PHOSAGRO

OJSC “PhosAgro”

Consolidated Financial Statements for the year ended 31 December 2012

Contents

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Auditors' Report

To the Shareholders and Board of Directors

OJSC "PhosAgro"

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P-18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

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

Romanenko A.M.

Director, power of attorney dated 1 October 2010 No. 47/10

ZAO KPMG

24 April 2013

Moscow, Russian Federation

	Note	2012 RUB Million	2011 RUB Million
Revenues	8	105,303	100,518
Cost of sales	10	(60,136)	(56,196)
Gross profit		45,167	44,322
Administrative expenses	11	(6,646)	(6,036)
Selling expenses	12	(7,720)	(6,492)
Taxes, other than income tax		(1,634)	(1,411)
Other expenses, net	13	(993)	(1,064)
Operating profit		28,174	29,319
Negative goodwill on consolidation of LLC "Metachem"	35	678	-
Finance income	14	2,070	824
Finance costs	14	(1,450)	(1,329)
Foreign exchange gain/(loss)		1,576	(2,836)
Share of profit of associates	17	166	2,318
Profit before taxation		31,214	28,296
Income tax expense	15	(6,704)	(5,820)
Profit for the year		24,510	22,476
Attributable to:			
Non-controlling interests		3,856	2,541
Shareholders of the Parent		20,654	19,935
Other comprehensive income/(loss)			
Revaluation of available-for-sale securities	17	282	(361)
Recycling of revaluation surplus on available-for-sale securities to profit and loss	17	-	(2,076)
Actuarial gains and losses, net of tax	27	(276)	17
Foreign currency translation difference		(396)	334
Other comprehensive loss for the year		(390)	(2,086)
Total comprehensive income for the year		24,120	20,390
Attributable to:			
Non-controlling interests		3,794	2,514
Shareholders of the Parent		20,326	17,876
Basic and diluted earnings per share (in RUB)	25	166	161

The consolidated financial statements were approved on 24 April 2013:

Chief executive officer

Volkov M.V.

Chief accountant

Valenkova E.V.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

	Note	31 December 2012 RUB Million	31 December 2011 RUB Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	66,528	57,116
Intangible assets		553	640
Investments in associates	17	9,620	7,910
Other non-current assets	19	3,071	3,556
		79,772	69,222
Current assets			
Other current investments	20	833	2,123
Derivative financial assets		45	-
Inventories	21	12,324	10,096
Current income tax receivable		769	166
Trade and other receivables	22	11,874	10,734
Cash and cash equivalents	23	9,664	16,946
Assets held for sale, net	7	346	-
		35,855	40,065
Total assets		115,627	109,287
EQUITY AND LIABILITIES			
Equity	24		
Share capital		360	360
Share premium		1,099	1,099
Retained earnings		48,294	42,265
Other reserves		(267)	61
Equity attributable to shareholders of the Parent		49,486	43,785
Equity attributable to non-controlling interests		12,389	16,923
		61,875	60,708
Non-current liabilities			
Loans and borrowings	26	14,452	16,592
Defined benefit obligations	27	1,257	922
Deferred tax liabilities	18	2,973	2,850
		18,682	20,364
Current liabilities			
Trade and other payables	29	12,377	11,407
Current income tax payable		676	801
Loans and borrowings	26	22,017	15,561
Derivative financial liabilities		-	446
		35,070	28,215
Total equity and liabilities		115,627	109,287

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

	Note	2012 RUB Million	2011 RUB Million
OPERATING ACTIVITIES			
Profit before taxation		31,214	28,296
Adjustments for:			
Depreciation and amortisation	10, 11, 12	6,521	6,051
Negative goodwill on consolidation of LLC "Metachem"	35	(678)	-
Reversal of impairment loss	13	-	(190)
Loss on disposal of fixed assets	13	193	24
Finance costs	14	1,450	1,329
Finance income	14	(2,070)	(824)
Share of profit of associates	17	(166)	(2,318)
Foreign exchange (gain)/loss		(1,203)	2,967
Operating profit before changes in working capital and provisions		35,261	35,335
Increase in inventories		(1,843)	(2,379)
(Increase)/decrease in trade and other receivables		(324)	4,499
Increase in trade and other payables		915	1,184
Cash flows from operations before income taxes and interest paid		34,009	38,639
Income tax paid		(7,117)	(5,399)
Finance costs paid		(1,429)	(865)
Cash flows from operating activities		25,463	32,375
INVESTING ACTIVITIES			
Loans (issued)/repaid		(153)	3,125
Acquisition of intangible assets		(110)	(115)
Acquisition of property, plant and equipment		(13,370)	(12,905)
Proceeds from disposal of property, plant and equipment		251	527
Proceeds from disposal of investments		669	1,391
Acquisition of investments		(21)	(950)
Acquisition of investments in associates		(987)	(471)
Consolidation of LLC "Metachem"	35	84	-
Additional equity contribution in associates		(511)	-
Finance income received		1,569	819
Dividends received		10	1,840
Cash flows used in investing activities		(12,569)	(6,739)
FINANCING ACTIVITIES			
Proceeds from borrowings		21,375	38,967
Repayment of borrowings		(15,941)	(19,999)
Proceeds from disposal of treasury shares		-	791
Acquisition of non-controlling interests		(12,047)	(9,196)
Proceeds from disposal of non-controlling interests		-	9,864
Dividends paid to non-controlling interests		(364)	(1,676)
Dividends paid to shareholders of the Parent		(11,890)	(32,253)
Finance leases paid		(1,169)	(487)
Cash flows used in financing activities		(20,036)	(13,989)
Net (decrease)/increase in cash and cash equivalents		(7,142)	11,647
Cash and cash equivalents at beginning of the year		16,946	5,261
Effect of changes in exchange rates		(140)	38
Cash and cash equivalents at end of the year		9,664	16,946

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

RUB Million	Attributable to shareholders of the Parent								
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury Shares	Attributable to non-controlling interests	Total
Balance at 1 January 2011	360	496	55,311	2,132	(177)	165	(37)	15,079	73,329
Total comprehensive income for the year									
Profit for the year	-	-	19,935	-	-	-	-	2,541	22,476
Revaluation of available-for-sale securities	-	-	-	(361)	-	-	-	-	(361)
Recycling of revaluation surplus on available-for-sale securities to profit and loss	-	-	-	(2,076)	-	-	-	-	(2,076)
Actuarial gains and losses, net of tax	-	-	-	-	44	-	-	(27)	17
Foreign currency translation difference	-	-	-	-	-	334	-	-	334
	-	-	19,935	(2,437)	44	334	-	2,514	20,390
Transactions with owners recognised directly in equity									
Acquisition and disposal of non-controlling interest in a subsidiary	-	-	91	-	-	-	-	577	668
Disposal of treasury shares, net of tax	-	603	-	-	-	-	37	-	640
Dividends to shareholders of the Parent	-	-	(33,072)	-	-	-	-	-	(33,072)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(1,247)	(1,247)
	-	603	(32,981)	-	-	-	37	(670)	(33,011)
Balance at 31 December 2011	360	1,099	42,265	(305)	(133)	499	-	16,923	60,708
Balance at 1 January 2012	360	1,099	42,265	(305)	(133)	499	-	16,923	60,708
Total comprehensive income for the year									
Profit for the year	-	-	20,654	-	-	-	-	3,856	24,510
Revaluation of available-for-sale securities	-	-	-	282	-	-	-	-	282
Actuarial gains and losses, net of tax	-	-	-	-	(214)	-	-	(62)	(276)
Foreign currency translation difference	-	-	-	-	-	(396)	-	-	(396)
	-	-	20,654	282	(214)	(396)	-	3,794	24,120
Transactions with owners recognised directly in equity									
Effect of merger, see note 24(d)	-	-	846	-	-	-	-	(1,213)	(367)
Acquisition of non-controlling interest in a subsidiary, see note 24(e)	-	-	(3,583)	-	-	-	-	(7,527)	(11,110)
Consolidation of LLC “Metachem”, see note 35	-	-	-	-	-	-	-	773	773
Dividends to shareholders of the Parent, see note 24(c)	-	-	(11,888)	-	-	-	-	-	(11,888)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(361)	(361)
	-	-	(14,625)	-	-	-	-	(8,328)	(22,953)
Balance at 31 December 2012	360	1,099	48,294	(23)	(347)	103	-	12,389	61,875

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

1 Background

(a) Organisation and operations

OJSC "PhosAgro" (the "Company" or the "Parent") and its subsidiaries (together referred to as the "Group") comprise Russian legal entities. The Company was registered in October 2001. The Company's registered office is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation.

The Group's principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

The Company's key shareholders are several Cyprus entities holding between 5% and 10% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guriev and his family members.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with the Federal Law No. 208 – FZ "On consolidated financial statements".

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Parent and its subsidiaries. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

The translation from USD into RUB, where applicable, was performed as follows:

- Assets and liabilities as of 31 December 2012 were translated at the closing exchange rate of RUB 30.3727 for USD 1 (31 December 2011: RUB 32.1961 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2012 of RUB 31.0930 for USD 1 (2011: RUB 29.3874 for USD 1).

- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUR 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction.
- The resulting foreign exchange difference is recognised in other comprehensive income.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Consolidation of OJSC "Apatit", see note 34(a).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the

Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the profit and loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years
- Plant and equipment 4 to 15 years
- Fixtures and fittings 3 to 6 years

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 10 to 60 years
- Plant and equipment 5 to 35 years
- Fixtures and fittings 2 to 25 years

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 *Business combinations* to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 – 10 years.

(e) Investments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. The derivates are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognized in profit and loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Preference share capital

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Pension plans

The Group’s net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(ii) Long-term service benefits other than pensions

The Group’s net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia’s State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies’ warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier (mainly for export).

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Revenue from services rendered is recognised in the profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in the profit and loss as incurred.

(s) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary shares outstanding increases/(decreases) as a result of a share split/(reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, related head office expenses and Group’s associates.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- IFRS 7 *Disclosures of offsetting Financial Assets and Financial Liabilities*, effective for annual periods beginning on or after 1 January 2013, would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for future annual periods. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Derivative financial instruments

The fair value is assessed using discounted cash flow technique, where possible using observable inputs, which corresponds to level 2 of the hierarchy of the fair value measurements.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, and loans issued to related parties.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Current and non-current financial assets and cash and cash equivalents

The Group lends money to related parties, who have good credit standing. Based on the prior experience, management believes that there is no significant credit risk in respect of related party loans.

Cash and cash equivalents are primarily held with banks with high credit rating. In order to manage liquidity, the Group buys promissory notes of banks with high credit rating.

(iii) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(e) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, being the Russian Rouble (RUB). The currencies giving rise to this risk are primarily USD and Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk.

(f) Interest rate risk

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board's approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants, see note 26.

6 Segment information

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- *Phosphate-based products segment* includes mainly production and distribution of ammophos, diammoniumphosphate and other phosphate based and complex (NPK) fertilisers on the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;

- *Nitrogen-based products segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the "other operations" line. None of these operations meet any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in internal management reports that are reviewed by the Group’s CEO.

Business segment information of the Group as at 31 December 2012 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	91,233	13,048	1,022	-	105,303
Export	60,759	11,404	-	-	72,163
Domestic	30,474	1,644	1,022	-	33,140
Inter-segment revenues	-	3,175	-	(3,175)	-
Cost of goods sold	(55,276)	(7,632)	(1,687)	3,175	(61,420)
Gross segment profit/(loss)	35,957	8,591	(665)	-	43,883
Certain items of profit and loss					
Amortisation and depreciation	(5,089)	(688)	(135)	-	(5,912)
Total non-current segment assets	45,200	13,309	2,657	-	61,166
Additions to non-current assets	9,855	3,700	64	-	13,619

Business segment information of the Group as at 31 December 2011 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	88,982	10,727	809	-	100,518
Export	60,837	9,426	-	-	70,263
Domestic	28,145	1,301	809	-	30,255
Inter-segment revenues	-	3,629	-	(3,629)	-
Cost of goods sold	(50,631)	(7,495)	(2,042)	3,629	(56,539)
Gross segment profit/(loss)	38,351	6,861	(1,233)	-	43,979
Certain items of profit and loss					
Amortisation and depreciation	(4,887)	(413)	(109)	-	(5,409)
Total non-current segment assets	40,310	10,296	1,948	-	52,554
Additions to non-current assets	8,314	6,561	368	-	15,243

The analysis of export revenue by regions is as follows:

	2012 RUB Million	2011 RUB Million
North and South America	24,380	28,287
Europe	16,822	16,197
Asia	9,051	6,396
India	7,454	12,029
Africa	7,579	3,016
CIS	6,877	4,338
	72,163	70,263

The Group distributes its products globally through large independent traders and distributors. The sales volume may vary from one trader to another. In 2012, revenue from sales of phosphate-based products to one single trader amounted to approximately 10% (RUB 10,857 million) of the Group’s total revenue. In 2011, revenue to another single trader amounted to approximately 28% (RUB 27,725 million) of the Group’s total revenue.

	2012 RUB Million	2011 RUB Million
Total segment revenues	105,303	100,518
Consolidated revenues	105,303	100,518

	2012 RUB Million	2011 RUB Million
Total segmental profit	43,883	43,979
Difference in depreciation and amortisation	(338)	(77)
Difference in timing of expenses recognition	191	(168)
Reallocation of administrative expenses	(145)	(89)
Reallocation of selling expenses	(160)	(184)
Reallocation of other income	887	297
Reallocation of capitalized expenses	387	-
Elimination of unrealized profit	(224)	(8)
Recognition of finance lease	794	350
Other adjustments	(108)	222
Consolidated gross profit	45,167	44,322

	2012 RUB Million	2011 RUB Million
Total non-current segment assets	61,166	52,554
Difference in the carrying value of the tangible assets	5,915	5,502
Consolidated non-current assets	67,081	57,756

7 Disposal group held for sale

CJSC “Pikalevskaya soda” and part of manufacturing facilities within LLC “Metachem” are presented as a disposal group held for sale following the commitment of the Group’s Management to a plan to sell the facilities. Efforts to sell the disposal group have commenced, and a sale is expected by June 2013.

At 31 December 2012, the disposal group comprised the following assets and liabilities.

	RUB million
Property, plant and equipment	149
Inventories	27
Trade and other receivables	150
Cash and cash equivalents	82
Trade and other payables	(62)
Assets held for sale, net	346

8 Revenues

	2012 RUB million	2011 RUB million
Sales of chemical fertilisers	79,956	79,714
Sales of apatite concentrate	19,452	14,480
Sales of ammonium	1,023	1,824
Sales of nepheline concentrate	721	771
Other sales	4,151	3,729
	105,303	100,518

The domestic sales prices for apatite concentrate are subject to various regulations of the Federal Anti-monopoly Service and Russian law “On protection of competition”. Domestic revenue of the Company is to a significant extent dependent on the decisions taken on the basis of these laws and regulations.

The domestic sales of apatite concentrate included in these consolidated financial statements amounted to RUB 10,976 million (2011: RUB 8,763 million).

9 Personnel costs

	2012 RUB million	2011 RUB million
Cost of sales	(11,963)	(11,078)
Administrative expenses	(3,847)	(3,403)
Selling expenses	(341)	(537)
	(16,151)	(15,018)

Personnel costs include salaries and wages, social contributions and current pension service costs.

10 Cost of sales

	2012 RUB million	2011 RUB million
Materials and services	(21,792)	(20,006)
Salaries and social contributions	(11,963)	(11,078)
Potash	(4,598)	(3,026)
Natural gas	(5,733)	(4,951)
Depreciation	(5,936)	(5,486)
Fuel	(4,579)	(4,207)
Sulphur and sulphuric acid	(3,597)	(4,838)
Electricity	(3,255)	(3,290)
Other items	(88)	(51)
Change in stock of WIP and finished goods	1,405	737
	(60,136)	(56,196)

11 Administrative expenses

	2012 RUB million	2011 RUB million
Salaries and social contributions	(3,847)	(3,631)
Professional services	(692)	(677)
Depreciation and amortisation	(524)	(499)
Other	(1,583)	(1,229)
	(6,646)	(6,036)

12 Selling expenses

	2012 RUB million	2011 RUB million
Russian Railways infrastructure tariff and operators' fees	(3,825)	(3,488)
Port and stevedoring expenses	(2,309)	(1,571)
Materials and services	(1,184)	(1,027)
Salaries and social contributions	(341)	(340)
Depreciation and amortisation	(61)	(66)
	(7,720)	(6,492)

During the current period the Group made a decision to re-classify some part of expenses on depreciation, amortisation, salaries and social contributions, previously included in selling expenses, to administrative expenses. As a result selling expenses decreased by RUB 96 million from RUB 6,588 million to RUB 6,492 million for the year ended 31 December 2011.

13 Other expenses, net

	2012 RUB million	2011 RUB million
Social expenditures	(852)	(1,191)
Loss on disposal of fixed assets	(193)	(24)
Decrease in provision for inventory obsolescence	7	4
(Increase)/decrease in provision for bad debt	(32)	40
Reversal of impairment losses	-	190
Other income/(expenses)	77	(83)
	(993)	(1,064)

During the current period the Group made a decision to re-classify amortisation, depreciation and some part of social expenditures, previously included in other expenses, to administrative expenses. As a result other expenses, net decreased by RUB 182 million from RUB 1,246 million to RUB 1,064 million for the year ended 31 December 2011.

14 Finance income and finance costs

	2012 RUB million	2011 RUB million
Interest income	1,071	819
Gain on revaluation of derivative financial instruments	679	-
Dividend income	10	5
Other finance income	310	-
Finance income	2,070	824
Interest expense	(1,193)	(883)
Loss on revaluation of derivative financial instruments	-	(446)
Other finance costs	(257)	-
Finance costs	(1,450)	(1,329)
Net finance income/(costs)	620	(505)

In May 2012, OJSC "Apatit" filed a claim against the tax authorities of Murmansk region for a compensation of interest on excessive tax payments for 2001 and 2003 tax years in the amount of RUB 350 million. In October 2012, the parties reached an out-of-court agreement according to which the tax authorities agreed to repay RUB 310 million. The amount of tax asset was recognised in these consolidated financial statements as other finance income. The cash was received in October 2012.

15 Income tax expense

The Company's applicable corporate income tax rate is 20% (2011: 20%).

	2012 RUB million	2011 RUB million
Current tax expense	(6,431)	(5,670)
Origination and reversal of temporary differences, including change in unrecognised assets	(273)	(150)
	(6,704)	(5,820)

Reconciliation of effective tax rate:

	2012 RUB Million	%	2011 RUB Million	%
Profit before taxation	31,214	100	28,296	100
Income tax at applicable tax rate	(6,243)	(20)	(5,659)	(20)
Over provided in respect of prior years	7	-	35	-
Income tax on intra-group dividends	(416)	(1)	(230)	(1)
Unrecognised tax liability on income from associates	33	-	464	2
Recognition of previously unrecognised deferred tax assets	461	1	-	-
Non-deductible items	(249)	-	(593)	(2)
Change in unrecognised deferred tax assets	(297)	(1)	(284)	(1)
Unrecognised foreign exchange difference relating to intra-group transfer of investments	-	-	118	-
Increase of tax loss carry-forward due to intra-group transfer of investments	-	-	329	1
	(6,704)	(21)	(5,820)	(21)

16 Property, plant and equipment

RUB million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2011	12,262	36,232	2,215	15,455	66,164
Reclassification	-	541	(541)	-	-
Additions	-	1,738	313	14,750	16,801
Transfers	1,778	7,487	-	(9,265)	-
Disposals	(184)	(662)	(38)	(190)	(1,074)
At 1 January 2012	13,856	45,336	1,949	20,750	81,891
Reclassification	465	(2,097)	1,632	-	-
Additions	394	1,269	417	12,801	14,881
Consolidation of LLC “Metachem”	444	346	69	421	1,280
Transfers	5,504	9,685	59	(15,248)	-
Disposals	(153)	(893)	(114)	(44)	(1,204)
At 31 December 2012	20,510	53,646	4,012	18,680	96,848
Accumulated depreciation					
At 1 January 2011	(3,008)	(15,772)	(714)	(190)	(19,684)
Depreciation charge	(794)	(4,757)	(253)	-	(5,804)
Reversal of impairment	-	-	-	190	190
Disposals	80	415	28	-	523
At 1 January 2012	(3,722)	(20,114)	(939)	-	(24,775)
Reclassification	(37)	1,139	(1,102)	-	-
Depreciation charge	(792)	(5,040)	(471)	-	(6,303)
Disposals	43	637	78	-	758
At 31 December 2012	(4,508)	(23,378)	(2,434)	-	(30,320)
Net book value at 1 January 2011	9,254	20,460	1,501	15,265	46,480
Net book value at 1 January 2012	10,134	25,222	1,010	20,750	57,116
Net book value at 31 December 2012	16,002	30,268	1,578	18,680	66,528

(a) Impairment testing

At the reporting date the Group performed an impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of 5 to 8 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 12.9% (2011: 13.8%)
- Terminal growth rate 3% (2011: 3%)

Based on the analysis, no impairment loss was recognised. A 2% change in the discount rate would not have resulted in an impairment loss.

(b) Security

Properties with a carrying amount of RUB 1,270 million (31 December 2011: RUB 1,783 million) are pledged to secure bank loans, see note 26.

(c) Leasing

Plant and equipment (railway wagons) with the carrying value of RUB 3,679 million (31 December 2011: RUB 2,620 million) is leased under various finance lease agreements, see note 28.

17 Investments in associates

PhosInt Limited

In September and October 2010, two Group subsidiaries, PhosInt Limited and PhosAsset GmbH, increased their share capital which was subscribed by a related party resulting in the dilution of the Group's shareholding in these entities to 49%. As a consequence these entities and Nordwest AG, a subsidiary of PhosAsset GmbH (further the PhosInt Group) were deconsolidated from the Group. At the same time, the Group retained its right for the distribution of all accumulated earnings and reserves relating to these entities prior to the date of loss of control as determined by the executive management by reference to the IFRS financial statements of these entities. In 2011, dividend in the amount of RUB 1,840 million was accrued and paid from PhosInt Group to the Company out of the opening balance of retained earnings.

As at 31 December 2010, 2011 and 2012 these entities held primarily equity and debt instruments of Russian issuers recognized at fair value, loans issued and cash. Accordingly, the fair value of the net assets of these entities approximated the book value.

Once the total dividend distributed will reach the amount of retained earnings of PhosInt Group at the date of loss of control, any subsequent dividend will be made proportionate to the shareholding in these companies.

No consideration was received by the Group on disposal and the financial result of this transaction was nil.

LLC "Metachem"

In May 2011, the Group entered into acquisition agreement for 24% of LLC "Metachem" and 21.85% of CJSC "Pikalevskaya soda" for a total consideration of RUB 313 million. In July 2011, the Group sold its investment in CJSC "Pikalevskaya soda" for RUB 145 million to CJSC "Metachem". In December 2012, the Group contributed RUB 1,200 million to the charter capital of LLC "Metachem" increasing the Group's ownership to 74.76%, see note 35.

CJSC "Nordic Rus Holding"

In October 2012, the Group acquired 24% of CJSC "Nordic Rus Holding" for a total consideration of USD 31.76 million (RUB 987 million). CJSC "Nordic Rus Holding" is a minority shareholder of OJSC "Apatit".

The movement in the balance of investments in associates is as follows:

	2012 RUB million	2011 RUB million
Balance at 1 January	7,910	9,365
Acquisition of LLC “Metachem” and CJSC “Pikalevskaya soda”	-	313
Disposal of CJSC “Pikalevskaya soda”	-	(145)
Share in profit for the year	166	2,318
Share in revaluation gain/(loss) on available-for-sale securities	282	(359)
Share in re-cycling of revaluation surplus on available-for-sale securities to profit and loss	-	(2,076)
Foreign currency translation difference	(396)	334
Dividends accrued	-	(1,840)
Additional equity contributions	1,081	-
Acquisition of CJSC “Nordic Rus Holding”	987	-
Consolidation of LLC “Metachem”	(410)	-
Balance at 31 December	9,620	7,910

Carrying values of the Group’s investment in associates at 31 December 2012 and 2011 are as follows:

	2012 RUB Million	2011 RUB Million
PhosInt Group	7,661	7,646
Metachem Group	-	264
PHOSAGRO-UKRAINE	111	-
Khibinskaya Teplovaya Kompaniya	400	-
Nordic Rus Holding	1,448	-
	9,620	7,910

Summary financial information for associates is as follows:

2012	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
PhosInt Group	9,435	(1,553)	7,882	2,754	325
Metachem Group [2]	4,370	(1,309)	3,061	7,017	606
PHOSAGRO-UKRAINE	352	(359)	(7)	2,112	20
Khibinskaya Teplovaya Kompaniya	1,649	(750)	899	4	2
Nordic Rus Holding [3]	5,888	(49)	5,839	-	49
	21,694	(4,020)	17,674	11,887	1,002

2011	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
PhosInt Group	10,213	(2,600)	7,613	291	2,441
Metachem Group [1]	2,593	(1,493)	1,100	5,007	399
PHOSAGRO-UKRAINE	76	(363)	(287)	2,200	21
	12,882	(4,456)	8,426	7,498	2,861

[1] For the seven-month period ended 31 December 2011

[2] For the period ended 21 December 2012, the date of consolidation

[3] For the three-month period ended 31 December 2012

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB million	Assets 2012	Liabilities 2012	Net 2012	Assets 2011	Liabilities 2011	Net 2011
Property, plant and equipment	9	(3,990)	(3,981)	5	(3,270)	(3,265)
Other long-term assets	67	(41)	26	47	(219)	(172)
Current assets	271	(315)	(44)	220	(255)	(35)
Liabilities	1,055	(1)	1,054	620	(56)	564
Tax loss carry-forwards	781	-	781	570	-	570
Provision for tax loss carry-forwards	(781)	-	(781)	(438)	-	(438)
Unrecognised deferred tax assets	(28)	-	(28)	(74)	-	(74)
Tax assets / (liabilities)	1,374	(4,347)	(2,973)	950	(3,800)	(2,850)
Set off of tax	(1,374)	1,374	-	(950)	950	-
Net tax assets / (liabilities)	-	(2,973)	(2,973)	-	(2,850)	(2,850)

The unrecognised tax losses expire within eight years from the reporting date.

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 32,347 million (31 December 2011: RUB 18,970 million). The deferred tax liability for these temporary differences has not been recognised because the Parent can control the timing of reversal of the temporary difference and it is probable that temporary differences will not reverse in the foreseeable future.

The unrecognised temporary differences relating to investments in associates at the reporting date is RUB 5,167 million (31 December 2011: RUB 5,234 million).

(b) Movement in temporary differences during the year

	2012	Recognised in profit and loss	Recognised in other comprehensive income	2011
Property, plant and equipment	(3,981)	(716)	-	(3,265)
Other long-term assets	26	198	-	(172)
Current assets	(44)	(9)	-	(35)
Liabilities	1,054	340	150	564
Tax loss carry-forwards	781	211	-	570
Provision for tax loss carry-forwards	(781)	(343)	-	(438)
Unrecognised deferred tax assets	(28)	46	-	(74)
Net tax assets / (liabilities)	(2,973)	(273)	150	(2,850)

	2011	Recognised in profit and loss	2010
Property, plant and equipment	(3,265)	(378)	(2,887)
Other long-term assets	(172)	(74)	(98)
Current assets	(35)	(183)	148
Liabilities	564	366	198
Tax loss carry-forwards	570	403	167
Provision for tax loss carry-forwards	(438)	(271)	(167)
Unrecognised deferred tax assets	(74)	(13)	(61)
Net tax assets / (liabilities)	(2,850)	(150)	(2,700)

19 Other non-current assets

	31 December 2012 RUB million	31 December 2011 RUB million
Advances issued for property, plant and equipment	1,511	1,976
Financial assets available-for-sale, at cost	753	748
Finance lease receivable	58	315
Loans issued to employees, at amortised cost	325	165
Financial assets available-for-sale, at fair value	75	64
Loans issued to related parties, at amortised cost	38	11
Other long-term receivables	311	277
	3,071	3,556

20 Other current investments

	31 December 2012 RUB million	31 December 2011 RUB million
Loans issued to associates, at amortised cost	664	944
Bank promissory notes	-	669
Loans issued to employees, at amortised cost	82	-
Loans issued to related parties, at amortised cost	57	441
Other loans issued, at amortised cost	30	69
	833	2,123

Loans issued to associates represent a RUB-denominated loan issued in 2012 by OJSC “Apatit” to OJSC “Khibinskaya Teplovaya Kompaniya”, bearing interest of 9%. The loan was repaid in March 2013.

21 Inventories

	31 December 2012 RUB million	31 December 2011 RUB million
Raw materials:		
Raw materials and spare parts	5,937	5,796
Apatite concentrate	1,025	488
Apatite-nepheline ore	913	775
Finished goods:		
Chemical fertilisers	3,995	2,795
Apatite concentrate	178	162
Work-in-progress	534	345
Provision for obsolescence	(258)	(265)
	12,324	10,096

22 Trade and other receivables

	31 December 2012 RUB million	31 December 2011 RUB million
Taxes receivable	4,617	4,373
Advances issued	2,802	2,038
Trade accounts receivable	3,402	3,499
Other receivables	292	792
Deferred expenses	33	125
Receivables from associates	803	168
Receivables from related parties	253	51
Receivables from employees	43	13
Finance lease receivable	21	35
Provision for doubtful accounts	(392)	(360)
	11,874	10,734

Included in trade and other receivables are trade accounts receivable with the following ageing analysis as at the reporting dates:

	31 December 2012 RUB million	31 December 2011 RUB million
Not past due	2,694	2,838
Past due 0-180 days	357	334
Past due 180-365 days	95	128
More than one year	256	199
	3,402	3,499

23 Cash and cash equivalents

	31 December 2012 RUB million	31 December 2011 RUB million
Cash in bank	7,258	11,710
Call deposits	2,404	5,173
Short-term promissory notes	-	58
Petty cash	2	5
	9,664	16,946

24 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2012, RUB 2.5 par value	124,477,080
Shares authorised for additional issue at 31 December 2012, RUB 2.5 par value	1,000,000,000
Shares on issue at 31 December 2011, RUB 25 par value	12,447,708
Shares authorised for additional issue at 31 December 2011, RUB 25 par value	100,000,000

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 *“Financial Reporting in Hyperinflationary economies”*.

In February 2006, the Company issued 1,764,001 preferred shares of class “A1” and 35,999 preferred shares of class “A2”, both with a par value of 25 Russian Rubles. The issue price was 140 and 200 Russian Rubles per share for the shares of class “A1” and “A2”, respectively. The total proceeds from the share issue were RUB 254 million.

During 2011, the preferred shares were converted into the same number of ordinary shares.

In December 2011 the extraordinary meeting of the shareholders decided to split each ordinary share with the par value of 25 RUB each into 10 ordinary shares with the par value of 2.5 RUB each. The share split was completed in March 2012. As a result, the Company’s issued share capital is comprised of 124,477,080 ordinary shares having par value of 2.5 RUB each. The Company’s authorised an additional 1,000,000,000 ordinary shares for issue with a par value of 2.5 RUB each.

In October 2012, the Board of Directors decided to increase the Company’s share capital by issuing 13.5 million new ordinary shares with the par value of 2.5 RUB each. In November 2012, the Federal Financial Markets Service of Russia registered this additional share issue. In accordance with Russian legislation, the Company may place the new shares within one year (with the possible prolongation) after the date of the state registration of the share issue and all the Company’s shareholders have pre-emptive rights to purchase the new shares in an amount pro rata to the number of ordinary shares they own. On 10 April 2013, the Company started the new shares issuance with the offering price of USD 42 per ordinary share. The Company plans to complete the new shares issuance in May 2013.

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent. of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of OJSC “PhosAgro”.

Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

(c) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2012, the Company had cumulative retained earnings of RUB 11,564 million (31 December 2011: RUB 16,705 million).

In April 2012, the Board of Directors proposed payment of dividends of RUB 32.5 per ordinary share. The total amount of dividend proposed is RUB 4,046 million. In May 2012, the proposed dividend was approved by the meeting of shareholders.

In August 2012, the Board of Directors proposed payment of dividends of RUB 38 per ordinary share. The total amount of dividend proposed is RUB 4,730 million. In September 2012, the proposed dividend was approved by the meeting of shareholders.

In November 2012, the Board of Directors proposed payment of dividends of RUB 25 per ordinary share. The total amount of dividend proposed is RUB 3,112 million. In December 2012, the proposed dividend was approved by the meeting of shareholders.

(d) Merger of OJSC “Ammophos” and JSC “Cherepovetsky “Azot”

In February 2012, the shareholders of two of the Group’s subsidiaries, OJSC “Ammophos” and JSC “Cherepovetsky “Azot” passed a resolution to merge into one legal entity – OJSC “PhosAgro-Cherepovets”. In accordance with the Russian law, those minority shareholders who voted against the merger or withheld from voting, obtain the right to put their shares to the respective entities. In April 2012, the Board of Directors of OJSC “Ammophos” and Supervisory Board of JSC “Cherepovetsky “Azot” approved repurchase of shares from those shareholders who decided to put their shares to the respective entities for RUB 367 million. After the repurchase the Group’s share in OJSC “Ammophos” and JSC “Cherepovetsky “Azot” was 94.1% and 70.6%, respectively. The legal structuring was completed in July 2012. The Group’s share in OJSC “PhosAgro-Cherepovets” is 87.6%.

(e) Acquisition of the Russian Federation’s stake in OJSC “Apatit”

In September 2012, the Group offered RUB 11,110 million in the privatisation tender for the Russian Federation’s 20% stake in all issued shares of OJSC “Apatit” and signed a purchase agreement for the shares. On 4 October 2012, the Group paid for the shares and the legal title for the shares was transferred to the Group increasing its shareholding from 57.57% to 77.57%. The carrying amount of Apatit’s net assets on the date of the acquisition was RUB 37,526 million. The financial effect of this transaction is a decrease in non-controlling interests by RUB 7,505 million and a decrease in retained earnings by RUB 3,605 million.

The Government of the Russian Federation issued an Order No 2901-R, dated 11 October 2012, which cancelled its special right to participate in the governance of OJSC “Apatit” (the “Golden Share”).

In November 2012, the Group launched a mandatory tender offer to acquire ordinary and preferred shares of OJSC “Apatit”. The offered price, which was determined in accordance with the Russian law, is RUB 6,679.9 per ordinary share and RUB 5.344.0 per type “A” preferred share. For the purposes of the mandatory buyout the Group obtained a bank guarantee in the amount of RUB 7,785 million. The offer period expired on 17 January 2013. As of 18 January 2013, holders of 10.95% of all issued shares of OJSC “Apatit” (738,957 ordinary and 171,439 type “A” preferred shares), accepted the Company’s mandatory tender offer. In January 2013, the legal title for the shares was transferred to the Group increasing its shareholding from 77.57% to 88.52%. The financial effect of this transaction, to be recognised in January 2013, is a decrease in non-controlling interests by approximately RUB 3,575 million and a decrease in retained earnings by approximately RUB 2,277 million.

In April 2013, the Company’s sent a compulsory share purchase notification (squeeze out) to OJSC “Apatit” for the buyout of shares belonging to OJSC “Apatit” minority shareholders. The purchase price, which was determined in accordance with the Russian law, is RUB 6,880 per ordinary share and RUB 5,504 per type “A” preferred share. The Company plans to complete all procedures related to the squeeze out by the end of the second quarter of 2013.

25 Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split, see note 24(a), and effect of treasury shares. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2012	2011
Weighted average number of ordinary shares in issue	124,477,080	124,032,396
Profit for the year attributable to ordinary shareholders of the Parent, RUB million	20,654	19,935
Basic and diluted earnings per share, RUB	166	161

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 28(a). For more information about the Group's exposure to foreign currency risk, see note 30(a).

RUB Million	Contractual interest rate	31 December 2012	31 December 2011
Current loans and borrowings			
Secured bank loans:			
RUB- denominated	1%-10%	277	1,105
Unsecured bank loans:			
RUB-denominated	1%-9.5%	519	139
USD-denominated	LIBOR(1M)+2.35%-3.2%	12,502	13,683
USD-denominated	LIBOR(3M)+2.6%	7,593	-
Secured letters of credit:			
EUR-denominated	LIBOR(3M)+1.7%-4.1%	-	148
EUR-denominated	EURIBOR(6M)+2.05%	250	-
EUR-denominated	EURIBOR(3M)+1.95%	33	-
RUB-denominated	EURIBOR(6M)+0.9%	200	-
RUB-denominated	1%	-	66
Finance lease liabilities:			
USD-denominated	11.2%-13.9% [1]	606	405
Interest payable:			
RUB-denominated		37	15
		22,017	15,561
Non-current loans and borrowings			
Secured bank loans:			
RUB-denominated	1.5%-3.25%	23	114
Unsecured bank loans:			
USD-denominated	LIBOR(1M)+2.7%-3.2%	9,971	13,039
USD-denominated	LIBOR(3M)+2.9%	1,519	-
Secured letters of credit:			
USD-denominated	EURIBOR(6M)+2%	336	356
EUR-denominated	EURIBOR(3M)+1.95%	200	242
EUR-denominated	EURIBOR(6M)+2.1%-3.3%	481	954
EUR-denominated	LIBOR(6M)+2.05%	-	134
Finance lease liabilities:			
USD-denominated	11.2%-13.9% [1]	1,922	1,753
		14,452	16,592
		36,469	32,153

See note 16(b) on the assets pledged as a security for bank loans.

In addition to the pledges the loan agreements contain a number of restrictive covenants, such as maintaining a minimum turnover on the current account, limiting the maximum joint indebtness and minimum total assets of several Group subsidiaries, net debt to EBITDA ratio and EBITDA to interest expense ratio. The Group complied with these covenants during the year.

[1] Contractual interest rate on financial lease agreements consists of the following components:
- interest rate and fees to a lessor
- insurance of property
- property tax

27 Defined benefit obligations

	31 December 2012 RUB million	31 December 2011 RUB million
Pension obligations, long-term	904	530
Post-retirement obligations other than pensions	353	392
	1,257	922

Defined benefit pension plans relate to two subsidiaries of the Company: OJSC "Apatit" and OJSC "PhosAgo-Cherepovets". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in OJSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in OJSC "Apatit" upon their retirement. All defined benefit plans are unfunded.

The movement in the present value of the defined benefit obligations is as follows:

	RUB million
Defined benefit obligations at 1 January 2011	931
Benefits paid	(67)
Current service costs and interest	75
Actuarial gains in other comprehensive income	(17)
Defined benefit obligations at 1 January 2012	922
Benefits paid	(190)
Current service costs and interest	121
Past service costs	1
Curtailment gain	(23)
Actuarial loss in other comprehensive income	426
Defined benefit obligations at 31 December 2012	1,257

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

	31 December 2012	31 December 2011
Discount rate	7%	8%
Future pension increases	5%	6%

28 Leases

(a) Finance leases

LLC “PhosAgro-Trans”, a Group subsidiary, has entered into several agreements to lease 2,150 railway wagons. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2012		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	833	227	606
Between one and five years	2,041	450	1,591
More than five years	358	27	331
	3,232	704	2,528

	2011		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	594	189	405
Between one and five years	1,842	401	1,441
More than five years	330	18	312
	2,766	608	2,158

(b) Operating leases

During 2011-2012, LLC “PhosAgro-Trans”, a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2012, which are recorded in the cost of sales, amounted to RUB 873 million (2011: RUB 729 million).

The non-cancellable operating lease rentals are payable as follows:

	31 December 2012 RUB million	31 December 2011 RUB million
Less than one year	482	345
Between one and five years	-	152
	482	497

29 Trade and other payables

	31 December 2012 RUB million	31 December 2011 RUB million
Trade accounts payable	2,464	1,552
Dividends payable	2,996	3,001
Advances received	2,252	2,024
Accruals	1,413	1,371
Payable for property, plant and equipment	1,138	1,335
Taxes payable	1,157	990
Payables to employees	742	739
Payables to related parties and associates	114	93
Other payables	101	302
	12,377	11,407

30 Financial instruments

(a) Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

The Group has the following foreign-currency-denominated financial assets and liabilities:

RUB Million	31 December 2012		31 December 2011	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets				
Receivables	2,530	41	2,909	31
Cash and cash equivalents	2,912	49	4,058	86
Non-current liabilities				
Loans and borrowings	(13,748)	(681)	(15,148)	(1,330)
Current liabilities				
Payables	(673)	(87)	(84)	(371)
Loans and borrowings	(20,701)	(283)	(14,088)	(148)
	(29,680)	(961)	(22,353)	(1,732)

Management estimate that a 10% strengthening/(weakening) of the USD and EUR against Russian Ruble, based on the Group's exposure as at the reporting date would have decreased/(increased) the Group's net profit for the year by RUB 3,064 million, before any tax effect (2011: RUB 2,409 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

(b) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 December 2012 RUB million	31 December 2011 RUB million
Fixed rate instruments		
Long-term loans issued at amortised cost	363	176
Short-term promissory notes	-	669
Finance lease receivable	79	350
Short-term deposits	2,404	5,173
Short-term loans issued at amortised cost	833	1,454
Long-term borrowings	(1,945)	(1,867)
Short-term borrowings	(1,439)	(1,730)
	295	4,225
Variable rate instruments		
Long-term borrowings	(12,507)	(14,725)
Short-term borrowings	(20,578)	(13,831)
	(33,085)	(28,556)

At 31 December 2012, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 331 million (31 December 2011: RUB 286 million).

(c) Liquidity risk

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	31 December 2012							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	300	357	299	58	-	-	-	-
Unsecured bank loans	32,104	33,858	21,259	8,111	3,628	860	-	-
Letters of credit	1,500	1,548	516	224	355	15	438	-
Interest payable	37	37	37	-	-	-	-	-
Secured finance leases	2,528	3,232	833	596	549	510	386	358
Trade and other payables	8,226	8,226	8,226	-	-	-	-	-
Financial guarantees issued for related parties	609	609	609	-	-	-	-	-
	45,304	47,867	31,779	8,989	4,532	1,385	824	358

	31 December 2011							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	1,219	1,321	1,205	2	114	-	-	-
Unsecured bank loans	26,861	27,889	14,361	6,720	4,944	53	1,811	-
Letters of credit	1,900	2,203	267	538	408	381	21	588
Interest payable	15	15	15	-	-	-	-	-
Secured finance leases	2,158	2,766	594	524	455	439	424	330
Trade and other payables	7,654	7,654	7,654	-	-	-	-	-
Derivative financial liabilities	446	446	446	-	-	-	-	-
Financial guarantees issued for related parties	1,704	1,704	1,704	-	-	-	-	-
	41,957	43,998	26,246	7,784	5,921	873	2,256	918

(d) Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

31 Commitments

The Group has entered into contracts to purchase plant and equipment for RUB 4,542 million (31 December 2011: RUB 5,905 million).

At the reporting date the Group had a commitment for acquisition of more than 10% of all issued shares of OJSC "Apatit" from minority shareholders who accepted the mandatory tender offer, see note 24(e).

32 Contingencies

(a) Litigation

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

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigation with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management’s position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

33 Related party transactions

(a) Transactions and balances with associates

(i) Transactions with associates

	2012 RUB Million	2011 RUB Million
Sales of goods and services	4,971	2,469
Sales of equity investments	-	6,123
Sales of treasury shares	-	791
Dividend income from associates	-	1,840
Interest income from associates	69	60
Purchases of goods and services	(218)	(2,351)
Interest expense to associates	-	(7)

(ii) Balances with associates

	31 December 2012 RUB Million	31 December 2011 RUB Million
Short-term loans issued, at amortised cost	664	944
Advances issued for construction of property, plant and equipment, at cost	345	-
Receivables from associates	803	168
Payables to associates	(33)	(81)

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2012 RUB Million	2011 RUB Million
Assignment of receivables to a related party	-	2,347
Sales of goods and services	805	553
Purchases of goods and services	(707)	(73)
Interest income from related parties	19	52

(ii) Balances with other related parties

	31 December 2012 RUB Million	31 December 2011 RUB Million
Short-term loans issued, at amortised cost	57	441
Long-term loans issued, at amortised cost	38	11
Receivables from related parties	253	51
Payables to related parties	(81)	(12)
Dividends payable to shareholders of the Parent	(2,911)	(2,913)

(iii) Key management remuneration

The remuneration of the Board of Directors and 16 members of key management personnel amounted to RUB 364 million (2011: RUB 459 million).

(iv) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 609 million (31 December 2011: RUB 1,704 million), see note 30(c).

34 Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2012 Effective ownership (rounded)	31 December 2011 Effective ownership (rounded)
Apatit, OJSC [1]	Russia	78%	58%
PhosAgro-Cherepovets, OJSC [2]	Russia	88%	-
Ammophos, OJSC [2]	Russia	-	94%
Cherepovetsky Azot, JSC [2]	Russia	-	69%
Balakovo Mineral Fertilizers, LLC	Russia	100%	100%
Metachem, LLC [3]	Russia	75%	24%
NIUIF, OJSC	Russia	94%	94%
PhosAgro AG, CJSC	Russia	100%	100%
Agro-Cherepovets, CJSC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Trans, LLC	Russia	100%	100%
Region-Agro-Belgorod, LLC	Russia	100%	100%
Region-Agro-Don, LLC	Russia	100%	100%
Region-Agro-Kuban, LLC	Russia	100%	100%
Region-Agro-Kursk, LLC	Russia	100%	100%
Region-Agro-Lipetsk, LLC	Russia	75%	75%
Region-Agro-Oryol, LLC	Russia	100%	100%
Region-Agro-Stavropol, LLC	Russia	100%	100%
Region-Agro-Volga, LLC	Russia	87%	87%
Trading house PhosAgro, LLC	Russia	100%	100%

[1] including preferred shares; see note 24(e) on acquisition of the Russian Federation’s stake in OJSC “Apatit”

[2] see note 24(d) on merger of OJSC “Ammophos” and JSC “Cherepovetsky “Azot” into OJSC “PhosAgro-Cherepovets”

[3] see notes 17 and 35 on consolidation of LLC “Metachem”

(a) Consolidation of OJSC “Apatit”

As at 31 December 2011, the Group held 50% of ordinary and 80.28% of preferred shares in OJSC “Apatit”. The remaining ordinary and preferred shares were widely held. In accordance with the charter of OJSC “Apatit”, under certain circumstances, holders of preferred shares are entitled to vote in the meetings of the shareholders. As at 31 December 2011, the preferred shares were voting. Management believes that the existing shareholding allowed the Group to exercise control over OJSC “Apatit”. As at 31 December 2012, the preferred shares were voting.

35 Consolidation of LLC "Metachem"

In November 2012, the Company reached an agreement with other participants in LLC "Metachem" to increase the charter capital of LLC "Metachem" and the Company's ownership in LLC "Metachem" by way of a new cash contribution from the Company in the amount of RUB 1,200 million in the charter capital of LLC "Metachem".

In December 2012, the official state registration of an increase of the authorised capital of LLC "Metachem" by way of a new contribution from the Company was completed. As a result the Company's direct ownership in LLC "Metachem" increased to 66.79%, while the Group's total ownership increased to 74.76%.

The provisionally determined fair value of the identifiable assets and liabilities of LLC "Metachem" at the date of consolidation is as follows:

	RUB Million
Property, plant and equipment	1,280
Intangible assets	8
Inventories	400
Current income tax receivable	17
Trade and other receivables	973
Cash and cash equivalents	1,284
Assets held for sale, net	346
Current loans and borrowings	(603)
Deferred tax liabilities	(15)
Trade and other payables	(629)
Net identifiable assets and liabilities	3,061
Non-controlling interest	(773)
Company's share in net identifiable assets and liabilities acquired	2,288
Less additional cash contribution	(1,200)
Less fair value of the investment in associate at the date of consolidation	(410)
Negative goodwill on consolidation	(678)
Cash and cash equivalents acquired	1,284
Additional cash contribution	(1,200)
Net cash inflow	84

If consolidation of LLC "Metachem" took place on 1 January 2012 the Group's revenues and profit for the year ended 31 December 2012 would have been RUB 112,320 million and RUB 24,971 million, respectively.

36 Events subsequent to the reporting date

In January 2013, the Board of Directors established the Company's Management Board and elected its members. Changes to the management structure of the Company by way of creation of a Management Board were approved by the meeting of shareholders in December 2012.

In January 2013, the Group obtained insurance policy for property, plant and equipment of major production subsidiaries for the aggregated amount of USD 10,008 million and for business interruption for the aggregated amount of USD 2,198 million. Such insurance policy has not been in place in prior periods.

In February 2013, the Company's SPV issued USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange.

In April 2013, the Board of Directors proposed payment of dividends of RUB 19.9 per ordinary share to shareholders included in the register of shareholders as of 22 April 2013.