EUROCHEM GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2011

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of EuroChem Group:

We have audited the accompanying consolidated financial statements of open joint stock company Mineral Chemical Company "EuroChem" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

14 February 2012
Moscow, Russian Federation

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(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	7	100,752,901	73,121,566
Mineral rights	10	14,271,178	7,318,107
Goodwill		295,275	204,866
Intangible assets	8	610,463	814,523
Restricted cash	13	7,980	143,898
Available-for-sale investments	9	11,044,815	34,680,888
Available-for-sale investments pledged as collateral	9	11,423,184	3,182,443
Derivative financial assets	17	124,353	-
Deferred tax assets	26	1,806,374	969,064
Other non-current assets		167,920	-
Total non-current assets		**140,504,443**	**120,435,355**
Current assets:			
Inventories	11	14,957,399	9,827,892
Trade receivables	12	3,435,913	2,710,818
Prepayments, other receivables and other current assets	12	10,190,762	7,523,132
Originated loans	29	6,301,867	-
Derivative financial assets	17	-	36,751
Restricted cash	13	77,238	37,461
Fixed-term deposits	13	20,865,910	-
Cash and cash equivalents	13	8,506,949	8,896,623
Total current assets		**64,336,038**	**29,032,677**
TOTAL ASSETS		**204,840,481**	**149,468,032**
LIABILITIES AND EQUITY			
Equity attributable to owners of the parent:			
Share capital	14	6,800,000	6,800,000
Treasury shares	14	(29,679,427)	(7,760)
Retained earnings and other reserves		106,265,011	87,388,382
		83,385,584	**94,180,622**
Non-controlling interests		6,985,154	323,896
Total equity		**90,370,738**	**94,504,518**
Non-current liabilities:			
Bank borrowings	15	73,228,199	11,464,834
Bonds issued	16	9,964,656	18,772,380
Derivative financial liabilities	17	493,739	-
Deferred income tax liabilities	26	4,681,605	1,908,932
Other non-current liabilities and deferred credits		894,977	795,321
Total non-current liabilities		**89,263,176**	**32,941,467**
Current liabilities:			
Bank borrowings	15	4,167,140	12,589,767
Bonds issued	16	9,332,241	-
Derivative financial liabilities	17	167,050	127,981
Trade payables	19	3,061,104	2,182,951
Other accounts payable and accrued expenses	19	6,378,011	5,860,875
Income tax payable		1,436,216	682,050
Other taxes payable		664,805	578,423
Total current liabilities		**25,206,567**	**22,022,047**
Total liabilities		**114,469,743**	**54,963,514**
TOTAL LIABILITIES AND EQUITY		**204,840,481**	**149,468,032**

Approved on behalf of the Board of Directors
14 February 2012

Dmitry Strezhnev
Chief Executive Officer

Andrey Ilyin
Chief Financial Officer

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

		2011	2010
Sales	20	131,298,080	97,787,533
Cost of sales	21	(63,641,275)	(50,205,529)
Gross profit		**67,656,805**	**47,582,004**
Distribution costs	22	(18,952,488)	(17,784,897)
General and administrative expenses	23	(4,653,188)	(3,754,449)
Other operating income/(expenses)	24	(190,858)	(16,695)
Operating profit		**43,860,271**	**26,025,963**
Dividend income	9	613,927	147,946
Loss on disposal of non-current assets held for sale		-	(429,598)
Gain on disposal of available-for-sale investments	9	914,434	1,407,261
Financial foreign exchange gain/(loss) – net		(3,803,986)	(389,660)
Interest income		644,524	180,444
Interest expense		(3,122,871)	(2,066,011)
Other financial gain/(loss) – net	25	993,863	134,831
Profit before taxation		**40,100,162**	**25,011,176**
Income tax expense	26	(8,068,769)	(4,958,699)
Net profit for the period		**32,031,393**	**20,052,477**
Other comprehensive income/(loss)			
Currency translation differences, net of tax		495,249	(695,283)
Revaluation of available-for-sale investments	9	(12,689,257)	9,642,508
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	9	(914,434)	(1,407,261)
Total other comprehensive income/(loss) for the period		**(13,108,442)**	**7,539,964**
Total comprehensive income for the period		**18,922,951**	**27,592,441**
Net profit for the period attributable to:			
Owners of the parent		32,028,279	19,997,844
Non-controlling interests		3,114	54,633
		32,031,393	**20,052,477**
Total comprehensive income attributable to:			
Owners of the parent		18,908,932	27,588,209
Non-controlling interests		14,019	4,232
		18,922,951	**27,592,441**
Earnings per share – basic and diluted (in RR)	27	489.05	294.38

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

		2011	2010
Operating profit		**43,860,271**	**26,025,963**
Income tax paid		(7,099,060)	(3,736,157)
Operating profit less income tax paid		**36,761,211**	**22,289,806**
Depreciation and amortisation	23	4,483,328	3,465,963
Net loss on disposals and write-off of property, plant and equipment		135,294	370,788
Impairment/(reversal of impairment) of receivables and change of provision for obsolete and damaged inventories		59,921	(32,578)
Other non-cash (income)/expenses		328,434	(1,147,301)
Gross cash flow	**5**	**41,768,188**	**24,946,678**
Changes in operating assets and liabilities:			
Trade receivables		(797,594)	(111,650)
Advances to suppliers		(340,301)	(424,551)
Other receivables		(661,151)	(5,443)
Inventories		(5,057,047)	(1,534,620)
Trade payables		926,166	244,784
Advances from customers		(112,931)	761,765
Other payables		209,285	1,768,154
Restricted cash, other assets and liabilities		96,141	548,842
Net cash – operating activities		**36,030,756**	**26,193,959**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and intangible assets		(23,805,400)	(20,417,298)
Investment grants received		-	146,764
Purchase of mineral rights		-	(46,611)
Prepayments for other non-current assets		(105,750)	-
Cash flow relating to the acquisition of the oil and gas subsidiary	29	60,572	-
Loan provided to the acquired subsidiary before acquisition	28, 29	(13,714,173)	-
Acquisition of construction subsidiaries, net of cash acquired	29	(145,966)	-
Proceeds from sale of property, plant and equipment		52,333	48,306
Proceeds from sale of available-for-sale investments	9	2,706,075	5,398,834
Cash proceeds from derivatives	17	1,464,701	226,061
Dividends received, net of tax	9	452,004	140,549
Net change in fixed-term deposits	13	(20,865,910)	-
Interest received		198,637	172,059
Net cash – investing activities		**(53,702,877)**	**(14,331,336)**
Free cash inflow/(outflow)	**5**	**(17,672,121)**	**11,862,623**
Cash flows from financing activities			
Proceeds from bank borrowings	15	80,670,680	10,424,846
Repayment of bank borrowings	15	(31,234,477)	(25,751,901)
Proceeds from bonds, net of transaction costs		-	9,955,112
Prepaid and additional transaction costs		(5,234)	(15,239)
Interest paid		(2,708,618)	(1,672,262)
Acquisition of additional interest in subsidiaries	30	(210,529)	(448,983)
Dividends paid	14	-	(5,834,000)
Purchase of own shares	14	(29,671,667)	-
Net cash – financing activities		**16,840,155**	**(13,342,427)**
Effect of exchange rate changes on cash and cash equivalents		442,292	(300,345)
Net decrease in cash and cash equivalents		**(389,674)**	**(1,780,149)**
Cash and cash equivalents at the beginning of the period	13	**8,896,623**	**10,676,772**
Cash and cash equivalents at the end of the period	13	**8,506,949**	**8,896,623**

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

		Attributable to owners of the parent							
	Note	**Share capital**	**Treasury shares (Note 14)**	**Cumulative currency translation differences**	**Revaluation of available-for-sale investments**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2010		**6,800,000**	**(7,760)**	**1,884,761**	**5,095,017**	**58,664,359**	**72,436,377**	**758,683**	**73,195,060**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	19,997,844	19,997,844	54,633	20,052,477
Other comprehensive income/(loss)									
Currency translation differences		-	-	(644,882)	-	-	(644,882)	(50,401)	(695,283)
Revaluation of available-for-sale investments	9	-	-	-	9,642,508	-	9,642,508	-	9,642,508
Disposal of available-for-sale investments	9	-	-	-	(1,407,261)	-	(1,407,261)	-	(1,407,261)
Total other comprehensive income/(loss)		-	-	(644,882)	8,235,247	-	7,590,365	(50,401)	7,539,964
Total comprehensive income/(loss)		**-**	**-**	**(644,882)**	**8,235,247**	**19,997,844**	**27,588,209**	**4,232**	**27,592,441**
Transactions with owners									
Dividends	14	-	-	-	-	(5,834,000)	(5,834,000)	-	(5,834,000)
Acquisition of additional interest in subsidiaries		-	-	-	-	(9,964)	(9,964)	(439,019)	(448,983)
Total transactions with owners		**-**	**-**	**-**	**-**	**(5,843,964)**	**(5,843,964)**	**(439,019)**	**(6,282,983)**
Balance at 31 December 2010		**6,800,000**	**(7,760)**	**1,239,879**	**13,330,264**	**72,818,239**	**94,180,622**	**323,896**	**94,504,518**
Balance at 1 January 2011		**6,800,000**	**(7,760)**	**1,239,879**	**13,330,264**	**72,818,239**	**94,180,622**	**323,896**	**94,504,518**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	32,028,279	32,028,279	3,114	32,031,393
Other comprehensive income/(loss)									
Currency translation differences		-	-	484,344	-	-	484,344	10,905	495,249
Revaluation of available-for-sale investments	9	-	-	-	(12,689,257)	-	(12,689,257)	-	(12,689,257)
Disposal of available-for-sale investments	9	-	-	-	(914,434)	-	(914,434)	-	(914,434)
Total other comprehensive income/(loss)		-	-	484,344	(13,603,691)	-	(13,119,347)	10,905	(13,108,442)
Total comprehensive income/(loss)		-	-	**484,344**	**(13,603,691)**	**32,028,279**	**18,908,932**	**14,019**	**18,922,951**
Transactions with owners									
Repurchase of own shares	14	-	(29,671,667)	-	-	-	(29,671,667)	-	(29,671,667)
Acquisition of subsidiaries	29	-	-	-	-	-	-	6,825,465	6,825,465
Acquisition of additional interest in subsidiaries	30	-	-	-	-	(32,303)	(32,303)	(178,226)	(210,529)
Total transactions with owners		-	**(29,671,667)**	**-**	**-**	**(32,303)**	**(29,703,970)**	**6,647,239**	**(23,056,731)**
Balance at 31 December 2011		**6,800,000**	**(29,679,427)**	**1,724,223**	**(273,427)**	**104,814,215**	**83,385,584**	**6,985,154**	**90,370,738**

1 The EuroChem Group and its operations

EuroChem Group comprises the parent entity, Open Joint Stock Company Mineral Chemical Company "EuroChem" (the "Company"), and its subsidiaries (collectively the "Group" or "EuroChem Group").

The Group's principal activities include extracting minerals (iron-ore, apatite and baddeleyite), producing fertilisers and their distribution in domestic and foreign markets. The Group manufactures a large number of products, the most significant of which is a wide range of mineral fertilizers (nitrogen and phosphate groups).

A company that holds the business interests beneficially of Mr. Andrey Melnichenko owns 100% of Linea Limited registered in Bermuda, which in turn owns 92.2% (31 December 2010: 95.0%) of EuroChem Group S.E. The remaining 7.8% (31 December 2010: 5.0%) is held by Mr. Dmitry Strezhnev, CEO of the Group. EuroChem Group S.E. owns 90.86% of the Company (31 December 2010: 99.9%).

During the year ended 31 December 2011 the ownership structure changed:

- In the second quarter of 2011 a company representing the interests of Mr. Dmitry Strezhnev, increased its shareholding in EuroChem Group S.E. from 5.0% to 7.8% by acquiring 2.8% from Linea Limited (Bermuda), whose shareholding in EuroChem Group S.E. decreased from 95.0% to 92.2%.
- In the second and third quarters of 2011 the Group bought back from EuroChem Group S.E. 6,148,651 of its own ordinary shares which represent 9.04% of the issued share capital (Note 14).

The Group's manufacturing facilities are primarily based in the Russian Federation with the exception of one entity, Lifosa AB, located in Lithuania.

The Company was incorporated and domiciled in the Russian Federation on 27 August 2001 as a closed joint stock company. On 3 April 2006 the Company changed its legal form to an open joint stock company. The Company has its registered office at:

Dubininskaya St. 53, bld. 6
Moscow, Russian Federation

2 Basis of presentation and significant accounting policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by available-for-sale investments, which are accounted for at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated (Note 4).

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The Group has a subsidiary located in Lithuania, where the functional currency is the Lithuanian Lita, which is the currency of measurement in Lifosa AB's financial statements. These have been translated into Russian Roubles, the presentation currency, at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Translation from functional to presentation currency. These consolidated financial statements have been presented in Russian Roubles ("RR"), which management believes is the most useful currency to adopt for users of these consolidated financial statements. The results and financial position of each group entity are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") as follows:

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

2 Basis of presentation and significant accounting policies (continued)

(ii) income and expenses for the statement of 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); and

(iii) all resulting exchange differences are recognised as currency translation differences in other comprehensive income.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and deposits are presented in the consolidated statement of comprehensive income in a separate line "Financial foreign exchange gain/(loss) – net". All other foreign exchange gains and losses are presented in the profit and loss within "Other operating income/(expenses)".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In addition to RR, the Group enters into transactions in other currencies, such as the United States Dollar ("US$") and the Euro.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

2 Basis of presentation and significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and a provision for impairment, where required.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Minor repair and maintenance costs are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit and loss.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and land improvements	15 to 80
Transfer devices	25 to 30
Machinery and equipment	2 to 30
Transport	5 to 25
Other items	1 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposing of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and the estimated period during which these assets will bring economic benefit to the Group.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit and loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2 Basis of presentation and significant accounting policies (continued)

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Mineral resources. Mineral resources are recognised as assets when acquired as part of a business combination and then depleted using the unit-of-production method based on total proved mineral reserves. Estimated proven and probable mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and are determined by independent professional appraisers.

Other intangible assets. The Group's other intangible assets have definite and indefinite useful lives and primarily include acquired land lease agreements and capitalized computer software costs.

Acquired computer software licenses, beneficial land and equipment lease agreements are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets with definite useful lives are amortised using the straight-line method over their useful lives:

	Useful lives in years
Land lease agreements	45
Equipment lease agreements	5
Software licences	5

Intangible assets with an indefinite useful life are not amortised. The Group tests such intangible assets for impairment at least annually and whenever there are indications that intangible assets may be impaired.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Exploration assets. Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, plant and equipment after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

Development expenditure. Development expenditure incurred by the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in the assets under construction category.

2 Basis of presentation and significant accounting policies (continued)

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: a) loans and receivables; b) available-for-sale financial assets; c) financial assets held to maturity and d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Financial assets held for trading are classified in this category if acquired principally for the purpose of selling in the short term. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

The "Held-to-maturity" classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. At 31 December 2011 and 31 December 2010 the Group did not have "held to maturity" investments.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

De-recognition of financial assets. The Group de-recognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit and loss. Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payment is established. All other elements of changes in the fair value are recognised in other comprehensive income and accumulated in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to profit and loss.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any revaluation loss on that asset previously recognised in other comprehensive income – is reclassed from equity and recognised in profit and loss. Impairment losses on equity instruments are not reversed through profit and loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the current period's profit and loss.

2 Basis of presentation and significant accounting policies (continued)

Derivative financial instruments. As part of trading activities the Group is also party to derivative financial instruments including forward, options and swap contracts in foreign exchange and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate.

The Group has no derivatives accounted for as hedges.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the reporting date for each country where the Group subsidiaries are registered. The income tax charge comprises current tax and deferred tax and is recognised in the profit and loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity. The most significant Group subsidiaries are registered in Russia, where the corporate income tax rate can range from 15.5% to 20%, depending on applicable rates set by regional authorities (2010: from 15.5% to 20%).

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not be reversed through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss. When a receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the profit and loss.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Term deposits for longer than three months that can be redeemed, subject to the interest income being forfeited, may be classified as cash equivalents if the deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal.

2 Basis of presentation and significant accounting policies (continued)

The longer the deposit's term, the less likely it becomes that the instrument is being held to meet short term cash needs and is subject to insignificant changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in non-current assets.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the consolidated statement of changes in equity as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Value added tax. Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

2 Basis of presentation and significant accounting policies (continued)

Investment grants. Investment grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Investment grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Asset retirement obligations. The estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property, plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period.

Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period.

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues from the rendering of services are recognised in the period the services are provided. Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable. Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services, etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

Earnings per share. Earnings per share is determined by dividing the profit and loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting year.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment). Segments whose sales or result are ten percent or more of all the segments are reported separately. Segment reporting is prepared in a manner consistent with the internal reporting provided to the chief operating decision-maker.

3 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3 Critical accounting estimates, and judgements in applying accounting policies (continued)

Taxation. Judgments are required in determining current income tax liabilities (Note 26). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred taxes provision in the period in which such determination is made.

Deferred income tax recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and estimates based on the last three years' taxable profits and expectations of future income that are believed to be reasonable under the circumstances (Note 26).

Land. Certain industrial premises of the Group's subsidiary OJSC Baltyiskie Generalnie Gruzy are located on land occupied under a short-term lease. The management believes that no losses will be sustained by the Group due to the short-term nature of the land lease since it will be able to either purchase the land or to secure its use via a long-term lease agreement in due course.

Related party transactions. The Group enters into transactions with its related parties in the normal course of business. These transactions are priced predominantly at market rates. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining whether transactions are priced at market or non-market interest rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties and performing effective interest rate analyses.

Fair value of LLC Severneft-Urengoy net assets. The Group applied a number of estimates to define the provisional fair value of LLC Severneft-Urengoy's net assets. In estimating the fair values of mineral rights over proven reserves acquired the Group applied the residual method which is based on a discounted cash flow analysis of the estimated future economic benefits attributable to the rights, net of the attributable other assets. Estimates used in discounted cash flow analysis represent management's best estimates based on currently available information. The fair value of mineral rights over unproven reserves was estimated applying the market approach, based on comparable deals in mineral rights.

4 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. This amendment does not have a material effect on the Group's consolidated financial statements;

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is not relevant to the Group;

- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have a material effect on the Group's consolidated financial statements;

4 Adoption of new or revised standards and interpretations (continued)

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow the previous GAAP carrying value to be used as the deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as the deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in the classification of financial assets or changes in the business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify the measurement of the fair value of award credits. These amendments do not have a material effect on the Group's consolidated financial statements;

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not currently applicable to the Group;

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and have not been early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;

- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011);

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);

- IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;

4 Adoption of new or revised standards and interpretations (continued)

- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012). The Group is currently assessing the impact of the amendments on its consolidated financial statements;
- Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- 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). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

5 Statement of cash flows

In managing the business, management focuses on a number of cash flow measures including “gross cash flow” and “free cash flow”. Gross cash flow refers to the operating profit after taxes and adjusted for items which are not of a cash nature, which have been charged or credited to the profit and loss. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities. The gross cash flow for the year ended 31 December 2011 was RR 41,768,188 thousand (2010: RR 24,946,678 thousand).

Free cash flows are the cash flows available to providers of finance of the business, be this debt or equity. The free cash outflow for the year ended 31 December 2011 was RR 17,672,121 thousand (2010: inflow of RR 11,862,623 thousand).

Since these terms are not standard IFRS measures EuroChem Group’s definition of gross cash flow and free cash flow may differ from that of other companies.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

6 Segment information

The Group is a vertically integrated business with operations spanning mining, fertilizer manufacturing, organic synthesis products, sales and distribution. The Group produces a large number of products, the most significant of which is a wide range of mineral fertilizers (nitrogen and phosphate groups). 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 others, a measure of profit before taxation adjusted by interest expense, depreciation and amortization, 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.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the segment structure of the Group:

- Nitrogen – the production and sale of nitrogen mineral fertilizers and organic synthesis products;
- Phosphates – the production and sale of phosphate mineral fertilizers 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 licenses acquired by the Group with a view to start production and marketing of potassium fertilizers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilizers (including those not produced by the Group), seeds, crop protection items etc. via a number of retailers located within Russia and the CIS;
- All other – certain logistics and service activities, central management, investment income and other items.

The segmental results for the year ended 31 December 2011 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	53,086,640	10,021,192	63,107,832	25,549,392
Phosphates	60,347,654	3,577,106	63,924,760	23,988,466
Potash	-	-	-	(599,306)
Distribution	13,963,802	10,542	13,974,344	853,242
Other	3,899,984	14,461,705	18,361,689	207,683
Elimination	-	(28,070,545)	(28,070,545)	(343,516)
Total	**131,298,080**	**-**	**131,298,080**	**49,655,961**

The segmental results for the year ended 31 December 2010 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	40,315,242	6,906,632	47,221,874	13,568,863
Phosphates	46,475,125	2,027,108	48,502,233	16,791,934
Potash	-	-	-	(420,652)
Distribution	8,542,966	649	8,543,615	489,870
Other	2,454,200	17,500,796	19,954,996	(225,390)
Elimination	-	(26,435,185)	(26,435,185)	(267,572)
Total	**97,787,533**	**-**	**97,787,533**	**29,937,053**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

6 Segment information (continued)

A reconciliation of total profit before taxation is provided as follows:

	Note	2011	2010
EBITDA		**49,655,961**	**29,937,053**
Depreciation and amortisation	23	(4,483,328)	(3,465,963)
Idle property, plant and equipment write-off	7, 21	(57,025)	(171,370)
Loss on disposal of non-current assets held for sale		-	(429,598)
Gain on disposal of available-for-sale investments	9	914,434	1,407,261
Financial foreign exchange gain/(loss) – net		(3,803,986)	(389,660)
Interest expense		(3,122,871)	(2,066,011)
Other financial gain/(loss) – net	25	993,863	134,831
Non-controlling interest		3,114	54,633
Profit before taxation		**40,100,162**	**25,011,176**

Substantially all of the Group's operating assets are located in the Russian Federation. Operating assets located in foreign countries are mainly represented by assets of the Group's production subsidiary Lifosa AB, located in Lithuania.

The analysis of non-current assets other than financial instruments and deferred tax assets by geographical locations was:

	2011	2010
Non-current assets, located in Russia	110,269,252	76,355,779
Non-current assets, located in foreign countries	5,660,565	5,103,283
Total	**115,929,817**	**81,459,062**

The analysis of Group sales by geographical area was:

	2011	2010
Export	100,205,625	74,759,773
Domestic	31,092,455	23,027,760
Total sales	**131,298,080**	**97,787,533**

The analysis of Group sales by region was:

	2011	2010
Russia	31,092,455	23,027,760
CIS	15,935,617	12,566,964
Asia	30,250,071	18,634,080
Europe	18,609,096	18,371,193
Latin America	19,169,024	14,185,236
North America	11,074,561	8,402,679
Africa	4,119,944	2,305,478
Australasia	1,047,312	294,143
Total sales	**131,298,080**	**97,787,533**

The sales are allocated by regions based on the destination country. There were no sales in excess of 10% to any one country, except for Russia, during the year ended 31 December 2011 and 31 December 2010.

The Group had sales in excess of 10% to one customer during the year ended 31 December 2011 and 31 December 2010. Revenues from this customer represented 11% of total Group revenues for the year ended 31 December 2011 (2010: 11%) and were allocated to the Nitrogen, Phosphates, and Other segments.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

7 Property, plant and equipment

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

	Buildings	Land and Land Improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2011	**9,776,542**	**6,299,009**	**5,220,003**	**31,249,434**	**8,010,112**	**1,859,231**	**37,104,517**	**99,518,848**
Additions and transfers from assets under construction	2,718,312	2,916,200	1,071,894	6,055,154	2,589,195	595,195	8,355,393	24,301,343
Acquisitions through business combinations (Note 29)	637,156	4,532,068	1,785,627	637,999	27,812	9,645	440,992	8,071,299
Disposals	(20,405)	(43,278)	(9,613)	(396,078)	(90,288)	(46,942)	(40,819)	(647,423)
Idle property, plant and equipment write-off	(49,425)	(1,012)	(1,151)	(28,719)	(25)	(4,137)	(11,196)	(95,665)
Currency translation difference (Note 2)	60,116	56,867	27,994	115,943	11,231	9,533	5,569	287,253
Balance at 31 December 2011	**13,122,296**	**13,759,854**	**8,094,754**	**37,633,733**	**10,548,037**	**2,422,525**	**45,854,456**	**131,435,655**
Accumulated Depreciation and Impairment								
Balance at 1 January 2011	**(2,710,905)**	**(1,763,793)**	**(2,548,389)**	**(15,209,332)**	**(3,262,248)**	**(902,615)**	**-**	**(26,397,282)**
Charge for the year	(475,886)	(400,671)	(392,912)	(2,494,801)	(628,031)	(306,931)	-	(4,699,232)
Disposals	15,605	16,474	9,543	345,663	73,372	29,726	-	490,383
Idle property, plant and equipment write-off	18,385	781	544	15,948	8	2,974	-	38,640
Currency translation difference (Note 2)	(12,735)	(18,696)	(9,423)	(61,283)	(5,727)	(7,399)	-	(115,263)
Balance at 31 December 2011	**(3,165,536)**	**(2,165,905)**	**(2,940,637)**	**(17,403,805)**	**(3,822,626)**	**(1,184,245)**	**-**	**(30,682,754)**
Net Carrying Value								
Balance at 1 January 2011	**7,065,637**	**4,535,216**	**2,671,614**	**16,040,102**	**4,747,864**	**956,616**	**37,104,517**	**73,121,566**
Balance at 31 December 2011	**9,956,760**	**11,593,949**	**5,154,117**	**20,229,928**	**6,725,411**	**1,238,280**	**45,854,456**	**100,752,901**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

7 Property, plant and equipment (continued)

	Buildings	Land and Land Improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2010	**7,389,446**	**4,373,517**	**4,113,852**	**23,837,874**	**7,258,905**	**1,310,536**	**31,778,459**	**80,062,589**
Additions and transfers from assets under construction	2,590,702	1,989,524	1,154,673	8,130,286	822,698	586,316	5,452,776	20,726,975
Disposals	(10,116)	(4,153)	(5,599)	(396,225)	(64,679)	(29,297)	(8,389)	(518,458)
Idle property, plant and equipment write-off	(95,972)	(5,575)	(5,670)	(132,548)	(1,042)	(410)	(103,120)	(344,337)
Currency translation difference (Note 2)	(97,518)	(54,304)	(37,253)	(189,953)	(5,770)	(7,914)	(15,209)	(407,921)
Balance at 31 December 2010	**9,776,542**	**6,299,009**	**5,220,003**	**31,249,434**	**8,010,112**	**1,859,231**	**37,104,517**	**99,518,848**
Accumulated Depreciation and Impairment								
Balance at 1 January 2010	**(2,438,128)**	**(1,560,251)**	**(2,313,315)**	**(13,880,982)**	**(2,740,503)**	**(746,993)**	**-**	**(23,680,172)**
Charge for the year	(348,185)	(244,324)	(261,536)	(1,867,825)	(583,109)	(187,535)	-	(3,492,514)
Disposals	9,565	4,009	5,467	318,328	58,063	24,231	-	419,663
Idle property, plant and equipment write-off	45,433	4,372	5,662	116,323	829	348	-	172,967
Currency translation difference (Note 2)	20,410	32,401	15,333	104,824	2,472	7,334	-	182,774
Balance at 31 December 2010	**(2,710,905)**	**(1,763,793)**	**(2,548,389)**	**(15,209,332)**	**(3,262,248)**	**(902,615)**	**-**	**(26,397,282)**
Net Carrying Value								
Balance at 1 January 2010	**4,951,318**	**2,813,266**	**1,800,537**	**9,956,892**	**4,518,402**	**563,543**	**31,778,459**	**56,382,417**
Balance at 31 December 2010	**7,065,637**	**4,535,216**	**2,671,614**	**16,040,102**	**4,747,864**	**956,616**	**37,104,517**	**73,121,566**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

7 Property, plant and equipment (continued)

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

	2011	2010
Construction in progress	39,622,027	31,791,727
Exploration expenses	75,891	-
Advances given to construction companies and suppliers of property, plant and equipment	6,156,538	5,312,790
Total assets under construction	**45,854,456**	**37,104,517**

As at 31 December 2011 borrowing costs totaling RR 129,809 thousand (2010: nil) were capitalised in property, plant and equipment at an average interest rate of 5.43% (2010: nil).

In 2009 the Group obtained licenses for the exploration and evaluation of the Darganovsky and Ravninny potash fields. On 1 March 2011 the Group received official confirmation of the estimated resources covered by these licenses. From this date the Group has capitalised expenses related to the evaluation stage of these fields and as at 31 December 2011 recognised RR 75,891 thousand in assets under construction (31 December 2010: nil). Expenses incurred before 1 March 2011 relating to the exploration of these fields and amounting to RR 7,302 thousand were recognised in profit and loss (2010: RR 144,833 thousand). Generally, such expenses are paid in the period the services are provided.

During the year ended 31 December 2011 the Group decided to mothball certain production equipment with a gross carrying value and accumulated depreciation of RR 95,665 thousand and RR 38,640 thousand, respectively, at 31 December 2011 (2010: gross carrying value of RR 344,337 thousand and accumulated depreciation of RR 172,967 thousand) and recognised a loss of RR 57,025 thousand in these consolidated financial statements (2010: RR 171,370 thousand) (Note 21).

As at 31 December 2011 all of the Group's major Russian-based subsidiaries had acquired the land on which their main production facilities are located. Other subsidiaries continue to occupy the land plots under lease agreements. For these land plots the future minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
Shorter than 1 year	170,284	151,398
Between 1 and 5 years	667,601	594,938
Longer than 5 years	4,131,399	3,934,046
Total	**4,969,284**	**4,680,382**

8 Intangible assets

	Note	Acquired software and licenses	Other	Total
Cost at 1 January 2010		**406,096**	**201,571**	**607,667**
Accumulated amortisation		**(178,955)**	**(1,255)**	**(180,210)**
Carrying amount at 1 January 2010		**227,141**	**200,316**	**427,457**
Additions		6,733	611,831	618,564
Disposals cost and write-offs		-	(149,082)	(149,082)
Accumulated amortisation on disposals		-	153	153
Amortisation charge		(79,950)	(3,230)	(83,180)
Currency translation difference		8	603	611
Cost at 31 December 2010		**412,837**	**664,923**	**1,077,760**
Accumulated amortisation		**(258,905)**	**(4,332)**	**(263,237)**
Carrying amount at 31 December 2010		**153,932**	**660,591**	**814,523**
Additions		-	361	361
Acquired through business combinations	29	-	538	538
Disposals cost and write-offs		-	(9)	(9)
Accumulated amortisation on disposals		-	9	9
Amortisation charge		(83,258)	(123,994)	(207,252)
Currency translation difference		197	2,096	2,293
Cost at 31 December 2011		**413,034**	**667,909**	**1,080,943**
Accumulated amortisation		**(342,163)**	**(128,317)**	**(470,480)**
Carrying amount at 31 December 2011		**70,871**	**539,592**	**610,463**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

8 Intangible assets (continued)

Other intangible assets mainly comprise the right to construct a sea port terminal located in Ust-Luga, Russian Federation, which was acquired in December 2010. This asset is amortised on a straight line basis over an estimated average useful life of 5 years.

In 2010 the Group wrote-off the exclusive lease agreement for the berth in the sea port located in Murmansk previously recognized as an intangible asset with an indefinite useful life and with a carrying value of RR 148,974 thousand, as the key terms of the agreement were adversely amended to bring them in line with market conditions.

As at 31 December 2011 the Group did not hold any intangible assets with an indefinite useful life.

No impairment was recognised for the intangible assets at 31 December 2011 and 31 December 2010.

9 Available-for-sale investments, including shares pledged as collateral

At 31 December 2011 and 31 December 2010 available-for-sale investments comprised the shares of K+S Group, a German manufacturer and vendor of potassium-based fertilizers.

	2011	2010
K+S Group ordinary shares	11,044,815	34,680,888
K+S Group ordinary shares pledged as collateral	11,423,184	3,182,443
Total available-for-sale investments	**22,467,999**	**37,863,331**

Movements in the carrying amount of available-for-sale investments, including shares pledged as collateral, were:

	2011	2010
Carrying amount at 1 January	**37,863,331**	**33,619,657**
Revaluation of available-for-sale investments	(12,689,257)	9,642,508
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(1,791,641)	(3,991,573)
- reclassification of revaluation to profit and loss	(914,434)	(1,407,261)
Carrying amount at 31 December	**22,467,999**	**37,863,331**

K+S Group shares, including shares pledged as collateral

At 31 December 2011 the Group held 15,440,170 shares, or 8.067% of the issued share capital (31 December 2010: 16,656,595 shares, or 8.7% of the issued share capital) of K+S Group with a fair value of RR 22,467,999 thousand (31 December 2010: RR 37,863,331 thousand) with reference to the share price quoted on the Xetra trading system of Euro 34.92 per share (31 December 2010: Euro 56.36 per share). A negative reserve was recognised in equity due to a decrease in the fair value of the investment below its historical cost of RR 273,427 thousand at 31 December 2011 (31 December 2010: accumulated increase RR 13,330,264 thousand).

During the year ended 31 December 2011 the Group sold 1,191,425 ordinary shares of K+S Group to EuroChem Group S.E., the parent company of the Group, for RR 2,649,247 thousand (Note 28) and 25,000 K+S Group shares on the open market for RR 56,828 thousand and recognised a gain of RR 914,434 thousand in the profit and loss.

In May 2011 the Group received dividend income from K+S Group of RR 613,927 thousand (2010: RR 147,946 thousand) before withholding tax of RR 161,923 thousand (2010: RR 7,397 thousand).

K+S Group shares pledged as collateral

At 31 December 2011 the Group had outstanding European call options giving counterparties the right to buy 2,858,000 K+S Group ordinary shares secured by these shares as collateral (31 December 2010: European call options over 1,400,000 K+S Group ordinary shares) with a fair value of RR 4,158,861 thousand (31 December 2010: RR 3,182,443 thousand) with reference to the share price quoted on the Xetra trading system (Note 17).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

9 Available-for-sale investments, including shares pledged as collateral (continued)

K+S Group shares pledged as collateral (continued)

At 31 December 2011 the Group had 6,350,094 K+S Group shares pledged as collateral for a bank loan with a fair value of RR 9,240,436 thousand (31 December 2010: nil) with reference to the share price quoted on the Xetra trading system (Note 15). As agreed with the lender, out of these, 1,358,000 shares with a fair value of RR 1,976,113 thousand simultaneously represent collateral under the call options described above.

Therefore, as at 31 December 2011 the total number of K+S Group shares pledged as collateral was 7,850,094 with a fair value of RR 11,423,184 thousand (31 December 2010: 1,400,000 shares with a fair value of RR 3,182,443 thousand). Pledged shares have been reclassified to a separate line named "Available-for-sale investments pledged as collateral" in the consolidated statement of financial position, as the mortgagee had the right to use and dispose of the collateral. The Group holds economic exposure in relation to the encumbered shares. The mortgagee is obliged to replace the original financial collateral by transferring equivalent financial collateral on the due date for the performance of the relevant financial obligations covered by the arrangement; failing this the mortgagor has a right against the mortgagee for the delivery of equivalent securities upon the performance of the obligations of the mortgagor.

Certain reclassifications have been made to prior year amounts in the consolidated statement of financial position and related notes to conform to the current period presentation. The reclassifications relate to K+S Group shares pledged as collateral to the value of RR 2,273,174 thousand which were reclassified to the line "Available-for-sale investments pledged as collateral" from the line "Available-for-sale investments".

10 Mineral rights

	Note	2011	2010
Rights for exploration and production:			
Verkhnekamskoe potash deposit		4,087,166	4,087,166
Gremyachinskoe potash deposit		3,017,781	3,017,781
Kovdorsky apatite deposits		166,549	166,549
Rights for exploration, evaluation and extraction:			
Yuzhny hydrocarbon deposit		24,495	24,495
Perelyubsko-Rubezhinskiy hydrocarbon deposit		22,116	22,116
Rights for proven and unproven mineral resources:			
Zapadno-Yaroyakhinsky hydrocarbon deposits	29	6,953,071	-
Total mineral rights		**14,271,178**	**7,318,107**

In accordance with the conditions of the licence agreements for developing the potash deposits, the Group has the following major commitments:

- to commence extraction of potash salt at the Gremyachinskoe potash deposit by 1 November 2014;
- to commence construction of an exploration complex at the Verkhnekamskoe potash deposit by 15 April 2012;
- to commence extraction of potash salt at the Verkhnekamskoe potash deposit by 15 April 2014.

The Group has started construction of the mining facilities at both sites. The management believes that either each stage of the process will be completed according to the schedule or the license terms in respect of the timing of these stages will be renegotiated. As of 31 December 2011 and 31 December 2010 the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase.

As of 31 December 2011 licenses for the exploration, evaluation and extraction of crude hydrocarbons at the Yuzhny and Perelyubsko-Rubezhinskiy deposits were in the exploration phase.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

10 Mineral rights (continued)

Under the terms of valid licenses for the exploration and development of potash and apatite 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 license agreements there are circumstances whereby the licenses 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 licenses.

11 Inventories

	2011	2010
Materials	5,821,720	3,872,290
Work in progress	1,180,983	832,876
Finished goods	6,445,567	3,891,113
Catalysts	1,784,203	1,558,325
Less: provision for obsolete and damaged inventories	(275,074)	(326,712)
Total inventories	**14,957,399**	**9,827,892**

12 Trade receivables, prepayments, other receivables and other current assets

	2011	2010
Trade receivables		
Trade receivables denominated in RR	1,074,277	1,142,115
Trade receivables denominated in US$	2,306,373	1,519,960
Trade receivables denominated in Euro	119,195	119,862
Trade receivables denominated in other currencies	182,696	94,520
Less: impairment provision	(246,628)	(165,639)
Total trade receivables – financial assets	**3,435,913**	**2,710,818**
Prepayments, other receivables and other current assets		
Advances to suppliers	3,737,569	3,347,157
VAT recoverable and receivable	5,040,882	3,737,607
Income tax receivable	198,767	18,416
Other taxes receivable	43,513	32,076
Other receivables	891,306	511,926
Less: impairment provision	(161,311)	(151,607)
Subtotal non-financial assets	**9,750,726**	**7,495,575**
Interest receivable	440,036	27,557
Subtotal financial assets	**440,036**	**27,557**
Total prepayments, other receivables and other current assets	**10,190,762**	**7,523,132**
Total trade receivables, prepayments, other receivables and other current assets	**13,626,675**	**10,233,950**
including		
Financial assets	3,875,949	2,738,375
Non-financial assets	9,750,726	7,495,575

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

As of 31 December 2011, accounts receivable, prepayments and other current assets of RR 407,939 thousand (31 December 2010: RR 317,246 thousand) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to counterparties which are facing significant financial difficulties. The ageing of these receivables is as follows:

	2011	2010
Less than 3 months	6,064	-
From 3 to 12 months	20,837	12,689
Over 12 months	381,038	304,557
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets	**407,939**	**317,246**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

12 Trade receivables, prepayments, other receivables and other current assets (continued)

As of 31 December 2011, trade receivables of RR 298,277 thousand (31 December 2010: RR 289,456 thousand) were past due but not impaired. The ageing analysis of these trade receivables from past due date is:

	2011	2010
Less than 3 months	252,291	175,959
From 3 to 12 months	23,189	97,316
Over 12 months	22,797	16,181
Trade accounts receivable past due not impaired	**298,277**	**289,456**

The movements in the provision for impairment of accounts receivable are:

		2011		2010	
	Note	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January		**165,639**	**151,607**	**224,784**	**124,615**
Provision charged	22, 23	107,798	24,252	39,026	61,318
Provision used		(21,573)	(6,386)	(36,390)	(13,550)
Provision reversed	22, 23	(7,662)	(12,829)	(58,464)	(21,400)
Foreign exchange difference		2,426	4,667	(3,317)	624
Total provision for impairment of accounts receivable		**246,628**	**161,311**	**165,639**	**151,607**

13 Cash and cash equivalents and fixed-term deposits

	2011	2010
Cash on hand and bank balances denominated in RR	1,491,231	868,314
Bank balances denominated in US$	1,849,003	1,378,554
Bank balances denominated in Euro	1,278,936	489,559
Balances denominated in other currencies	250,026	88,065
Term deposits denominated in RR	1,633,327	2,437,055
Term deposits denominated in US$	1,320,939	3,255,216
Term deposits denominated in Euro	445,277	82,760
Term deposits denominated in other currencies	238,210	297,100
Total cash and cash equivalents	**8,506,949**	**8,896,623**
Fixed-term deposits in RR	13,550,300	-
Fixed-term deposits in US$	7,283,471	-
Fixed-term deposits in Euro	32,139	-
Total fixed-term deposits	**20,865,910**	**-**
Current restricted cash	77,238	37,461
Non-current restricted cash	7,980	143,898
Total restricted cash	**85,218**	**181,359**

Term deposits at 31 December 2011 and 31 December 2010 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.

No bank balances, term and fixed-term deposits are past due or impaired. Analysis of the credit quality of bank balances, term and fixed-term deposits is as follows:

	2011	2010
A to AAA rated**	4,880,724	6,033,888
BB- to BBB+ rated**	24,011,552	2,607,990
B- to B+ rated**	505,694	59,493
Unrated	53,763	375,126
Total*	**29,451,733**	**9,076,497**

* The rest of the balance sheet item ‘cash and cash equivalents’ is cash on hand.

** Based on the credit ratings of independent rating agencies Standard & Poor’s and Fitch Ratings as at 14 January 2012.

At 31 December 2011 current restricted cash of RR 77,238 thousand was held in bank accounts in compliance with statutory regulations (31 December 2010: RR 37,461 thousand).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

13 Cash and cash equivalents and fixed-term deposits (continued)

At 31 December 2011 RR 7,980 thousand of non-current restricted cash was held in bank accounts as security deposits for third parties. At 31 December 2010 non-current restricted cash totalling RR 143,898 thousand consisted of RR 103,434 thousand of cash held in an escrow account as a collateral for a squeeze-out in Lifosa AB and RR 40,464 thousand was represented by deposits against possible environmental obligations as required under statutory Lithuanian rules and letters of credit for equipment procurement.

The fair value of cash and cash equivalents is equal to their carrying amount.

14 Equity

The nominal registered amount of the Company's issued share capital at 31 December 2011 is RR 6.8 billion (31 December 2010: RR 6.8 billion). The total authorised number of ordinary shares is 68 million shares (31 December 2010: 68 million shares) with a par value of RR 100 per share. All authorised shares have been issued and fully paid.

	Number of ordinary shares	Share capital RR thousand	Number of treasury shares	Treasury shares at acquisition cost RR thousand
At 31 December 2010	68,000,000	6,800,000	68,000	(7,760)
At 31 December 2011	68,000,000	6,800,000	6,216,651	(29,679,427)

Treasury shares

During the year ended 31 December 2011 the Group bought back from EuroChem Group S.E., the parent company of the Group, 6,148,651 of its own ordinary shares which represent 9.04% of the issued share capital for RR 29,671,667 thousand paid in cash (Note 28). The valuation of EuroChem's shares was performed by a reputable international firm of appraisers.

The treasury shares were transferred from LLC PG Phosphorit to the Group's wholly-owned subsidiary EuroChem Capital Management Ltd.

At 31 December 2011 EuroChem Capital Management Ltd. held 6,216,651 ordinary shares of the Company (31 December 2010: LLC PG Phosphorit held 68,000 ordinary shares). These shares represent 9.14% (31 December 2010: 0.1%) of the Company's share capital and carry voting rights in the same proportion as other ordinary shares. The voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. For the year ended 31 December 2011, the net statutory profit of the Company as reported in the published annual statutory accounting report was RR 13,979,113 thousand (2010: RR 8,442,616 thousand) and the closing balance of the accumulated profit including the net statutory profit totalled RR 69,924,828 thousand (31 December 2010: RR 56,292,392 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation in relation to the depletion of distributable reserves. Accordingly management believes that, at present, it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Other reserves. As at 31 December 2011 other reserves in the consolidated statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 1,724,223 thousand (31 December 2010: RR 1,239,879 thousand) and a negative reserve related to the decrease in the fair value of the investments in the shares of K+S Group below their historical cost of RR 273,427 (31 December 2010: accumulated increase RR 13,330,264 thousand) (Note 9).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

14 Equity (continued)

Dividends. During 2011 the Group did not declare and pay dividends. In 2010 the shareholders approved an interim dividend of RR 1,598,440 thousand (RR 23.53 per share) for the first half 2010 and RR 4,235,560 thousand (RR 62.35 per share) for the third quarter 2010. The total amount of dividends attributable to treasury shares has been eliminated. All dividends were declared and paid in Russian Roubles.

15 Bank borrowings

	2011	2010
Balance as at 1 January	**24,054,601**	**39,047,758**
Bank loans received, denominated in RR	19,920,000	4,376,000
Bank loans received, denominated in US$	55,713,268	5,882,093
Bank loans received, denominated in Euro	5,037,412	166,753
Bank loans repaid, denominated in RR	-	(4,376,000)
Bank loans repaid, denominated in US$	(31,234,477)	(18,031,409)
Bank loans repaid, denominated in Euro	-	(3,344,492)
Capitalisation and amortisation of transaction costs, net	463,404	291,491
Foreign exchange loss	3,441,131	42,407
Balance as at 31 December	**77,395,339**	**24,054,601**

	2011	2010
Current bank borrowings		
Current portion of long-term bank loans in US$	-	12,757,772
Short-term bank loans, denominated in Euro	4,167,140	-
Less: short-term portion of transaction costs	-	(168,005)
Total current bank borrowings	**4,167,140**	**12,589,767**
Non-current bank borrowings		
Long-term bank loans, denominated in RR	20,000,000	-
Long-term bank loans, denominated in US$	53,430,421	25,259,687
Long-term bank loans, denominated in Euro	1,365,495	341,543
Less: current portion of long-term bank loans in US$	-	(12,757,772)
Less: long-term portion of transaction costs	(1,567,717)	(1,378,624)
Total non-current bank borrowings	**73,228,199**	**11,464,834**
Total bank borrowings	**77,395,339**	**24,054,601**

At 31 December 2011 and 31 December 2010 the fair value of borrowings was not materially different from their carrying amounts.

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

A syndicated loan facility obtained in October 2008 for US$ 1.5 billion was fully repaid in August 2011 (31 December 2010: US$ 767,442 thousand).

A US$ 1.3 billion 5-year club loan facility was obtained in August 2011, bearing a floating interest rate of 1-month Libor +1.8%. At 31 December 2011 the outstanding amount totalled US$ 1.3 billion (31 December 2010: nil).

In September 2011 the Group signed a RR 20 billion 5-year non revolving loan facility with a leading Russian bank. In October 2011 the facility was fully utilised and as at 31 December 2011 the outstanding amount was RR 20 billion (31 December 2010: nil).

In September 2009 the Group signed a loan agreement for Euro 85 million. In 2010 it was converted into a revolving committed facility. In 2011 an amendment was signed which increased the limit up to Euro 140 million, with a floating interest rate based on 1-month Euribor and maturity in March 2012. At 31 December 2011 the outstanding amount was Euro 100 million (31 December 2010: nil).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

15 Bank borrowings (continued)

Interest rates and outstanding amounts (continued)

In March 2010 the Group signed a US$ 261 million, 10-year export credit agency-backed loan facility for financing the on-going construction of the cage shaft at the Gremyachinskoe potash deposit by a South African-based company. At 31 December 2011 US$ 109.5 million (31 December 2010: US$ 61.4 million) of the facility had been utilised.

In August 2010 the Group signed a US$ 250 million 5-year credit line agreement with a European commercial bank. During the year ended 31 December 2011, the facility was utilised and repaid several times. At the end of the year it was fully utilised and as at 31 December 2011 the outstanding amount was US$ 250 million (31 December 2010: nil).

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility 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. At 31 December 2011 Euro 32.8 million of the facility had been utilized (31 December 2010: Euro 8.5 million).

In March 2011 the Group signed an agreement for a 12-month revolving uncommitted facility, amounting to US$ 100 million, which is available in US$ with a floating interest rate of 1-month Libor +1.5% and in other currencies with an interest rate which will be determined by mutual agreement. In April 2011 the facility was fully utilised and the disbursed amount was fully repaid in July 2011.

Collaterals and pledges

A bank loan of RR 41,854,930 thousand and RR 23,389,249 thousand at 31 December 2011 and 31 December 2010, respectively, was collateralized by future export proceeds of the Group under sales contracts with certain customers. A bank loan of RR 4,167,140 thousand at 31 December 2011 was secured with K+S Group shares as collateral represented by 6,350,094 shares with a fair value of RR 9,240,436 thousand (Note 9) with reference to the share price quoted on the Xetra trading system.

The Group's bank borrowings mature as follows:

	2011	**2010**
- within 1 year	4,167,140	12,589,767
- between 1 and 2 years	7,325,334	10,336,604
- between 2 and 5 years	63,826,082	344,285
- more than 5 years	2,076,783	783,945
Total bank borrowings	**77,395,339**	**24,054,601**

16 Bonds issued

	2011	**2010**
Current bonds		
7.875% US$-denominated bonds due March 2012	9,336,869	-
Less: transaction costs	(4,628)	-
Total current bonds	**9,332,241**	**-**
Non-current bonds		
7.875% US$-denominated bonds due March 2012	9,336,869	8,838,300
Less: current portion of long-term bonds issued in US$	(9,336,869)	-
8.9% RR-denominated bonds due June 2018 / callable by investors in July 2015	5,000,000	5,000,000
8.25% RR-denominated bonds due November 2018 / callable by investors in November 2015	5,000,000	5,000,000
Less: transaction costs	(35,344)	(65,920)
Total non-current bonds	**9,964,656**	**18,772,380**
Total bonds issued	**19,296,897**	**18,772,380**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

16 Bonds issued (continued)

On 21 March 2007 the Group placed through an offering to the public under an open subscription US$ denominated 7.875% bonds with a face value of US$ 300 million to be redeemed on 21 March 2012. The outstanding balance of the bonds was US$ 290 million at 31 December 2011 (31 December 2010: US$ 290 million), and the fair value was RR 9,418,473 thousand (31 December 2010: RR 9,197,136 thousand) with reference to Irish Stock Exchange quotations.

In July 2010 the Group issued RR-denominated bonds at a nominal value of RR 5 billion bearing a coupon of 8.9% p.a. maturing in June 2018. The bonds give investors the ability to demand from the borrower redemption at par value of the bonds in July 2015. The fair value of the outstanding bonds balance at 31 December 2011 was RR 5.06 billion (31 December 2010: RR 5.15 billion) with reference to MICEX Stock Exchange quotations.

In November 2010 the Group issued RR-denominated bonds at a nominal value of RR 5 billion bearing a coupon of 8.25% p.a. maturing in November 2018. The bonds give investors the ability to demand from the borrower redemption at par value of the bonds in November 2015. The fair value of the outstanding bonds balance at 31 December 2011 was RR 4.756 billion (31 December 2010: RR 5.005 billion) with reference to MICEX Stock Exchange quotations.

17 Derivative financial assets and liabilities

At 31 December 2011 the Group did not hold any current derivative financial assets (31 December 2010: current financial assets comprised RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 35,251 thousand and cross currency interest rate swap accounted for at a fair value of RR 1,500 thousand). The non-current derivative financial assets comprised RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 124,353 thousand.

The non-current derivative financial liabilities were represented by a cross currency interest rate swap and RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 324,493 thousand and RR 169,246 thousand, respectively.

The current derivative financial liabilities were represented by EUR/US$ non-deliverable forward contracts and European call options over K+S Group ordinary shares accounted for at a fair value of RR 167,044 thousand and RR 6 thousand, respectively (31 December 2010: European call options over K+S Group ordinary shares accounted for at a fair value of RR 127,981 thousand).

At 31 December 2011 the derivative financial assets and liabilities were:

	Assets		Liabilities	
	non-current	current	non-current	current
RR/US$ non-deliverable forward contracts	124,353	-	169,246	-
EUR/US$ non-deliverable forward contracts	-	-	-	167,044
Cross currency interest rate swap	-	-	324,493	-
Option contracts over K+S Group ordinary shares	-	-	-	6
Total	**124,353**	**-**	**493,739**	**167,050**

At 31 December 2010 the derivative financial assets and liabilities were:

	Assets		Liabilities	
	non-current	current	non-current	current
RR/US$ non-deliverable forward contracts	-	35,251	-	-
Cross currency interest rate swap	-	1,500	-	-
Option contracts over K+S Group ordinary shares	-	-	-	127,981
Total	**-**	**36,751**	**-**	**127,981**

Cross currency interest rate swap

In 2010 the Group transacted a RR/US$ cross currency interest rate swap in connection with its issue of a RR-denominated bond due November 2018 and callable by investors in November 2015 (Note 16), as a result of which the Group pays US$ fixed 3.85% and receives RR fixed 8.25% interest the latter being the coupon rate under the subject rouble bond. The swap will mature on 16 November 2015.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

17 Derivative financial assets and liabilities (continued)

Cross currency interest rate swap (continued)

As at 31 December 2011 the Group recognised a net loss of RR 104,002 thousand (Note 25) comprised of a loss from revaluation of the cross currency interest rate swap amounting to RR 325,993 thousand offset by net interest income of RR 221,991 thousand.

Call options over K+S Group ordinary shares

At 31 December 2010 the Group had outstanding European call options giving counterparties the right to buy over 1,400,000 K+S Group ordinary shares, which matured in March and June 2011. These call options were not exercised.

During the year ended 31 December 2011, the Group sold European call options over 16,958,000 K+S Group ordinary shares for a total premium of RR 421,858 thousand. Out of these, 14,100,000 call options over K+S Group ordinary shares matured in the second half of 2011 without being exercised.

At 31 December 2011 the Group had outstanding European call options giving counterparties the right to buy over 2,858,000 K+S Group ordinary shares secured by these shares as collateral with a fair value of RR 4,158,861 thousand with reference to the share price quoted on the Xetra trading system (Note 9). Out of these, 1,108,000 K+S Group ordinary shares call options matured on 20 January 2012 without being exercised and 1,750,000 K+S Group ordinary shares call options expire on 17 February 2012.

Foreign exchange non-deliverable forward contracts

At 31 December 2010 the Group had RR/US$ non-deliverable forward contracts to sell the nominal amount of US$ 300 million, which matured in March and June 2011. During the second half of 2011, the Group entered into RR/US$ non-deliverable forward contracts and EUR/US$ non-deliverable forward contracts to buy the nominal amount of RR 11,500 million and EUR 400 million, respectively. The contractual settlement dates for EUR/US$ non-deliverable forward contracts are 28 March 2012 and for RR/US$ non-deliverable forward contracts vary from 18 December 2014 to 20 September 2016. As at 31 December 2011 the Group recognised a gain of RR 573,664 thousand from the revaluation of forward contracts in profit and loss (Note 25), and proceeds of RR 820,852 thousand from forward contracts which reached their maturity dates.

Movements in the carrying amount of derivative financial assets and liabilities were as follows:

	1 January 2011	Changes in the fair value (Note 25)	Cash proceeds from derivatives	31 December 2011
Derivative financial assets/(liabilities)				
Cross currency interest rate swap contract	1,500	(104,002)	(221,991)	(324,493)
Foreign exchange non-deliverable forward contracts - net	35,251	573,664	(820,852)	(211,937)
Option contracts over K+S Group ordinary shares	(127,981)	549,833	(421,858)	(6)
Derivative financial assets and liabilities – net	**(91,230)**	**1,019,495**	**(1,464,701)**	**(536,436)**

18 Provision for land restoration

In accordance with Russian legislation, the Group has an obligation to restore land disturbed as a result of mining operations after the expiration of the licenses.

At 31 December 2011 a provision of RR 283,400 thousand (31 December 2010: RR 222,887 thousand) for future costs of land recultivation was included in other non-current liabilities. The net present value of the future cash outflows was calculated using a 8.9% discount rate determined by reference to the market yields on Russian government bonds.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

19 Trade payables, other accounts payable and accrued expenses

	2011	2010
Trade payables		
Trade payables denominated in RR	1,602,671	1,355,864
Trade payables denominated in US$	1,072,805	327,972
Trade payables denominated in Euro	253,945	358,028
Trade payables denominated in other currencies	131,683	141,087
Total trade payables – financial liabilities	**3,061,104**	**2,182,951**
Other accounts payable and accrued expenses		
Advances received	2,182,581	2,202,860
Payroll and social tax	333,653	292,364
Accrued liabilities and other creditors	3,510,193	3,088,472
Subtotal non-financial liabilities	**6,026,427**	**5,583,696**
Interest payable	351,584	277,179
Subtotal financial liabilities	**351,584**	**277,179**
Total other payables	**6,378,011**	**5,860,875**
Total trade payables, other accounts payable and accrued expenses	**9,439,115**	**8,043,826**
including		
Financial liabilities	3,412,688	2,460,130
Non-financial liabilities	6,026,427	5,583,696

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 765,158 thousand (31 December 2010: RR 694,911 thousand).

20 Sales

The components of external sales were as follows:

	2011	2010
Nitrogen		
Nitrogen fertilizers	40,214,474	29,579,048
Organic synthesis products	7,770,645	6,425,351
Complex fertilizers group	4,016,908	3,505,056
Other goods	822,115	453,919
Other services	262,498	351,868
	53,086,640	**40,315,242**
Phosphates		
Phosphates	31,430,171	25,071,344
Iron ore concentrate	21,953,124	15,703,907
Feed phosphates group	3,785,681	3,018,490
Apatite concentrate	1,130,327	998,536
Baddeleyite concentrate	1,027,264	605,341
Complex fertilizers group	2,673	126,079
Other goods	523,482	449,539
Other services	494,932	501,889
	60,347,654	**46,475,125**
Distribution		
Nitrogen fertilizers	6,226,928	3,650,659
Phosphates	2,758,595	1,341,643
Complex fertilizers group	3,434,925	2,485,672
Feed phosphates group	221,119	51,784
Organic synthesis products	12,423	-
Other goods	1,279,416	1,000,123
Other services	30,396	13,085
	13,963,802	**8,542,966**
Others		
Nitrogen fertilizers	2,243,139	970,324
Organic synthesis products	-	40,334
Complex fertilizers group	27,342	70,280
Logistic services	258,284	354,634
Other goods	868,140	466,831
Other services	503,079	551,797
	3,899,984	**2,454,200**
Total sales	**131,298,080**	**97,787,533**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

21 Cost of sales

The components of cost of sales were as follows:

	Note	2011	2010
Materials and components used or resold		40,601,129	28,351,341
Energy		6,694,025	5,625,211
Utilities and fuel		3,617,517	3,001,341
Labour, including contributions to social funds		8,063,718	7,269,164
Depreciation and amortisation		3,656,398	2,837,043
Repairs and maintenance		1,041,923	620,044
Production overheads		1,487,996	1,515,867
Property tax, rent payments for land and related taxes		1,061,219	1,027,339
Transportation expenses for logistics services		188,706	312,733
Idle property, plant and equipment written-off	7	57,025	171,370
Reversal of provision for obsolete and damaged inventories		(51,638)	(53,058)
Changes in work in progress and finished goods		(2,849,658)	(584,576)
Other costs		72,915	111,710
Total cost of sales		**63,641,275**	**50,205,529**

22 Distribution costs

Distribution costs comprised:

	Note	2011	2010
Transportation		15,838,489	15,405,937
Export duties, other fees and commissions		267,559	192,903
Labour, including contributions to social funds		1,077,580	800,696
Depreciation and amortisation		471,659	311,999
Repairs and maintenance		614,611	571,727
Provision/(reversal of provision) for impairment of receivables	12	27,893	(12,470)
Other costs		654,697	514,105
Total distribution costs		**18,952,488**	**17,784,897**

23 General and administrative expenses

General and administrative expenses comprised:

	Note	2011	2010
Labour, including contributions to social funds		2,435,684	2,093,426
Depreciation and amortisation		355,271	316,921
Audit, consulting and legal services		257,898	194,035
Rent		114,210	117,342
Bank charges		111,978	138,339
Social expenditure		148,430	66,295
Repairs and maintenance		73,059	38,659
Provision for impairment of receivables	12	83,666	32,950
Other expenses		1,072,992	756,482
Total general and administrative expenses		**4,653,188**	**3,754,449**

The total depreciation and amortisation expenses included in all captions of the consolidated statement of comprehensive income amounted to RR 4,483,328 thousand (2010: RR 3,465,963 thousand). The total staff costs (including social expenses) amounted to RR 11,576,982 thousand (2010: RR 10,163,286 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2011 amounted to RR 72,367 thousand (2010: RR 65,259 thousand). The auditors also provided the Group with consulting and training services amounting to RR 20,560 thousand (2010: RR 5,773 thousand).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

24 Other operating income and expenses

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

	2011	2010
Gain on disposal of property, plant and equipment	(90,739)	(38,973)
Sponsorship	447,246	417,697
Foreign exchange (gain)/loss – net	199,896	(208,168)
Other operating income	(365,545)	(153,861)
Total other operating (income)/expenses	**190,858**	**16,695**

25 Other financial gain/(loss)

The components of other financial gain/(loss) were as follows:

	2011	2010
Changes in the fair value of call options	549,833	49,372
Changes in the fair value of foreign exchange non-deliverable forward contracts	573,664	83,959
Changes in the fair value of cross currency interest rate swap	(104,002)	1,500
Unwinding of discount on land restoration obligation	(25,632)	-
Total other financial gain/(loss) – net	**993,863**	**134,831**

26 Income tax

	2011	2010
Income tax expense – current	8,322,851	4,699,114
Prior periods adjustments recognised in the current period for income tax	(471,373)	-
Deferred income tax – (recognition)/reversal of temporary differences	211,392	259,585
Effect of the change in the tax rate	5,899	-
Income tax expense	**8,068,769**	**4,958,699**

During the year ended 31 December 2011 the Group offset VAT and other tax receivables against income tax payables of RR 35,861 thousand (2010: RR 187,607 thousand).

The profit before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	2011	2010
Profit before taxation	**40,100,162**	**25,011,176**
Theoretical tax charge at statutory rate of 20% (2010 – 20%)	(8,020,032)	(5,002,235)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(344,662)	(372,333)
- Effects of tax rates different to 20%	111,949	667,420
- Unrecognized tax loss carry forward for the year	(135,483)	(251,551)
- Effect of the change in the tax rate	(5,899)	-
- Reassessment of deferred tax assets / liabilities	(146,015)	-
Prior periods adjustments recognised in the current period for income tax	471,373	-
Consolidated tax charge	**(8,068,769)**	**(4,958,699)**

The majority of the Group companies were subject to a tax rate of 20% on taxable profits in the Russian Federation during the year ended 31 December 2011 (2010: 20%).

The tax rates of two subsidiaries operating in the Russian Federation were reduced:

- effective from 1 January 2011, the tax rate applying to OJSC Novomoskovskiy Azot was reduced to 18.3% (2010: 20%) according to the regional tax law;
- effective from 1 September 2011, the tax rate applying to LLC PG Phosphorit was reduced to 15.5% (2010: 20%) according to an agreement with a regional authority signed in August 2011.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

26 Income tax (continued)

As at 31 December 2011 deferred tax assets and liabilities of these subsidiaries were calculated at the reduced income tax rates which are expected to apply during the period covered by the agreement and any subsequent extension.

At 31 December 2011 the Group had RR 1,871,768 thousand (31 December 2010: RR 820,634 thousand) of accumulated tax losses carried forward and recognised deferred tax assets of RR 1,425,721 thousand (31 December 2010: RR 510,070 thousand). The Group did not recognise deferred tax assets of RR 446,047 thousand (31 December 2010: RR 310,564 thousand) because it is not probable that future taxable profit will be available against which the Group can utilize such benefits.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries of RR 62,961,581 thousand (31 December 2010: RR 57,325,555 thousand). The Group controls the timing of the reversal of these temporary differences and does not expect to reverse them in the foreseeable future.

The movement in deferred tax (assets) and liabilities during 2011 and 2010 was as follows:

	1 January 2011	Differences recognition and reversals	Business combina-tions	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2011
Tax effects of (deductible)/ taxable temporary differences:						
Property, plant and equipment and Intangible assets	2,278,677	1,191,339	1,777,537	4,562	(5,216)	5,246,899
Accounts receivable	(32,383)	(122,628)	-	(202)	3,505	(151,708)
Accounts payable	(489,729)	246,665	-	328	9,837	(232,899)
Inventories	(279,619)	(190,826)	-	484	(446)	(470,407)
Other	(27,008)	(62,247)	-	143	(1,821)	(90,933)
Tax losses carried-forward	(820,634)	(986,394)	(63,442)	(1,338)	40	(1,871,768)
Unrecognized deferred tax assets	310,564	135,483	-	-	-	446,047
Net deferred tax liability	**939,868**	**211,392**	**1,714,095**	**3,977**	**5,899**	**2,875,231**
Recognised deferred tax assets	(969,064)	(853,501)	15,945	(618)	864	(1,806,374)
Recognised deferred tax liabilities	1,908,932	1,064,893	1,698,150	4,595	5,035	4,681,605
Net deferred tax liability	**939,868**	**211,392**	**1,714,095**	**3,977**	**5,899**	**2,875,231**

	1 January 2010	Differences recognition and reversals	Business combina-tions	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2010
Tax effects of (deductible)/ taxable temporary differences:						
Property, plant and equipment and Intangible assets	2,201,245	76,042	-	1,390	-	2,278,677
Accounts receivable	(27,059)	(5,570)	-	246	-	(32,383)
Accounts payable	(171,600)	(318,437)	-	308	-	(489,729)
Inventories	(1,243)	(277,569)	-	(807)	-	(279,619)
Other	(133,467)	95,827	-	10,632	-	(27,008)
Tax losses carried-forward	(1,282,955)	437,741	-	24,580	-	(820,634)
Unrecognized deferred tax assets	59,013	251,551	-	-	-	310,564
Net deferred tax liability	**643,934**	**259,585**	-	**36,349**	-	**939,868**
Recognised deferred tax assets	(1,328,848)	327,711	-	32,073	-	(969,064)
Recognised deferred tax liabilities	1,972,782	(68,126)	-	4,276	-	1,908,932
Net deferred tax liability	**643,934**	**259,585**	-	**36,349**	-	**939,868**

The amounts shown in the consolidated statement of financial position include the following:

	2011	2010
Deferred tax assets expected to be recovered after more than 12 months	(1,016,349)	(265,180)
Deferred tax liabilities expected to be settled after more than 12 months	4,696,634	1,943,371

The total amount of the deferred tax charge is recognised in profit and loss.

27 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares (Note 14). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2011	2010
Net profit for the period attributable to owners of the parent	32,028,279	19,997,844
Weighted average number of ordinary shares in issue (expressed in thousands)	65,491	67,932
Basic and diluted earnings per share (expressed in RR per share)	**489.05**	**294.38**

28 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. 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	2011	2010
Statement of financial position caption			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	153	13,375
Trade receivables	Other related parties	17,518	15,861
less: impairment provision on trade receivables	Other related parties*	(17,518)	(15,861)
Prepayments, other receivables and other current assets	Other related parties	62,248	52,437
less: impairment provision on other receivables	Other related parties*	(53,484)	(50,628)
Bonds issued	Other related parties	24,147	22,858
Trade payables	Other related parties	2,463	8,128
Other accounts payable and accrued expenses	Other related parties	-	1,380

*impaired trade and other receivables from an affiliated Ukraine-based company.

Financial statements caption	Nature of relationship	2011	2010
Statement of comprehensive income caption			
Sales	Other related parties	46,850	200,068
Purchases of materials and components	Other related parties	(2,606)	(61,894)
Distribution costs	Other related parties	(130,495)	(81,621)
Interest income	Other related parties	215,104	-

Financial statements caption	Nature of relationship	2011	2010
Statement of cash flows caption			
(Increase)/decrease in trade receivables	Other related parties	(1,657)	243
Increase in other receivables	Other related parties	(9,811)	(2,196)
Decrease in trade payables	Other related parties	(6,712)	(5,389)
Increase/(decrease) in advances from customers	Other related parties	(1,380)	1,380
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(37,131)	(13,375)
Loan provided to the acquired subsidiary before acquisition (Note 29)	Other related parties	(13,714,173)	-
Interest received	Other related parties	27,799	-
Proceeds from sale of available-for-sale investments (Note 9)	Parent company	2,649,247	-
Dividends paid	Parent company	-	(5,834,000)
Purchase of own shares (Note 14)	Parent company	(29,671,667)	-

The total key management personnel compensation included in the profit and loss was RR 357,534 thousand (2010: RR 325,772 thousand). This compensation is paid 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.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

29 Business combinations

Acquisition of LLC Severneft – Urengoy. In the fourth quarter of 2011 the Group obtained control over LLC Severneft-Urengoy oil and gas company. This company which is registered in the Russian Federation has a license for the exploration, evaluation and extraction of crude hydrocarbons at the Zapadno-Yaroyakhinsky hydrocarbon deposits. The main purpose of this acquisition is to provide some control over raw materials such as natural gas to the nitrogen segment of the Group and to hedge the risks of gas price volatility.

The Group obtained control by means of agreements with the owners of the participating interests in LLC Severneft-Urengoy. Under the terms of the agreements, the owners transferred decision-making rights over all significant financial and operational policies of LLC Severneft-Urengoy to the Group until the date when the Group officially acquired its participating interest from the owners. Therefore, the business combination was achieved by contract alone and the Group attributed to the owners of the participating interests the amount of LLC Severneft-Urengoy's net assets recognised in these consolidated financial statements and recorded the participating interests in LLC Severneft-Urengoy as held by parties other than the Group as a non-controlling interest.

According to the conditions of the purchase agreement control was transferred to the Group from the date of the upfront payments, which were made on 28 December 2011 and totalled RR 62,170 thousand; they were recognised in Other non-current assets.

The acquisition of LLC Severneft-Urengoy was finalised in January 2012 after the purchase consideration was paid and legal title over 100% of the charter capital was transferred from the previous owners to the Group. The purchase consideration for 100% of the charter capital comprised RR 6,682,169 thousand paid in cash. This transaction will be recorded as an acquisition of a non-controlling interest in LLC Severneft-Urengoy (Note 34).

The fair values of all assets and liabilities recognised on acquisition were provisionally determined by an internationally recognised firm of independent appraisers. The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The assets acquired included mineral reserves comprising proven and unproven petroleum reserves in the Zapadno-Yaroyakhinsky hydrocarbon deposits of RR 3,856,585 thousand and RR 3,096,486 thousand, respectively. These amounts are included in Mineral rights in the consolidated statement of financial position.

In the second half of 2011, prior to the acquisition of LLC Severneft-Urengoy, the Group granted a loan of RR 13,714,173 thousand to this company, which is presented in the consolidated statement of cash flows as a loan provided to the acquired subsidiary before acquisition. This loan was effectively settled upon the acquisition of this company, as it became an intercompany loan and is eliminated in the Group's consolidated financial statements.

Among other assets the Group acquired and recognised RR-denominated unsecured originated loans to a third party of RR 6,301,867 thousand. The fair value of the loans was confirmed by an independent appraiser. The loans were fully repaid to LLC Severneft-Urengoy in January 2012, which has applied the proceeds towards the partial redemption of the intercompany loan mentioned above.

The provisional purchase price allocation for the acquisition was as follows:

	Carrying value	Attributed fair value
Cash and cash equivalents	122,742	122,742
Originated loans	6,301,867	6,301,867
Accounts receivable and other assets	1,275,913	1,275,913
Inventories	20,822	20,822
Property, plant and equipment	6,044,272	7,960,299
Mineral rights	-	6,953,071
Loan payable to the Group	(13,714,173)	(13,714,173)
Trade and other accounts payable	(369,072)	(369,072)
Other non-current liabilities	-	(61,318)
Deferred income tax asset/(liability) – net	63,442	(1,698,150)
Fair value of net assets of subsidiary		6,792,001
Non-controlling interest		**6,792,001**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

29 Business combinations (continued)

If the control over LLC Severneft-Urengoy was obtained on 16 May 2011, the date of the company incorporation, the Group's consolidated revenue and profit for the year ended 31 December 2011 would not have significant changes.

In the year 2011 the cash movement relating to the acquisition was as follows:

	2011
Upfront payments for acquisition of subsidiary	(62,170)
Cash and cash equivalents of subsidiary	122,742
Total cash flow relating to the acquisition of the oil and gas subsidiary	**60,572**

Acquisition of OJSC Montazhnik and CJSC Spetsprommontazh. In June 2011 the Group acquired 76.6% of the share capital of OJSC Montazhnik and 100% of the share capital of CJSC Spetsprommontazh to improve the Group's construction capabilities. These two construction companies are registered in the Russian Federation.

Management considers these entities as a single business combination, since together the two companies comprise an integrated set of activities and assets. The purchase consideration comprised RR 146,321 thousand, paid in cash. The fair value of net assets acquired was RR 89,376 thousand. The Group has recognised goodwill of RR 90,409 thousand, primarily attributable to the anticipated synergies and cost savings expected to arise. Non-controlling interest represents the share in the net assets of the acquired entity attributable to the owners of the non-controlling interest.

If the acquisition had occurred on 1 January 2011, the Group's consolidated revenue and profit for the year ended 31 December 2011 would not have changed significantly. Revenue and net profit included in the consolidated statement of comprehensive income since acquisition are not material.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Carrying value	Attributed fair value
Cash and cash equivalents	355	355
Accounts receivable and other assets	3,286	3,129
Inventories	11,879	11,879
Property, plant and equipment	30,491	111,000
Intangible assets	538	538
Trade and other accounts payable	(21,580)	(21,580)
Deferred income tax liability	-	(15,945)
Fair value of net assets of subsidiary		89,376
Less: non-controlling interests		**33,464**
Fair value of acquired interest in net assets of subsidiary		55,912
Goodwill arising from the acquisition		90,409
Total purchase consideration		146,321
Less: cash and cash equivalents of subsidiary acquired		355
Outflow of cash and cash equivalents on acquisition		**145,966**

30 Acquisition of non-controlling interests in subsidiaries

During 2011 Group transactions with non-controlling interests were mainly represented by a squeeze-out in Lifosa AB. As at 31 December 2011 the Group increased its shareholding in Lifosa AB from 99.1% to 100% (2010: from 94.8% to 99.1%).The total purchase consideration for this acquisition during the year ended 31 December 2011 comprised RR 176,715 thousand (2010: RR 448,983 thousand) paid in cash. The balance of the amount of RR 33,814 thousand shown in the statement of cash flows was paid for the acquisition of an additional interest in a construction subsidiary.

31 Contingencies, commitments and operating risks

i Business acquisition commitments

On 26 September 2011, Eurochem International Holding B.V. ("Eurochem Holding"), the Group's wholly-owned subsidiary, signed a sale and purchase agreement (SPA) with BASF Antwerpen NV for the acquisition of 100% of the share capital of a company that was newly incorporated by BASF Antwerpen NV and that will own the fertilizer assets of BASF located in Antwerp, Belgium ("Newco") up to the closing of the SPA. The price for the acquisition of 100% of the share capital of Newco is estimated to be approximately Euro 670 million, which is subject to final adjustments at the closing of the transaction. The closing of the transaction, including payment for the shares by Eurochem Holding and the transfer of the acquired shares to Eurochem Holding is expected to take place in the first quarter of 2012. The transaction is subject to customary terms and conditions, including merger clearance from the relevant anti-trust authorities.

ii Capital expenditure commitments

As at 31 December 2011 the Group had contractual commitments for capital expenditures of RR 21,603,857 thousand (31 December 2010: RR 18,225,826 thousand), including amounts denominated in US$ and Euro (RR 5,913,736 thousand and RR 7,173,654 thousand, respectively). Management estimates that, out of these, approximately RR 12.7 billion will represent cash outflows in 2012.

RR 10,463,842 thousand and RR 4,982,570 thousand out of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash license areas, respectively (31 December 2010: RR 10,272,954 thousand and RR 4,417,588 thousand, respectively).

iii Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged in the future by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective for new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also allows the tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas, specifically in extraction tax. From time to time, the Group adopts interpretations of such uncertain areas that may be challenged by the tax authorities, the impact of which cannot be reliably estimated; however, it may be significant to the financial condition or the overall operations of the Group.

31 Contingencies, commitments and operating risks (continued)

iii Tax legislation (continued)

As at 31 December 2011 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. 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 has recorded provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2011 and 31 December 2010.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 154,073 thousand (31 December 2010: RR 1,081,589 thousand primarily relates to management services and other fees charged by the holding company to the Group subsidiaries).

iv Insurance policies

The Group exercises risk insurance as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), physical property and business interruption insurance at nitrogen production plants, as well as insurances related to trade operations, including export shipments and credit insurance of trade debtors relating to the European distribution of fertilizers. The Group also carries voluntary life and accident insurance for employees. Additionally, as part of the potash project the Group voluntarily has insured construction risks for the cage and skip mine shafts at the Gremyachinskoe deposit for RR 16.7 billion. The insurance period covers all construction work until June 2013.

v Environmental matters

Environmental regulation in the Russian Federation 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. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

vi 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.

vii Operating environment of the Group

The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and interest rates, as well as periodic volatility in the RR exchange rate.

In 2010 and at the beginning of 2011 the Russian economy experienced a moderate recovery of economic growth.

Starting from the second half of 2011 the volatility in the currency, equity and commodities markets has increased following the uncertainties in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments.

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.

Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

31 Contingencies, commitments and operating risks (continued)

vii Operating environment of the Group (continued)

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. It believes it is taking all necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

32 Financial and capital risk management

32.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimize potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

The Group's revenues, expenses, capital expenditure, investments and borrowings are denominated in foreign currencies as well as Russian Roubles. The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimize the volatility of the Group's cash flows arising from fluctuations in foreign exchange rates. Management focuses on assessing the Group's future cash flows in foreign currencies and managing the gaps arising between inflows and outflows.

Translation gains and losses arising from the revaluation of its monetary assets and liabilities are therefore not viewed as an indicator of the total impact of foreign exchange fluctuations on its future cash flows since such gains or losses do not capture the impact on cash flows of foreign exchange-denominated revenues, costs, future capital expenditure, investment and financing activities.

The table below summarises the Group's financial assets and liabilities which are subject to foreign currency risk at the reporting date:

31 December 2011	US$	Euro	Other foreign currency
ASSETS			
Non-current financial assets:			
Restricted cash	-	1,701	6,278
RR/US$ non-deliverable forwards	124,353	-	-
Total non-current financial assets	**124,353**	**1,701**	**6,278**
Current financial assets:			
Trade receivables	2,306,374	44,173	48
Interest receivable	50,362	-	-
Fixed-term deposits	7,283,471	32,139	-
Cash and cash equivalents	3,169,942	1,678,260	20,124
Total current financial assets	**12,810,149**	**1,754,572**	**20,172**
Total financial assets	**12,934,502**	**1,756,273**	**26,450**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	53,430,421	1,365,495	-
RR/US$ cross currency swap (gross amount)	5,121,874	-	-
RR/US$ non-deliverable forwards	169,246	-	-
Total non-current financial liabilities	**58,721,541**	**1,365,495**	**-**
Current liabilities:			
Bank borrowings	-	4,167,140	-
Bonds issued	9,336,869	-	-
Euro/US$ non-deliverable forwards	-	167,044	-
Trade payables	1,072,806	251,192	38,177
Interest payable	271,445	19,166	-
Total current financial liabilities	**10,681,120**	**4,604,542**	**38,177**
Total financial liabilities	**69,402,661**	**5,970,037**	**38,177**

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

32 Financial and capital risk management (continued)

32.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2010	US$	Euro	Other foreign currency
ASSETS			
Non-current financial assets:			
Restricted cash	-	6,092	107,476
Total non-current financial assets	**-**	**6,092**	**107,476**
Current financial assets:			
Trade receivables	1,519,960	49,633	-
RR/US$ non-deliverable forward contracts	35,251	-	-
Restricted cash	-	-	92
Cash and cash equivalents	4,633,770	531,135	22,880
Total current financial assets	**6,188,981**	**580,768**	**22,972**
Total financial assets	**6,188,981**	**586,860**	**130,448**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	12,501,915	341,543	-
Bonds issued	8,838,300	-	-
RR/US$ cross currency swap (gross amount)	4,848,377	-	-
Total non-current financial liabilities	**26,188,592**	**341,543**	**-**
Current liabilities:			
Bank borrowings	12,757,772	-	-
Trade payables	327,972	349,335	41,636
Interest payable	233,892	1,486	-
Total current financial liabilities	**13,319,636**	**350,821**	**41,636**
Total financial liabilities	**39,508,228**	**692,364**	**41,636**

The Group believes that it has significant positive foreign exchange exposure towards the RR/US$ exchange rate given that the expected US$ denominated revenues exceed the planned outflows in US$, mostly related to servicing of debt and capital expenditure. Hence any depreciation of the RR against the US$ has a positive effect, while appreciation of the RR against the US$ has a negative effect on the Group's future cash flows.

The Group's sales for the years ended 31 December 2011 and 31 December 2010 are presented in the table below:

	US$	Euro	RR	Other foreign currency	Total
2011	84,419,804	6,074,033	31,936,618	8,867,625	131,298,080
	64%	5%	24%	7%	100%
2010	64,686,216	3,898,355	23,936,703	5,266,259	97,787,533
	66%	4%	25%	5%	100%

At 31 December 2011, if the RR exchange rate against the US$ had been higher/lower by 1%, all other things being equal, after tax profit for the year would have been RR 451,745 thousand (2010: RR 267,134 thousand) lower/higher, purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities and with no regard to the impact of this appreciation/depreciation on sales.

The Group is disclosing the impact of such a 1% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit resulting from subsequent future exchange rate changes.

During 2010-2011 the Group entered into foreign exchange non-deliverable forward contracts to partially offset the volatility of its cash flows from any potential appreciation of the RR against the US$ (Note 17).

32 Financial and capital risk management (continued)

32.1 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to risk from floating interest rates due to the fact that it has RR 53,430,421 thousand of US$ denominated loans outstanding at 31 December 2011 (2010: RR 25,259,687 thousand) bearing floating interest rates varying from 1-month Libor +1.5% to 1 month Libor +3% and 6 month Libor +2.5% (2010: 1 month Libor +1.8% and 6-month Libor +2.5%) and RR 5,532,635 thousand of Euro denominated loans outstanding at 31 December 2011 (2010: RR 341,543 thousand) bearing a floating interest rate of 1-month Euribor +1.75% and 6-month Euribor +1.95% (2010: 6-month Euribor +1.95%). The Group's profit after tax for the year ended 31 December 2011 would have been RR 24,358 thousand, or 0.08% lower/higher (2010: RR 25,706 thousand, or 0.13% lower/higher) if the US$ Libor interest rate was 10 bps higher/lower than its actual level during the year. The Group's profit after tax for the year ended 31 December 2011 would have been RR 3,076 thousand, or 0.01% lower/higher (2010: RR 770 thousand or 0.004% lower/higher) if the Euribor interest rate was 10 bps higher/lower than its actual level during the year. During 2011 and 2010 the Group did not hedge this exposure using financial instruments.

The Group does not have a formal policy of determining how much exposure the Group should have to fixed or variable rates for as long as the impact of changes in interest rates on the Group's cash flows remains immaterial. However, the Group performs a periodic analysis of the current interest rate environment and depending on this analysis at the time of raising new debt management makes decisions on whether obtaining finance on a fixed-rate or a variable-rate basis would be more beneficial to the Group over the expected period until maturity.

(iii) Financial investments risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. At 31 December 2011 the Group held 15,440,170 shares, or 8.067% of the issued share capital (2010: 16,656,595 shares, or 8.7% of the issued share capital) of K+S Group with a fair value of RR 22,467,999 thousand (2010: RR 37,863,331 thousand) (Note 9). The fair value of the shares is determined based on the closing price of Euro 34.92 as of the reporting date in the Xetra trading system. The Group's other comprehensive income/loss for 2011 would have been RR 643,414 thousand (2010: RR 671,812 thousand) if the share price were 1 Euro higher/lower than its actual level as at the reporting date. At 10 February 2012 the share price was Euro 39.42. During 2011 the Group did not hedge this exposure using financial instruments.

The Group is principally exposed to market price risks in relation to the investment in the shares of K+S Group. Management reviews reports on the performance of K+S Group on a quarterly basis and provides recommendations to the Board of Directors on the advisability of further investments or divestments.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

32 Financial and capital risk management (continued)

32.1 Financial risk management (continued)

(b) Credit risk (continued)

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2011 amounted to RR 39,805,161 thousand (2010: RR 11,816,357 thousand). The Group has no other significant concentrations of credit risk.

Cash and cash equivalents and fixed-term deposits. Cash and short-term deposits are mainly placed in major multinational and Russian banks with independent credit ratings. No bank balances and term deposits are past due or impaired. See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 13.

Trade receivables. Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers. The credit quality of each new customer is analyzed before the Group provides it with the standard terms of delivery and payment. The Group gives preference to customers with an independent credit rating. New customers without an independent credit rating are evaluated on a sample basis by an appointed rating agency. The credit quality of other customers is assessed taking into account their financial position, past experience and other factors. Customers that do not meet the credit quality requirements are supplied on a prepayment basis only.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 12).

The major part of trade receivables that are neither past due nor impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

Wholesale customers	Credit agency	Credit rating/Other	2011	2010
Wholesale customers and steel producers	-	Letter of credit	1,049,627	687,516
Wholesale customers and steel producers	Standard & Poor's Moody's Investor's Service	2011: BBB- to BB 2010: Ba3 to Baa3	1,021,819	973,928
Wholesale customers	Credit Reform*	Good	554,357	167,763
Wholesale customers	Dun & Bradstreet Credibility Corp.*	Good	168,408	231,137
Wholesale customers	-	Credit Insurance	30,669	-
Total			**2,824,880**	**2,060,344**

* Independent credit agencies used by the Group for evaluation of customers' credit quality.

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every individual customer is monitored.

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

In order to take advantage of financing opportunities in the international capital markets the Group has obtained credit ratings from Fitch and Standard & Poor's. As of 31 December 2011 these institutions have rated the Group as BB with stable outlook (2010: BB with stable outlook).

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

32 Financial and capital risk management (continued)

32.1 Financial risk management (continued)

(c) Liquidity risk (continued)

Cash flow forecasting is performed throughout the Group. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 15) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As of 31 December 2011					
Trade payables	3,061,104	-	-	-	**3,061,104**
*Gross-settled swap:** *					
- inflows	(411,370)	(411,370)	(5,822,740)	-	**(6,645,480)**
- outflows	199,383	199,383	5,520,640	-	**5,919,406**
Derivative financial liabilities	167,050	-	169,246	-	**336,296**
Bank borrowings*	7,400,521	10,413,316	70,416,119	2,314,327	**90,544,283**
Bonds issued*	10,355,464	1,077,100	11,488,500	-	**22,921,064**
As of 31 December 2010					
Trade payables	2,182,951	-	-	-	**2,182,951**
*Gross-settled swap:** *					
- inflows	(398,938)	(411,370)	(6,234,110)	-	**(7,044,418)**
- outflows	183,033	188,737	5,414,587	-	**5,786,357**
Derivative financial liabilities	127,981	-	-	-	**127,981**
Bank borrowings*	13,564,674	10,873,071	999,495	1,490,726	**26,927,966**
Bonds issued*	1,551,231	9,867,505	12,565,600	-	**23,984,336**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2011 and 31 December 2010, respectively.

** Payments in respect of the gross settled swap will be accompanied by related cash inflows.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group adopted in alignment with economic realities on 29 April 2009 by the Board of Directors. Such cash balances are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS.

The Group assesses liquidity on a weekly basis using a twelve-month cash flow rolling forecast.

32.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio. Additionally, the Group monitors the adequacy of its debt levels using the net debt to EBITDA ratio.

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

32 Financial and capital risk management (continued)

32.2 Capital risk management (continued)

Gearing ratio

The gearing ratio is determined as net debt to net debt plus shareholders' equity.

The gearing ratio as of 31 December 2011 and 31 December 2010 is shown in the table below:

	2011	2010
Total debt	96,692,236	42,826,981
Less: cash and cash equivalents and fixed-terms deposits	29,450,097	8,934,084
Net debt	**67,242,139**	**33,892,897**
Equity attributable to the holders of the Company	**83,385,584**	**94,180,622**
Net debt and shareholders' equity	**150,627,723**	**128,073,519**
Gearing ratio, %	**45%**	**26%**

Net Debt/EBITDA

The Group has established a policy that the ratio of the Group's net debt to its 12 months' rolling EBITDA should not exceed two and a half times. For this purpose net debt is determined as the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents.

The ratio of net debt to EBITDA as of 31 December 2011 and 31 December 2010 is shown in the table below:

	Note	2011	2010
EBITDA	6	**49,655,961**	**29,937,053**
Net debt		67,242,139	33,892,897
Net debt/EBITDA		**1.35**	**1.13**

Since EBITDA is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

33 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.

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. Trading and available-for-sale investments are carried on the consolidated statement of financial position at their fair value.

Effective from 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by three levels, depending on fair value measurements. Fair values of trading and available-for-sale investments were determined based on quoted market prices and were included in level 1. Fair values of derivatives financial assets and liabilities were determined based on derived of quoted market prices and were included in level 2.

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

33 Fair value of financial instruments (continued)

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 approximate their fair values.

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. At 31 December 2011 and 31 December 2010 the fair value of the current and non-current borrowings is not materially different from their carrying amounts. The fair value of the issued bonds is disclosed in Note 16.

34 Subsequent events

On 20 January 2012 the Group finalised the acquisition of LLC Severneft-Urengoy (Note 29).