the efficiency of their use;
- ♣ the rationing of certain types and groups of MTR inventories;
- ♣ the creation of a system of control over the actual size of MTR inventories and their timely replenishment in accordance with the prescribed standards;
- ♣ the optimization of the general level of MTR inventories;
- ♣ the provision for high turnover and efficient forms of flows of MTR inventory;
- ♣ the establishment of an efficient system of control over the flows of MTR inventory in the Company;
- ♣ the personification of responsibility for the level of MTR through the mechanism of key performance indicators.

With regard to inventories of natural resources, an approach should be applied which ensures optimal inventory levels and efficient inventory management throughout the entire supply chain and avoids overstocking.

Efficient management of inventories of raw materials enables to reduce the duration of the production cycle, reduce the level of current costs for storage and inventory management, free up part of the financial resources from the current economic turnover, which will increase the cash flow and allow reinvesting funds in other assets.

To manage inventories of raw materials, a methodology is being developed which identifies a unified approach for the purpose of a comprehensive assessment of levels of inventories (including from the point of view of financial and commercial risks) at all storage locations and creates a basis for increasing the efficiency of the use of inventories.

To achieve the highest level of efficiency of management of inventories of natural resources, the following conditions must be met:

- ♣ the identification of levels of and raw material turnover throughout the entire supply chain;
- ♣ the rationing of certain groups of inventories of natural resources;
- ♣ the creation of a system of planning, forecasting and control over the actual levels and turnover of MTR inventories and their timely replenishment / sale in accordance with the prescribed standards;
- ♣ the provision for high turnover and efficient forms of flows of inventories of raw materials;
- ♣ the optimization of the volume and the cost of the working capital in commodity inventories of natural resources;
- ♣ the utilisation of the advantages and opportunities of the market: the implementation of a strategy of accumulating resources or reducing them to obtain additional commercial effect.

3. With regard to accounts payable, an approach should be applied which provides for an acceptable growth of the corresponding liabilities and, as a result, the minimisation of the total financing costs.

The basic principles of implementing accounts payable management are:

- ♣ the establishment of such contractual relations with counteragents that make the timing and the amounts of payments to the Company by them dependent on the receipt of money from buyers;
- ♣ the need to assess the efficiency of counteragents' credit policies, the identification of the value of accounts payable taking into account discounts, bonuses, grace periods, credit limits and obligations;
- ♣ the adoption of decisions on the expediency of working with counteragents, both at the operational and the strategic levels;
- ♣ the increase in the turnover period of accounts payable up to 45 calendar days or more;
- ♣ the switch of buyers of the Company's natural resources to the prepayment terms;
- ♣ the control over the amount of overdue accounts payable in their general structure;
- ♣ the writing off of accounts payable with the expired limitation period;
- ♣ the structuring of transactions relating to the acquisition by the Company of stock (shares in the statutory capital) in such a way as to minimise the amount of accounts receivable and payable on the balance sheet of the acquired company;
- ♣ the prevention of the occurrence of overdue liabilities entailing responsibility in the form of penalty sanctions and fines.

5. STAGES OF MANAGEMENT OF THE WORKING CAPITAL

Working capital management in the Company must be conducted in accordance with the following stages:

♣ Planning of key indicators:

- planning and approval of limits on accounts receivable and payable for SC and SS;
- planning and approval of standards for MTR inventories and oil products for SC;
- planning of turnover of accounts receivable, payable, MTR and raw material inventories.

♣ Process arrangement:

- collection, consolidation and analysis of data provided by SC and SS, in accordance with the approved forms of reports on the flows of accounts receivable and payable, MTR and raw material inventories.

♣ Coordination of SC and SS:

- regulation of the activities of SS and SC in the sphere of management of the working capital;
- ensuring the interaction between subdivisions responsible for the formation, transportation and sale of natural resources throughout the entire supply chain;
- taking prompt decisions on management of the working capital.

♣ Control:

- control over the achievement of prescribed planned indicators for the main elements of the working capital;
- control procedures in respect of overdue accounts receivable / payable.

♣ Data assessment and comparison:

- analysis of the structure and the dynamics of the main elements of the working capital;
- comparison of the received data and the set objectives;
- assessment of the achieved economic effect during the set periods;
- identification of trends of influence of major factors on the change in the working capital.

♣ Taking managerial decisions:

- decision taking on the basis of the analysis of available data and identified problems;
- communication of decisions to SC and/or SS.

To group and analyse indicators in accordance with the IFRS, the collection and analysis of management reporting on the flow of the main elements of the working capital should be conducted with the allocation of the main indicators into the following groups:

♣ for accounts receivable and payable – division by maturity up to 1 year and more than 1 year;

♣ for inventories – allocation of groups of MTR inventories allocated for investment activities. Allocation of groups of inventories of raw materials for the purpose of setting planned standards and taking prompt decisions.