Consolidated Financial Statements

for the year ended 31 December 2011

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Independent Auditors' Report

To the Board of Directors
OJSC "PhosAgro"

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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 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
19 April 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

In millions of RUB, except for per share information

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Revenues	7	100,518	76,951
Cost of sales	9	(56,196)	(47,670)
Gross profit		**44,322**	**29,281**
Administrative expenses	10	(5,758)	(5,247)
Selling expenses	11	(6,588)	(6,515)
Taxes, other than income tax		(1,411)	(999)
Other (expenses)/income, net	12	(1,246)	(1,833)
Operating profit		**29,319**	**14,687**
Finance income	13	824	1,512
Finance costs	14	(1,329)	(437)
Foreign exchange loss		(2,836)	(132)
Share of profit of associates	17	2,318	–
Profit before taxation		**28,296**	**15,630**
Income tax expense	15	(5,820)	(3,649)
Profit for the year		**22,476**	**11,981**
Attributable to:			
Non-controlling interests		2,541	1,403
Equity holders of the Parent		19,935	10,578
Other comprehensive income:			
Revaluation of available-for-sale securities	17	(361)	227
Recycling of revaluation gain on available-for-sale securities to profit and loss	17	(2,076)	–
Actuarial gains and losses	27	17	(377)
Foreign subsidiary translation difference		334	25
Other comprehensive income for the year		(2,086)	(125)
Total comprehensive income for the year		**20,390**	**11,856**
Attributable to:			
Non-controlling interests		2,514	1,305
Equity holders of the Parent		17,876	10,551
Basic and diluted earnings per share (in RUB)	25	161	85

The consolidated financial statements were approved on 19 April 2012:

VOLKOV M.V.
Chief executive officer

VALENKOVA E.V.
Chief accountant

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 82 to 104.

Consolidated Statement of Financial Position

as at 31 December 2011

In millions of RUB

	Note	As at 31 December 2011	As at 31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	16	57,116	46,480
Intangible assets		640	776
Investments in associates	17	7,910	9,365
Other non-current assets	18	3,556	7,147
		69,222	**63,768**
Current assets			
Other current investments	20	2,123	3,300
Inventories	21	10,096	7,716
Current income tax receivable		166	379
Trade and other receivables	22	10,734	15,521
Cash and cash equivalents	23	16,946	5,261
		40,065	**32,177**
TOTAL ASSETS		**109,287**	**95,945**
EQUITY AND LIABILITIES			
Equity	24		
Share capital		360	360
Share premium		1,099	496
Treasury shares		-	(37)
Retained earnings		42,265	55,311
Other reserves		61	2,120
Equity attributable to Equity holders of the Parent		43,785	58,250
Equity attributable to non-controlling interests		16,923	15,079
		60,708	**73,329**
Non-current liabilities			
Loans and borrowings	26	16,592	3,423
Defined benefit obligations	27	922	931
Deferred tax liabilities	19	2,850	2,700
		20,364	**7,054**
Current liabilities			
Trade and other payables	29	11,407	9,461
Current income tax payable		801	592
Loans and borrowings	26	15,561	5,509
Derivative financial liabilities		446	-
		28,215	15,562
TOTAL EQUITY AND LIABILITIES		**109,287**	**95,945**

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 82 to 104.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

In millions of RUB

	Note	Year ended 31 December 2011	Year ended 31 December 2010
OPERATING ACTIVITIES			
Profit before taxation		28,296	15,630
Adjustments for:			
Depreciation, amortisation and impairment		6,051	5,777
Reversal of impairment loss	12	(190)	–
Loss on disposal of fixed assets	12	24	262
Interest expense	14	883	437
Interest income	13	(819)	(703)
Dividend income	13	(5)	(78)
Gain on disposal of investments	13	–	(731)
Share of profit of associates	17	(2,318)	–
Foreign exchange loss		2,967	–
Loss from revaluation of derivatives	14	446	–
Operating profit before changes in working capital and provisions		35,335	20,594
Increase in inventories		(2,379)	(869)
Decrease/(increase) in trade and other receivables		4,499	(1,953)
Increase in trade and other payables		1,184	594
Cash flows used in operations before income taxes and interest paid		38,639	18,366
Income tax paid		(5,399)	(2,940)
Interest paid		(865)	(293)
Cash flows from operating activities		**32,375**	**15,133**
INVESTING ACTIVITIES			
Loans repaid/ (issued)		3,125	(4,376)
Acquisition of intangible assets		(115)	(191)
Acquisition of property, plant and equipment		(12,905)	(13,040)
Proceeds from disposal of property, plant and equipment		527	49
Proceeds from disposal of investments		1,391	2,359
Acquisition of investments in associates		(471)	–
Acquisition of investments		(950)	(1,580)
Interest received		819	703
Dividends received		1,840	78
Cash and cash equivalents included in investments in associates upon deconsolidation		–	(977)
Cash flows used in investing activities		**(6,739)**	**(16,975)**
FINANCING ACTIVITIES			
Proceeds from borrowings		38,967	21,182
Repayment of borrowings		(19,999)	(16,110)
Acquisition of treasury shares		–	(75)
Proceeds from disposal of treasury shares		791	–
Acquisition of non-controlling interests		(9,196)	(3)
Disposal of non-controlling interests		9,864	42
Dividends paid to non-controlling interests		(1,676)	(859)
Dividends paid to shareholders of the Parent		(32,253)	(2,469)
Finance leases paid		(487)	(227)
Cash flows (used in)/from financing activities		**(13,989)**	**1,481**
Net increase/(decrease) in cash and cash equivalents		11,647	(361)
Cash and cash equivalents at beginning of year		5,261	5,622
Effect of changes in exchange rates		38	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**16,946**	**5,261**

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 82 to 104.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

In millions of RUB

	Attributable to equity holders of the Company									
	Note	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 2010		360	210	49,215	1,905	102	140	–	15,064	66,996
Total comprehensive income for the year										
Profit for the year		–	–	10,578	–	–	–	–	1,403	11,981
Revaluation of available-for-sale securities		–	–	–	227	–	–	–	–	227
Actuarial gains and losses		–	–	–	–	(279)	–	–	(98)	(377)
Foreign subsidiary translation difference		–	–	–	–	–	25	–	–	25
		–	–	10,578	227	(279)	25	–	1,305	11,856
Transactions with owners, recognised directly in equity										
Effect of acquisition of additional shares in subsidiaries		–	–	(10)	–	–	–	–	(52)	(62)
Disposal of non-controlling interests in subsidiary		–	–	91	–	–	–	–	107	198
Acquisition of treasury shares		–	–	–	–	–	–	(75)	–	(75)
Disposal of treasury shares		–	286	–	–	–	–	38	–	324
Dividends to shareholders of the Company	24	–	–	(4,563)	–	–	–	–	–	(4,563)
Dividends to non-controlling interests		–	–	–	–	–	–	–	(1,345)	(1,345)
		–	286	(4,482)	–	–	–	(37)	(1,290)	(5,523)
Balance at 31 December 2010		360	496	55,311	2,132	(177)	165	(37)	15,079	73,329

	Attributable to equity holders of the Company									
	Note	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)
Re-cycling of available-for-sale securities to profit and loss		–	–	–	(2,076)	–	–	–	–	(2,076)
Actuarial gains and losses		–	–	–	–	44	–	–	(27)	17
Foreign subsidiary 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 subsidiaries			–	91	–	–	–	–	577	668
Disposal of treasury shares		–	603	–	–	–	–	37	–	640
Dividends to shareholders of the Company	24	–	–	(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

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 82 to 104.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

1. Background

Organisation and operations

OJSC "PhosAgro" (the "Parent Company" or "the Company") is a Russian open joint stock company as defined in the Civil Code of the Russian Federation. The Parent Company and its subsidiaries (together referred to as the "Group") comprise Russian legal entities. The Parent company was registered in October 2001. The Parent Company's registered office is 119333, Leninsky Prospekt 55/1 building 1, Moscow, Russian Federation.

The Group's principal activity is production of apatite concentrate and mineral fertilizers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region) and Balakovo (Saratov 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.

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

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.

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.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Parent Company 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 2011 were translated at the closing exchange rate of RUB 32.1961 for USD 1 (31 December 2010: RUB 30.4769 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2011 of RUB 29.3874 for USD 1 (2010: RUB 30.3692 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.

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	15 to 30 years
Plant and equipment	5 to 30 years
Fixtures and fittings	2 to 10 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 cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost 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 in the balance sheet 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, relating 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 2011, 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 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Company's preliminary assessment is that it is compliant with the new standard.

- 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).

- 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 2012. 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.

- 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.

- Amendment to IFRS 7 **Disclosures – Transfers of Financial Assets** introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- 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.

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.

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.

Guarantees

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:

6. Segment information (continued)

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

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

Certain assets, revenue and expenses, not allocated to any particular segment, and are therefore included into the “other operations” column. 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 the internal management reports that are reviewed by the Group’s CEO.

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

RUB Million	Phosphate-based products	Nitrogen fertilizers	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

Business segment information of the Group at 31 December 2010 and for the year then ended is as follows:

RUB Million	Phosphate-based products	Nitrogen fertilizers	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	68,832	7,012	1,106	-	76,950
Export	43,875	6,131	78	-	50,084
Domestic	24,957	881	1,028	-	26,866
Inter-segment revenues	-	2,154	-	(2,154)	-
Cost of goods sold	(42,812)	(6,253)	(1,814)	2,154	(48,725)
Gross segment profit/(loss)	**26,020**	**2,913**	**(708)**	**-**	**28,225**
Certain items of profit and loss					
Amortisation and depreciation	(4,262)	(347)	(115)	-	(4,724)
Total non-current segment assets	**37,241**	**4,767**	**2,309**	**-**	**44,317**
Additions to non-current assets	8,393	1,101	1,120	-	10,614

6. Segment information (continued)

The analysis of export revenue by regions is as follows:

RUB Million	2011	2010
Europe	16,197	14,381
India	12,029	9,127
North and South America	28,287	14,334
Other regions	13,750	12,242
	70,263	**50,084**

In 2011 revenue from sales of phosphate-based products to one single customer amounted to approximately 28% (RUB 27,725 million) of the Group's total revenue (2010: 20% (RUB 15,169 million).

RUB Million	2011	2010
Total segment revenues	100,518	76,950
Difference in timing of revenue recognition between management accounts and IFRS	-	1
Consolidated revenue	**100,518**	**76, 951**

RUB Million	2011	2010
Total segmental profit	43,979	28,225
Difference in depreciation and amortisation	(77)	(50)
Difference in timing of expenses recognition	(168)	(295)
Difference in timing of revenue recognition	-	1
Re-allocation (from)/to administrative expenses	(89)	1,044
Re-allocation from selling expenses	(184)	-
Re-allocation from other income	297	-
Recognition of finance lease	350	219
Other adjustments	214	137
Consolidated gross profit	**44,322**	**29,281**

RUB Million	2011	2010
Total segment assets	52,554	44,317
Difference in the carrying value of the tangible fixed assets and intangible assets between management accounts and IFRS	5,202	2,939
Consolidated non-current segment assets	**57,756**	**47,256**

7. Revenues

RUB Million	2011	2010
Sales of chemical fertilizers	79,714	57,861
Sales of apatite concentrate	14,480	13,887
Sales of ammonia	1,824	1,167
Sales of nepheline concentrate	771	615
Other sales	3,729	3,421
	100,518	**76,951**

The domestic sales prices for apatite concentrate are subject to various regulations of the Federal Anti-monopoly Service and Russian law "On the protection of competition and restriction of monopoly activities". 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 8,705 million (2010: RUB 7,995 million).

8. Personnel costs

RUB Million	2011	2010
Cost of sales	(11,078)	(8,789)
Administrative expenses	(3,334)	(2,809)
Selling expenses	(537)	(461)
	(14,949)	**(12,059)**

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

9. Cost of sales

RUB Million	2011	2010
Materials and services	(23,032)	(21,013)
Salaries and social contributions	(11,078)	(8,789)
Depreciation and amortisation	(5,486)	(4,774)
Natural gas	(4,951)	(4,459)
Sulphur and sulphuric acid	(4,838)	(2,447)
Fuel	(4,207)	(3,674)
Electricity	(3,290)	(3,152)
Other items	(51)	(43)
Change in stock of WIP and finished goods	737	681
	(56,196)	**(47,670)**

10. Administrative expenses

RUB Million	2011	2010
Salaries and social contributions	(3,334)	(2,809)
Depreciation, amortisation and impairment	(449)	(428)
Other	(1,975)	(2,010)
	(5,758)	**(5,247)**

11. Selling expenses

RUB Million	2011	2010
Russian Railways infrastructure tariff and operators' fees	(3,488)	(3,272)
Port and stevedoring expenses	(1,571)	(1,291)
Materials and services	(901)	(1,401)
Salaries and social contributions	(537)	(461)
Depreciation and amortisation	(91)	(90)
	(6,588)	**(6,515)**

12. Other income/(expenses), net

RUB Million	2011	2010
Social expenditures	(1,348)	(964)
Depreciation and amortisation	(25)	(83)
Loss on disposal of fixed assets	(24)	(262)
(Increase)/decrease in provision for inventory obsolescence	4	151
Decrease/(increase) in provision for bad debt	40	(35)
Reversal/(recognition) of impairment losses	190	(402)
Other operating expenses	(83)	(238)
	(1,246)	**(1,833)**

13. Finance income

RUB Million	2011	2010
Interest income	819	703
Dividend income	5	78
Gain on disposal of investments	-	731
	824	**1,512**

Interest income mainly relates to interest accrued on bank deposits and loans issued to related parties. The gain on disposal of investment in 2010 relates mainly to disposal of 60% in a subsidiary LLC "FOSAGRO UKRAINE" for a consideration of RUB 1 million to a third party. At the moment of disposal, this subsidiary had negative net assets in the amount of RUB 288 million which resulted in recognition of a gain on disposal of RUB 289 million. The Group retained 40% shareholding in LLC "FOSAGRO UKRAINE" subsequent to the disposal.

14. Finance costs

RUB Million	2011	2010
Interest expense	(883)	(437)
Loss on revaluation of derivative financial instruments	(446)	-
	(1,329)	**(437)**

15. Income tax expense

The Parent company's applicable corporate income tax rate is 20%.

RUB Million	2011	2010
Current tax expense	(5,670)	(3,506)
Origination and reversal of temporary differences, including change in unrecognised assets	(150)	(143)
	(5,820)	**(3,649)**

Reconciliation of effective tax rate:

	2011		2010	
	RUB Million	%	RUB Million	%
Profit before taxation	28,296		15,630	
Income tax at applicable tax rate	(5,659)	(20)	(3,126)	(20)
Underprovided in respect of prior years	35	-	7	-
Unrecognized tax liability on income from associates	464	2	-	-
Unrecognized 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	-	-
Realisation of the deferred tax liability relating to investment in subsidiary due to intra-group transfer of investments	-	-	(329)	(2)
Non-deductible items	(823)	(3)	(574)	(3)
Change in unrecognised deferred tax assets	(284)	(1)	373	2
	(5,820)	**(21)**	**(3,649)**	**(23)**

16. Property, plant and equipment

RUB Million	Land and building	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2010	11,675	33,912	840	10,934	57,361
Additions	-	-	-	10,614	10,614
Transfers	625	3,913	1,387	(5,925)	-
Transfer to investments in associates, see note 17	-	(1,183)	-	(10)	(1,193)
Disposals	(38)	(410)	(12)	(158)	(618)
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 31 December 2011	13,856	45,336	1,949	20,750	81,891
Accumulated depreciation					
At 1 January 2010	(2,530)	(11,671)	(603)	-	(14,804)
Depreciation charge	(505)	(4,457)	(119)	-	(5,081)
Impairment	-	(213)	-	(190)	(403)
Transfer to investments in associates, see note 17	-	297	-	-	297
Disposals	27	272	8	-	307
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 31 December 2011	(3,722)	(20,114)	(939)	-	(24,775)
Net book value at 1 January 2010	9,145	22,241	237	10,934	42,557
Net book value at 1 January 2011	9,254	20,460	1,501	15,265	46,480
Net book value at 31 December 2011	10,134	25,222	1,010	20,750	57,116

RUB 94 million of interest expense was capitalized in the cost of qualifying assets.

(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 10 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 13.8% (2010: 13.8%)
- Terminal growth rate 3% (2010: 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 1,783 million (2010: RUB 4,643 million) are pledged to secure bank loans, see note 26.

(c) Leasing

Machinery with the carrying value of RUB 2,603 million (31 December 2010: RUB 994 million) is leased under various finance lease agreements, see note 28.

17. Investments in associates

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.

17. Investments in associates (continued)

As at 31 December 2010 and 2011 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.

Upon the loss of control in the associate in 2010, the Group entered in a number of put-call agreements with the PhosInt Limited, whereby the PhosInt Limited has the right and the obligation to sell and the Company has the right and obligation to buy, 561 thousand of ordinary and 106 thousand of preferred shares in JSC "Cherepovetsky "Azot", representing 7.03% and 9.44% of the shares of the relevant class, for a fixed consideration of RUB 570 million. In accordance with the substance of these agreements, the minority parcels of the shares subject to the option agreements have been recognised as if the shares are owned by the Company.

In May 2011 the Group entered into acquisition agreement for 24% of CJSC "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".

The movement in the balance of investment in associate for the year ended 31 December 2011 is as follows:

RUB Million	2011
Balance at 31 December 2010	**9,365**
Acquisition of CJSC "Metachem" and CJSC "Pikalevskaya soda"	313
Disposal of CJSC "Pikalevskaya soda"	(145)
Share in profit for the period	2,318
Share in revaluation of available-for-sale securities	(359)
Re-cycling of the available-for-sale revaluation surplus to profit and loss	(2,076)
Currency translation difference	334
Dividends accrued	(1,840)
Balance at 31 December 2011	**7,910**

Carrying values of the Group's investment in associates at 31 December 2011 and 2010 are as follows:

RUB Million	2011	2010
PhosInt Group	7,646	9,365
FOSAGRO UKRAINE	-	-
Metachem Group	264	-
	7,910	**9,365**

The summarized financial position of the associates at 31 December 2011 and 2010 is as follows:

2011	Metachem Group	PhosInt Group	FOSAGRO UKRAINE
Total assets	2,593	10,213	76
Total liabilities	(1,493)	(2,600)	(363)
	1,100	**7,613**	**(287)**

2010	PhosInt Group	FOSAGRO UKRAINE
Total assets	9,575	148
Total liabilities	(210)	(436)
	9,365	**(288)**

The summarized result of operations of the associates for the year ended 31 December 2011 is as follows:

2011	Metachem Group*	PhosInt Group	FOSAGRO UKRAINE
Revenue	5,007	291	2,200
Profit for the period	399	2,441	21

* For the seven-month period ended 31 December 2011

Profit for the year was partly allocated to PhosAgro based on the profit sharing agreement which was signed on the date the control was lost.

No significant revenue or net result was realised by PhosInt Group or LLC "FOSAGRO UKRAINE" from the moment when they became Group associates until 31 December 2010.

18. Other non-current assets

RUB Million	2011	2010
Advances issued for construction of property, plant and equipment, at cost	1,976	3,766
Advance for construction of residential property, at cost	-	2,278
Financial assets available for sale at cost	748	720
Finance lease receivable	315	290
Loans issued at amortised cost	181	27
Financial assets available-for-sale at fair value	64	66
Loans issued to associates at amortised cost	11	-
Other non-current assets	261	-
	3,556	**7,147**

In June 2011 the advance for construction of residential property, at cost, was assigned to a related party and settled until the year end.

19. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

	2011			2010		
RUB Million	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	5	(3,270)	(3,265)	25	(2,912)	(2,887)
Other long-term assets	47	(219)	(172)	10	(108)	(98)
Current assets	220	(255)	(35)	263	(115)	148
Liabilities	620	(56)	564	261	(63)	198
Tax loss carry-forwards	570	–	570	167	–	167
Provision for tax loss carry-forwards	(438)	–	(438)	(167)	–	(167)
Unrecognised deferred tax assets	(74)	–	(74)	(61)	–	(61)
Tax assets / (liabilities)	950	(3,800)	(2,850)	498	(3,198)	(2,700)
Set off of tax	(950)	950	–	(498)	498	-
Net tax assets / (liabilities)	**–**	**(2,850)**	**(2,850)**	**–**	**(2,700)**	**(2,700)**

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

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 18,970 million (31 December 2010: RUB 26,306 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 5,234 million.

(b) Movement in temporary differences during the year

RUB Million	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)**

RUB Million	2010	Recognised in profit and loss	2009
Property, plant and equipment	(2,887)	(261)	(2,626)
Other long-term assets	(98)	(37)	(61)
Current assets	148	51	97
Liabilities	198	(41)	239
Tax loss carry-forwards	167	(228)	395
Provision for tax loss carry-forwards	(167)	228	(395)
Unrecognised deferred tax assets	(61)	145	(206)
Net tax assets / (liabilities)	**(2,700)**	**(143)**	**(2,557)**

20. Other current investments

RUB Million	2011	2010
Loans issued to associates at amortised cost	944	–
Bank promissory notes	669	766
Bank deposits	–	4
Letters of credit	–	64
Loans issued to related parties at amortised cost	441	2,466
Loans issued at amortised cost	69	-
	2,123	**3,300**

Bank promissory notes with the carrying value of RUB 669 million (31 December 2010: RUB 766 million) are pledged to secure bank loans, see note 26.

21. Inventories

RUB Million	2011	2010
Raw materials and spare parts	5,983	4,344
Fertilizers	2,795	2,645
Apatit rock	775	293
Apatit concentrate	463	374
Work-in-progress	345	329
Provision for obsolescence	(265)	(269)
	10,096	**7,716**

Finished goods with the carrying value of RUB 49 million (31 December 2010: RUB 36 million) are pledged to secure bank loans, see note 26.

22. Trade and other receivables

RUB Million	2011	2010
Receivable for shares of OJSC "AgroGard-Finance"	–	4,222
Taxes receivable	4,373	3,285
Advances issued	2,038	2,462
Trade accounts receivable	3,372	1,846
Other receivables	792	1,117
Deferred expenses	125	185
Receivables from associates	168	131
Receivables from related parties	51	2,546
Receivables from employees	13	–
Finance lease receivable	35	–
Provision for doubtful accounts	(233)	(273)
	10,734	**15,521**

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

RUB Million	2011	2010
Not past due	3,202	1,773
Past due 0-180 days	86	35
Past due 180-365 days	12	17
More than one year	72	21
	3,372	**1,846**

23. Cash and cash equivalents

RUB Million	2011	2010
Cash in bank	11,710	2,857
Call deposits	5,173	2,400
Short-term promissory notes	58	-
Petty cash	5	4
	16,946	**5,261**

24. Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	Preferred shares of class "A1"	Preferred shares of class "A2"
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	–	-
Shares on issue at 31 December 2010, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2010, RUB 25 par value	100,000,000	30,000,000	-

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 the year 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 into 10 ordinary shares with the par value of 2.5 RUB. The share split was completed in March 2012. As a result, the Company's issued share capital is comprised of 124,477,080 shares having par value of 2.5 RUB each. The Company's authorized share capital for additional issue is comprised of 1,000,000,000 shares having par value of 2.5 RUB each.

(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 attributable to OJSC "PhosAgro" shareholders calculated in accordance with IFRS.

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 Parent Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2011 the Parent Company had cumulative retained earnings of RUB 16,705 million (31 December 2010: RUB 27,179 million).

In January 2011 dividends in the amount of RUB 205.35 for each issued outstanding preferred share of class "A1" were approved in the General shareholders' meeting. The total amount of approved dividend is RUB 362 million.

In April 2011 the Board of Directors proposed a dividend in the amount of RUB 2,097 for one ordinary share and RUB 2,080.5 for one preferred share of class "A1" and RUB 52.9 for one preferred share of class "A2". The total proposed dividend is RUB 26,000 million. This decision was approved by the shareholders' meeting in May 2011.

In April 2011 the Board of Directors proposed payment of an interim dividend for the first quarter of 2011 in the amount of RUB 310.35 for one ordinary share, RUB 308.25 for one preferred share of the class "A1" and RUB 50.2 for one preferred share of class "A2". The total amount of proposed dividend is RUB 3,850 million. This decision was approved by the shareholders' meeting in May 2011.

The dividend accrued on treasury shares during 2011 amounted to RUB 252 million.

In October 2011 the Board of Directors proposed an interim dividend for the nine months ended 30 September 2011 in the amount of RUB 250 for one ordinary share. The total amount was RUB 3,112 million (including tax on dividends of RUB 198 million). This decision was approved by the shareholders' meeting in December 2011.

During the six-month period ended 30 June 2011, the Group conducted a legal restructuring of the shareholding in one of its subsidiaries. The restructuring resulted in a series of sales-purchase transactions which was recognised as part of the result of acquisition and disposal of non-controlling interest in subsidiaries in the statement of changes in equity in the amount of RUB 142 million.

(d) Treasury shares

During 2010 the Group purchased 180,492 preferred treasury shares of class "A1" representing 10.23% of such shares for the consideration of RUB 75 million. In 2010 the Group sold 90,320 of these shares for a consideration of RUB 324 million with the result recognised in share premium in the statement of changes in equity. In 2011 the Group sold the remaining 90,172 preferred treasury shares of class "A1" representing 5.11% of such shares for a consideration of RUB 640 million recognising a share premium of RUB 603 million.

(e) Special right of the Russian Federation for participation in governance of OJSC "Apatit"–"Golden share"

OJSC "Apatit", a Group subsidiary belongs to a category of entities, where the government of the Russian Federation retained special voting rights after the entity's privatisation. These rights include a right to appoint one Federal representative to the Company's Board of directors and to the audit committee, right to call for extraordinary shareholder's meeting and a "veto" voting right in the shareholder's meeting in respect of certain issues as defined by the Federal Law on the "Privatisation of the Federal and Municipal property" and specified in the charter of OJSC "Apatit". The "veto" voting right can be exercised in respect of the following issues:

- Making changes to the entity's charter;
- Reorganisation of the entity;
- Liquidation of the entity;
- Amendment of the entity's share capital;
- Approval of "significant transactions" and "transactions with interest", as defined in the Russian Law on "Join stock companies".

Additionally, the Government of the Russian Federation holds 26% of the ordinary voting shares (20% of all issued shares of OJSC "Apatit").

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 share split, see note 24. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2011	2010
Weighted average number of ordinary shares in issue	124,032,396	124,187,182
Profit for the year attributable to ordinary shareholders of the parent, RUB million	19,935	10,578
Basic and diluted earnings per share, RUB	161	85

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. For more information about the Group's exposure to foreign currency risk, see note 30.

RUB Million	Contractual interest rate	2011	2010
CURRENT LOANS AND BORROWINGS			
Secured bank loans:			
RUB-denominated	1.0%-10.0%	1,105	1,944
USD-denominated	LIBOR(1M)+3.0%-3.3%	-	2,438
Unsecured loans:			
RUB-denominated	1.0 %-6.4 %	130	229
RUB-denominated	12.00%	9	-
USD-denominated	2.33%	-	674
USD-denominated	LIBOR(1M)+1.9%	5,634	-
USD-denominated	LIBOR(1M)+2.10%	8,049	-
Secured letters of credit:			
EUR-denominated	0.8%-1.2%	-	31
EUR-denominated	LIBOR (3M)+1.7% -4.10%	148	-
RUB-denominated	1.0%	66	-
Finance lease liabilities:			
USD-denominated	11.2-13.9%	405	187
Interest payable:			
RUB-denominated		15	6
		15,561	**5,509**
NON-CURRENT LOANS AND BORROWINGS			
Secured bank loans:			
RUB-denominated	1.50%	114	-
Unsecured bank loans:			
USD-denominated	LIBOR(1M)+2.04% -2.90%	13,039	-
Secured letter of credit:			
USD-denominated	EURIBOR (6M)+0.80%	356	-
EUR-denominated	EURIBOR (3M)+1.95%	242	-
EUR-denominated	EURIBOR (6M)+1.95%-3.3%	954	-
EUR-denominated	EURIBOR (3M)+4.35%	-	1,855
EUR-denominated	EURIBOR (6M)+0.8%	-	337
EUR-denominated	0.9%	-	57
EUR-denominated	1.25%	-	596
EUR-denominated	LIBOR (6M)+2.05%	134	-
Finance lease liabilities:			
USD-denominated	11.2%-13.9%	1,753	578
		16,592	**3,423**
		32,153	**8,932**

See notes 16(b), 20 and 21 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.

27. Defined benefit obligations

RUB Million	2011	2010
Pension obligations, long-term	530	549
Post-retirement obligations other than pensions	392	382
	922	**931**

Defined benefit – pension plans relate to three subsidiaries of the Company: OJSC "Apatit", OJSC "Ammophos" and JSC "Cherepovetsky "Azot". 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 defined benefit obligation is made up as follows:

RUB Million	Pension obligation	Post-retirement obligation other than pension
Present value of defined benefit obligation at 31 December 2009	**418**	**228**
Interest cost	31	17
Benefit paid	(119)	(21)
Recognised actuarial losses	219	158
Present value of defined benefit obligation at 31 December 2010	**549**	**382**
Interest cost	44	31
Benefit paid	(46)	(21)
Recognised actuarial gains	(17)	-
Present value of defined benefit obligation at 31 December 2011	**530**	**392**

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

	2011	2010
Discount rate	8%	7%
Future pension increases	6%	6%

28. Leases

Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 1,650 railway wagons. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2011		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	595	189	405
Between one and five years	1,841	401	1,441
More than five years	330	18	312
	2,766	**608**	**2,158**

	2010		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	273	86	187
Between one and five years	615	189	426
More than five years	168	16	152
	1,056	**291**	**765**

Operating leases

During 2010-2011, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2011, which are recorded in the cost of sales, amounted to RUB 729 million (2010: RUB 414 million).

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

RUB Million	2011	2010
Less than one year	345	278
Between one and five years	152	202
	497	**480**

29. Trade and other payables

RUB Million	2011	2010
Trade accounts payable	2,887	2,266
Dividends payable	3,001	2,611
Advances received	2,024	1,970
Accruals	1,371	632
Taxes payable	990	799
Payables to employees	739	590
Payables to related parties	93	50
Other payables	302	543
	11,407	**9,461**

30. Financial instruments

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 Euro.

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

	2011 (denominated)		2010 (denominated)	
	USD	EUR	USD	EUR
Current Assets				
Receivables	2,909	31	1,978	184
Current investments	-	-	-	-
Cash and cash equivalents	4,058	86	180	7
Non-current liabilities				
Non-current loans and borrowings	(15,148)	(1,330)	(578)	(2,845)
Current Liabilities				
Payables	(84)	(371)	(632)	(12)
Current loans and borrowings	(14,088)	(148)	(3,299)	(31)
	(22,353)	**(1,732)**	**(2,351)**	**(2,697)**

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 2,409 million, before any tax effect (2010: RUB 505 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

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:

RUB Million	2011	2010
Fixed rate instruments		
Long-term loans issued at amortised cost	192	27
Short-term promissory notes	669	766
Letters of credit	-	64
Finance lease receivable	350	290
Short-term deposits	5,173	2,404
Short-term loans issued at amortised cost	1,454	2,466
Long-term borrowings	(1,867)	(1,231)
Short-term borrowings	(1,730)	(3,071)
	4,241	**1,715**
Variable rate instruments		
Long-term borrowings	(14,725)	(2,192)
Short-term borrowings	(13,831)	(2,438)
	(28,556)	**(4,630)**

At 31 December 2011, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 286 million (31 December 2010: RUB 46 million).

Liquidity risk

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

	2011							
	Carrying value	Contractual cash flow	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 given to related parties	1,704	1,704	1,704	-	-	-	-	-
	41,957	**43,998**	**26,246**	**7,784**	**5,921**	**873**	**2,256**	**918**

	2010							
	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	4,382	4,452	4,452	-	-	-	-	-
Unsecured bank loans	903	907	907	-	-	-	-	-
Letters of credit	2,876	3,484	34	68	-	369	-	3,013
Interest payable	6	6	6	-	-	-	-	-
Secured finance leases	765	1,056	273	208	169	119	119	168
Trade and other payables	6,102	6,102	6,102	-	-	-	-	-
Financial guarantees given to related parties	1,779	1,779	1,779	-	-	-	-	-
	16,813	**17,786**	**13,553**	**276**	**169**	**488**	**119**	**3,181**

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 a contract to purchase plant and equipment for RUB 5,905 million (31 December 2010: RUB 7,446 million).

32. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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 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.

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

Transactions with associates

RUB Million	2011	2010
Sales of goods and services	2,469	345
Sales of equity investments	6,123	-
Sales of treasury shares	791	-
Dividend income from associates	1,840	-
Interest income from associates	60	-
Purchases of goods and services	(2,351)	(2,076)
Interest expense to associates	(7)	-

Balances with associates

RUB Million	2011	2010
Short-term loans issued to associates	944	-
Receivables from associates	168	131
Payables to associates	(81)	(26)

Transactions with other related parties

RUB Million	2011	2010
Assignment of receivables to a related party	2,347	1,561
Sales to related parties	553	563
Purchases of goods and services	(73)	(163)
Interest income from related parties	52	131

Balances with other related parties

RUB Million	2011	2010
Short-term loans issued to related parties	441	2,466
Long-term loans issued to related parties	11	-
Receivable for shares of OJSC "AgroGard-Finance"	-	4,222
Other receivables from related parties	51	2,546
Payables to related parties	(12)	(24)
Dividends payable to shareholders of the Parent	(2,913)	(2,094)

Key management remuneration

The remuneration of board of directors and 16 members of key management personnel amounted to RUB 459 million (2010: RUB 212 million).

See notes 18, 24 and 30 describing other transactions with related parties.

34. Significant subsidiaries

Name	Country of incorporation	Effective shareholding as of 31 December 2011	Effective shareholding as of 31 December 2010
Ammophos, OJSC	Russia	94%	94%
Apatit, OJSC (1)	Russia	58%	58%
Balakovo Mineral Fertilizers, LLC	Russia	100%	100%
Cherepovetsky Azot, JSC (2)	Russia	69%	69%
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
2 see note 17 on put-call option agreement on acquisition of shares in JSC "Cherepovetsky "Azot".

(a) Consolidation of OJSC "Apatit"

As at the reporting date the Group held 50% of ordinary and 80.28% of preferred shares in OJSC "Apatit". The remaining ordinary and preferred shares are widely held. In accordance with the subsidiary's charter, under certain circumstances, holders of preferred shares are entitled to vote in the meetings of the shareholders. As at the reporting date the preferred shares were voting. Management believes that the current shareholding allows the Group to exercise control over OJSC "Apatit".

35. Events subsequent to the reporting date

See note 24 for significant events which took place after 31 December 2011.

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. 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. It is expected that the legal structuring will be completed in July 2012.

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.