EUROCHEM GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2012

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC Mineral Chemical Company "EuroChem":

We have audited the accompanying consolidated financial statements of OJSC Mineral Chemical Company "EuroChem" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 express an opinion on the fair presentation of these consolidated financial statements.

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Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

7 February 2013
Moscow, Russian Federation

E.V. Osipova, Director (licence no. 01-000529), ZAO PricewaterhouseCoopers Audit

Audited entity: open joint stock company Mineral Chemical Company "EuroChem"

State registration certificate № 001.460.272, issued by Moscow registration Chamber on 27.08.2011

115054 Moscow, Dubininskaya street, 53, p. 6

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations.

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

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	7	127,799,359	100,752,901
Mineral rights	8	15,335,730	14,271,178
Goodwill	9	11,371,695	295,275
Intangible assets	10	7,225,526	610,463
Restricted cash	15	44,003	7,980
Available-for-sale investments	11	1,914,636	11,044,815
Available-for-sale investments pledged as collateral	11	909,017	11,423,184
Derivative financial assets	19	1,948,421	124,353
Deferred income tax assets	29	4,898,621	1,806,374
Prepayment for investment in associate	37	2,522,755	-
Other non-current assets		196,181	167,920
Total non-current assets		**174,165,944**	**140,504,443**
Current assets:			
Inventories	12	23,006,319	14,957,399
Trade receivables	13	10,567,555	3,435,913
Prepayments, other receivables and other current assets	13	9,305,058	10,190,762
Prepayments for treasury shares	16	683,999	-
Originated loans	14	-	6,301,867
Derivative financial assets	19	63	-
Restricted cash	15	405,442	77,238
Fixed-term deposits	15	3,671,596	20,865,910
Cash and cash equivalents	15	15,444,147	8,506,949
Total current assets		**63,084,179**	**64,336,038**
TOTAL ASSETS		**237,250,123**	**204,840,481**
LIABILITIES AND EQUITY			
Equity attributable to owners of the parent:			
Share capital	16	6,800,000	6,800,000
Treasury shares	16	(39,047,045)	(29,679,427)
Retained earnings and other reserves		138,855,979	106,265,011
		106,608,934	**83,385,584**
Non-controlling interests		187,609	6,985,154
Total equity		**106,796,543**	**90,370,738**
Non-current liabilities:			
Bank borrowings	17	59,566,384	73,228,199
Bonds issued	18	32,589,882	9,964,656
Derivative financial liabilities	19	-	493,739
Deferred income tax liabilities	29	6,296,597	4,681,605
Other non-current liabilities and deferred credits	20	6,194,011	894,977
Total non-current liabilities		**104,646,874**	**89,263,176**
Current liabilities:			
Bank borrowings	17	6,807,983	4,167,140
Bonds issued	18	-	9,332,241
Derivative financial liabilities	19	-	167,050
Trade payables	22	8,386,544	3,061,104
Other accounts payable and accrued expenses	22	8,449,573	6,378,011
Income tax payable		1,253,033	1,436,216
Other taxes payable		909,573	664,805
Total current liabilities		**25,806,706**	**25,206,567**
Total liabilities		**130,453,580**	**114,469,743**
TOTAL LIABILITIES AND EQUITY		**237,250,123**	**204,840,481**

Approved on behalf of the Board of Directors
7 February 2013

Dmitry Strezhnev
Chief Executive Officer

Andrey Ilyin
Chief Financial Officer

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

	Note	2012	2011
Sales	23	166,477,729	131,298,080
Cost of sales	24	(97,767,726)	(63,641,275)
Gross profit		**68,710,003**	**67,656,805**
Distribution costs	25	(23,290,805)	(18,952,488)
General and administrative expenses	26	(5,598,628)	(4,653,188)
Other operating income/(expenses), net	27	370,529	(190,858)
Operating profit		**40,191,099**	**43,860,271**
Write-off of portion of assets at the Gremyachinskoe potash deposit	7	(3,685,995)	-
Dividend income	11	101,676	613,927
Gain on disposal of available-for-sale investments	11	568,382	914,434
Financial foreign exchange gain/(loss), net		4,315,355	(3,803,986)
Interest income		634,907	644,524
Interest expense		(4,293,356)	(3,122,871)
Other financial gain/(loss), net	28	2,466,212	993,863
Profit before taxation		**40,298,280**	**40,100,162**
Income tax expense	29	(7,729,130)	(8,068,769)
Profit for the period		**32,569,150**	**32,031,393**
Other comprehensive income/(loss)			
Currency translation differences, net of tax		(236,736)	495,249
Revaluation of available-for-sale investments	11	711,688	(12,689,257)
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	11	(568,382)	(914,434)
Total other comprehensive loss for the period		**(93,430)**	**(13,108,442)**
Total comprehensive income for the period		**32,475,720**	**18,922,951**
Profit/loss of the period attributable to:			
Owners of the parent		32,575,818	32,028,279
Non-controlling interests		(6,668)	3,114
		32,569,150	**32,031,393**
Total comprehensive income/(loss) attributable to:			
Owners of the parent		32,480,365	18,908,932
Non-controlling interests		(4,645)	14,019
		32,475,720	**18,922,951**
Earnings per share – basic and diluted (in RR)	30	528.99	489.05

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

	Note	2012	2011
Operating profit		**40,191,099**	**43,860,271**
Income tax paid		(7,373,735)	(7,099,060)
Operating profit less income tax paid		**32,817,364**	**36,761,211**
Depreciation and amortisation	26	8,087,408	4,483,328
Net loss on disposals and write-off of property, plant and equipment		424,317	135,294
Impairment of receivables and change of provision for obsolete and damaged inventories		166,521	59,921
Other non-cash (income)/expenses, net		(387,433)	328,434
Gross cash flow	5	**41,108,177**	**41,768,188**
Changes in operating assets and liabilities:			
Trade receivables		1,970,574	(797,594)
Advances to suppliers		(223,032)	(340,301)
Other receivables		93,703	(661,151)
Inventories		(1,835,911)	(5,057,047)
Trade payables		(1,470,618)	926,166
Advances from customers		(34,011)	(112,931)
Other payables		(368,384)	209,285
Restricted cash, other assets and liabilities		(364,227)	96,141
Net cash – operating activities		**38,876,271**	**36,030,756**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and intangible assets		(28,156,607)	(23,805,400)
Purchase of mineral rights		(373,062)	-
Prepayment for other non-current assets		(90,431)	(105,750)
Cash flow relating to the acquisition of the oil and gas subsidiary		-	60,572
Loan provided to the acquired subsidiary before acquisition	14	(116,229)	(13,714,173)
Acquisition of subsidiaries, net of cash acquired	32	(31,806,681)	(145,966)
Prepayment for investment in associate	37	(2,522,755)	-
Acquisition of available-for-sale investments	11, 31	(59,607)	-
Proceeds from sale of property, plant and equipment		135,519	52,333
Proceeds from disposal of non-current assets held for sale		883,651	-
Proceeds from sale of available-for-sale investments	11, 31	20,415,641	2,706,075
Cash proceeds/(payments) on derivatives, net	19	(63,873)	1,464,701
Dividends received, net of tax, and refunded withholding tax on dividends received	11	144,828	452,004
Net change in fixed-term deposits		16,564,889	(20,865,910)
Originated loans	14, 31	(1,927,340)	-
Repayment of originated loans	14	8,221,872	-
Interest received		1,055,499	198,637
Net cash – investing activities		**(17,694,686)**	**(53,702,877)**
Free cash inflow/(outflow)	5	**21,181,585**	**(17,672,121)**
Cash flows from financing activities			
Proceeds from bank borrowings	17	12,503,040	80,670,680
Repayment of bank borrowings	17	(19,970,832)	(31,234,477)
Proceeds from bonds, net of transaction costs		22,909,440	
Repayment of bonds	18	(8,513,762)	-
Prepaid and additional transaction costs		(5,850)	(5,234)
Interest paid		(4,350,733)	(2,708,618)
Cash proceeds from derivatives, net	19	214,959	-
Acquisition of non-controlling interest in oil and gas subsidiary	33	(6,619,999)	-
Acquisition of additional interest in other subsidiaries		(128)	(210,529)
Purchase of own shares	16, 31	(9,367,618)	(29,671,667)
Prepayments for treasury shares	16, 31	(683,999)	-
Other financial activities		11,761	-
Net cash – financing activities		**(13,873,721)**	**16,840,155**
Effect of exchange rate changes on cash and cash equivalents		(370,666)	442,292
Net increase/(decrease) in cash and cash equivalents		**6,937,198**	**(389,674)**
Cash and cash equivalents at the beginning of the period	15	**8,506,949**	**8,896,623**
Cash and cash equivalents at the end of the period	15	**15,444,147**	**8,506,949**

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

		Attributable to owners of the parent							
	Note	Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of available-for-sale investments	Retained earnings	Total	Non-controlling interests	Total equity
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	11	-	-	-	(12,689,257)	-	(12,689,257)	-	(12,689,257)
Disposal of available-for-sale investments	11	-	-	-	(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		-	(29,671,667)	-	-	-	(29,671,667)	-	(29,671,667)
Acquisition of subsidiaries		-	-	-	-	-	-	6,825,465	6,825,465
Acquisition of additional interest in subsidiaries		-	-	-	-	(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**
Balance at 1 January 2012		**6,800,000**	**(29,679,427)**	**1,724,223**	**(273,427)**	**104,814,215**	**83,385,584**	**6,985,154**	**90,370,738**
Comprehensive income/(loss)									
Profit/(loss) for the period		-	-	-	-	32,575,818	32,575,818	(6,668)	32,569,150
Other comprehensive income/(loss)									
Currency translation differences		-	-	(238,759)	-	-	(238,759)	2,023	(236,736)
Revaluation of available-for-sale investments	11	-	-	-	711,688	-	711,688	-	711,688
Disposal of available-for-sale investments	11	-	-	-	(568,382)	-	(568,382)	-	(568,382)
Total other comprehensive income/(loss)		-	-	(238,759)	143,306	-	(95,453)	2,023	(93,430)
Total comprehensive income/(loss)		**-**	**-**	**(238,759)**	**143,306**	**32,575,818**	**32,480,365**	**(4,645)**	**32,475,720**
Transactions with owners									
Repurchase of own shares		-	(9,367,618)	-	-	-	(9,367,618)	-	(9,367,618)
Acquisition of non-controlling interests in oil and gas subsidiary	33	-	-	-	-	109,832	109,832	(6,792,001)	(6,682,169)
Acquisition of additional interest in other subsidiaries		-	-	-	-	771	771	(899)	(128)
Total transactions with owners		**-**	**(9,367,618)**	**-**	**-**	**110,603**	**(9,257,015)**	**(6,792,900)**	**(16,049,915)**
Balance at 31 December 2012		**6,800,000**	**(39,047,045)**	**1,485,464**	**(130,121)**	**137,500,636**	**106,608,934**	**187,609**	**106,796,543**

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 mineral extraction (iron-ore, apatite, baddeleyite and hydrocarbons), fertiliser production and distribution. The Group manufactures a large number of products, the most significant of which is a wide range of mineral fertilisers (nitrogen and phosphate groups).

A company that holds business interests beneficially for Mr. Andrey Melnichenko owns 100% of Linea Ltd. registered in Bermuda, which in turn owns 92.2% (31 December 2011: 92.2%) of EuroChem Group S.E. 7.8% of EuroChem Group S.E. (31 December 2011: 7.8%) is held indirectly by Mr. Dmitry Strezhnev, CEO of the Group. As at 31 December 2012 EuroChem Group S.E. owns 88.51% of the Company (31 December 2011: 90.86%). The remaining 11.49% is held by EuroChem Capital Management Ltd, the Group’s wholly-owned subsidiary, and presented as treasury shares in the consolidated statement of financial position (31 December 2011: 9.14%).

The Group’s manufacturing facilities are primarily based in the Russian Federation with the exception of two entities: Lifosa AB, located in Lithuania and EuroChem Antwerpen NV acquired on 31 March 2012, located in Belgium (Note 32).

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 preparation. 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).

Translation from functional to presentation 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 significant subsidiaries located in Lithuania, where the functional currency is the Lithuanian Lita (“LTL”) and companies acquired during 2012 elsewhere in Europe, where the functional currency is the Euro.

At 31 December 2012 the official exchange rates established by the Central Bank of the Russian Federation (“CBRF”) were: US$ 1 = RR 30.3727 (31 December 2011: US$ 1 = RR 32.1961), Euro 1 = RR 40.2286 (31 December 2011: Euro 1 = RR 41.6714), LTL 1 = RR 11.6554 (31 December 2011: LTL 1 = RR 12.0684). Average rates for the year ended 31 December 2012 were: US$ 1 = RR 31.0930 (2011: US$ 1 = RR 29.3874), Euro 1 = RR 39.9524 (2011: Euro 1 = RR 40.8848), LTL 1 = RR 11.5716 (2011: LTL 1 = RR 11.8400).

These consolidated financial statements have been presented in Russian Roubles, 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 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 consolidated 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 reporting 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), net".

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.

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.

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)

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.

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.

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.

Intangible assets. The Group’s intangible assets have definite useful lives and primarily include acquired core process technology, distribution agreements, customer relationships, trademarks, capitalised computer software costs and other intangible assets.

These assets 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 use rights	50
Core process technology	18
Trademarks	15
Customer relationships	10
Distribution agreement	8
Software licences	5

The Group tests intangible assets for impairment whenever there are indications that intangible assets may be impaired.

2 Basis of presentation and significant accounting policies (continued)

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.

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 reporting date. At 31 December 2012 and 31 December 2011 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.

2 Basis of presentation and significant accounting policies (continued)

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 reclassified 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.

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 the 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 (2011: from 15.5% to 20%). For the subsidiaries located outside the Russian Federation tax rates on taxable profit range from 10% to 37.6% (2011: from 10% to 37.6%).

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods.

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 reporting 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.

2 Basis of presentation and significant accounting policies (continued)

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.

Trade receivables are to a large extent secured against a default risk by means of appropriate insurance coverage. Receivables management is geared towards collecting all outstanding accounts punctually and in full and to avoid the loss 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.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Non-current assets classified as held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Assets held for sale and related liabilities are presented in the statement of financial position separately from other assets and liabilities.

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 that are repayable on demand within one working day without penalties 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.

The longer the term of the deposit, 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 in the consolidated statement of financial position.

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.

2 Basis of presentation and significant accounting policies (continued)

Treasury shares. Where any Group company purchases the Company's shares, 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 consolidated 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 or is subject to refund from the state budget. 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.

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.

2 Basis of presentation and significant accounting policies (continued)

Asset retirement obligations. Under the license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of oil and gas drilling and mining operations, apart from the obligation to perform recultivation of certain disturbed lands in the areas of its operating activity.

The estimated future land restoration costs, discounted to net present value, are added to respective items of property, plant and equipment and corresponding obligations raised when the constructive obligation to incur such costs arises and these costs could be reliably estimated. Additional items of property, plant and equipment are amortised on a straight-line basis over the useful life of the corresponding asset. The unwinding of the obligation is recognised in profit and loss as part of other financial gain/loss.

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for land restoration and asset to which it relates. The Group reassesses its estimation of land restoration provision as at the end of each reporting period. Ongoing restoration costs are recognised as expenses when incurred.

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 sales of services are recognised in the period the services are provided.

Sales are shown net of VAT.

Revenues are measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed.

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.

Eurochem Antwerpen NV and Eurochem Agro operate defined benefit pension plans, which represent an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method and is charged to the statement of income so as to spread the service cost over the service lives of the employees. The defined pension obligation of the Group is not material.

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 29). 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 29).

Land. Certain industrial premises of the Group's subsidiary OJSC EuroChem Terminal Ust-Luga 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.

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 2012:

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- 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);
- Amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not 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;
- 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;
- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted);
- 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);
- 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;

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

- 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);
- 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;
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements;
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards − Government loans (issued in March 2012 and effective for periods beginning on or after 1 January 2013);
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 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;
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014);
- Other revised standards and interpretations: The 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 consolidated 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 the 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 income tax 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 2012 was RR 41,108,177 thousand (2011: RR 41,768,188 thousand).

Free cash flows are the cash flows available to providers of finance of the business, be this debt or equity. The free cash inflow for the year ended 31 December 2012 was RR 21,181,585 thousand (2011: outflow of RR 17,672,121 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.

6 Segment information

The Group is a vertically integrated business with activities spanning mining and natural gas extraction, fertiliser manufacturing, organic synthesis products, sales and distribution. The Group produces a large number of products, the most significant of which are a wide range of mineral fertilisers (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 other factors, a measure of profit before taxation adjusted by interest expense, depreciation and amortisation, financial foreign exchange gain or loss, other non-cash and extraordinary items, excluding net profit for the period attributed to non-controlling interests (EBITDA). Since this term is not a standard IFRS measure EuroChem Group's definition of EBITDA may differ from that of other companies.

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

- Nitrogen – the production and sale of nitrogen mineral fertilisers and organic synthesis products; starting from 2012 this also comprises hydrocarbon extraction and production. Starting from 31 March 2012, this segment includes the assets and liabilities, and the financial results of EuroChem Antwerpen NV;
- Phosphates – the production and sale of phosphate mineral fertilisers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the development of several deposits of potassium salts ("potash") under the licences acquired by the Group with a view to starting production and marketing of potassium fertilisers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilisers (including those not produced by the Group), seeds, crop protection 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.

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

6 Segment information (continued)

The segmental results for the year ended 31 December 2012 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	79,662,449	12,805,773	92,468,222	30,581,350
Phosphates	56,667,598	4,098,723	60,766,321	16,244,848
Potash	-	-	-	(547,549)
Distribution	17,120,357	17,469	17,137,826	966,926
Other	13,027,325	19,993,155	33,020,480	2,144,171
Elimination	-	(36,915,120)	(36,915,120)	(222,213)
Total	**166,477,729**	**-**	**166,477,729**	**49,167,533**

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

	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**

A reconciliation of EBITDA to profit before taxation is provided below:

	Note	2012	2011
EBITDA		**49,167,533**	**49,655,961**
Depreciation and amortisation	26	(8,087,408)	(4,483,328)
Idle property, plant and equipment write-off	7	(145,775)	(57,025)
Write-off of portion of assets at the Gremyachinskoe potash deposit	7	(3,685,995)	-
Gain on disposal of available-for sale investments	11	568,382	914,434
Financial foreign exchange gain/(loss), net		4,315,355	(3,803,986)
Interest expense		(4,293,356)	(3,122,871)
Other financial gain/(loss), net	28	2,466,212	993,863
Non-controlling interest		(6,668)	3,114
Profit before taxation		**40,298,280**	**40,100,162**

The segmental capital expenditure on property, plant and equipment, intangible assets and mineral rights for the year ended 31 December 2012 and ended 31 December 2011 were:

	2012	2011
Nitrogen	6,323,808	4,676,592
Phosphates	5,791,185	6,401,785
Potash	13,602,188	10,561,220
Distribution	93,674	63,938
Other	2,718,814	2,101,865
Total capital expenditure	**28,529,669**	**23,805,400**

Most of the Group's operating assets are primarily located in the Russian Federation. Operating assets located in foreign countries are mainly represented by assets of the Group's production subsidiaries Lifosa AB, located in Lithuania and EuroChem Antwerpen NV, located in Belgium.

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

	31 December 2012	31 December 2011
Non-current assets, located in Russia	130,335,126	110,269,252
Non-current assets, located in foreign countries	33,919,939	5,660,565
Total	**164,255,065**	**115,929,817**

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

6 Segment information (continued)

The analysis of Group sales by region was:

	2012	2011
Russia	35,450,024	31,092,455
Europe	44,592,166	18,609,096
Asia	25,990,260	30,250,071
Latin America	22,825,257	19,169,024
North America	19,040,052	11,074,561
CIS	12,927,635	15,935,617
Africa	3,623,513	4,119,944
Australasia	2,028,822	1,047,312
Total sales	**166,477,729**	**131,298,080**

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 2012 and 31 December 2011.

During the year ended 31 December 2012 and 31 December 2011 the Group had sales in excess of 10% to one customer which is an international fertiliser trader. Revenues from this customer represented 12% of total Group revenues for the year ended 31 December 2012 (2011: 11%) and were allocated to the Nitrogen, Phosphates and Other segments (2011: 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:

	Buildings	Land and Land Improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2012	**13,122,296**	**13,759,854**	**8,094,754**	**37,633,733**	**10,548,037**	**2,422,525**	**45,854,456**	**131,435,655**
Additions and transfers from assets under construction	2,159,564	3,311,727	2,910,371	11,505,941	1,333,415	693,738	7,460,260	29,375,016
Acquisitions through business combinations (Note 32)	927,376	-	544,775	7,994,359	25,952	5,175	83,854	9,581,491
Disposals	(36,436)	(12,481)	(57,033)	(630,750)	(80,229)	(91,887)	(85,019)	(993,835)
Changes in estimates of asset retirement obligations (Note 21)	-	187,983	-	-	-	-	-	187,983
Write-off of portion of assets at the Gremyachinskoe potash deposit								
Write-off of grouting technology costs incurred on cage shaft construction	-	-	-	-	-	-	(3,116,000)	(3,116,000)
Write-off of advances given to construction company	-	-	-	-	-	-	(484,808)	(484,808)
(Write-off)/reversal of write off of idle property, plant and equipment	4,065	-	(1,266)	(98,377)	(25)	(2,574)	(71,694)	(169,871)
Currency translation difference (Note 2)	(42,088)	(69,084)	(18,339)	81,675	(24,951)	(5,939)	2,357	(76,369)
Balance at 31 December 2012	**16,134,777**	**17,177,999**	**11,473,262**	**56,486,581**	**11,802,199**	**3,021,038**	**49,643,406**	**165,739,262**
Accumulated Depreciation								
Balance at 1 January 2012	**(3,165,536)**	**(2,165,905)**	**(2,940,637)**	**(17,403,805)**	**(3,822,626)**	**(1,184,245)**	**-**	**(30,682,754)**
Charge for the year	(956,288)	(671,704)	(610,977)	(4,560,098)	(808,983)	(424,994)	-	(8,033,044)
Disposals	19,717	8,226	21,199	445,371	67,571	73,174	-	635,258
Write-off/(reversal of write off) of idle property, plant and equipment	(3,230)	-	1,209	24,228	9	1,880	-	24,096
Currency translation difference (Note 2)	13,155	20,078	10,092	62,824	6,455	3,937	-	116,541
Balance at 31 December 2012	**(4,092,182)**	**(2,809,305)**	**(3,519,114)**	**(21,431,480)**	**(4,557,574)**	**(1,530,248)**	**-**	**(37,939,903)**
Net Carrying Value								
Balance at 1 January 2012	**9,956,760**	**11,593,949**	**5,154,117**	**20,229,928**	**6,725,411**	**1,238,280**	**45,854,456**	**100,752,901**
Balance at 31 December 2012	**12,042,595**	**14,368,694**	**7,954,148**	**35,055,101**	**7,244,625**	**1,490,790**	**49,643,406**	**127,799,359**

(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 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	637,156	4,532,068	1,785,627	637,999	27,812	9,645	440,992	8,071,299
Disposals	(20,405)	(16,842)	(9,613)	(396,078)	(90,288)	(46,942)	(40,819)	(620,987)
Changes in estimates of asset retirement obligations (Note 21)	-	(26,436)	-	-	-	-	-	(26,436)
Write-off of idle property, plant and equipment	(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								
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
Write-off of idle property, plant and equipment	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)

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

	31 December 2012	31 December 2011
Construction in progress	44,657,914	39,622,027
Evaluation expenses	214,921	75,891
Advances given to construction companies and suppliers of property, plant and equipment	4,770,571	6,156,538
Total assets under construction	**49,643,406**	**45,854,456**

Write-off of a portion of the assets at the Gremyachinskoe potash deposit

The Group terminated the construction contract and filed a claim against Shaft Sinkers (Pty) Ltd (Shaft Sinkers) as this company was unable to fulfill its contractual obligations and complete the construction of the Gremyachinskoe cage shaft, primarily due to problems with the grouting technology.

During the year ended 31 December 2012 the total amount of assets written off due to the failure of the grouting technology employed in the cage shaft construction comprised the following:

- previously capitalised expenses of RR 3,116,000 thousand;
- an advance given to Shaft Sinkers of RR 484,808 thousand;
- an amount of RR 85,187 thousand attributed to other debtors.

Idle property, plant and equipment write-off

During the year ended 31 December 2012 the Group decided to mothball certain production equipment with a gross carrying value and accumulated depreciation of RR 169,871 thousand and RR 24,096 thousand, respectively (2011: gross carrying value of RR 95,665 thousand and accumulated depreciation of RR 38,640 thousand) and recognised a loss of RR 145,775 thousand in these consolidated financial statements (2011: RR 57,025 thousand) (Note 24, 27).

Evaluation expenses at the Darganovsky and Ravninny potash fields

At 31 December 2012 the Group has capitalised expenses relating to the evaluation stage of the Darganovsky and Ravninny potash fields of RR 214,921 thousand which were recognised in assets under construction (31 December 2011: RR 75,891 thousand). The capitalisation of these expenses started from 1 March 2011 when the Group received official confirmation of the estimated resources covered by the licences for the exploration and evaluation of the Darganovsky and Ravninny potash fields. In most cases such expenses are paid in the period when the services are provided.

Borrowing costs capitalised

During the year ended 31 December 2012 borrowing costs totalling RR 190,713 thousand (2011: RR 129,809 thousand) were capitalised in property, plant and equipment at an average interest rate of 4.74% p.a. (2011: 5.43% p.a.).

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

7 Property, plant and equipment (continued)

Operating leases

As at 31 December 2012 most of the Group's major Russian-based subsidiaries own land on which their main production facilities are located. Other subsidiaries occupy the land plots under operation lease agreements. For these land plots the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2012	31 December 2011
Shorter than 1 year	199,236	170,284
Between 1 and 5 years	755,629	667,601
Longer than 5 years	4,161,056	4,131,399
Total payments	**5,115,921**	**4,969,284**

8 Mineral rights

	31 December 2012	31 December 2011
Rights for exploration and production:		
Verkhnekamskoe potash deposit	4,087,166	4,087,166
Gremyachinskoe potash deposit	3,017,781	3,017,781
Kok-Jon and Gimmelfarbskoe phosphate deposits	1,110,031	-
Kovdorsky apatite deposits	166,549	166,549
Rights for exploration, evaluation and extraction:		
Zapadno-Perelyubskiy potash deposit	30,006	-
Yuzhny hydrocarbon deposit	24,455	24,495
Perelyubsko-Rubezhinskiy hydrocarbon deposit	22,078	22,116
Vostochno-Perelyubskiy potash deposit	23,406	-
Rights for proven and unproven mineral resources:		
Zapadno-Yaroyakhinsky hydrocarbon deposits	6,854,258	6,953,071
Total mineral rights	**15,335,730**	**14,271,178**

Rights for exploration and production

Verknekamskoe and Gremyachinskoe potash deposits. In accordance with the conditions of the licence agreements including amendments to these agreements for developing the potash deposits, the Group has the following major commitments:

- to commence construction of an exploration complex at the Verkhnekamskoe potash deposit by 15 April 2013;
- to commence extraction of potash salt at the Verkhnekamskoe potash deposit by 15 October 2015;
- to commence extraction of potash salt at the Gremyachinskoe potash deposit by 1 November 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 licence terms in respect of the timing of these stages will be renegotiated. As at 31 December 2012 and 31 December 2011 the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase.

Kok-Jon and Gimmelfarbskoe phosphate deposits. During the year ended 31 December 2012 the Group signed a contract with the authorities of the Republic of Kazakhstan for the extraction of phosphate rock at the Kok-Jon and Gimmelfarbskoe deposits in Kazakhstan's Zhambyl region. The Group plans to launch a mining and production project, which includes the development of phosphate rock deposits, the construction of integrated mining-and-processing facilities and a fertiliser production plant.

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

8 Mineral rights (continued)

Rights for exploration and production (continued)

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

Rights for exploration, evaluation and extraction

As of 31 December 2012 deposits under licences for the exploration, evaluation and extraction were in the exploration phase.

9 Goodwill

Movements in goodwill arising from the acquisition of subsidiaries are:

	Note	2012	2011
Carrying amount at 1 January		**295,275**	**204,866**
Acquisition of subsidiaries	32	10,822,521	90,409
Currency translation difference		253,899	-
Carrying amount at 31 December		**11,371,695**	**295,275**

Goodwill impairment test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment, as follows:

	31 December 2012	31 December 2011
EuroChem Antwerpen NV	10,377,202	-
EuroChem Agro	699,218	-
Other	295,275	295,275
Total carrying amount of goodwill	**11,371,695**	**295,275**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on development strategy and financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	31 December 2012	31 December 2011
WACC rates	10.0-11.5%	11.5%
Long-term annual inflation rate (for Russian-based subsidiaries)	5.1%	8.6%
Long-term annual inflation rate (for EU-based subsidiaries)	2.0%	2.0%
Estimated growth rate beyond the five-year period	2.0%	2.0%
RR/US$ exchange rate	30.5	28.1

Management determined budgeted prices and expenses based on past performance and its market expectations. The weighted average growth rate used is consistent with the forecasts included in industry reports.

The Group did not recognise any goodwill impairment at 31 December 2012 and 31 December 2011.

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

10 Intangible assets

Movements in the carrying amount of intangible assets were:

	Know-how and production technology	Customer relationships	Acquired software and licences	Other	Total
Cost at 1 January 2011	-	-	**412,837**	**664,923**	**1,077,760**
Accumulated amortisation	-	-	**(258,905)**	**(4,332)**	**(263,237)**
Carrying amount at 1 January 2011	-	-	**153,932**	**660,591**	**814,523**
Additions	-	-	-	361	361
Acquired through business combinations	-	-	-	538	538
Disposals:					
Cost	-	-	-	(9)	(9)
Accumulated amortisation	-	-	-	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**
Additions	-	-	9,909	113,971	123,880
Acquired through business combinations (Note 32)	3,353,225	3,597,778	705,856	551,892	8,208,751
Disposals:					
Cost	-	-	-	(469)	(469)
Accumulated amortisation	-	-	-	2	2
Reclassification to non-current assets held for sale:					
Cost	-	(983,366)	-	-	(983,366)
Accumulated amortisation	-	44,698	-	-	44,698
Amortisation charge	(289,744)	(127,917)	(237,891)	(151,110)	(806,662)
Currency translation difference:					
Cost	57,230	(54,731)	18,821	8,027	29,347
Accumulated amortisation	(1,263)	58	(875)	962	(1,118)
Cost at 31 December 2012	**3,410,455**	**2,559,681**	**1,147,620**	**1,341,330**	**8,459,086**
Accumulated amortisation	**(291,007)**	**(83,161)**	**(580,929)**	**(278,463)**	**(1,233,560)**
Carrying amount at 31 December 2012	**3,119,448**	**2,476,520**	**566,691**	**1,062,867**	**7,225,526**

In September 2012 an intangible asset, which was recognised as part of a business combination and amounted to RR 938,668 thousand was reclassified as held for sale following the decision of the Group's management to sell this asset. The transaction was completed in November 2012 and the result was recognised as other operating expense.

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

At 31 December 2012 available-for-sale investments comprised the shares of K+S Group, a German manufacturer of potassium-based fertilisers and salt.

	31 December 2012	31 December 2011
K+S Group ordinary shares	1,914,636	11,044,815
K+S Group ordinary shares pledged as collateral	909,017	11,423,184
Total available-for-sale investments	**2,823,653**	**22,467,999**

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

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

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

	2012	2011
Carrying amount at 1 January	**22,467,999**	**37,863,331**
Acquisition of available-for-sale investments	59,607	-
Revaluation of available-for-sale investments	711,688	(12,689,257)
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(19,847,259)	(1,791,641)
- reclassification of revaluation to profit and loss	(568,382)	(914,434)
Carrying amount at 31 December	**2,823,653**	**22,467,999**

K+S Group shares, including shares pledged as collateral

At 31 December 2012 the Group held 2,005,434 shares, or 1.048% of the issued share capital (31 December 2011: 15,440,170 shares, or 8.067% of the issued share capital) of K+S Group with a fair value of RR 2,823,653 thousand (31 December 2011: RR 22,467,999 thousand) with reference to the share price quoted on the Xetra trading system of Euro 35.00 per share (31 December 2011: Euro 34.92 per share). A negative reserve was recognised in equity due to decrease in the fair value of the investment below its historical cost of RR 130,121 thousand at 31 December 2012 (31 December 2011: a negative reserve of RR 273,427 thousand).

During the year ended 31 December 2012 the Group sold 13,475,191 ordinary shares of K+S Group to EuroChem Group S.E., the parent company of the Group, for RR 20,415,641 thousand (Note 31) and recognised a gain of RR 568,382 thousand in the profit and loss.

During the second quarter of 2012 the Group acquired 40,455 ordinary shares of K+S Group from a related party for RR 59,607 thousand paid in cash (Note 31).

Dividends and withholding tax

In May 2012 the Group received dividend income from K+S Group of RR 101,676 thousand (2011: RR 613,927 thousand) before withholding tax of RR 26,817 thousand (2011: RR 161,923 thousand).

In January 2012 the Group received a refund of withholding tax on dividends paid during 2011. The refund totalled RR 69,969 thousand.

K+S Group shares pledged as collateral

At 31 December 2012 the Group had 645,608 K+S Group shares pledged as collateral for a bank loan with a fair value of RR 909,017 thousand (31 December 2011: 6,350,094 K+S Group shares with a fair value of RR 9,240,436 thousand) with reference to the share price quoted on the Xetra trading system (Note 17).

At 31 December 2012 the Group did not have any outstanding derivative contracts secured by K+S Group ordinary shares as collateral (31 December 2011: 2,858,000 K+S Group ordinary shares with a fair value of RR 4,158,861 thousand were pledged as collateral to secure outstanding European call options) (Note 19).

Therefore, as at 31 December 2012 the total number of K+S Group shares pledged as collateral was 645,608 with a fair value of RR 909,017 thousand (31 December 2011: 7,850,094 shares with a fair value of RR 11,423,184 thousand, as agreed with the lender, 1,358,000 shares with a fair value of RR 1,976,113 thousand simultaneously represented collateral for a bank loan and collateral under the call options). 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 has the right to use and dispose of these shares. The Group holds economic exposure in relation to the encumbered and/or used shares. The mortgagee is obliged to replace the original financial collateral by transferring equivalent securities upon the performance of the obligations of the mortgagor.

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

12 Inventories

	31 December 2012	31 December 2011
Finished goods	12,204,775	6,445,567
Materials	6,676,323	5,821,720
Catalysts	2,930,421	1,784,203
Work in progress	1,546,258	1,180,983
Less: provision for obsolete and damaged inventories	(351,458)	(275,074)
Total inventories	**23,006,319**	**14,957,399**

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

	31 December 2012	31 December 2011
Trade receivables		
Trade receivables denominated in RR	1,379,193	1,074,277
Trade receivables denominated in US$	3,124,112	2,306,373
Trade receivables denominated in Euro	6,180,130	119,195
Trade receivables denominated in other currencies	184,036	182,696
Less: impairment provision	(299,916)	(246,628)
Total trade receivables – financial assets	**10,567,555**	**3,435,913**
Prepayments, other receivables and other current assets		
Advances to suppliers	3,571,238	3,737,569
VAT recoverable and receivable	4,840,961	5,040,882
Income tax receivable	189,113	198,767
Other taxes receivable	16,008	43,513
Other receivables	575,366	891,306
Less: impairment provision	(220,048)	(161,311)
Subtotal non-financial assets	**8,972,638**	**9,750,726**
Other receivables	321,067	-
Interest receivable	11,353	440,036
Subtotal financial assets	332,420	**440,036**
Total prepayments, other receivables and other current assets	**9,305,058**	**10,190,762**
Total trade receivables, prepayments, other receivables and other current assets	**19,872,613**	**13,626,675**
including		
Financial assets	10,899,975	3,875,949
Non-financial assets	8,972,638	9,750,726

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

As at 31 December 2012, trade receivables, prepayments, other receivables and other current assets of RR 519,964 thousand (31 December 2011: RR 407,939 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:

	31 December 2012	31 December 2011
Less than 3 months	-	6,064
From 3 to 12 months	106,985	20,837
Over 12 months	412,979	381,038
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets	**519,964**	**407,939**

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

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

As at 31 December 2012, trade receivables of RR 915,247 thousand (31 December 2011: RR 298,277 thousand) were past due but not impaired. The ageing analysis of these trade receivables from past due date is:

	31 December 2012	31 December 2011
Less than 3 months	737,344	252,291
From 3 to 12 months	169,053	23,189
Over 12 months	8,850	22,797
Trade accounts receivable past due not impaired	**915,247**	**298,277**

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

		2012		2011	
	Note	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January		**246,628**	**161,311**	**165,639**	**151,607**
Acquisitions through business combinations		105,311	-	-	-
Provision charged	25, 26	96,352	127,709	107,798	24,252
Provision used		(19,810)	(61,886)	(21,573)	(6,386)
Provision reversed	25, 26	(123,027)	(5,398)	(7,662)	(12,829)
Foreign exchange difference		(5,538)	(1,688)	2,426	4,667
Total provision for impairment of accounts receivable as at 31 December		**299,916**	**220,048**	**246,628**	**161,311**

14 Originated loans

	Note	2012	2011
Balance as at 1 January		6,301,867	-
Originated loans to related parties	31	1,927,340	-
Loan provided to acquired subsidiary before acquisition		116,229	13,714,173
Originated loans to third party acquired through business combinations		-	6,301,867
Intragroup elimination of loan provided to acquired subsidiary before acquisition		(117,512)	(13,714,173)
Repayment of loans acquired in a business combination transaction by a third party		(6,301,867)	-
Repayment of originated loans by related parties	31	(1,920,005)	-
Foreign exchange loss		(6,052)	-
Balance as at 31 December		-	**6,301,867**

15 Cash and cash equivalents and fixed-term deposits

	31 December 2012	31 December 2011
Cash on hand and bank balances denominated in RR	1,524,397	1,491,231
Bank balances denominated in US$	3,029,315	1,849,003
Bank balances denominated in Euro	4,401,502	1,278,936
Balances denominated in other currencies	311,452	250,026
Term deposits denominated in RR	610,919	1,633,327
Term deposits denominated in US$	993,372	1,320,939
Term deposits denominated in Euro	4,275,552	445,277
Term deposits denominated in other currencies	297,638	238,210
Total cash and cash equivalents	**15,444,147**	**8,506,949**
Fixed-term deposits in RR	1,361,570	13,550,300
Fixed-term deposits in US$	2,277,953	7,283,471
Fixed-term deposits in Euro	32,073	32,139
Total fixed-term deposits	**3,671,596**	**20,865,910**
Current restricted cash	405,442	77,238
Non-current restricted cash	44,003	7,980
Total restricted cash	**449,445**	**85,218**

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

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

Term deposits at 31 December 2012 and 31 December 2011 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:

	31 December 2012	31 December 2011
A to AAA rated**	12,312,745	4,880,724
BB- to BBB+ rated**	6,764,587	24,011,552
B- to B+ rated**	468,535	505,694
C to CCC rated**	3,314	-
Unrated	13,814	53,763
Total*	**19,562,995**	**29,451,733**

* The rest of the statement of financial position 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 2013.

At 31 December 2012 current restricted cash totalling RR 405,442 thousand held at banks consisted of RR 382,757 thousand to meet the next principal and interest payments on bank borrowings and of RR 22,685 thousand (31 December 2011: RR 77,238 thousand) to comply with statutory regulations.

At 31 December 2012 RR 44,003 thousand of non-current restricted cash (31 December 2011: RR 7,980 thousand) was held in bank accounts as security deposits for third parties.

16 Equity

The nominal registered amount of the Company's issued share capital at 31 December 2012 is RR 6.8 billion (31 December 2011: RR 6.8 billion). The total authorised number of ordinary shares is 68 million shares (31 December 2011: 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 2011	68,000,000	6,800,000	6,216,651	(29,679,427)
At 31 December 2012	68,000,000	6,800,000	7,812,395	(39,047,045)

Treasury shares

During the year ended 31 December 2012 the Group bought back from EuroChem Group S.E., the parent company of the Group, 1,595,744 of its own ordinary shares which represent 2.35% of the issued share capital for RR 9,367,618 thousand paid in cash (Note 31) (2011: the Group bought back 6,148,651 of its own ordinary shares which represented 9.04% of the issued share capital for RR 29,671,667 thousand). The valuation of EuroChem's shares was performed by a reputable international firm of appraisers.

At 31 December 2012 EuroChem Capital Management Ltd. held 7,812,395 ordinary shares of the Company (31 December 2011: EuroChem Capital Management Ltd. held 6,216,651 ordinary shares). These shares represent 11.49% (31 December 2011: 9.14%) 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.

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

16 Equity (continued)

Prepayments for treasury shares

In December 2012 the Group made a prepayment of RR 683,999 thousand for 118,617 of its own shares from EuroChem Group S.E., the parent company of the Group (Note 31), these shares representing 0.17% of the issued share capital. As the transfer of the title of these shares was recorded on 28 January 2013, the transaction was presented as a prepayment for treasury shares in the consolidated statement of financial position.

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 2012, the net statutory profit of the Company as reported in the published annual statutory accounting report was RR 20,591,476 thousand (2011: RR 13,979,113 thousand) and the closing balance of the accumulated profit including the net statutory profit totalled RR 90,516,304 thousand (31 December 2011: RR 69,924,828 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 2012 other reserves in the consolidated statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 1,485,464 thousand (31 December 2011: RR 1,724,223 thousand) and a negative reserve related to a decrease in the fair value of the investments in the shares of K+S Group below their historical cost which amounted to RR 130,121 thousand (31 December 2011: a negative reserve related to a decrease in the fair value of the investments in the shares of K+S Group below their historical cost of RR 273,427 thousand) (Note 11).

Dividends. During 2012 and 2011 the Group did not declare or pay dividends.

17 Bank borrowings

	2012	2011
Balance as at 1 January	**77,395,339**	**24,054,601**
Bank loans received, denominated in RR	-	19,920,000
Bank loans received, denominated in US$	12,377,927	55,713,268
Bank loans received, denominated in Euro	125,113	5,037,412
Bank loans repaid, denominated in US$	(16,675,458)	(31,234,477)
Bank loans repaid, denominated in Euro	(3,295,374)	-
Capitalisation and amortisation of transaction costs, net	267,135	463,404
Foreign exchange (gain)/loss, net	(3,820,315)	3,441,131
Balance as at 31 December	**66,374,367**	**77,395,339**

	31 December 2012	31 December 2011
Current bank borrowings		
Short-term bank loans, denominated in Euro	603,429	4,167,140
Current portion of long-term bank loans in US$	6,350,925	-
Current portion of long-term bank loans in Euro	72,242	-
Less: short-term portion of transaction costs	(218,613)	-
Total current bank borrowings	**6,807,983**	**4,167,140**
Non-current bank borrowings		
Long-term bank loans, denominated in RR	20,000,000	20,000,000
Long-term bank loans, denominated in US$	45,669,328	53,430,421
Long-term bank loans, denominated in Euro	1,444,860	1,365,495
Less: current portion of long-term bank loans in US$	(6,350,925)	-
Less: current portion of long-term bank loans in Euro	(72,242)	-
Less: long-term portion of transaction costs	(1,124,637)	(1,567,717)
Total non-current bank borrowings	**59,566,384**	**73,228,199**
Total bank borrowings	**66,374,367**	**77,395,339**

17 Bank borrowings (continued)

At 31 December 2012 and 31 December 2011 the fair value of current borrowings and borrowings bearing floating interest rates is not materially different from their carrying amounts. The fair value of borrowings bearing fixed interest rates estimated based on expected cash flows discounted at an interest rate of 6.5% at 31 December 2012 exceeds their carrying amount by RR 1,081,570 thousand.

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

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

Interest rates and outstanding amounts

A 5-year club loan facility which was obtained in August 2011 for US$ 1.3 billion bears a floating interest rate of 1-month Libor +1.8%. At 31 December 2012 the outstanding amount totalled US$ 1.3 billion (31 December 2011: US$ 1.3 billion).

In September 2011 the Group signed a RR 20 billion 5-year non-revolving fixed-interest rate loan facility with a leading Russian bank. As at 31 December 2012 the outstanding amount was RR 20 billion (31 December 2011: RR 20 billion).

In March 2010 the Group signed a US$ 261 million, 10-year export credit agency-backed loan facility with a floating interest rate based on 6-month Libor for financing the construction of the cage shaft at the Gremyachinskoe potash deposit. In April 2012 due to the termination of the construction contract the unutilised part of the facility was cancelled and at 31 December 2012 the outstanding amount was US$ 109.5 million (31 December 2011: US$ 109.5 million).

In August 2010 the Group signed a US$ 250 million 5-year credit line agreement bearing a floating interest rate based on 1-month Libor with a European commercial bank. The disbursed amount was fully repaid in December 2012.

In May 2012 the Group signed a US$ 100 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor. In September 2012 the facility was fully utilised and the disbursed amount was repaid in December 2012.

In March 2012 the Group signed a US$ 83.3 million credit line agreement with a European commercial bank, bearing a floating interest rate based on 1-month Libor and maturity in August 2015. In November 2012 the credit limit was increased to US$ 94.1 million and the facility was fully utilised.

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility with a floating interest rate based on 6-month Euribor for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company. At 31 December 2012 Euro 35.9 million of the facility was utilised (31 December 2011: Euro 32.8 million).

In September 2009 the Group signed a loan agreement for Euro 85 million at a floating interest rate based on 1-month Euribor, which was converted into a revolving committed facility in 2010. In 2011 the credit limit was increased to Euro 140 million and by 31 December 2011 Euro 100 million of the facility was utilised. During the year ended 31 December 2012 Euro 85 million of the facility was repaid and the credit limit reduced to Euro 30 million with an extended maturity of March 2013. At 31 December 2012 the outstanding amount was Euro 15 million.

In May 2012 the Group signed a US$ 75 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor. During the year the facility was fully utilised and the disbursed amount was repaid in December 2012.

In September 2012 the Group signed a US$ 120 million 1-year credit line agreement bearing a floating interest rate based on 3-month Libor. In December 2012 it was converted into a revolving facility. In September 2012 the facility was fully utilised and the disbursed amount was repaid in December 2012.

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

17 Bank borrowings (continued)

Collaterals and pledges

At 31 December 2012 collaterals comprised cash balances of RR 382,757 thousand restricted by banks to secure the next principal and interest payments (31 December 2011: nil) (Note 15).

A bank loan of RR 39,484,510 thousand and RR 41,854,930 thousand at 31 December 2012 and 31 December 2011, respectively, was collateralised by future export proceeds of the Group under sales contracts with certain customers. A bank loan of RR 603,429 thousand at 31 December 2012 (31 December 2011: RR 4,167,140 thousand) was secured by K+S Group shares as collateral represented by 645,608 shares with a fair value of RR 909,017 thousand (31 December 2011: 6,350,094 shares with a fair value of RR 9,240,436 thousand). Fair value was determined by reference to the share price quoted on the Xetra trading system (Note 11).The Group's bank borrowings mature:

	31 December 2012	31 December 2011
- within 1 year	6,807,983	4,167,140
- between 1 and 2 years	16,973,081	7,325,334
- between 2 and 5 years	41,024,285	63,826,082
- more than 5 years	1,569,018	2,076,783
Total bank borrowings	**66,374,367**	**77,395,339**

18 Bonds issued

	31 December 2012	31 December 2011
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
Less: current portion of long-term bonds issued in US$	-	(9,336,869)
5.125% US$-denominated bonds due December 2017	22,779,525	-
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	(189,643)	(35,344)
Total non-current bonds	**32,589,882**	**9,964,656**
Total bonds issued	**32,589,882**	**19,296,897**

In March 2012 the 7.875% US$ denominated bonds with a face value of US$ 290 million were redeemed and the Group paid a settlement amount of RR 8,513,762 thousand.

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 2012 was RR 5,013,500 thousand (31 December 2011: RR 5,060,000 thousand) with reference to MICEX-RTS 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 2012 was RR 4,950,000 thousand (31 December 2011: RR 4,756,000 thousand) with reference to MICEX-RTS Stock Exchange quotations.

On 7 December 2012 the Group issued US$ denominated loan participation notes at a nominal value of US$ 750 million bearing a coupon of 5.125% p.a. maturing in December 2017. The fair value of the outstanding loan notes balance at 31 December 2012 was US$ 771.6 million or RR 23,434,436 thousand with reference to Irish Stock Exchange quotations.

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

19 Derivative financial assets and liabilities

At 31 December 2012 the non-current derivative financial assets were represented by RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 1,925,577 thousand and cross currency interest rate swaps accounted for at a fair value of RR 22,844 thousand, respectively (31 December 2011: non-current derivative financial assets comprised RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 124,353 thousand).

At 31 December 2012 the current derivative financial assets were represented by EUR/US$ deliverable forward contracts accounted for at a fair value of RR 63 thousand. At 31 December 2012 the Group did not have any derivative financial liabilities.

At 31 December 2011 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.

At 31 December 2012 the derivative financial assets and liabilities were:

	Assets		Liabilities	
	non-current	current	non-current	current
RR/US$ non-deliverable forward contracts	1,925,577	-	-	-
EUR/US$ deliverable forward contracts	-	63	-	-
Cross currency interest rate swap	22,844	-	-	-
Total	**1,948,421**	**63**	**-**	**-**

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**

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

19 Derivative financial assets and liabilities (continued)

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

	1 January 2012	Derivatives acquired as result of business combination	Changes in the fair value	Cash payments/ (proceeds) on derivatives, net	Currency translation difference	31 December 2012
Operating activities						
Foreign exchange deliverable forward contracts, net	-	(55,546)	63	53,981	1,565	63
Total derivatives in operating activities	**-**	**(55,546)**	**63**	**53,981**	**1,565**	**63**
Investing activities						
Foreign exchange non-deliverable forward contracts, net	(167,044)	-	270,083	63,873	-	166,912
Option contracts over K+S Group ordinary shares	(6)	-	6	-	-	-
Total derivatives in investing activities	**(167,050)**	**-**	**270,089**	**63,873**	**-**	**166,912**
Financing activities						
Cross currency interest rate swap	(324,493)	-	562,296	(214,959)	-	22,844
Foreign exchange non-deliverable forward contracts, net	(44,893)	-	1,803,558	-	-	1,758,665
Total derivatives in financing activities	**(369,386)**	-	**2,365,854**	**(214,959)**	-	**1,781,509**
Total derivative financial assets and liabilities, net	**(536,436)**	**(55,546)**	**2,636,006**	**(97,105)**	**1,565**	**1,948,484**

Changes in fair value of derivative financial assets and liabilities in investing and financing activities amounted to RR 2,635,943 thousand and were recognised within other financial gain/(loss) (Note 28). Changes in fair value of other derivatives related to operating activities of the Group amounted to RR 63 thousand and were recognised within other operating income and expenses.

Derivatives in operating activities

As a result of the acquisition of the EuroChem Agro companies (Note 32) the Group acquired deliverable EUR/US$, US$/EUR, and EUR/TRY forward contracts which represented current liabilities and were accounted for at a fair value of RR 55,546 thousand (a nominal amount of US$ 165,066 thousand, Euro 17,130 thousand and TRY 1,615 thousand, respectively).

At 31 December 2012 the Group had deliverable EUR/US$ forward contracts which represented current assets and were accounted for at a fair value of RR 63 thousand (a nominal amount of US$ 1,555 thousand).

The purpose of these transactions is to reduce risks arising from foreign currency volatility on operating activity.

Derivatives in investing and financing activities

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 18), 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 rouble bond. The swap will mature on 16 November 2015.

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

19 Derivative financial assets and liabilities (continued)

Derivatives in investing and financing activities (continued)

As at 31 December 2012 the Group has recognised a net gain of RR 562,296 thousand (Note 28), comprising of a gain from revaluation of the cross currency interest rate swap amounting to RR 347,337 thousand and net interest income of RR 214,958 thousand.

Call options over K+S Group ordinary shares. 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 with a fair value of RR 4,158,861 thousand (Note 11), which matured in January and February 2012. These call options were not exercised.

At 31 December 2012 the Group did not have outstanding call options over K+S Group ordinary shares (Note 11).

Foreign exchange non-deliverable forward contracts. At 31 December 2011 the Group had RR/US$ and EUR/US$ non-deliverable forward contracts to buy a nominal amount of RR 11,500 million and Euro 400 million, respectively.

During the year ended 31 December 2012 the Group had conducted the following transactions in non-deliverable forward contracts:

- entered into EUR/US$ and RR/EUR non-deliverable forward contracts to buy a nominal amount of Euro 100 million and Euro 709.8 million, respectively;
- entered into two types of RR/US$ non-deliverable forward contracts to buy a nominal amount of US$ 100 million and RR 14,100 million;
- settled EUR/US$ non-deliverable forward contracts for Euro 500 million against opposite non-deliverable forward contracts and received proceeds of RR 113,082 thousand;
- paid a settlement amount of RR 202,569 thousand for matured RR/US$ and RR/EUR non-deliverable forward contracts of US$ 100 million and Euro 530.3 million, respectively;
- received proceeds of RR 25,614 thousand for matured RR/EUR non-deliverable forward contracts of Euro 179.5 million.

At 31 December 2012 the Group had RR/US$ non-deliverable forward contracts for a nominal amount of RR 25,600 million with contractual settlement dates varying from September 2014 to September 2016.

20 Other non-current liabilities and deferred credits

	Note	31 December 2012	31 December 2011
Deferred payable related to business combination		3,940,287	-
Deferred payable related to mineral rights acquisition		694,608	-
Provisions for age premium, retirement benefits, pensions and similar obligations		927,833	448,928
Provision for land restoration	21	495,825	283,400
Deferred income − Investment grant received		135,458	162,649
Total other non-current liabilities and deferred credits		**6,194,011**	**894,977**

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

21 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 licences.

Movements in the amount of provision for land restoration were as follows:

	Note	2012	2011
As at 1 January		**283,400**	**222,887**
Change in estimates	7	187,983	(26,436)
Unwinding of the present value discount	28	24,442	25,632
Provision recognised as part of business combinations		-	61,317
Total provision for land restoration as at 31 December		**495,825**	**283,400**

During the year ended 31 December 2012 and 31 December 2011 the Group reassessed the estimate of provision for land restoration due to changes in inflation, discount rates and expected mines closure dates. Therefore, the amount of provision for land restoration was recalculated and the appropriate changes were disclosed as a change in estimates.

The principal assumptions used for the estimation of land restoration provision were as follows:

	31 December 2012	31 December 2011
Discount rates	6.9% - 7.2%	8.2% - 8.9%
Expected inflation rates in Russian Federation	3.0% - 6.2%	3.0% - 9.4%
Expected mine closure dates	2015 - 2073	2015 - 2073

The present value of expected costs to be incurred for the settlement of land restoration obligations was as follows:

	31 December 2012	31 December 2011
Between 1 and 5 years	107,614	96,746
Between 6 and 10 years	-	-
Between 11 and 20 years	26,593	21,290
More than 20 years	361,618	165,364
Total provision for land restoration	**495,825**	**283,400**

22 Trade payables, other accounts payable and accrued expenses

	31 December 2012	31 December 2011
Trade payables		
Trade payables denominated in RR	2,110,120	1,602,671
Trade payables denominated in US$	940,460	1,072,805
Trade payables denominated in Euro	5,191,035	253,945
Trade payables denominated in other currencies	144,929	131,683
Total trade payables – financial liabilities	**8,386,544**	**3,061,104**
Other accounts payable and accrued expenses		
Advances received	2,071,792	2,182,581
Payroll and social tax	519,818	333,653
Accrued liabilities and other creditors	4,141,314	3,510,193
Subtotal non-financial liabilities	**6,732,924**	**6,026,427**
Interest payable	180,021	351,584
Short term part of deferred payable related to mineral rights acquisition	144,387	-
Short term part of deferred payable related to business combination	1,392,241	-
Subtotal financial liabilities	**1,716,649**	**351,584**
Total other payables	**8,449,573**	**6,378,011**
Total trade payables, other accounts payable and accrued expenses	**16,836,117**	**9,439,115**
including		
Financial liabilities	10,103,193	3,412,688
Non-financial liabilities	6,732,924	6,026,427

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 1,042,528 thousand (31 December 2011: RR 765,158 thousand).

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

23 Sales

The components of external sales were:

	2012	2011
Nitrogen		
Nitrogen fertilisers	51,690,256	40,214,474
Complex fertilisers group	15,480,690	4,016,908
Organic synthesis products	7,341,935	7,770,645
Hydrocarbons	1,865,991	-
Phosphates	1,418,097	-
Other goods	1,204,012	822,115
Other services	661,468	262,498
	79,662,449	**53,086,640**
Phosphates		
Phosphates	30,822,385	31,430,171
Iron ore concentrate	17,836,939	21,953,124
Feed phosphates group	4,396,917	3,785,681
Apatite concentrate	1,314,750	1,130,327
Baddeleyite concentrate	1,000,157	1,027,264
Complex fertilisers group	738	2,673
Other goods	845,067	523,482
Other services	450,645	494,932
	56,667,598	**60,347,654**
Distribution		
Nitrogen fertilisers	9,492,468	6,226,928
Phosphates	3,252,661	2,758,595
Complex fertilisers group	2,642,096	3,434,925
Feed phosphates group	243,580	221,119
Organic synthesis products	8,482	12,423
Other goods	1,476,990	1,279,416
Other services	4,080	30,396
	17,120,357	**13,963,802**
Others		
Nitrogen fertilisers	10,176,282	2,243,139
Organic synthesis products	18,511	-
Phosphates	54,191	-
Complex fertilisers group	8,360	27,342
Logistic services	610,743	258,284
Other goods	1,624,802	868,140
Other services	534,436	503,079
	13,027,325	**3,899,984**
Total sales	**166,477,729**	**131,298,080**

24 Cost of sales

The components of cost of sales were:

	2012	2011
Materials and components used or resold	64,551,618	40,601,129
Energy	6,983,158	6,694,025
Utilities and fuel	4,406,660	3,617,517
Labour, including contributions to social funds	9,841,730	8,063,718
Depreciation and amortisation	6,467,269	3,656,398
Repairs and maintenance	2,336,272	1,041,923
Production overheads	2,338,121	1,487,996
Property tax, rent payments for land and related taxes	1,676,390	1,061,219
Idle property, plant and equipment write-off	109,650	57,025
Provision/(reversal of provision) for obsolete and damaged inventories	70,885	(51,638)
Changes in work in progress and finished goods	(1,371,501)	(2,849,658)
Other costs	357,474	261,621
Total cost of sales	**97,767,726**	**63,641,275**

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

25 Distribution costs

Distribution costs comprised:

	Note	2012	2011
Transportation		18,114,224	15,838,489
Export duties, other fees and commissions		183,560	267,559
Labour, including contributions to social funds		1,819,790	1,077,580
Depreciation and amortisation		1,102,189	471,659
Repairs and maintenance		671,539	614,611
Provision for impairment of receivables	13	36,963	27,893
Other costs		1,362,540	654,697
Total distribution costs		**23,290,805**	**18,952,488**

26 General and administrative expenses

General and administrative expenses comprised:

	Note	2012	2011
Labour, including contributions to social funds		2,719,936	2,435,684
Depreciation and amortisation		517,950	355,271
Audit, consulting and legal services		622,631	257,898
Rent		136,700	114,210
Bank charges		135,663	111,978
Social expenditure		150,802	148,430
Repairs and maintenance		83,802	73,059
Provision for impairment of receivables	13	58,673	83,666
Other expenses		1,172,471	1,072,992
Total general and administrative expenses		**5,598,628**	**4,653,188**

The total depreciation and amortisation expenses included in all captions of the consolidated statement of comprehensive income amounted to RR 8,087,408 thousand (2011: RR 4,483,328 thousand). The total staff costs (including social expenses) amounted to RR 14,381,456 thousand (2011: RR 11,576,982 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2012 amounted to RR 109,769 thousand (2011: RR 72,367 thousand). The auditors also provided the Group with consulting and training services amounting to RR 49,055 thousand (2011: RR 20,560 thousand).

27 Other operating income and expenses

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

	2012	2011
(Gain)/loss on disposal of property, plant and equipment and intangible assets	48,129	(90,739)
Sponsorship	515,567	447,246
Foreign exchange (gain)/loss, net	262,572	199,896
Idle property, plant and equipment write-off	36,125	-
Gain on sales and purchases of foreign currencies	(241,287)	(350,079)
Compensation for early termination of supply contract	(137,347)	-
Other operating (income)/expense, net	(854,288)	(15,466)
Total other operating (income)/expenses, net	**(370,529)**	**190,858**

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

28 Other financial gain/(loss)

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

	Note	2012	2011
Changes in the fair value of foreign exchange non-deliverable forward contracts		2,073,641	573,664
Changes in the fair value of cross currency interest rate swap		562,296	(104,002)
Changes in the fair value of call options unrealised		6	549,833
Unwinding of discount on deferred payables		(145,289)	-
Unwinding of discount on land restoration obligation	21	(24,442)	(25,632)
Total other financial gain/(loss), net		**2,466,212**	**993,863**

29 Income tax

	2012	2011
Income tax expense – current	7,401,162	8,322,851
Prior periods adjustments recognised in the current period for income tax	(174,947)	(471,373)
Deferred income tax –reversal of temporary differences	686,847	211,392
Effect of assets transfer between subsidiaries with different tax rates	(183,932)	-
Effect of the change in the tax rate	-	5,899
Income tax expense	**7,729,130**	**8,068,769**

During the year ended 31 December 2012 the Group offset VAT and other tax receivables against income tax payables of RR 206,375 thousand under the statutory rules (2011: RR 35,861 thousand).

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

	2012	2011
Profit before taxation	**40,298,280**	**40,100,162**
Theoretical tax charge at statutory rate of 20% (2011 – 20%)	(8,059,656)	(8,020,032)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(199,958)	(344,662)
- Effects of tax rates different to 20%	685,165	111,949
- Unrecognised tax loss carry forward for the year	(257,883)	(135,483)
- Effect of the change in the tax rate	-	(5,899)
Effect from transfer assets between regions with different income tax rates	183,932	-
Reassessment of deferred tax assets / liabilities	(255,677)	(146,015)
Prior periods adjustments recognised in the current period for income tax	174,947	471,373
Income tax expense	**(7,729,130)**	**(8,068,769)**

The most of the Group companies located in the Russian Federation were subject to a tax rate of 20% on taxable profits during the year ended 31 December 2012 (2011: 20%), except for subsidiaries which applied reduced income tax rates within a range from 15.5% to 20% according to regional tax law and agreements with regional authorities. As at 31 December 2012 deferred tax assets and liabilities of the subsidiaries with reduced income tax rates were calculated at rates which were expected to apply during the period covered by regional tax law and agreements with regional authorities.

For the subsidiaries located outside the Russian Federation tax rates on taxable profit range from 10% to 37.6%, including two major manufacturing entities Lifosa AB, located in Lithuania, and EuroChem Antwerpen NV, acquired on 31 March 2012 and located in Belgium, which apply tax rates of 15% and 33.99% on taxable profits, respectively (2011: Lifosa AB is subject to a tax rate of 15% on taxable profit).

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

29 Income tax (continued)

At 31 December 2012 the Group had RR 3,573,573 thousand (31 December 2011: RR 1,871,768 thousand) of accumulated tax losses carried forward and recognised deferred tax assets of RR 2,869,643 thousand (31 December 2011: RR 1,425,721 thousand). The Group did not recognise deferred tax assets of RR 703,930 thousand (31 December 2011: RR 446,047 thousand) because it is not probable that future taxable profit will be available against which the Group can utilise such benefits.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries of RR 68,290,561 thousand (31 December 2011: RR 62,961,581 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 2012 and 2011 was as follows:

	1 January 2012	Differences recognition and reversals	Business combina-tions	Currency translation difference (Note 2)	Transfer assets between regions with different income tax rates	31 December 2012
Tax effects of (deductible)/ taxable temporary differences:						
Property, plant and equipment and Intangible assets	5,246,899	1,720,847	(1,859,275)	(105,744)	(183,932)	4,818,795
Accounts receivable	(151,708)	(131,697)	13,249	6,671	-	(263,485)
Accounts payable	(232,899)	26,723	(17,947)	5,913	-	(218,210)
Inventories	(470,407)	178,850	31,443	(1,411)	-	(261,525)
Other	(90,933)	335,747	(56,866)	4,096	-	192,044
Tax losses carried-forward	(1,871,768)	(1,701,506)	-	(299)	-	(3,573,573)
Unrecognised deferred tax assets	446,047	257,883	-	-	-	703,930
Net deferred tax liability	**2,875,231**	**686,847**	**(1,889,396)**	**(90,774)**	**(183,932)**	**1,397,976**
Recognised deferred tax assets	(1,806,374)	(234,596)	(2,796,054)	(61,597)	-	(4,898,621)
Recognised deferred tax liabilities	4,681,605	921,443	906,658	(29,177)	(183,932)	6,296,597
Net deferred tax liability	**2,875,231**	**686,847**	**(1,889,396)**	**(90,774)**	**(183,932)**	**1,397,976**

	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)
Unrecognised 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**

29 Income tax (continued)

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

	31 December 2012	31 December 2011
Deferred tax assets expected to be recovered after more than 12 months	(4,285,009)	(1,016,349)
Deferred tax liabilities expected to be settled after more than 12 months	6,067,344	4,696,634

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

30 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. The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2012	2011
Net profit for the period attributable to owners of the parent	32,575,818	32,028,279
Weighted average number of ordinary shares in issue (expressed in thousands)	61,581	65,491
Basic and diluted earnings per share (expressed in RR per share)	**528.99**	**489.05**

31 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	31 December 2012	31 December 2011
Statement of financial position caption			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	2,471	153
Trade receivables	Other related parties	16,689	17,518
less: impairment provision on trade receivables	Other related parties*	(16,439)	(17,518)
Prepayments, other receivables and other current assets	Other related parties	863	62,248
less: impairment provision on other receivables	Other related parties*	-	(53,484)
Prepayments for treasury shares	Parent company	683,999	-
Bonds issued	Other related parties	60,745	24,147
Trade payables	Other related parties	2,840	2,463

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

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

31 Balances and transactions with related parties (continued)

Financial statements caption	Nature of relationship	2012	2011
Statement of comprehensive income caption			
Sales	Other related parties	78,275	46,850
Purchases of goods and services	Other related parties	(818)	(2,606)
Distribution costs	Other related parties	(24,285)	(130,495)
Interest income	Other related parties	11,902	215,104

Financial statements caption	Nature of relationship	2012	2011
Statement of cash flows caption			
(Increase)/decrease in trade receivables	Other related parties	829	(1,657)
(Increase)/decrease in other receivables	Other related parties	61,385	(9,811)
Increase/(decrease) in trade payables	Other related parties	278	(6,712)
Decrease in advances from customers	Other related parties	-	(1,380)
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(19,840)	(37,131)
Acquisition of available-for-sale investment (Note 11)	Other related parties	(59,607)	-
Loan provided to acquired subsidiary before acquisition (Note 14)	Other related parties	-	(13,714,173)
Originated loans to related parties (Note 14)	Other related parties*	(1,927,340)	-
Repayment of originated loans by related parties (Note 14)	Other related parties*	1,920,005	-
Repayment of bonds	Other related parties	(22,018)	-
Interest received	Other related parties	12,247	27,799
Proceeds from sale of available-for-sale investments (Note 11)	Parent company	20,415,641	2,649,247
Prepayment for own shares (Note 16)	Parent company	(683,999)	-
Purchase of own shares (Note 16)	Parent company	(9,367,618)	(29,671,667)

* Related parties represented by the companies under common control with the Group during the year ended 31 December 2012.

In the first quarter of 2012 the Group exchanged US$ 246,920 thousand for Euro 185,000 thousand with a related party at the Euro / US$ exchange rate prevailing in the market at the date of the transaction.

The total key management personnel compensation included in the profit and loss was RR 333,361 thousand and RR 357,534 thousand for the year ended 31 December 2012 and 31 December 2011, respectively. 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 accrual.

32 Business combinations

Acquisition of EuroChem Antwerpen NV

On 31 March 2012 the Group completed the acquisition of a company (now named EuroChem Antwerpen NV) owning BASF fertiliser production and logistics assets located in Antwerp, Belgium. This acquisition supports the Group's strategy of increasing its proximity to customers in its core fertiliser markets. The assets acquired comprise production and related logistics facilities for nitric acid, complex (NPK) and nitrogen (CAN, AN) fertilisers.

The total final purchase consideration for 100% of the charter capital of the company acquired comprised Euro 893,140 thousand, including a deferred payment of Euro 142,240 thousand payable over the period from 2013 to 2016. The fair value of the deferred payment amounts to Euro 129,600 thousand. Therefore, the fair value of the total purchase consideration amounted to Euro 880,500 thousand.

32 Business combinations (continued)

Acquisition of EuroChem Antwerpen NV (continued)

The details of the purchase price consideration for the acquisition are:

	Cash payments in thousands Euro	Amounts in thousands RR
Price for the acquisition agreed on 26 September 2011 and paid in cash on 30 March 2012	670,000	26,156,934
Other compensation for potential benefits, arising from the change to the initial transaction structure	174,640	6,836,542
- including: deferred portion to be paid in cash over 2013-2016	*142,240*	*5,571,640*
Net working capital adjustment, paid in cash in the second quarter 2012	48,500	1,899,779
Total purchase consideration	**893,140**	**34,893,255**
Less: adjustment of the deferred portion to present value	(12,640)	(495,118)
Total fair value of purchase consideration	**880,500**	**34,398,137**
Cash paid during the year ended 31 December 2012	750,900	29,400,172
Less: cash and cash equivalents of subsidiary acquired	(289)	(11,314)
Outflow of cash and cash equivalents during year ended 31 December 2012	**750,611**	**29,388,858**

The provisional purchase price allocation for the acquisition was:

	Attributed fair value in thousands Euro	Attributed fair value in thousands RR
Cash and cash equivalents	289	11,314
Trade and other receivables	150,945	5,912,626
Inventories	71,496	2,800,555
Property, plant and equipment	241,130	9,445,221
Intangible assets	122,340	4,792,152
Trade payables	(23,428)	(917,672)
Other accounts payable and accrued expenses	(6,826)	(267,409)
Loan payable to the Group	(3,000)	(117,512)
Deferred income tax assets	69,599	2,726,244
Fair value of net assets of subsidiary	**622,545**	**24,385,519**
Goodwill arising from the acquisition	257,955	10,104,281
Currency translation difference recognised in other comprehensive income	-	(91,663)
Total fair value of purchase consideration	**880,500**	**34,398,137**

This transaction included a contract with K+S Group to supply K+S Nitrogen with complex and nitrogen fertilisers and a related profit and loss sharing agreement (PLSA) which was negotiated separately but is viewed as an integral part of this business combination. Therefore, the amount paid for the PLSA was included in the total purchase consideration. The rights acquired under the PLSA were considered along with the provisions of the agreement between K+S Nitrogen and BASF and were not recognised as a separate intangible asset.

The fair values of assets and liabilities recognised on acquisition were provisionally determined by an internationally recognised firm of independent appraisers. The Group intends to finalise the purchase price allocation for property, plant and equipment and intangible assets within 12 months of the acquisition date. Based on the appraisal report the following intangible assets with definite useful lives were recognised:

	Fair value in thousands Euro	Fair value in thousands RR
Core process technology	69,701	2,730,237
Distribution agreement for other BASF fertiliser products	22,284	872,880
Software	18,020	705,856
Land use rights	12,191	477,530
Other	144	5,649
Total intangible assets	**122,340**	**4,792,152**

32 Business combinations (continued)

Acquisition of EuroChem Antwerpen NV (continued)

The Group has recognised goodwill of Euro 257,955 thousand which is primarily attributable to the beneficial location of the production facilities, the production expertise, an experienced work force and other factors which are expected to result in higher profitability of the acquired assets than was assumed in determining the fair values of assets and liabilities acquired.

Part of the goodwill recognised amounting to Euro 109,518 thousand is expected to be deductible for income tax purposes.

Transaction costs for acquisition-related services provided by third parties amounted to approximately RR 44 million and RR 138 million for the year ended 31 December 2011 and for the year ended 31 December 2012, respectively, and were charged to general and administrative expenses.

For the period from the date of acquisition to 31 December 2012 EuroChem Antwerpen NV contributed revenue, EBITDA and net profit to the Group of RR 19,307,350 thousand (including intragroup sales of RR 13,250,733 thousand), RR 2,519,688 thousand and RR 471,723 thousand, respectively. If the acquisition had occurred on 1 January 2012, the Group's consolidated revenue, EBITDA and net profit would not have changed significantly as fertiliser production assets were transferred into this newly incorporated legal entity at the end of March 2012. Between 1 January 2012 and the date of acquisition these fertiliser assets generated EBITDA of RR 677,091 thousand.

Acquisition of K+S Nitrogen

On 2 July 2012 the Group completed the acquisition of 100% of the K+S Nitrogen business after the relevant antitrust authority gave its approval on 25 June 2012. After the acquisition, the business was renamed Eurochem Agro, operating as a trading company specialising in nitrogen fertilisers in Germany, France, Spain, Italy, Greece, Turkey, Mexico, Singapore and China. The acquisition supports the Group's strategy of increasing its proximity to customers in its core fertiliser markets, while further bolstering the company's product offering.

The total purchase consideration for 100% of the shares of the business acquired amounted to Euro 195,655 thousand paid in cash. Additionally, the Group made a prepayment of Euro 50 thousand for an entity located in China, which is in the process of legal incorporation.

The provisional purchase price allocation for the acquisition was:

	Attributed fair value in thousands Euro	Attributed fair value in thousands RR
Cash and cash equivalents	137,145	5,667,247
Trade receivables	242,271	10,011,363
Inventories	84,428	3,488,838
Property, plant and equipment	3,298	136,270
Intangible assets	82,680	3,416,599
Other receivables and other current assets	14,223	587,744
Trade payables	(301,670)	(12,465,927)
Other accounts payables and accrued expenses	(49,259)	(2,035,547)
Tax payable	(9,470)	(391,308)
Provision for age premium, pensions and similar obligations	(3,776)	(156,055)
Derivative financial assets/(liabilities), net	(1,344)	(55,546)
Deferred tax assets	1,689	69,810
Deferred tax liability	(21,941)	(906,658)
Fair value of net assets of subsidiaries	**178,274**	**7,366,830**
Goodwill arising from the acquisition	17,381	718,240
Total purchase consideration	**195,655**	**8,085,070**
Less: Cash and cash equivalents of subsidiaries acquired	(137,145)	(5,667,247)
Outflow of cash and cash equivalents on acquisition	**58,510**	**2,417,823**

32 Business combinations (continued)

Acquisition of K+S Nitrogen (continued)

The fair values of assets and liabilities recognised upon acquisition were provisionally determined by an internationally recognised firm of independent appraisers. The Group intends to finalise the purchase price allocation for intangible assets within 12 months of the acquisition date.

Based on the appraisal report the following intangible assets with definite useful lives were recognised:

	Fair value in thousands Euro	Fair value in thousands RR
Customer relationships	41,344	1,708,463
Supplier and Manufacturer Relationships	24,597	1,016,435
Technology – patented & unpatented	10,538	435,454
Trademarks	4,538	187,534
Other intangible assets	1,663	68,713
Total intangible assets	**82,680**	**3,416,599**

In September 2012 an intangible asset recognised on supplier and manufacturer relationships was reclassified as an asset held for sale (Note 10).

The Group has recognised goodwill of Euro 17,381 thousand which is primarily attributable to the efficient distribution structure, an experienced work force and other factors which are expected to result in higher profitability of the acquired business than was assumed in determining the fair values of assets and liabilities acquired.

During the year ended 31 December 2012 transaction costs for acquisition-related services provided by third parties amounted to approximately RR 86 million and were charged to general and administrative expenses.

EuroChem Agro contributed revenue, EBITDA and net profit to the Group of RR 22,712,363 thousand, RR 603,223 thousand and RR 288,410 thousand, respectively, for the period from the date of acquisition to 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's consolidated revenue, EBITDA and net profit for year ended 31 December 2012 would have increased by approximately RR 26,143 million, RR 1,935 million and RR 1,264 million, respectively.

33 Acquisition of non-controlling interest in oil and gas subsidiary

In the fourth quarter of 2011 the Group obtained control of LLC Severneft-Urengoy by means of agreements under the terms of which the former owners of the participating interests in LLC Severneft-Urengoy transferred decision-making rights over all significant financial and operational policies of LLC Severneft-Urengoy to the Group. As at 31 December 2011 the Group recorded the participating interests in this company as a non-controlling interest.

In January 2012 the Group acquired 100% of the charter capital of LLC Severneft-Urengoy for a consideration of RR 6,682,169 thousand paid in cash. The payments were made in December 2011 and January 2012 amounting to RR 62,170 thousand and RR 6,619,999 thousand, respectively. The Group derecognised the non-controlling interest of RR 6,792,001 thousand and recorded an increase in equity attributable to the owners of the Group of RR 109,832 thousand.

34 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 31 December 2012 the Group had contractual commitments for capital expenditures of RR 14,949,923 thousand (31 December 2011: RR 21,603,857 thousand), including amounts denominated in Euro and US$ (RR 5,673,824 thousand and RR 352,489 thousand, respectively). Management estimates that, out of these, approximately RR 11.9 billion will represent cash outflows in 2012.

RR 4,737,712 thousand and RR 5,014,667 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 licence areas, respectively (31 December 2011: RR 10,463,842 thousand and RR 4,982,570 thousand, respectively).

ii 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.

Amended Russian transfer pricing legislation is effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also provided the possibility for 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 included 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 differed 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 that transfer pricing legislation in practice.

The implementation policy of the new Russian transfer pricing rules has not yet developed, therefore the impact of any challenge to the Group’s transfer prices cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

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.

34 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

As at 31 December 2012 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 recognises provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2012 and 31 December 2011.

At 31 December 2011 in addition to the above matters, management estimated that the Group had other possible obligations from exposure to other than remote tax risks of RR 154,073 thousand primarily relating to management services and other fees charged by the holding company to the Group subsidiaries.

iii Insurance policies

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

The Group also carries voluntary life and accident insurance for employees. Additionally, as part of the potash project the Group has voluntarily insured construction risks for the cage and skip mine shafts at the Gremyachinskoe deposit for RR 16.7 billion. The insurance covers a substantial part of the risks related to sinking of the two shafts for the period from June 2011 to June 2013.

iv 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.

v Legal proceedings

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

In October 2012 the Group filed a claim against Shaft Sinkers, the contractor involved in the construction of the mining shafts at the Gremaychinskoe potash deposit, seeking US$ 800 million compensation for the direct costs and substantial lost profits arising from the delay in commencing potash production, due to the inability of that construction company to fulfill its contractual obligations.

In December 2012 Shaft Sinkers filed a counterclaim against the Group, seeking US$ 44 million without Russian VAT of 18% or US$ 52 million with VAT under the construction contract. In its counterclaim Shaft Sinkers admits that it will give credit, in respect of any sums awarded to it, for a deduction of US$ 30,6 million in respect of advance payments made by the Group (Note 7). Management believes that this counterclaim is without merit.

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

34 Contingencies, commitments and operating risks (continued)

vi Operating environment of the Group

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

The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, could have a negative effect on the financial and corporate sectors. Deteriorating economic conditions for customers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

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

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

35 Financial and capital risk management

35.1 Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise 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 minimise 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.

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

35 Financial and capital risk management (continued)

35.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

31 December 2012	US$	Euro	Other foreign currencies
ASSETS			
Non-current financial assets:			
Restricted cash	19,563	1,642	8,638
RR/US$ non-deliverable forwards	1,925,577	-	-
Total non-current financial assets	**1,945,140**	**1,642**	**8,638**
Current financial assets:			
Trade receivables	3,006,975	125,725	332
Interest receivable	2,340	-	-
Other receivables	67,741	-	-
Euro/US$ deliverable forwards	63	-	-
Restricted cash	382,758	-	-
Fixed-term deposits	2,277,953	32,073	-
Cash and cash equivalents	3,669,041	1,729,736	34,026
Total current financial assets	**9,406,871**	**1,887,534**	**34,358**
Total financial assets	**11,352,011**	**1,889,176**	**42,996**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	39,318,403	1,372,618	-
Bonds issued	22,779,525	-	-
RR/US$ cross currency swap (gross amount)	4,831,801	-	-
Deferred payable related to mineral rights acquisition	557,639	-	-
Total non-current financial liabilities	**67,487,368**	**1,372,618**	**-**
Current liabilities:			
Bank borrowings	6,350,925	675,671	-
Trade payables	893,805	451,090	40,951
Interest payable	109,325	7,473	-
Deferred payable related to mineral rights acquisition	144,387	-	-
Total current financial liabilities	**7,498,442**	**1,134,234**	**40,951**
Total financial liabilities	**74,985,810**	**2,506,852**	**40,951**

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

35 Financial and capital risk management (continued)

35.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2011	**US$**	**Euro**	**Other foreign currencies**
ASSETS			
Non-current financial assets:			
Restricted cash	-	1,701	6,278
RR/US$ non-deliverable forwards	124,353	-	-
Total non-current financial assets	**124,353**	**1,701**	**6,278**
Current financial assets:			
Trade receivables	2,306,373	44,173	48
Interest receivable	50,363	-	-
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**

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 2012 and 31 December 2011 are presented in the table below:

	US$	**Euro**	**RR**	**Other foreign currency**	**Total**
	91,090,291	29,225,652	36,204,486	9,957,300	166,477,729
2012	55%	17%	22%	6%	100%
	84,419,804	6,074,033	31,936,618	8,867,625	131,298,080
2011	64%	5%	24%	7%	100%

At 31 December 2012, 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 509,070 thousand (2011: RR 451,745 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.

35 Financial and capital risk management (continued)

35.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

During 2011-2012 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 19).

(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 45,669,328 thousand of US$ denominated loans outstanding at 31 December 2012 (2011: RR 53,430,421 thousand) bearing floating interest rates varying from 1-month Libor +1.8% to 1 month Libor +3.5% and 6 month Libor +2.5% (2011: from 1-month Libor +1.5% to 1 month Libor +3% and 6 month Libor +2.5%) and RR 2,048,289 thousand of Euro denominated loans outstanding at 31 December 2012 (2011: RR 5,532,635 thousand) bearing a floating interest rate of 1-month Euribor +1.75% and 6-month Euribor +1.95% (2011: 1-month Euribor +1.75% and 6-month Euribor +1.95%). The Group's profit after tax for the year ended 31 December 2012 would have been RR 45,695 thousand, or 0.14% lower/higher (2011: RR 24,358 thousand, or 0.08% 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 2012 would have been RR 2,187 thousand, or 0.01% lower/higher (2011: RR 3,076 thousand or 0.01% lower/higher) if the Euribor interest rate was 10 bps higher/lower than its actual level during the year. During 2012 and 2011 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 2012 the Group held 2,005,434 shares, or 1.048% of the issued share capital (2011: 15,440,170 shares, or 8.067% of the issued share capital) of K+S Group with a fair value of RR 2,823,653 thousand (2011: RR 22,467,999 thousand) (Note 11). The fair value of the shares is determined based on the closing price of Euro 35.00 as at the reporting date in the Xetra trading system. The Group's other comprehensive income/loss for 2012 would have been RR 80,676 thousand (2011: RR 643,414 thousand) if the share price were 1 Euro higher/lower than its actual level as at the reporting date. At 05 February 2013 the share price was Euro 32.80. During 2012 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.

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

35 Financial and capital risk management (continued)

35.1 Financial risk management (continued)

(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.

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 2012 amounted to RR 30,661,344 thousand (2011: RR 39,805,161 thousand). The Group has no 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 15.

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 Group's trade receivables risk increased significantly upon the acquisition of EuroChem Agro. The Group holds voluntary credit insurance policies of trade debtors relating to the distribution of fertilisers.

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 analysed 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 or the score and credit limits for new customers are set by the appointed insurance company. 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 13).

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:

Group of customers	Rating agency	Credit rating/Other	2012	2011
Wholesale customers	-	Credit Insurance	5,060,468	30,669
Wholesale customers and steel producers	Standard & Poor's	2012: BB+ to BBB 2011: BBB- to BB	935,487	1,021,819
Wholesale customers	-	Letter of credit	717,991	1,049,627
Wholesale customers	Credit Reform*	Good	678,577	554,357
Wholesale customers	-	Bank guarantee	709,964	-
Wholesale customers	Dun & Bradstreet Credibility Corp.*	Strong	506,841	-
Wholesale customers	Dun & Bradstreet Credibility Corp.*	Good	31,044	168,408
Total			**8,640,372**	**2,824,880**

* 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.

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

35 Financial and capital risk management (continued)

35.1 Financial risk management (continued)

(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 at 31 December 2012 these institutions have rated the Group as BB with stable outlook (31 December 2011: BB with stable outlook).

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 reporting 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 at 31 December 2012					
Trade payables	8,386,544	-	-	-	**8,386,544**
*Gross-settled swap:***					
- inflows	(205,685)	(411,370)	(5,411,370)	-	**(6,028,425)**
- outflows	94,046	188,091	5,019,892	-	**5,302,029**
Bank borrowings*	9,940,551	19,819,970	43,705,432	2,024,864	**75,490,817**
Bonds issued*	2,367,458	2,022,651	36,915,177	-	**41,305,286**
Other non-current liabilities	1,582,857	1,605,907	3,098,959	684,378	**6,972,101**
As at 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**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2012 and 31 December 2011, 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.

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

35 Financial and capital risk management (continued)

35.2 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.

Gearing ratio

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

The gearing ratio as at 31 December 2012 and 31 December 2011 is shown in the table below:

	31 December 2012	31 December 2011
Total debt	98,964,249	96,692,236
Less: cash and cash equivalents and fixed-terms deposits	19,521,185	29,450,097
Net debt	**79,443,064**	**67,242,139**
Equity attributable to the holders of the Company	**106,608,934**	**83,385,584**
Net debt and shareholders' equity	**186,051,998**	**150,627,723**
Gearing ratio, %	**43%**	**45%**

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 in normal market conditions. 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 at 31 December 2012 and 31 December 2011 is shown in the table below:

	Note	2012	2011
EBITDA	6	**49,167,533**	**49,655,961**
EBITDA generated by fertiliser assets in Antwerp from 1 January 2012 to 31 March 2012	32	677,091	-
EBITDA of EuroChem Agro from 1 January 2012 to 2 July 2012	32	1,934,777	-
EBITDA including EBITDA of Eurochem Antwerpen NV and EuroChem Agro before acquisition		**51,779,401**	**49,655,961**
Net debt		79,443,064	67,242,139
Net debt/EBITDA		**1.53**	**1.35**

For the purpose of this calculation EBITDA includes EBITDA of the Group's recently acquired companies during the period from 1 January 2012 to the date of acquisition.

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

36 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. 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 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 derivedquoted market prices and were included in level 2.

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

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used depend on the credit risk of the counterparty. The carrying amounts of trade receivables 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 2012 and 31 December 2011 the fair value of the non-current borrowings and issued bonds are disclosed in Notes 17 and 18.

37 Subsequent events

Investments in associate

In December 2012 the Group made a prepayment of RR 2,522,755 thousand for the acquisition of a 38.62% interest in OJSC Murmansk Commercial Seaport represented by 43,703 voting shares. These shares are to be transferred to the Group in February 2013.

Prepayment for treasury shares

In January 2013 the Group signed a sale and purchase agreement with EuroChem Group S.E, the parent company of the Group, and made a prepayment of RR 4,232,451 thousand to buy back 744,680 of its own shares, these shares representing 1.1% of the issued share capital.