URALCHEM HOLDING P.L.C.

Consolidated financial statements
for the year ended 31 December 2012

URALCHEM HOLDING P.L.C.

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URALCHEM HOLDING P.L.C.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The following statement, which should be read in conjunction with the independent auditor's report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of UralChem Holding P.L.C. and its subsidiaries (together, the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at 31 December 2012, the results of its operations, cash flows and changes in equity for the year ended 31 December 2012, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2012 were approved and signed on 1 March 2013 by:

Victor N. Zorkin	Charalambos Meivatzis
Director	Director

Limassol, Cyprus
1 March 2013

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UralChem Holding P.L.C.:

We have audited the accompanying consolidated financial statements of UralChem Holding P.L.C. and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Moscow, Russia
5 March 2013

URALCHEM HOLDING P.L.C.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue			
Sales of goods	7	2,332,980	1,998,436
Other sales	8	89,659	81,880
Total revenue		**2,422,639**	**2,080,316**
Cost of sales	9	(1,022,919)	(867,967)
Gross profit		**1,399,720**	**1,212,349**
Selling and distribution expenses	10	(497,681)	(443,286)
General and administrative expenses	11	(135,639)	(119,371)
Other operating income	12	7,817	16,440
Other operating expenses	12	(40,426)	(6,752)
Operating profit		**733,791**	**659,380**
Interest and other finance income	13	12,918	3,289
Interest and other finance expense	14	(77,673)	(115,346)
Gain from change in fair value of previously held interest	5	153,458	-
Impairment of goodwill	17	(76,450)	-
Share of profit of associates	18	293	49,541
Foreign exchange gain/(loss) from financing activities		56,454	(38,957)
Profit before tax		**802,791**	**557,907**
Income tax expense	15	(137,846)	(113,261)
Profit for the year		**664,945**	**444,646**
Attributable to:			
Shareholders of the Company		656,960	439,997
Non-controlling interests		7,985	4,649
		664,945	**444,646**
Earnings per share			
Weighted average number of ordinary shares in issue during the year		175,467,368	175,000,001
Basic and diluted earnings per share (US dollars per share)		3.7	2.5

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year	**664,945**	**444,646**
Other comprehensive income/(loss):		
Effect of translation to presentation currency	40,493	(33,899)
Other comprehensive income/(loss)	**40,493**	**(33,899)**
Total comprehensive income for the year	**705,438**	**410,747**
Total comprehensive income for the year attributable to:		
Shareholders of the Company	695,700	404,630
Non-controlling interests	9,738	6,117
	705,438	**410,747**

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	16	992,111	619,194
Goodwill	17	345,751	158,852
Intangible assets		9,561	14,216
Investments in associates	18	11,198	87,669
Inventories	19	36,652	36,427
Available-for-sale investments	20	171,576	167,110
Other financial assets	21	7,311	91
Deferred tax assets	31	26,258	51,466
Long-term advances paid	24	-	27,448
		1,600,418	**1,162,473**
Current assets			
Inventories	19	143,447	107,374
Trade and other receivables	23	95,146	88,804
Advances paid and prepaid expenses	24	44,864	41,049
Income tax receivable		7,350	6,644
Other taxes receivable	25	79,006	83,265
Other financial assets	21	27,135	6,908
Cash and cash equivalents	26	177,617	252,566
Assets held for sale	22	-	6,163
		574,565	**592,773**
TOTAL ASSETS		**2,174,983**	**1,755,246**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	27	1,377	1,373
Additional paid-in capital		165,632	165,632
Foreign currency translation reserve		(66,488)	(105,228)
Retained earnings		812,761	251,363
Equity attributable to shareholders of the Company		**913,282**	**313,140**
Non-controlling interests		10,729	10,842
Total equity		**924,011**	**323,982**
Non-current liabilities			
Loans and borrowings	28	850,132	791,968
Obligations under finance leases	29	48,044	40,384
Retirement benefit obligations	30	13,254	8,374
Deferred tax liabilities	31	74,756	50,553
		986,186	**891,279**
Current liabilities			
Loans and borrowings	28	91,569	338,275
Obligations under finance leases	29	17,627	12,788
Trade and other payables	32	74,839	117,905
Advances received		46,344	59,243
Income tax payable		26,171	6,714
Other taxes payable	33	8,236	5,060
		264,786	**539,985**
Total liabilities		**1,250,972**	**1,431,264**
TOTAL EQUITY AND LIABILITIES		**2,174,983**	**1,755,246**

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2012	Year ended 31 December 2011
Operating activities		
Profit before tax	**802,791**	**557,907**
Adjustments for:		
Depreciation of property, plant and equipment	102,243	87,809
Amortisation of intangible assets	2,505	2,918
Gain from change in fair value of previously held interest	(153,458)	-
Loss on impairment of goodwill	76,450	-
Change in provisions and allowances	12,130	2,451
Write-down of inventory to net realisable value	1,327	3,311
Loss on disposal of property, plant and equipment	10,132	3,225
Foreign exchange (gain)/loss, net	(39,846)	34,010
Share of profit of associates	(293)	(49,541)
Interest income	(12,918)	(3,289)
Interest expense	77,673	115,066
Other financial expenses	-	280
Other operating expense/(income)	401	(588)
Operating cash flows before working capital changes	**879,137**	**753,559**
Change in inventories	(3,441)	(12,981)
Change in trade and other receivables	881	1,197
Change in advances paid and prepaid expenses	639	6,260
Change in other taxes receivable	11,682	(33,526)
Change in retirement benefit obligations	15	198
Change in trade and other payables	(22,636)	(8,104)
Change in advances received	(19,865)	6,473
Change in other taxes payable	1,358	176
Cash generated from operations	**847,770**	**713,252**
Interest paid	(70,790)	(99,710)
Income tax paid	(108,106)	(90,543)
Net cash generated from operating activities	**668,874**	**522,999**

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)
All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2012	Year ended 31 December 2011
Investing activities		
Acquisition of subsidiary, net of cash acquired	(199,114)	(28,300)
Repayment for the subsidiary to parent company	(29,460)	-
Decrease in available-for-sale investments	7,960	-
Proceeds from disposal of subsidiaries	383	1,413
Payments for acquisition of property, plant and equipment	(161,232)	(102,182)
Proceeds from sale of property, plant and equipment	4,678	12,515
Payments for acquisition of intangible assets	(3,150)	(7,026)
Loans issued	(139,922)	(1,103)
Proceeds from repayment of loans issued	117,901	815
Dividends received	8,792	1,758
Dividends received from associates	167	65,069
Interest received	3,327	487
Net cash used in investing activities	**(389,670)**	**(56,554)**
Financing activities		
Proceeds from short-term loans and borrowings	95,107	231,790
Proceeds from long-term loans and borrowings	247,549	68,163
Repayment of short-term loans and borrowings	(544,408)	(520,071)
Repayment of long-term loans and borrowings	(1,015)	(3,125)
Increase of ownership in subsidiaries	(74,726)	(31,398)
Repayment of principal amounts of finance leases	(10,902)	(7,548)
Dividends paid to the shareholders	(63,194)	-
Distribution of dividends received from associate to the parent company	(13,174)	(15,778)
Proceeds from issue of shares	4	13,410
Proceeds from issue of shares by a subsidiary	-	8,206
Net cash used in financing activities	**(364,759)**	**(256,351)**
Net (decrease)/increase in cash and cash equivalents	**(85,555)**	**210,094**
Cash and cash equivalents at the beginning of the year	252,566	46,410
Effect of exchange rate changes on the balance of cash held in foreign currencies	10,606	(3,938)
Cash and cash equivalents at the end of the year	**177,617**	**252,566**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousands of US Dollars unless otherwise stated

		Attributable to shareholders of the Company						
	Notes	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)	Total	Non-controlling interests	Total
Balance as at 1 January 2011		**1,373**	**152,223**	**(69,862)**	**(181,175)**	**(97,441)**	**33,639**	**(63,802)**
Profit for the year		-	-	-	439,997	**439,997**	4,649	**444,646**
Other comprehensive (loss)/income		-	-	(35,366)	-	**(35,366)**	1,468	**(33,898)**
Total comprehensive (loss)/income for the year		**-**	**-**	**(35,366)**	**439,997**	**404,631**	**6,117**	**410,748**
Issue of shares		-	22,349	-	-	**22,349**	-	**22,349**
Unpaid portion of the contribution from the parent company		-	(8,940)	-	-	**(8,940)**	-	**(8,940)**
Increase of ownership in subsidiaries	5	-	-	-	5,715	**5,715**	(37,113)	**(31,398)**
Increase in non-controlling interests due to additional share issue by a subsidiary		-	-	-	-	**-**	8,199	**8,199**
Distribution of dividends received from the associate to the shareholders	34	-	-	-	(13,174)	**(13,174)**	-	**(13,174)**
Balance as at 31 December 2011		**1,373**	**165,632**	**(105,228)**	**251,363**	**313,140**	**10,842**	**323,982**
Dividends	34	**-**	**-**	**-**	**(63,194)**	**(63,194)**	**-**	**(63,194)**
Profit for the year		-	-	-	656,960	**656,960**	7,985	**664,945**
Other comprehensive income		-	-	38,740	-	**38,740**	1,753	**40,493**
Total comprehensive income for the year		**-**	**-**	**38,740**	**656,960**	**695,700**	**9,738**	**705,438**
Issue of shares	27	4	-	-	-	**4**	-	**4**
Obtaining control over a previously held associate	5	-	-	-	-	**-**	32,507	**32,507**
Increase of ownership in subsidiaries	5	-	-	-	(32,368)	**(32,368)**	(42,358)	**(74,726)**
Balance as at 31 December 2012		**1,377**	**165,632**	**(66,488)**	**812,761**	**913,282**	**10,729**	**924,011**

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

All amounts are in thousands of US Dollars unless otherwise stated

1. GENERAL INFORMATION

Organisation

UralChem Holding P.L.C. ("the Company") is a public limited company which was incorporated in Cyprus on 4 May 2006.

As at 31 December 2012, the Company was 95.2% owned by CI-Chemical Invest Limited ("the parent company"), incorporated in Cyprus. The remaining 4.8% of the Company's shares were held by management. The principal beneficial shareholder of the Company is Mr. Dmitry A. Mazepin. The Company's main office is located at office 249, 28th Oktovriou Street, Lophitis Business Center, 1st floor, Office 101, P.C. Limassol 3035, Cyprus.

Principal business activities

The principal business activities of the Group are the production and distribution of mineral fertilisers. The main products of the Group are nitrogen based, phosphate based and complex fertilisers. The major production facilities of the Group are located in the Moscow, Perm and Kirov regions of the Russian Federation.

The principal business activities of the Group's major operating entities and effective ownership of the Group are presented below:

			Effective ownership as at 31 December, %	
Subsidiaries	**Principal activity**	**Location**	**2012**	**2011**
UralChem OJSC	Holding company	Russia	100.0	100.0
KCCW Mineral Fertiliser Plant OJSC	Production of mineral fertilisers	Russia	100.0	100.0
Mineral Fertilisers OJSC[1]	Production of mineral fertilisers	Russia	100.0	46.5
Voskresensk Mineral Fertilisers OJSC	Production of mineral fertilisers	Russia	100.0	100.0
Trading house UralChem LLC	Sales and marketing	Russia	100.0	100.0
SIA UralChem Trading	Sales and marketing	Latvia	100.0	100.0
Upravleniye Avtomobilnogo Transporta LLC	Transportation and logistics	Russia	100.0	100.0
UralChem Freight Limited	Investment company	Cyprus	100.0	100.0
UralChem Trans LLC	Transportation and logistics	Russia	100.0	100.0
SIA Riga Fertiliser Terminal	Transportation and logistics	Latvia	51.0	51.0
Remontno-Mekhanichesky Zavod LLC	Industrial services	Russia	100.0	100.0
Energosnabzhayuschaya Organizatsiya LLC	Industrial services	Russia	100.0	100.0

[1] During the year ended 31 December 2012, the Group acquired an additional 53.5% of Mineral Fertilisers OJSC's shares increasing its ownership to 100%.

All amounts are in thousands of US Dollars unless otherwise stated

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

The Group has adopted all revised and new Standards and Interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee that are mandatory for adoption in the annual periods beginning on 1 January 2012.

Standards and Interpretations adopted with no material effect on the consolidated financial statements

IFRS 7 Financial Instruments (amendments enhancing disclosures about transfers of financial assets)
IAS 12 Income Taxes (limited scope amendment on recovery of underlying assets)

Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 7 Financial Instruments (amendments)	1 January 2013
IFRS 9 Financial Instruments – Classification and Measurement	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 1 Presentation of Financial Statements (amendments)	1 January 2013
IAS 16 Property, Plant and Equipment (amendments)	1 January 2013
IAS 27 Consolidated and Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates	1 January 2013
IAS 32 Financial Instruments (amendments relating to presentation of tax effect of equity distributions)	1 January 2013
IAS 32 Financial Instruments (amendments relating to the offsetting of assets and liabilities)	1 January 2014

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015. The Group is currently assessing the impact of the standard on its consolidated financial statements

IFRS 10 Consolidated Financial Statements – replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 12 Disclosure of Interests in Other Entities – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IFRS 13 Fair Value Measurement – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 Share-based Payment, leasing transactions within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements revise the way other comprehensive income is presented. The Group does not expect this amendment to have a material effect on its financial position or results of operations.

Amendments to IAS 1 Presentation of Financial Statements clarify the requirements for comparative information. The Group does not expect this amendment to have a material effect on its financial position or results of operations.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 27 (2011) Separate Financial Statements include the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 Investments in Associates and Joint Ventures – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

The Group intends to adopt this package of standards as of 1 January 2013 and is currently assessing the impact of adoption.

The amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

The amendments to IAS 32 effective for annual periods beginning on or after 1 January 2013 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

The Group is considering the impact of these amendments on the consolidated financial statements and the timing of their application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Difference, if any, between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: the aggregate of the fair value of the consideration received and the fair value of any retained interest; and the previous carrying amount of the assets (including goodwill, if any) and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combination

Acquisitions of subsidiaries and businesses, other than acquisitions from entities under common control, are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to income statement where such treatment would be appropriate if those interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Common control transactions

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values recognised by the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders’ equity. The net assets of the subsidiaries and the results of their operations are recognised retrospectively from the date on which control over the subsidiaries was obtained by the transferor.

The cost of assets acquired from entities under common control is measured as the carrying value of the asset given up by the transferor at the date of the transaction. Any difference between the carrying value of the assets acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders’ equity.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which reflects the economic substance of its operations. The functional currency of the Company and other subsidiaries, registered in Cyprus, is the US Dollar ("USD") or the Euro ("EUR"), the functional currency of all subsidiaries registered in the Russian Federation is the Russian Rouble ("RUR") and the functional currency of subsidiaries registered in the European Union is EUR and Latvian lats ("LVL").

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are recalculated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not recalculated.

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Management of the Group has chosen to present consolidated financial statements in USD for the convenience of the users of these consolidated financial statements.

The translation from functional currency into presentation currency is performed as follows:

- assets and liabilities are expressed in USD using exchange rates prevailing at the reporting date;
- income and expense items are translated at exchange rates that approximate the exchange rates at the dates of the transactions, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used;
- exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at exchange rates that approximate the exchange rates at the dates of the transactions, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Resulting exchange differences, if any, are presented as effect of exchange rate changes on the balance of cash held in foreign currencies.

Goodwill

Goodwill arising on acquisition is recognised as an asset and is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding:

- value added tax;
- custom duties; and
- estimated customer returns, rebates and other similar allowances.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

Sale of goods

Revenue from sale of goods comprises revenue from sales of mineral fertilisers, ammonia, explosive grade ammonium nitrate, inorganic acids and other chemical products and is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements.

Other sales

The Group provides the following principal types of services:

- supply of electricity and heat energy;
- construction, repairs and maintenance services; and
- transportation services.

Revenue from contracts to provide services is recognised when the services are rendered.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing – the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable, receivable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Assets held under finance lease arrangements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset. Land is not depreciated.

The estimated useful lives for the major classes of assets are as follows:

Buildings and structures	15-60 years
Machinery, equipment and transport	5-30 years
Other	2-10 years

Construction in-progress

Construction in-progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in-progress is reviewed regularly to determine whether its carrying value is fairly stated and an appropriate provision for impairment is made, if necessary.

Intangible assets

Intangible assets, other than goodwill, are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

The estimated useful lives for the major classes of intangible assets are as follows:

Software	1-5 years
Licences	1-20 years
Other	1-20 years

The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, or more frequently when there is an indication that the asset may be impaired.
The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- available-for-sale investments; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Available-for-sale ("AFS") financial assets

Listed and unlisted shares and redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured which are accounted for at cost less any impairment. Fair value of AFS financial assets is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active markets is determined with reference to quoted market prices; and
- the fair value of other AFS financial assets is determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. If, in a subsequent period, the amount of the impairment loss attributable to AFS financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through other comprehensive income and presented in the investment revaluation reserve as an increase in fair value of AFS financial assets.

Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the end of each reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans issued, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, impairment losses previously recognised through profit and loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income. Impairment losses on AFS equity instruments accounted for at cost are not reversed.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by using the weighted average method. The cost of finished goods and work in progress includes direct costs and the allocation of related production overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities of the Group are classified into other financial liabilities category.

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Provisions and accruals

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social taxes, is recognised as an expense in the period when it is earned.

Defined contribution plan

Subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period and with immediate recognition of all actuarial gains and losses in the income statement.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination. Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- impairment of assets;
- impairment of goodwill;
- useful lives of property, plant and equipment;
- allowances for doubtful receivables;
- obsolete and slow-moving raw materials;
- employee benefit obligations; and
- taxation.

Impairment of tangible and intangible assets excluding goodwill

Tangible and intangible assets are reported at cost, less accumulated depreciation and impairment losses. At the end of each reporting period, the Group determines whether any indicators of impairment exist. If there are any such indicators, the recoverable amount of the assets is calculated and compared to the carrying amount. The excess of the carrying amount over the recoverable amount is recognised as an impairment.

The recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The calculation of value in use requires the Group to make estimates regarding the Group's future cash flows. The estimation of future cash flows involves significant estimates and assumptions regarding the market growth, market demand for the products, profitability of products and discount rates. A critical estimate in the Group's cash flow model is the expected increase in the price of natural gas on the territory of the Russian Federation which is based on the announced government policy on natural gas prices.

Impairment of goodwill

Goodwill is tested for impairment annually, or more frequently when there is an indication that a cash generating unit may be impaired, by comparing the carrying amount of the goodwill to its estimated recoverable amount. An impairment is recorded if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Value in use is determined using discounted cash flow models involving several assumptions. The key assumptions include (i) present value factors used in determining the fair value of the cash-generating units; (ii) projected average revenue growth rates used in the cash-generating unit cash flow model; (iii) projected long-term growth rates used in the derivation of terminal year values; and (iv) the exchange rate used in the cash-generating unit cash flow model. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. Changes in the management's assumptions could materially impact the fair value estimates.

Useful lives of property, plant and equipment

Useful lives of property, plant and equipment are based on management's business plans and operational estimates.

The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

The factors that could affect the estimation of the life of a non-current asset and its residual value include any or all of the following:

- changes in technology;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Allowances for doubtful receivables

Accounts receivable are stated at amortised cost after deducting an allowance for doubtful receivables. The allowance for doubtful receivables is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of allowances for doubtful receivables that may be required.

Obsolete and slow-moving raw materials

Reserves for excess or obsolete inventory are recorded based on a variety of factors, including product changes and improvements, changes in raw material availability, new product introductions, estimated future demand and market conditions.

In addition, certain finished goods and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the reporting period. The adequacy of the Group's reserves could be materially affected by changes in the supply and demand for products, subsequent changes to prices or costs or regulatory actions.

Employee benefit obligations

The Group's employees participate in pension benefit plans. The costs of pension benefits and related liabilities with respect to the Group's employees participating in defined benefit plans have been determined based upon actuarial computations. The Group records the unfunded status associated with these plans in accordance with the requirements of IAS 19 Employee Benefits and records the actuarially determined pension costs during each period. Pension costs in respect of defined-benefit pension plans primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years.

In calculating the obligation and expense, the Group is required to select certain actuarial assumptions. These assumptions include discount rate, expected salary and pension increases and mortality projection. The assumptions are determined based on current market conditions, historical information and consultation with and input from the Group's actuaries. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost incurred.

Taxation

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

5. BUSINESS COMBINATIONS

Acquisition of a controlling interest in Mineral Fertilisers OJSC ("PMF") in 2012

As at 31 December 2011, a 46.5% investment in PMF was recorded as an investment in associate in the amount of USD 77,234 thousand.

On 19 January 2012, the Group acquired an additional 41.2% of PMF's shares for cash consideration of USD 254,866 thousand, increasing its ownership in PMF to 87.7%.

PMF is an unlisted company, specialising in the production of ammonia and urea with its main production facilities located in Perm, Russian Federation. PMF's output is intended both for the domestic and export markets. Its main products are primarily sold in export markets.

The controlling interest in PMF was acquired so as to continue the expansion of the Group's activities in the nitrogen fertilisers business.

Upon obtaining control over PMF a gain from change in fair value of previously held interest was recognised in the consolidated income statement in the amount of USD 153,458 thousand, being the difference between the acquisition date fair value of the previously held equity interest in PMF and the previous carrying amount accounted for under IAS 28 Investments in Associates.

Following the acquisition of a controlling interest in PMF, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 12.3% of PMF's shares for a total cash consideration of USD 74,726 thousand, increasing its ownership to 100%. The carrying value of PMF's net assets at the dates when the shares were acquired ranged from USD 270,360 thousand to USD 367,724 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of USD 42,358 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 32,368 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

All amounts are in thousands of US Dollars unless otherwise stated

As at 19 January 2012 PMF's net assets were as follows:

	Fair value at the date of acquisition
ASSETS	
Property, plant and equipment	240,597
Intangible assets	545
Other financial assets	2,025
Available-for-sale investments	4,352
Inventories	21,200
Trade and other receivables	11,562
Other tax receivable	5,451
Advances and prepaid expenses	2,354
Cash and cash equivalents	27,452
Total assets	**315,538**
LIABILITIES	
Deferred tax liabilities	32,842
Retirement benefit obligation	4,116
Trade and other payables	3,961
Advances received	3,791
Income tax payables	4,616
Other taxes payable	1,340
Total liabilities	**50,666**
Net assets at the date of acquisition	**264,872**
Less: Share of net assets attributable to non-controlling interests	(32,507)
Group's share of net assets acquired	**232,365**
Add: Goodwill arising on acquisition	253,193
Less: Pre-acquisition amount invested in subsidiary	(230,692)
Total PMF net assets transferred	**254,866**
Consideration paid	
Cash consideration	(254,866)
Total	**(254,866)**
Net cash flow arising on acquisition:	
Consideration paid	(254,866)
Cash and cash equivalents acquired	27,452
Net cash outflow on acquisition of subsidiary	**(227,414)**

In December 2011, the Group paid an advance for the acquisition of PMF's shares in the amount of USD 28,300 thousand at the exchange rate on the transaction date. The remaining part of consideration in the amount of USD 199,114 thousand was paid during 2012.

Goodwill arose in the acquisition of PMF because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of PMF. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Goodwill arising on these acquisitions is not expected to be deductible for tax purposes.

PMF contributed USD 364,373 thousand of revenue and USD 120,647 thousand of net profit for the reporting period from the date of obtaining control to the 31 December 2012.

Increase of ownership interest in OJSC Voskresensk Mineral Fertilisers ("VMF") in 2011

During the year ended 31 December 2011, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 10.1% of VMF's shares for a total cash consideration of USD 23,132 thousand, increasing its ownership in the company to 100.0%. The carrying value of VMF's net assets at the dates when the shares were acquired ranged from USD 279,008 thousand to USD 279,934 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of USD 27,860 thousand. The excess of the Group's share in net assets acquired over the consideration paid of USD 4,728 thousand was recognised directly in the statement of changes in equity as an increase in retained earnings.

Increase of ownership interest in OJSC Kirovo-Chepetsk Chemical Works ("KCCW") in 2011

During the year ended 31 December 2011, the Group increased its effective ownership in KCCW to 100.0%. Total consideration amounted to USD 8,266 thousand. The carrying value of KCCW net assets at the dates when the shares were acquired ranged from USD 423,107 thousand to USD 437,873 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of USD 9,253 thousand. The excess of the Group's share in net assets acquired over the consideration paid of USD 987 thousand was recognised directly in the statement of changes in equity as an increase in retained earnings.

6. SEGMENT INFORMATION

For management purposes the Group is organised in two segments, Nitrogen Fertilisers and Phosphate Fertilisers. Operating results for these segments are reviewed by the Chief Executive Officer ("the chief operating decision maker") in order to assess performance and allocate resources.

- Nitrogen Fertilisers: The nitrogen fertilisers segment comprises subsidiaries engaged in the production of nitrogen based fertilisers, complex fertilisers, ammonia, inorganic acids and other chemical products. The major subsidiaries and branches allocated to the nitrogen fertilisers segment are KCCW, located in the Kirov region of the Russian Federation, Azot branch of UralChem OJSC ("Azot branch") and PMF, located in the Perm region of the Russian Federation; and
- Phosphate Fertilisers: The phosphate fertilisers segment comprises subsidiaries engaged in the production of phosphate based fertilisers, complex fertilisers and inorganic acids. The major subsidiary allocated to the phosphate fertilisers segment is VMF, located in the Moscow region of the Russian Federation.

The chief operating decision maker does not regularly review the operating results of other operations, which include smaller subsidiaries which are engaged in a variety of businesses, such as electricity and heat energy generation, construction, repairs and maintenance and processing of waste water. Accordinaly, these operations are not reported as separate operating segments.

The profitability of the two operating segments is primarily measured based on OIBDA, which the Group defines as operating profit adjusted for depreciation and amortisation, and net profit for the period. Since OIBDA is not a standard IFRS measure, the Group's definition of OIBDA may differ from that of other companies. Costs and assets of subsidiaries of the Group engaged in transportation, sales and marketing activities are allocated (pro rata volume of services rendered by these companies to the operating segments) to operating segments within management reports reviewed by the chief operating decision maker. Costs and assets of subsidiaries of the Group engaged in other operations are not allocated to operating segments within management reports reviewed by the chief operating decision maker. Net profit for the period is a new indicator used by managemet to make decisions on payment of cash bonuses. Other income and expenses of the Group not incorporated in calculation of the operating profit are also allocated to operating segments.

All amounts are in thousands of US Dollars unless otherwise stated

Segment information provided to the chief operating decision maker for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

Year ended 31 December 2012	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Revenue from external customers	1,948,886	384,094	**2,332,980**
Inter-segment revenue	57,129	1,828	**58,957**
Total segment revenue	**2,006,015**	**385,922**	**2,391,937**
OIBDA	870,270	35,076	**905,346**
Net profit/(loss) for the year	695,889	(59,694)	**636,195**
Interest and other finance income	4,572	424	**4,996**
Interest and other finance expense	(28,192)	(2,252)	**(30,444)**
Impairment of goodwill	-	(76,450)	**(76,450)**
Depreciation and amortisation	(85,474)	(14,772)	**(100,246)**
Income tax expense	(82,980)	(3,517)	**(86,497)**

Year ended 31 December 2011	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Revenue from external customers	1,571,349	427,087	**1,998,436**
Inter-segment revenue	40,937	1,324	**42,261**
Total segment revenue	**1,612,286**	**428,411**	**2,040,697**
OIBDA	715,557	90,942	**806,499**
Net profit for the year	558,739	45,233	**603,972**
Interest and other finance income	2,639	443	**3,082**
Interest and other finance expense	(28,292)	(2,039)	**(30,331)**
Other financial (expenses)/income	(246)	16	**(230)**
Depreciation and amortisation	(55,790)	(29,783)	**(85,573)**
Income tax expense	(75,077)	(11,886)	**(86,963)**

The total reportable segment revenue is reconciled to consolidated revenue as follows:

Year ended 31 December 2012	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Total segment revenue	2,006,015	385,922	**2,391,937**
Inter-segment revenue	(57,129)	(1,828)	**(58,957)**
Other revenue			89,659
Total consolidated revenue			**2,422,639**

Year ended 31 December 2011	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Total segment revenue	1,612,286	428,411	**2,040,697**
Inter-segment revenue	(40,937)	(1,324)	**(42,261)**
Other revenue			81,880
Total consolidated revenue			**2,080,316**

During the year ended 31 December 2012, the Nitrogen Fertilisers segment earned approximately USD 253,696 thousand of revenue from operations with a single customer, which constituted more than 10.0% of the Group's consolidated revenue.

All amounts are in thousands of US Dollars unless otherwise stated

During the years ended 31 December 2011, there was no single customer, which constituted more than 10.0% of the Group's consolidated revenue.

The total reportable segment OIBDA is reconciled to consolidated profit before tax as follows:

Year ended 31 December 2012	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Segment OIBDA	870,270	35,076	**905,346**
Segment amortisation and depreciation	(85,474)	(14,772)	**(100,246)**
Segment income tax expense	(82,980)	(3,517)	**(86,497)**
Segment expense from impairment of goodwill	-	(76,450)	**(76,450)**
Segment expense from financing activities	(5,927)	(31)	**(5,958)**
Segment profit/(loss) for the year	695,889	(59,694)	**636,195**
Unallocated activities			
Depreciation and amortisation			(4,502)
Corporate overheads			(52,120)
Other expenses			(64,877)
Interest and other finance income			10,153
Interest and other finance expense			(55,332)
Gain from change in fair value of previously held interest			153,458
Share of profit of associates			293
Foreign exchange gain from financing activities			36,958
Inter-segment operations			56,068
Unallocated income tax expense			(51,349)
Group profit for the year			**664,945**

All amounts are in thousands of US Dollars unless otherwise stated

Year ended 31 December 2011	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	715,557	90,942	**806,499**
Segment amortisation and depreciation	(55,790)	(29,783)	**(85,573)**
Segment income tax expense	(75,077)	(11,886)	**(86,963)**
Segment expense from financing activities	(25,951)	(4,040)	**(29,991)**
Segment profit for the year	558,739	45,233	**603,972**
Unallocated activities			
Depreciation and amortisation			(5,154)
Corporate overheads			(41,699)
Other			(46,861)
Interest and other finance income			2,128
Interest and other finance expense			(88,171)
Other financial expenses			(50)
Share of gain of associates			49,541
Foreign exchange loss from financing activities			(36,445)
Inter-segment operations			33,683
Unallocated income tax			(26,298)
Group profit for the year			**444,646**

Sales between segments are carried out at market prices. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the income statement.

Total reportable segment assets are reconciled to consolidated assets as follows:

31 December 2012	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment assets	1,277,630	281,141	**1,558,771**
Deferred tax assets			26,258
Current tax assets			7,350
Corporate assets			459,371
Other			158,160
Inter-segment assets			(34,927)
Total consolidated assets			**2,174,983**

31 December 2011	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment assets	937,650	329,641	**1,267,291**
Deferred tax assets			51,466
Current tax assets			6,644
Corporate assets			360,140
Other			111,516
Inter-segment assets			(41,811)
Total consolidated assets			**1,755,246**

The amounts provided to the chief operating decision maker with respect to total assets are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment.

All amounts are in thousands of US Dollars unless otherwise stated

Investments in shares (classified as available-for-sale investments or investments in associates) held by the Group are not considered to be segment assets but are rather managed at the corporate headquarters by the strategic investment function.

Additions to non-current assets excluding deferred tax assets, financial instruments and post-employment benefits are as follows:

Additions to non-current assets	**Nitrogen fertilisers**	**Phosphate fertilisers**	**Total**
Year ended 31 December 2012	106,650	34,859	**141,509**
Year ended 31 December 2011	81,128	22,277	**103,405**

Non-current assets other than financial instruments and deferred tax assets are located primarily in the Russian Federation, the location of the Group's major production facilities. The total of non-current assets located in other countries, including Cyprus, are not significant.

Information about the revenue from external customers attributed to individual countries is not available as the cost to develop it would be excessive. Therefore this information is not disclosed in these consolidated financial statements.

7. SALES OF GOODS

Year ended 31 December 2012	**Total**	**Export**	**Russian Federation**	**Other CIS countries**
Mineral fertilisers				
Nitrogen based fertilisers	**1,260,931**	971,240	237,891	51,800
Phosphate based fertilisers	**285,558**	182,227	41,599	61,732
Complex fertilisers	**257,318**	181,959	49,161	26,198
Ammonia	**359,193**	297,344	54,757	7,092
Explosive grade ammonium nitrate	**84,682**	8,027	65,049	11,606
Inorganic acids	**33,264**	-	33,128	136
Other chemical products	**52,034**	10,121	41,256	657
Total	**2,332,980**	**1,650,918**	**522,841**	**159,221**
Year ended 31 December 2011				
Mineral fertilisers				
Nitrogen based fertilisers	**984,219**	750,762	174,260	59,197
Phosphate based fertilisers	**343,944**	264,168	35,643	44,133
Complex fertilisers	**289,890**	218,006	51,437	20,447
Ammonia	**231,095**	184,665	42,763	3,667
Explosive grade ammonium nitrate	**74,074**	6,620	57,866	9,588
Inorganic acids	**29,576**	137	29,422	17
Other chemical products	**45,638**	9,394	35,574	670
Total	**1,998,436**	**1,433,752**	**426,965**	**137,719**

All amounts are in thousands of US Dollars unless otherwise stated

8. OTHER SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity and heat energy	55,210	48,524
Construction, repairs and maintenance services	6,023	6,100
Transportation	4,563	3,514
Processing of waste water	3,744	4,857
Other	20,119	18,885
Total	**89,659**	**81,880**

Substantially all other sales were made on the territory of the Russian Federation.

9. COST OF SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Raw materials, including:		
Natural gas	359,389	285,998
Apatite	152,393	134,004
Potassium chloride	45,682	28,143
Sulphur	23,871	32,982
Other raw materials	69,145	60,540
Energy and utilities	141,065	133,764
Staff costs	116,889	102,027
Depreciation	77,575	68,912
Repairs and maintenance	7,997	6,620
Decrease/(increase) in work in progress and finished goods	3,588	(3,757)
Other	25,325	18,734
Total	**1,022,919**	**867,967**

10. SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Transportation, including:		
Railway tariff	210,449	180,747
Freight and transshipment	137,769	139,390
Rail cars rent expenses	44,435	39,655
Other transportation expenses	23,711	18,067
Staff costs	27,434	21,180
Depreciation	14,771	12,335
Advertising and marketing	10,028	8,137
Customs clearance charges	1,793	2,947
Other	27,291	20,828
Total	**497,681**	**443,286**

All amounts are in thousands of US Dollars unless otherwise stated

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	76,743	67,222
Depreciation	9,897	6,562
Audit, legal and consulting services	9,347	8,440
Rent	3,714	3,088
Security	3,668	3,003
Fines and penalties	2,115	3,351
Bank charges	1,482	1,150
Other	28,673	26,555
Total	**135,639**	**119,371**

12. OTHER OPERATING INCOME AND EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Other operating income		
Reversal of provision for unfavourable court decision	-	6,577
Foreign exchange gain on operating activities	-	4,947
Other income	7,817	4,916
Total	**7,817**	**16,440**
Other operating expenses		
Foreign exchange loss on operating activities	16,608	-
Loss on disposal of assets	11,441	1,862
Provision for unfavorable court decision	5,749	-
Other expenses	6,628	4,890
Total	**40,426**	**6,752**

13. INTEREST AND OTHER FINANCE INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Dividends received	8,644	1,758
Interest on loans issued and deposits	4,085	792
Other finance income	189	739
Total	**12,918**	**3,289**

14. INTEREST AND OTHER FINANCE EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Interest on loans and borrowings	68,487	109,507
Interest on obligations under finance leases	7,365	5,559
Impairment of financial investments	1,773	-
Other	48	280
Total	**77,673**	**115,346**

All amounts are in thousands of US Dollars unless otherwise stated

15. INCOME TAX

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense	123,509	84,388
Deferred tax expense	14,337	28,873
Total	**137,846**	**113,261**

During the years ended 31 December 2012 and 2011 the corporate income tax rate applicable to the Company, which is registered in Cyprus, was 10.0%. The corporate income tax rates applicable to the Group's subsidiaries incorporated in the Russian Federation, the primary location of the Group's production entities, varied from 15.5% to 20.0%.

Reconciliation of the statutory income tax, calculated at the rate effective in Cyprus, where the Company is located, to the amount of actual income tax expense is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before tax	**802,791**	**557,907**
Income tax calculated at 20%	160,558	111,581
Effect of different tax rates of subsidiaries operating in other jurisdictions	(40,272)	(10,727)
Impairment losses on goodwill that are not deductible	12,102	-
Income tax on dividends received by the Company	10,471	-
Tax effect of other expenses that are non-deductible	4,520	8,632
Gain from change in fair value of previously held interest that is not taxable	(9,533)	-
Tax on dividends from associates	-	3,775
Income tax at effective income tax rate of 17.2% (2011: 20.3%)	**137,846**	**113,261**

All amounts are in thousands of US Dollars unless otherwise stated

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery, equipment and transport	Other	Construction in progress	Total
Cost					
Balance at 31 December 2010	**302,522**	**523,515**	**31,222**	**81,719**	**938,978**
Additions	5,628	50,038	1,882	61,279	**118,827**
Transfers	4,608	20,220	153	(24,981)	**-**
Disposals	(1,210)	(6,675)	(9,536)	(1,820)	**(19,241)**
Effect of translation to presentation currency	(18,289)	(32,330)	(512)	(6,789)	**(57,920)**
Balance at 31 December 2011	**293,259**	**554,768**	**23,209**	**109,408**	**980,644**
Additions	8,559	43,462	5,980	136,697	**194,698**
Acquisitions through business combinations	54,388	171,204	13,489	1,516	**240,597**
Transfers	13,028	48,230	(570)	(60,688)	**-**
Disposals	(1,829)	(25,969)	(281)	(1,567)	**(29,646)**
Effect of translation to presentation currency	23,179	42,952	2,713	8,424	**77,268**
Balance at 31 December 2012	**390,584**	**834,647**	**44,540**	**193,790**	**1,463,561**
Accumulated depreciation and impairment losses					
Balance at 31 December 2010	**(78,971)**	**(213,720)**	**(8,214)**	**-**	**(300,905)**
Charge for the year	(24,362)	(60,128)	(3,319)	-	**(87,809)**
Disposals	575	3,356	586	-	**4,517**
Effect of translation to presentation currency	6,274	15,993	480	-	**22,747**
Balance at 31 December 2011	**(96,484)**	**(254,499)**	**(10,467)**	**-**	**(361,450)**
Charge for the year	(19,129)	(80,428)	(2,686)	-	**(102,243)**
Disposals	355	15,477	193	-	**16,025**
Effect of translation to presentation currency	(8,020)	(15,714)	(48)	-	**(23,782)**
Balance at 31 December 2012	**(123,278)**	**(335,164)**	**(13,008)**	**-**	**(471,450)**
Carrying value					
At 31 December 2011	**196,775**	**300,269**	**12,742**	**109,408**	**619,194**
At 31 December 2012	**267,306**	**499,483**	**31,532**	**193,790**	**992,111**

As at 31 December 2012, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of USD 20,576 thousand (2011: USD 10,579 thousand).

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements with third parties. As at 31 December 2012, the net book value of leased machinery, equipment and transport was USD 67,399 thousand (2011: USD 49,331 thousand). During the year ended 31 December 2012, the Group acquired USD 21,517 thousand of machinery, equipment and transport under a finance lease (2011: USD 15,397 thousand). The acquisition represents a non-cash investing and financing activity which is not reflected in the consolidated statement of cash flows.

All amounts are in thousands of US Dollars unless otherwise stated

Assets pledged as collateral

The carrying value of property, plant and equipment pledged to secure loans and borrowings granted to the Group were as follows (refer to note 28):

	31 December 2012	31 December 2011
Construction in progress	55,423	-
Machinery, equipment and transport	1,401	72,117
Other	146	247
Buildings and structures	-	17,543
Total	**56,970**	**89,907**

17. GOODWILL

Cost	31 December 2012	31 December 2011
Balance at the beginning of the year	**195,573**	**207,121**
Additional amounts recognised from business combinations occurring during the period	253,193	-
Derecognised on disposal of subsidiaries	-	(493)
Effect of translation to presentation currency	12,361	(11,055)
Balance at the end of the year	**461,127**	**195,573**
Accumulated impairment losses		
Balance at the beginning of the year	**(36,721)**	**(38,792)**
Impairment losses recognised in the year	(76,450)	-
Effect of translation to presentation currency	(2,205)	2,071
Balance at the end of the year	**(115,376)**	**(36,721)**
Carrying amount		
At the beginning of the year	**158,852**	**168,329**
At the end of the year	**345,751**	**158,852**

Allocation of goodwill to cash-generating units

The carrying amount of goodwill was allocated to the following cash-generating units:

	31 December 2012	31 December 2011
Nitrogen Fertilisers	345,620	86,608
Phosphate Fertilisers	-	72,121
Other	131	123
Total	**345,751**	**158,852**

All amounts are in thousands of US Dollars unless otherwise stated

Annual test for impairment

For the purpose of impairment testing, the recoverable amount of the relevant cash-generating unit was assessed by reference to value in use. These calculations used pre-tax cash flow projections based on budgets approved by the Group and covering a five-year period. Cash flows beyond the five-year period were extrapolated by using the expected forecasts stated below. The key assumptions used by management for value in use determination were as follows:

	31 December 2012	31 December 2011
Gross margin	7.0%-57.0%	22.0%-49.0%
Growth rate	3.0%	3.0%
Discount rate	12.4%	12.0%
Raw materials price inflation	3.0-6.0%	3.0-6.0%
Exchange rate (RUR to 1 USD)	31.0	31.0

These assumptions have been used for analysis of each cash-generating unit within the Group’s nitrogen and phosphate fertilisers segments.

Management determined budgeted gross margin based on past performance and its expectation of the current market development. The gross margin and raw material price inflation ranges relate to a variety of products produced and raw materials consumed by the cash-generating unit, respectively. The weighted average growth rates used were consistent with the forecasts in industry reports.

During the year ended 31 December 2012, the Group determined that goodwill associated with the Phosphate Fertilisers segment was impaired by USD 76,450 thousand. The main factor contributing to the impairment of the relevant cash generating unit was a decrease in Russian and international phosphate based fertiliser prices.

18. INVESTMENTS IN ASSOCIATES

		Effective ownership, %	
Name of associate	**Principal activity**	**31 December 2012**	**31 December 2011**
PMF	Production of mineral fertilisers	N/A	46.5
NPK Karbon-Shungit	Mining and processing	49.7	49.7
ZhDTsekh	Other services	50.0	50.0

Summarised financial information in respect of the Group’s associates is presented below:

	31 December 2012	31 December 2011
Balance at the beginning of the year	**87,669**	**115,159**
Reclassification to subsidiaries	(77,234)	-
Share of post-acquisition profit	293	49,541
Dividends received	(153)	(61,694)
Tax on dividends from associates	-	(3,775)
Effect of translation to presentation currency	623	(11,562)
Balance at the end of the year	**11,198**	**87,669**

All amounts are in thousands of US Dollars unless otherwise stated

	31 December 2012	31 December 2011
Total assets	27,429	219,249
Total liabilities	(4,946)	(32,098)
Net assets	**22,483**	**187,151**
Group's share of net assets of associates	**11,198**	**87,669**

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	10,382	332,662
Profit for the period	591	106,464
Share of profit of associates	293	49,541

19. INVENTORIES

	31 December 2012	31 December 2011
Inventories expected to be recovered after twelve months		
Catalytic agents	29,946	28,021
Other inventories	6,706	8,406
	36,652	**36,427**
Inventories expected to be recovered within twelve months		
Finished goods	71,485	52,024
Raw materials, net of allowance for obsolescence	63,917	46,071
Work in-progress	7,505	7,269
Goods for resale	540	2,010
	143,447	**107,374**
Total	**180,099**	**143,801**

During the year ended 31 December 2012, the Group recognised a write down of USD 1,327 thousand to reduce the carrying amount of inventories to net realisable value (2011: USD 3,311 thousand).

At 31 December 2012, raw materials were presented net of allowance for obsolescence of USD 3,390 thousand (2011: USD 4,206 thousand). During the year ended 31 December 2012, the Group recognised USD 854 thousand (2011: USD 385 thousand) and released USD 1,670 thousand (2011: USD 1,283 thousand) of allowance for obsolescence of raw materials.

Certain inventories were pledged to secure bank loans and borrowings granted to the Group, as follows:

	31 December 2012	31 December 2011
Carrying value of pledged inventories (refer to note 28)	-	6,611

All amounts are in thousands of US Dollars unless otherwise stated

20. AVAILABLE-FOR-SALE INVESTMENTS

At 31 December 2012, available-for-sale investments included a 9.3% investment in Open Joint Stock Company Togliattiazot OJSC ("Togliattiazot") of USD 168,687 thousand (2011: USD 167,037 thousand) and other available-for-sale investments of USD 2,889 thousand (2011: USD 73 thousand). The available-for-sale investments are accounted for at cost as their fair value cannot be reliably measured.

21. OTHER FINANCIAL ASSETS

	31 December 2012	31 December 2011
Non-current		
Loans issued, at amortised cost	7,311	91
	7,311	**91**
Current		
Loans issued, at amortised cost	26,785	6,361
Other financial assets	350	547
	27,135	**6,908**
Total	**34,446**	**6,999**

As at 31 December 2012, interest rates on loans issued, predominantly denominated in USD, varied from 6.0% to 15.5% (2011: from 6.0% to 15.5%) per annum.

22. ASSETS HELD FOR SALE

In 2010, the Group decided to cease the development of the Sordinsky Plot at the Vyatsko-Kamsky phosphate deposit and to dispose property, plant and equipment which were purchased exclusively for this project. A portion of assets held for sale was sold during the year ended 31 December 2011. The remaining assets in the amount of USD 6,163 thousand were written off as at 31 December 2012. The write down was recognised in the consolidated income statement as other operating expenses.

23. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables	88,297	81,767
Other receivables	7,899	10,105
	96,196	**91,872**
Less: allowance for doubtful receivables	(1,050)	(3,068)
Total	**95,146**	**88,804**

The average credit period for the Group's customers varies from 60 to 90 days. During this period no interest is charged on the outstanding balances. The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are outstanding beyond 360 days are generally not recoverable. Before accepting a new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits available to customers are reviewed on an annual basis. As at 31 December 2012, the Group's five largest debtors (individually exceeding 5.2% (2011: 8.0%) of total current receivables balance) represented 53.3% (2011: 58.4%) of the outstanding balance of accounts receivable.

All amounts are in thousands of US Dollars unless otherwise stated

Included in the Group's receivables balance at 31 December 2012 were debtors of USD 7,326 thousand (2011: USD 7,741 thousand) which were past due but not impaired as there has been no change in credit quality and the amounts are still considered recoverable. The Group did not hold any collateral over these outstanding balances. The weighted average age of these receivables was 236 days (2011: 239 days).

Movements in the allowance for doubtful receivables were as follows:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Balance at the beginning of the year	**3,068**	**3,637**
Eliminated on disposal of subsidiaries	(443)	-
Recognised in the income statement	758	3,375
Amounts written-off	(113)	(3,479)
Amounts recovered during the year	(2,376)	(307)
Effect of translation to presentation currency	156	(158)
Balance at the end of the year	**1,050**	**3,068**

24. ADVANCES PAID AND PREPAID EXPENSES

	31 December 2012	**31 December 2011**
Long-term		
Advances paid for the acquisition of PMF shares	-	27,448
	-	**27,448**
Short-term		
Advances for transportation services	25,982	23,707
Advances paid for apatite	6,318	5,311
Other advances and prepaid expenses	12,564	12,031
	44,864	**41,049**
Total	**44,864**	**68,497**

25. OTHER TAXES RECEIVABLE

	31 December 2012	**31 December 2011**
Value added tax reimbursable	78,290	82,325
Other taxes	716	940
Total	**79,006**	**83,265**

All amounts are in thousands of US Dollars unless otherwise stated

26. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Current accounts, including:		
USD-denominated	38,598	28,493
RUR-denominated	23,115	7,440
EUR-denominated	11,704	31,205
Bank deposits maturing within three months:		
EUR-denominated	92,715	-
USD-denominated	6,181	163,510
RUR-denominated	5,205	21,827
Other cash and cash equivalents	99	91
Total	**177,617**	**252,566**

At 31 December 2012, interest rates on deposits in UniCredit Bank, Bank Vozrozhdenie, Sberbank, HCBS, Nordea Bank and VTB Bank varied from 0.03% to 7.5% (2011: 0.3% to 6.3%) per annum.

27. SHARE CAPITAL

	Number of authorised ordinary shares		Number of issued ordinary shares		
	Class A	Class B	Class A	Class B	Share capital
Balance at 31 December 2010	**10,110**	**359,989,890**	**10,110**	**174,989,890**	**1,373**
Issue of ordinary shares on 18 November 2011 with par value of EUR 1.71 each	6	-	6	-	-
Balance at 31 December 2011	**10,116**	**359,989,890**	**10,116**	**174,989,890**	**1,373**
Issue of ordinary shares on 02 March 2012 with par value of EUR 0.00515 each	-	-	-	536,433	4
Balance at 31 December 2012	**10,116**	**359,989,890**	**10,116**	**175,526,323**	**1,377**

Dividends

The statutory financial statements of the Group entities are the basis for the profit distribution and other appropriations.

Earnings per share

Earnings per share were calculated by dividing net profit attributable to shareholders of the Company for the years ended 31 December 2012 and 2011 by the weighted average number of ordinary shares in issue during the respective year.

The share capital was fully paid as at 31 December 2012.

All amounts are in thousands of US Dollars unless otherwise stated

28. LOANS AND BORROWINGS

	31 December 2012	31 December 2011
Loans denominated in USD	689,137	949,512
Loans denominated in EUR	252,438	-
Loans denominated in RUR	126	180,731
Total	**941,701**	**1,130,243**
Less: current portion repayable within twelve months and shown under current liabilities	(91,569)	(338,275)
Long-term portion of loans and borrowings	**850,132**	**791,968**

Loans denominated in USD

The loans denominated in USD had a weighted average annual interest rate of 5.2% during the year ended 31 December 2012 (2011: 5.9%) and included the following borrowings:

- USD 118 thousand (2011: USD 2,738 thousand) at fixed rate of 9.0% (2011: varying from 6.2% to 9.0%) per annum; and
- USD 689,019 thousand (2011: USD 946,774 thousand) at floating rates linked to Libor 1m and Libor 3m, varying from 4.3% to 5.3% (2011: from 4.4% to 7.0%) per annum.

The loans denominated in USD are due in the years 2013 to 2016. As at 31 December 2012, USD-denominated loans in the amount of USD 689,019 thousand (2011: USD 684,562 thousand) were secured by 49.0% of UralChem OJSC's shares (2011: 49.0%) and certain fixed assets and inventories (refer to notes 16 and 19).

Loans denominated in EUR

In September 2011, the Group reached an agreement with Swedbank to obtain a credit line in the amount of USD 41,187 thousand maturing in September 2020, which was not draw down as at 31 December 2011. As at 31 December 2012, USD 30,835 thousand of this credit facility was withdrawn. The annual interest rate on this facility is settled at Euribor 3month rate + 3.4% per annum.

In December 2012 the Group obtained a syndicated loan facility in the amount of USD 220,000 thousand which matures in December 2017. The Group used its right to choose the currency of a loan and withdrew the funds in EUR. This syndicated facility was arranged by ING Bank N.V., ZAO Raiffeisenbank, Sberbank of Russia, VTB Capital PLC as Mandated Lead Arraners, with ING Bank N.V. acting as Facility Agent and ING Bank N.V. acting as Security Agent. The facility was secured by the guarantees of VMF, OJSC Uralchem, PMF, SIA Uralchem Trading House, Trading House Uralchem, Uralchem Holding PLC. The loan was collateralised by future export proceeds of the Group under sales contracts with certain customers. The loan bears an annual interest rate linked to Euribor 1month + 4.25%. The bank's commission on this loan facility is 1.5% of the total amount of the loan.

All amounts are in thousands of US Dollars unless otherwise stated

Loans and borrowings were repayable as follows:

	31 December 2012	31 December 2011
Due within three months	4,634	156,083
Due from three to six months	3,599	116,423
Due from six to twelve months	83,336	65,769
Current portion repayable within twelve months	**91,569**	**338,275**
Due in the second year	327,322	168,712
Due in the third year	230,715	273,870
Due in the fourth year	226,866	174,693
Due in the fifth year	52,033	174,693
Due thereafter	13,196	-
Long-term portion of loans and borrowings	**850,132**	**791,968**

As at 31 December 2012, the Group's bank loans are subject to restrictive covenants, including but not limited to:

- negative pledge for shares and property pledges;
- limits for material sale of assets and payment of dividends;
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks;
- set-up limits for the annualised "debt and net debt/EBITDA" ratio and other financial covenants.

All loan agreements have acceleration clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

29. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements (refer to note 16). The average lease term is 134 months. For the year ended 31 December 2012 the weighted average effective annual interest rate was 15.5% (2011: 12.5%). All leases are on a fixed repayment basis and are denominated in USD and RUR (refer to note 37).

	Minimum lease payments		Present value of minimum lease payments	
	31 December		31 December	
	2012	2011	2012	2011
Due within one year	19,381	13,675	17,627	12,788
Due from two to five years	65,042	48,237	42,621	34,090
Due thereafter	13,660	13,598	5,423	6,294
	98,083	**75,510**	**65,671**	**53,172**
Less: future finance charges	(32,412)	(22,338)	-	-
Present value of lease liabilities	**65,671**	**53,172**	**65,671**	**53,172**
Less: amount due for settlement within one year and shown under current liabilities			(17,627)	(12,788)
Total non-current finance lease liabilities			**48,044**	**40,384**

All amounts are in thousands of US Dollars unless otherwise stated

30. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plan

Social taxes for the year ended 31 December 2012 included contributions to the State Pension Fund in the amount of USD 31,187 thousand (2011: USD 28,318 thousand).

At 31 December 2012, outstanding contributions to the State Pension Fund amounted to USD 2,594 thousand (2011: USD 1,331 thousand).

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for qualifying employees of subsidiaries located in the Russian Federation. The actuarial valuation of the Group's defined benefit obligations as at 31 December 2012 and 2011 was performed by an independent actuary.

Under these plans a retired employee (or his/her family members) is entitled to the following payments:

- *one-time payment on retirement* varying from USD 16 to USD 33 (2011: USD 16), depending on the seniority of employee;
- *quarterly allowance* varying from USD 13 to USD 16 (2011: from USD 9 to USD 16) for the rest of his/her life;
- *one-time payment upon death* varying from USD 145 to three official minimum monthly salaries (2011: from 137 to three official minimum monthly salaries). As at 31 December 2012 the official minimum monthly salary was USD 143 (2011: USD 143); and
- other payments stipulated in labour agreements such as anniversary payments, disability compensation, etc.

The principal assumptions used in actuarial valuations were as follows:

	31 December 2012	31 December 2011
Discount rate	8.0%	8.0%
Expected salary increase	9.7%	9.7%
Expected pension increase	5.5%	5.5%
Employee turnover rate	5.0%	5.0%
Age of retirement		
Male	55 years	55 years
Female	52 years	52 years
Average life expectancy of members from date of retirement		
Male	20 years	20 years
Female	31 years	31 years

Amounts recognised in the income statement in respect of these defined benefit plans were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Actuarial gain recognised in the year	(160)	(400)
Interest expense	1,027	679
Current service cost	421	249
Total pension costs recognised in the income statement	**1,288**	**528**

All amounts are in thousands of US Dollars unless otherwise stated

Amounts included in the statement of financial position in respect of defined benefit plans were as follows:

	31 December 2012	31 December 2011
Present value of unfunded defined benefit obligations	13,254	8,374

Movements in the present value of the unfunded defined benefit obligations were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the year	**8,374**	**8,655**
Liabilities assumed in business combinations	4,116	-
Actuarial gain recognised in the year	(160)	(400)
Interest expense	1,027	679
Current service cost	421	249
Benefits paid	(1,280)	(331)
Effect of translation to presentation currency	756	(478)
Balance at the end of the year	**13,254**	**8,374**

31. DEFERRED TAXES

	1 January 2012	Acquired through business combina-tions	(Charged)/ credited to the income statement	Effect of translation to presentation currency	31 December 2012
Property, plant and equipment	(45,948)	(31,034)	10,274	(4,377)	(71,085)
Inventories	4,734	(2,015)	3,565	247	6,531
Trade and other receivables	1,577	34	4,178	196	5,985
Trade and other payables	3,730	110	1	231	4,072
Obligations under financial leases	10,613	-	1,822	681	13,116
Tax loss carried forward	27,926	-	(28,273)	1,006	659
Other	(1,719)	63	(5,904)	(216)	(7,776)
	913	**(32,842)**	**(14,337)**	**(2,232)**	**(48,498)**

	1 January 2011	(Charged)/ credited to the income statement	Effect of translation to presentation currency	31 December 2011
Property, plant and equipment	(47,914)	(648)	2,614	(45,948)
Inventories	279	4,897	(442)	4,734
Trade and other receivables	1,594	75	(92)	1,577
Trade and other payables	5,292	(1,401)	(161)	3,730
Obligations under finance leases	9,624	1,647	(658)	10,613
Tax loss carried forward	59,027	(30,690)	(411)	27,926
Other	776	(2,753)	258	(1,719)
Total	**28,678**	**(28,873)**	**1,108**	**913**

All amounts are in thousands of US Dollars unless otherwise stated

Certain deferred tax assets and liabilities were offset by jurisdiction, where the subsidiaries of the Group have a legally enforceable right to offset related taxes. The deferred tax balances (after offset) recorded in the statement of financial position were as follows:

	31 December 2012	31 December 2011
Deferred tax assets	26,258	51,466
Deferred tax liabilities	(74,756)	(50,553)
Total	**(48,498)**	**913**

Temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognised are attributable to the following:

	31 December 2012	31 December 2011
Russian subsidiaries	(2,833)	(3,833)
Other subsidiaries	(7,023)	(6,418)
Total	**(9,856)**	**(10,251)**

At 31 December 2012, the Group had unused tax losses of USD 659 thousand (2011: USD 27,926 thousand) available for offset against future profits.

32. TRADE AND OTHER PAYABLES

The average credit period on the purchase of inventories and services in the Russian Federation is 28 days (2011: 46 days).

	31 December 2012	31 December 2011
Trade accounts payables	28,912	24,188
Provision for unused vacation	12,182	10,138
Provision for unfavorable court decision	7,942	1,944
Accrual of performance based bonuses	6,924	4,875
Unpaid salaries	6,608	5,785
Payables for property, plant and equipment	2,753	3,219
Accrued expenses	2,798	440
Other accounts payables	6,720	67,316
Total	**74,839**	**117,905**

The table below summarises the maturity profile of the Group's trade accounts payable and payables for property, plant and equipment based on undiscounted contractual payments:

	31 December 2012	31 December 2011
Due within three months	29,872	27,137
Due from three to six months	353	87
Due from six to twelve months	1,440	183
Total	**31,665**	**27,407**

All amounts are in thousands of US Dollars unless otherwise stated

33. OTHER TAXES PAYABLE

	31 December 2012	31 December 2011
Social taxes	2,930	1,602
Property tax	1,811	683
Value added tax	883	431
Other taxes	2,612	2,344
Total	**8,236**	**5,060**

34. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements to and from its parent company or entities under common ownership.

The Group had the following outstanding balances with related parties:

	31 December 2012	31 December 2011
Parent company		
Other financial assets	24,759	-
Loans and borrowings	-	(2,627)
Other payables	-	(42,634)
Entities under common ownership and control with the Group		
Trade and other receivables	4,326	3,604
Advances paid and prepaid expenses	301	608
Promissory notes of related parties, at amortised cost	350	330
Loans issued, at amortised cost	10	-
Trade and other payables	(1,925)	(1,754)
Advances received	(49)	(92)

The Group entered into the following transactions with related parties:

	Year ended 31 December 2012	Year ended 31 December 2011
Parent company		
Interest income	2,075	904
Interest expense	(170)	(4,017)
Entities under common ownership and control with the Group		
Sales of goods and services	53,506	51,853
Purchases of goods and services	(12,335)	(12,662)
Other income	265	2,202

All amounts are in thousands of US Dollars unless otherwise stated

Transactions with related parties

Sale and purchases of goods

Sales of goods to related parties were made on market terms. Sales of services, which mainly consisted of sales of electricity and heat energy, were made at prices established by the Federal Utility Committee, a government regulator responsible for establishing and monitoring the prices on the utility market in the Russian Federation.

Purchases from related parties which primarily included purchases of raw materials for production of nitrogen fertilisers were made at market prices plus an insignificant premium of 1.0% to 2.0% as reimbursement for operating expenses of those entities.

Loans issued to related parties

The loans issued to related parties are primarily loans issued to the parent company of the Group.

As at 31 December 2012, loans issued to related parties included loans issued to the parent company in the amount of USD 24,759 thousand bearing interest at annual fixed rates 5.5%.

Dividends paid

On 1 August 2012, the Company declared dividends to the shareholders in the amount of USD 63,194 thousand. On 9 August 2012 dividends were paid.

Other transactions with the parent company

On 18 January 2012, the Group settled liabilities to the parent company in the amount of USD 42,634 thousand consisting of:

- Distribution of dividends received from associate during the year ended 31 December 2011 in the amount of USD 13,174 thousand and recorded in other payables in the consolidated statement of financial position as at 31 December 2011;
- Repayment of liability for the PMF's shares to the parent company in the amount of USD 29,460 thousand.

Compensation of key management personnel

The compensation of key management personnel of the Group for the year ended 31 December 2012 comprised salaries and cash bonuses in the amount of USD 12,275 thousand (2011: USD 13,709 thousand), social taxes in the amount of USD 1,218 thousand (2011: USD 238 thousand).

35. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

In December 2012, the Group entered into the binding purchase agreements with Gazprom and Novatek, to purchase defined volumes of natural gas.

Future minimum costs under non-cancellable purchase agreements were as follows:

	31 December 2012	31 December 2011
Due in one year	390,530	235,521
Due from two to five years	1,495,217	-
Total	**1,885,747**	**235,521**

All amounts are in thousands of US Dollars unless otherwise stated

Capital commitments

As at 31 December 2012, the Group's contractual capital commitments for acquisition of property, plant and equipment amounted to USD 29,831 thousand (2011: USD 8,175 thousand).

Operating leases: Group as a lessee

The Group leases certain machinery, equipment and office premises. The respective lease agreements have an average life of one to five years with no renewal option at the end of the lease term.

Future minimum rental expenses under non-cancellable operating leases were as follows:

	31 December 2012	31 December 2011
Due in one year	49,923	39,250
Due from two to five years	28,250	33,616
Total	**78,173**	**72,866**

Litigation

The Group has a number of claims and litigation relating to sales and purchases. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax and social taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take different positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions of the Russian Federation in which it operates. The Group's operations involve the discharge of materials, contaminants and waste water into the environment that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its production facilities are in compliance with all current existing environmental legislation in the regions in which it operates. However, environmental laws and regulations continue to evolve.

The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the terms of licence agreements. Should the requirements of applicable environmental legislation change or be clarified and amended, the Group may incur additional environmental obligations.

Russian Federation risk

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

As at 31 December 2012 and 2011, management believed that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments (refer to note 28).

37. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the Group’s debt to equity ratio. Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Major categories of financial instruments

The Group’s principal financial liabilities comprise loans and borrowings and trade payables. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various financial assets such as available-for-sale investments, trade and other receivables and loans issued, cash and cash equivalents and promissory notes.

All amounts are in thousands of US Dollars unless otherwise stated

	31 December 2012	31 December 2011
Financial assets		
Cash and cash equivalents	177,617	252,566
AFS investments	171,576	167,110
Loans issued and accounts receivable	129,242	95,256
Promissory notes held by related parties, at amortised cost	350	330
Promissory notes of third parties, at amortised cost	-	62
Other financial assets	-	155
Total financial assets	**478,785**	**515,479**
Financial liabilities		
Loans and borrowings	941,701	1,130,243
Obligations under financial leases	65,671	53,172
Trade and other payables	38,385	94,723
Total financial liabilities	**1,045,757**	**1,278,138**

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2012 and 2011 were as follows:

	USD-denominated		EUR-denominated	
	31 December		31 December	
	2012	2011	2012	2011
Assets				
Trade and other receivables	49,498	69,907	23	586
Other financial assets	24,759	-	-	-
Cash and cash equivalents	44,663	191,613	99,612	13,013
Total assets	**118,920**	**261,520**	**99,635**	**13,599**

	USD-denominated		EUR-denominated	
	31 December		31 December	
	2012	2011	2012	2011
Liabilities				
Loans and borrowings	689,019	949,401	213,661	-
Obligations under finance leases	35,832	45,237	-	-
Trade and other payables	1,779	8,022	648	393
Total liabilities	**726,630**	**1,002,660**	**214,309**	**393**
Total net (liabilities)/assets	**(607,710)**	**(741,140)**	**(114,674)**	**13,206**

All amounts are in thousands of US Dollars unless otherwise stated

The table below details the Group's sensitivity to the strengthening of the Russian Rouble against the US Dollar and the Euro by 10.0%. The analysis was applied to monetary items at the end of the reporting period denominated in currencies different than the respective entity's functional currency. A positive number indicates an increase in profit where the Russian Rouble strengthens against the US Dollar and Euro.

	USD-impact		EUR -impact	
	31 December		31 December	
	2012	2011	2012	2011
Profit/(loss)	60,771	74,114	11,467	(1,321)

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure.

The table below details the Group's sensitivity to an increase of 1.0% in the Libor interest rate. The analysis was applied to loans and borrowings based on the assumption that the amount of the liability outstanding as at the end of the reporting period was outstanding for the whole year.

	LIBOR - impact	
	31 December 2012	31 December 2011
Loss	9,376	9,468
	EURIBOR - impact	
	31 December 2012	**31 December 2011**
Loss	2,485	-

Impacts of sensitivity as loss analysis on equity would be the same as that on profit as shown in the table above.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group in time, leading to financial losses to the Group.

For the year ended 31 December 2012, revenue from the Group's five largest customers constituted over 25.7% of the Group's total revenue (2011: 23.1%). However, the Group is not dependent on these customers because of the existence of a liquid commodity market for the majority of fertilisers and its by-products.

At 31 December 2012, amounts receivable from the Group's five largest customers were USD 19,952 thousand (2011: USD 13,783 thousand), which represented approximately 21.0% of the total current outstanding balance of accounts receivable (2011: 15.5%).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

All amounts are in thousands of US Dollars unless otherwise stated

Presented below is the maturity profile of the Group's financial liabilities (the maturity profile for trade accounts payable and payables for property, plant and equipment is presented in note 32) as at 31 December 2012 and 2011 based on undiscounted contractual payments, including interest payments:

					31 December 2012
	Fixed rate financial liabilities, at amortised cost				
	Obligations under finance leases		**Loans and borrowings**		**Total**
	Principal	**Interest**	**Principal**	**Interest**	
Due within three months	4,596	377	17	409	**5,399**
Due from three to six months	4,610	173	-	312	**5,095**
Due from six to twelve months	8,421	1,203	175	669	**10,468**
Due in the second year	14,603	3,602	4,399	1,237	**23,841**
Due in the third year	11,170	5,119	8,248	1,079	**25,616**
Due in the fourth year	9,604	6,627	4,398	787	**21,416**
Due in the fifth year	7,230	7,087	4,398	630	**19,345**
Due thereafter	5,437	8,224	13,196	472	**27,329**
	65,671	**32,412**	**34,831**	**5,595**	**138,509**
	Floating rate financial liabilities, at amortised cost				
Due within three months	-	-	-	15,386	**15,386**
Due from three to six months	-	-	4,020	10,864	**14,884**
Due from six to twelve months	-	-	84,053	21,641	**105,694**
Due in the second year	-	-	332,688	35,478	**368,166**
Due in the third year	-	-	226,022	25,013	**251,035**
Due in the fourth year	-	-	226,022	11,220	**237,242**
Due thereafter	-	-	48,244	2,104	**50,348**
	-	**-**	**921,049**	**121,706**	**1,042,755**
Total	**65,671**	**32,412**	**955,880**	**127,301**	**1,181,264**

All amounts are in thousands of US Dollars unless otherwise stated

	31 December 2011				
	Fixed rate financial liabilities, at amortised cost				
	Obligations under finance leases		Loans and borrowings		Total
	Principal	Interest	Principal	Interest	
Due within three months	3,334	73	7	3,637	**7,051**
Due from three to six months	3,237	168	32,923	3,384	**39,712**
Due from six to twelve months	6,217	627	64,614	6,469	**77,927**
Due in the second year	11,397	2,217	53,326	2,458	**69,398**
Due in the third year	9,429	3,287	2	-	**12,718**
Due in the fourth year	7,071	3,918	-	-	**10,989**
Due in the fifth year	6,225	4,712	-	-	**10,937**
Due thereafter	6,262	7,336	-	-	**13,598**
	53,172	**22,338**	**150,872**	**15,948**	**242,330**
	Floating rate financial liabilities, at amortised cost				
Due within three months	-	-	150,500	18,031	**168,531**
Due from three to six months	-	-	83,500	10,791	**94,291**
Due from six to twelve months	-	-	-	19,476	**19,476**
Due in the second year	-	-	119,725	37,260	**156,985**
Due in the third year	-	-	284,444	30,248	**314,692**
Due in the fourth year	-	-	177,778	19,110	**196,888**
Due thereafter	-	-	177,778	7,166	**184,944**
	-	**-**	**993,725**	**142,082**	**1,135,807**
Total	**53,172**	**22,338**	**1,144,597**	**158,030**	**1,378,137**

38. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 1 March 2013, the Company declared dividends to the shareholders in the amount of USD 129,897 thousand.