

**JOINT STOCK COMPANY  
“ACRON”**

**Consolidated Financial Statements and  
Auditors’ Report for the year ended  
31 December 2012**

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## **Auditors' Report**

To the Board of Directors

JSC Acron

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

Audited entity: JSC "Acron"

Registered by administration of Veliky Novgorod on 19 November 1992, Registration No. 3835rz.

Entered in the Unified State Register of Legal Entities on 16 October 2012 by the Veliky Novgorod Inter-Regional Tax Inspectorate No.9, Registration No. 1025300786610

Acron site, Veliky Novgorod, 173012

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

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

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

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

*Opinion*

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

*Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2011 were audited by other auditors whose report dated 17 April 2012 expressed an unmodified opinion on those statements.



Ilya O. Belyatski, Director, power of attorney dated 3 October 2012 No. 35/11

ZAO KPMG

15 April 2013

Moscow, Russian Federation

**Joint Stock Company "Acron"**  
**Consolidated Statement of Financial Position at 31 December 2012**  
*(in millions of Russian Roubles)*



	Note	31 December 2012	31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	47,866	33,472
Exploration and Evaluation Licences and Expenditure	14	26,371	24,345
Leasehold land	12	460	515
Goodwill	15	1,267	1,267
Available-for-sale investments	16	4,824	19,950
Long-term loans receivable	10	23	68
Deferred tax assets	29	827	562
Other non-current assets		961	975
<b>Total non-current assets</b>		<b>82,599</b>	<b>81,154</b>
<b>Current assets</b>			
Inventories	11	12,968	9,179
Short-term loans receivable	10	1,363	920
Accounts receivable	9	9,622	10,695
Available-for-sale investments	16	19,857	-
Trading Investments	18	860	345
Irrevocable bank deposits	8	1,435	1,121
Cash and cash equivalents	8	27,453	13,509
Other current assets		462	387
<b>Total current assets</b>		<b>74,020</b>	<b>36,156</b>
<b>TOTAL ASSETS</b>		<b>156,619</b>	<b>117,310</b>
<b>EQUITY</b>			
Share capital	22	3,046	3,125
Treasury shares		(4)	(79)
Retained earnings		43,742	36,726
Revaluation reserve		16,047	15,392
Other reserves		(171)	(5,588)
Cumulative currency translation difference		762	691
<b>Share capital and reserves attributable to the Company's owners</b>		<b>63,422</b>	<b>50,267</b>
Non-controlling interest	22	15,698	2,781
<b>TOTAL EQUITY</b>		<b>79,120</b>	<b>53,048</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	21	38,176	32,391
Finance lease liability		10	24
Derivative financial liability	17	256	220
Deferred tax liability	29	5,635	4,659
Other non-current liabilities		500	498
<b>Total non-current liabilities</b>		<b>44,577</b>	<b>37,792</b>
<b>Current liabilities</b>			
Accounts payable	19	5,349	4,123
Notes payable		629	315
Current income tax payable		175	1,495
Other taxes payable	20	493	258
Short-term borrowings	21	23,383	16,052
Advances received		2,554	3,524
Finance lease liability		16	18
Derivative financial liability	17	7	396
Other current liabilities		316	289
<b>Total current liabilities</b>		<b>32,922</b>	<b>26,470</b>
<b>TOTAL LIABILITIES</b>		<b>77,499</b>	<b>64,262</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>156,619</b>	<b>117,310</b>

Approved for issue and signed on behalf of the Board of Directors on 15 April 2013.

\_\_\_\_\_  
V.Y. Kunitskiy  
President

\_\_\_\_\_  
A.V. Milenkov  
Finance Director

**Joint Stock Company "Acron"**  
**Consolidated Statement of Comprehensive Income for the year ended 31 December 2012**  
*(in millions of Russian Roubles, except for per share amounts)*



	Note	2012	2011
Revenue	6	71,112	65,431
Cost of sales	23	(40,440)	(35,457)
<b>Gross profit</b>		<b>30,672</b>	<b>29,974</b>
Transportation expenses	25	(6,751)	(6,586)
Selling, general and administrative expenses	24	(5,476)	(4,574)
Gain on sales of exploration permits	14	-	4,839
Gain on disposal of investments	16, 18	309	4,188
Other operating expenses, net	27	(25)	(110)
<b>Operating profit</b>		<b>18,729</b>	<b>27,731</b>
Finance income/(costs), net	26	1,560	(401)
Interest expense		(1,152)	(1,240)
Loss on derivatives, net		(178)	(566)
<b>Profit before taxation</b>		<b>18,959</b>	<b>25,524</b>
Income tax expense	29	(4,098)	(5,196)
<b>Profit for the year</b>		<b>14,861</b>	<b>20,328</b>
<b>Other comprehensive income/(loss):</b>			
Available-for-sale investments:			
- Gains/(Losses) arising during the year	16	1,067	(180)
- Reclassification of revaluation gain on disposal to profit and loss	16	(248)	(4,252)
- Income tax recorded directly in other comprehensive income	29	(164)	886
Currency translation differences		(56)	447
<b>Other comprehensive income/(loss) for the year</b>		<b>599</b>	<b>(3,099)</b>
<b>Total comprehensive income for the year</b>		<b>15,460</b>	<b>17,229</b>
<b>Profit is attributable to:</b>			
Owners of the Company		14,195	18,329
Non-controlling interest		666	1,999
<b>Profit for the year</b>		<b>14,861</b>	<b>20,328</b>
<b>Total comprehensive income is attributable to:</b>			
Owners of the Company		14,921	17,709
Non-controlling interest		539	(480)
<b>Total comprehensive income for the year</b>		<b>15,460</b>	<b>17,229</b>
<b>Earnings per share, basic and diluted (expressed in Russian Roubles)</b>	28	<b>350.52</b>	<b>433.10</b>

**Joint Stock Company "Acron"**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2012**  
*(in millions of Russian Roubles)*



	Note	2012	2011
<b>Cash flows from operating activities</b>			
Profit before taxation		18,959	25,524
<i>Adjustments for:</i>			
Depreciation and amortisation	23	1,970	1,917
Reversal of impairment of property, plant and equipment, net	13	(89)	(164)
Provision for impairment of accounts receivable	9	1	13
(Reversal)/Provision for inventory obsolescence	11	(2)	108
Gain on disposal of investments	16,18	(309)	(4,188)
Gain on disposal of exploration permits	14	-	(4,839)
Loss on disposal of property, plant and equipment	13	31	487
Interest expense		1,152	1,240
Interest income		(255)	(895)
Loss on derivatives, net		178	-
Dividend income		(683)	(133)
Unrealised foreign exchange effect on non-operating balances	26	(1,676)	1,835
<b>Operating cash flows before working capital changes</b>		<b>19,277</b>	<b>20,905</b>
Decrease/(increase) in gross trade receivables		861	(634)
Decrease/(increase) in advances to suppliers		630	(1,598)
Increase in other receivables		(528)	(1,163)
Increase in inventories		(3,644)	(2,122)
Increase in other current assets		(75)	(112)
Increase in trade payables		682	2,089
Increase/(decrease) in other payables		497	(469)
(Decrease)/increase in advances from customers		(970)	850
Increase/(decrease) in other current liabilities		27	(126)
<b>Cash generated from operations</b>		<b>16,757</b>	<b>17,620</b>
Income taxes paid		(4,028)	(4,413)
Interest paid		(3,435)	(2,833)
<b>Net cash generated from operating activities</b>		<b>9,294</b>	<b>10,374</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(16,122)	(10,844)
Proceeds from sale of exploration permits		-	5,455
Loans provided		(1,802)	(616)
Proceeds from loans repaid		1,404	528
Interest received		76	96
Dividends received		618	364
Proceeds from sale of available-for-sale investments		248	4,307
Purchase of available-for-sale investments		(3,876)	(46)
Proceeds from sale of trading investments		1,488	317
Purchase of trading investments		(1,942)	-
Net change in other non-current assets and liabilities		-	(163)
<b>Net cash used in investing activities</b>		<b>(19,908)</b>	<b>(602)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of capital to non-controlling shareholders		12,755	-
Acquisition of non-controlling interest	22	(116)	(2,066)
Dividends paid to shareholders of the Company		(1,863)	(6,874)
Dividends paid to non-controlling shareholders		(100)	(3)
Acquisition of treasury shares	22	(65)	(4,129)
Irrevocable deposits made	8	(314)	(1,121)
Proceeds from borrowings		48,752	39,144
Repayment of borrowings		(33,040)	(28,953)
Payment (made)/ received from derivative		(531)	140
<b>Net cash generated from/(used in) financing activities</b>		<b>25,478</b>	<b>(3,862)</b>
Effect of exchange rate changes on cash and cash equivalents		(920)	2
<b>Net increase in cash and cash equivalents</b>		<b>13,944</b>	<b>5,912</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>13,509</b>	<b>7,597</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>27,453</b>	<b>13,509</b>

**Joint Stock Company “Acron”**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2012**  
*(in millions of Russian Roubles)*



	Capital and reserves attributable to the Company's owners						Non-controlling interest	Total equity
	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other reserves	Cumulative currency translation difference		
<b>Balance at 1 January 2011</b>	<b>3,125</b>	<b>(52)</b>	<b>26,200</b>	<b>16,364</b>	<b>(741)</b>	<b>339</b>	<b>4,887</b>	<b>50,122</b>
<b>Comprehensive income</b>								
Profit for the year	-	-	18,329	-	-	-	1,999	20,328
<i>Other comprehensive income</i>								
Fair value loss on investment in JSC Apatit (Note 16)	-	-	-	(1,172)	-	-	(1,127)	(2,299)
Disposal of investment in JSC Apatit (Note 16)	-	-	-	(2,169)	-	-	(2,083)	(4,252)
Fair value gains on available-for-sale securities (Note 16)	-	-	-	2,126	-	-	(7)	2,119
Currency translation differences	-	-	-	-	-	352	95	447
Income tax recorded in other comprehensive income (Note 29)	-	-	-	243	-	-	643	886
Total other comprehensive income	-	-	-	(972)	-	352	(2,479)	(3,099)
Total comprehensive income	-	-	18,329	(972)	-	352	(480)	17,229
Dividends declared (Note 22)	-	-	(7,446)	-	-	-	(3)	(7,449)
Sale of treasury shares	-	41	-	-	4,661	-	-	4,702
Income tax expense on the treasury shares sold	-	-	-	-	(745)	-	-	(745)
Acquisition of treasury shares	-	(68)	-	-	(8,763)	-	-	(8,831)
Disposal of investment in subsidiary	-	-	169	-	-	-	(83)	86
Acquisition of non-controlling interest	-	-	(526)	-	-	-	(1,540)	(2,066)
<b>Balance at 31 December 2011</b>	<b>3,125</b>	<b>(79)</b>	<b>36,726</b>	<b>15,392</b>	<b>(5,588)</b>	<b>691</b>	<b>2,781</b>	<b>53,048</b>
<b>Balance at 1 January 2012</b>	<b>3,125</b>	<b>(79)</b>	<b>36,726</b>	<b>15,392</b>	<b>(5,588)</b>	<b>691</b>	<b>2,781</b>	<b>53,048</b>
<b>Comprehensive income</b>								
Profit for the year	-	-	14,195	-	-	-	666	14,861
<i>Other comprehensive income</i>								
Fair value gains on investment in JSC Sberbank (Note 16)	-	-	-	45	-	-	7	52
Disposal of investment in JSC Sberbank (Note 16)	-	-	-	(241)	-	-	(7)	(248)
Fair value gains on available-for-sale securities (Note 16)	-	-	-	1,015	-	-	-	1,015
Currency translation differences	-	-	-	-	-	71	(127)	(56)
Income tax recorded in other comprehensive income (Note 29)	-	-	-	(164)	-	-	-	(164)
Total other comprehensive income	-	-	-	655	-	71	(127)	599
Total comprehensive income	-	-	14,195	655	-	71	539	15,460
Dividends declared (Note 22)	-	-	(1,862)	-	-	-	(100)	(1,962)
Redemption of treasury shares (Note 22)	(79)	79	(5,478)	-	5,478	-	-	-
Acquisition of treasury shares (Note 22)	-	(4)	-	-	(61)	-	-	(65)
Shares issued to non-controlling interests (Note 22)	-	-	-	-	-	-	12,755	12,755
Acquisition of non-controlling interest (Note 22)	-	-	161	-	-	-	(277)	(116)
<b>Balance at 31 December 2012</b>	<b>3,046</b>	<b>(4)</b>	<b>43,742</b>	<b>16,047</b>	<b>(171)</b>	<b>762</b>	<b>15,698</b>	<b>79,120</b>





## 1 Acron Group and its Operations

These consolidated financial statements for the year ended 31 December 2012 comprises Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group").

The Group's principal activities include the manufacture, distribution and sale of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorod and Smolensk regions of Russia and also in China.

The Company's registered office is at Veliky Novgorod, 173012, Russian Federation.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands). As at 31 December 2012 and 2011 the Group was ultimately controlled by Mr. Viacheslav Kantor.

## 2 Basis of Preparation of the Financial Statements

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as modified by the fair value revaluation of derivatives, available-for-sale and trading investments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

**Presentation currency.** All amounts in these consolidated financial statements are presented in millions of Russian Roubles ("RUB"), unless otherwise stated. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

**Changes in accounting policies and presentation.** Certain bank deposits in the amount of RUB 1,121, restricted as guarantees to the banks, in the Group's previously issued consolidated financial statements have been reclassified from cash and cash equivalents to the current irrevocable bank deposits (refer Note 8) to conform with the current year's presentation; this reclassification had no effect on the profit for the year or shareholder equity. In accordance with this change the Group re-presented the statement of cash flows for the year ended 31 December 2011 in its previously published consolidated financial statements. Thus, the cash outflows from financing activities were increased by RUB 1,121.

## 3 Summary of Significant Accounting Policies

### 3.1 Group accounting

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

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

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



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

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

**Purchases of non-controlling interests.** The Group applies economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as capital transaction directly in equity.

**Purchases of subsidiaries from parties under common control.** Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

**Investments in associates.** Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### **3.2 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

### **3.3 Trade and other receivables**

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the statement of comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:



- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

### **3.4 Value added tax**

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

### **3.5 Inventories**

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

### **3.6 Property, plant and equipment**

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

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

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

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

### **3.7 Leasehold land**

Leases of land are classified as operating leases. The pre-paid lease payments are amortised over the lease period of 30 years on a straight-line basis.



### 3.8 Intangible assets

**Goodwill.** Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

**Other intangible assets.** The entire Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

### 3.9 Amortisation of exploration and evaluation licenses and expenditure

Exploration and evaluation licenses and expenditure are amortised on a straight-line basis over expected term of site development, commencing upon readiness of processing facilities to produce ore usable for production of complex mineral fertilizers or for external sale.

### 3.10 Borrowings

**Borrowings** are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

**Capitalisation of borrowing costs.** Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

### 3.11 Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

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

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period



and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### **3.12 Foreign currency transactions**

**Foreign currency translation.** Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RUB"). The functional currency of the Company's subsidiary Shandong Hongri Acron Chemical Joint Stock Company Limited (China) is Renminbi (CNY).

For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

**Translation from functional to presentation currency.** The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.3727, USD 1 = CNY 6.2855, EUR 1 = RUB 40.2286, CNY 1 = RUB 4.87406 (2011: USD 1 = RUB 32.1961, USD 1 = CNY 6.3009, EUR 1 = RUB 41.6714, CNY 1 = RUB 5.1111). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

### **3.13 Provisions for liabilities and charges**

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

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated income statement.

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pretax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.





### **3.14 Shareholders' equity**

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

**Treasury shares.** Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Treasury shares are stated at weighted average cost. Any gains/losses arising from the transactions with treasury shares are included in other reserves.

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

### **3.15 Revenue recognition**

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Interest income is recognised on a time-proportion basis using the effective interest method.

### **3.16 Mutual cancellations**

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the consolidated cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### **3.17 Employee benefits**

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

**Social costs.** The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

**Pension costs.** In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognises these contributions as part of labour costs.

### **3.18 Financial assets and liabilities**

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



Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

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

**Derivative financial instruments.** As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.

### **3.19 Finance lease liabilities**

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

### **3.20 Earnings per share**

Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.



### **3.21 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately unless they meet all qualitative and quantitative aggregation criteria, in which case they are aggregated in a single reporting segment.

### **3.22 Exploration and evaluation expenditure**

Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalized costs are directly related to exploration and evaluation activities in the relevant area of interest and include acquisition of rights to explore, including cost related to compliance with license terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, Plant and Equipment, after initial recognition. Exploration assets are not depreciated until the production phase.

Production stripping costs attributable to future production are capitalised as part of property, plant and equipment until the production phase commences and depreciated on a units of production basis to match the economic benefits derived from them.

The Group tests exploration and evaluation assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

### **3.23 Development expenditure**

Development expenditure incurred by or on behalf of the group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in assets under construction category and separately disclosed in Note 13. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a "mining property" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditures until they are reclassified as "mining properties".

## **4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies**

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

**Estimated impairment of goodwill.** The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates (Note 15). At 31 December 2012 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 2% (2011: 2%) lower than management estimates at 31 December 2011. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 6% (2011: 6%) higher than management estimates, the goodwill would still have not been impaired.

**Impairment of exploration rights.** At 31 December 2012 the Group performed an impairment test of exploration rights. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period and the expected market prices for key fertilisers for the same period according to the leading industry publications. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs as further disclosed in Note 14. Recoverable amounts of CJSC Verkhnekamsk Potash Company ("CJSC VPC") are sensitive to changes in discount rates. Any increase in discount rate by over 5.5% (2011: 4.5%) would lead to impairment charge of approximately RUB 2,053 (2011: RUB 2,229). Recoverable amounts of JSC North-Western Phosphorous Company are sensitive to changes in discount rates. Any increase in discount rate by over 3% would lead to impairment charge of approximately RUB 379.





**Consolidation of subsidiaries.** Although the Company has only 50% interest in JSC Acron-Trans, it has the power to cast the majority of votes at meetings of the board of directors as per charter. Accordingly, the Company has consolidated this entity in these financial statements. At 31 December 2012, total net assets of the JSC Acron-Trans were approximately RUB 183 (2011: RUB 154)

**Deferred income tax asset recognition.** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

**Capitalisation of borrowing costs for exploration rights.** Exploration rights represent part of investment projects for development of mineral deposits that necessarily take a substantial time to get ready for intended use. Accordingly, management considers exploration rights as qualifying assets for capitalization of borrowing costs. Refer to Note 14.

**Continuance of recognition of investment in JSC Silvinit as result of its reorganisation.** In second quarter of 2011 OAO Silvinit was reorganized by merger with JSC Uralkali. The management has exercised significant judgement in the analysis of this event to make a decision to continue the recognition of investment in JSC Silvinit. In performing the analysis, management considered comparability of expected cash flows and market valuations of shares in JSC Silvinit and in united company JSC Uralkali as well as proximity of their economic characteristics and insignificance of changes in JSC Silvinit's management upon its merger. Thus, the management of the Group decided not to derecognize the investment in JSC Silvinit and to keep the revaluation reserve, accumulated to the date of the merger, in equity.

## **5 New Accounting Pronouncements**

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

- IAS 28 (2011) Investments in Associates and Joint Ventures combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.
- IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which



may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The amendments have not yet been endorsed in the Russian Federation.
- IFRS 11 Joint Arrangements will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31s, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, 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.
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- 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 annual periods beginning after 1 January 2013.

The Group has not yet analysed the likely impact of the new Standards or improvements on its financial position or performance.

## 6 Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that capable to earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (s) ("CODM") and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

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

- Acron – representing manufacturing and distribution of chemical fertilisers by JSC Acron;
- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by JSC Dorogobuzh;
- Hongri Acron – representing manufacturing and distribution of chemical fertilisers by Shandong Hongri Acron Chemical Joint Stock Company Ltd.;
- Logistics – representing transportation an logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Constitutes an aggregation of a number of operating segments;
- Trading – representing overseas & domestic distribution companies of the Group;
- Mining – representing firstly exploration licences. Combines several operating segments;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit has significant business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and EBITDA.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.

Information for the reportable segments for the year ended 31 December 2012 is set out below:

	<b>Segment sales</b>	<b>Intersegment sales</b>	<b>External sales</b>	<b>EBITDA</b>
Acron	36,059	(29,484)	6,575	13,524
Dorogobuzh	15,226	(11,148)	4,078	4,587
Hongri Acron	11,432	(373)	11,059	565
Logistics	3,181	(2,013)	1,168	878
Trading	49,515	(2,391)	47,124	1,042
Mining	681	(91)	590	(671)
Other	2,580	(2,062)	518	(1)
<b>Total</b>	<b>118,674</b>	<b>(47,562)</b>	<b>71,112</b>	<b>19,924</b>

Information for the reportable segments for the year ended 31 December 2011 is set out below:

	<b>Segment sales</b>	<b>Intersegment sales</b>	<b>External sales</b>	<b>EBITDA</b>
Acron	33,246	(24,986)	8,260	12,717
Dorogobuzh	16,729	(11,274)	5,455	6,453
Hongri Acron	9,151	(325)	8,826	854
Logistics	2,830	(1,792)	1,038	728
Trading	44,311	(3,159)	41,152	18
Other	2,030	(1,330)	700	86
<b>Total</b>	<b>108,297</b>	<b>(42,866)</b>	<b>65,431</b>	<b>20,856</b>



Reconciliation of EBITDA to Profit Before Tax:

	<b>2012</b>	<b>2011</b>
Profit Before Tax	18,959	25,524
Loss on derivatives; net	178	566
Interest expense	1,152	1,240
Finance (income)/costs, net	(1,560)	401
<b>Operating Profit</b>	<b>18,729</b>	<b>27,731</b>
Depreciation and amortisation	1,970	1,917
Foreign currency losses on operating activities	(497)	(252)
Gain on disposal of investments	(309)	(4,188)
Gain on disposal of licenses, land and leasehold	-	(4,839)
Loss on disposal of property, plant and equipment	31	487
<b>Total consolidated EBITDA</b>	<b>19,924</b>	<b>20,856</b>

	<b>2012</b>	<b>2011</b>
<u>Revenue</u>		
Russia	13,138	10,284
European Union	8,570	8,597
Commonwealth of Independent States	3,327	4,357
USA and Canada	5,943	5,633
Latin America	10,983	11,049
China	18,605	15,584
Asia (excluding China)	9,279	6,640
Other regions	1,267	3,287
<b>Total</b>	<b>71,112</b>	<b>65,431</b>
<u>Non-current assets</u>		
Russia	67,888	53,569
China	3,163	2,900
Canada	1,468	885
Estonia	4,351	3,940
Europe	37	37
USA	18	10
<b>Total</b>	<b>76,925</b>	<b>61,341</b>

The analysis of revenue is based on domicile of the customer. The analysis of assets is based on location of the assets.

Revenue from sales of chemical fertilisers accounts for 88% of total revenues (2011: 90%).

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

There are no individual customers contributing 10% of more to the total revenues.

## **7 Balances and Transactions with Related Parties**

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2012 and 2011 are detailed below.

The following turnovers and balances arise from transactions with related parties:

### **i Balances with related parties**

<b>Statement of financial position caption</b>	<b>Note</b>	<b>Relationship</b>	<b>2012</b>	<b>2011</b>
Trade receivables, gross	9	Companies under common control	8	22
Loans issued	10	Companies under common control	-	874
Trade payables	19	Companies under common control	(12)	(15)



**ii Transactions with related parties**

<b>Statement of comprehensive income caption</b>	<b>Note</b>	<b>Relationship</b>	<b>2012</b>	<b>2011</b>
Sales of chemical fertilisers	6	Companies under common control	50	47
Purchases of raw materials	23	Companies under common control	(458)	259
Charity	27	Companies under common control	(80)	(108)
Acquisition of land	13	Companies under common control	(1,383)	-

**iii Loans issued**

At 31 December 2012 short-term loans to parties under common control totalled RUB nil (2011: RUB 874 at interest rates in the range of 8.25% to 8.8%). The loans were unsecured.

In 2012 the Group accrued interest income of RUB 52 (2011: RUB 71).

**iv Key management personnel compensation**

Total key management personnel compensation in the amount of RUB 531 (2011: RUB 225) was recorded in general and administrative expenses. Related state social and pension costs amounted to RUB 3 (2011: RUB 3).

**8 Cash, Cash Equivalents and irrevocable deposits**

	<b>2012</b>	<b>2011</b>
Cash on hand and bank balances denominated in RUB	10,179	1,904
Bank balances denominated in USD	14,811	9,333
Bank balances denominated in EUR	1,406	733
Bank balances denominated in CAD	24	8
Bank balances denominated in CHE	4	8
Bank balances denominated in CNY	1,029	1,523
<b>Total cash and cash equivalents</b>	<b>27,453</b>	<b>13,509</b>
Irrevocable bank deposits in USD	1,435	1,121
<b>Total</b>	<b>28,888</b>	<b>14,630</b>

Cash and cash equivalents include term deposits of RUB 2,047 (2011: RUB 2,915).

At 31 December 2012 included in the current irrevocable bank deposits certain bank deposits of the Group which are restricted as guarantees to the banks related to credit agreement between HSBC Bank (China), Raiffeisen Bank International AG and one of the subsidiaries of JSC Acron in China in the amount of RUB 1,435 (2011: RUB 1,121). These deposits are classified as current in the consolidated Group financial statements based on maturities of respective loans.

The fair value of cash, cash equivalents and irrevocable deposits is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	<b>2012</b>	<b>2011</b>
A to AAA* rated	6,308	6,479
BB- to BBB+* rated	21,333	5,044
Chinese banks with top internal credit ratings	1,030	1,523
Unrated	217	1,584
<b>Total</b>	<b>28,888</b>	<b>14,630</b>

\* Based on the credit ratings of Fitch Ratings, an independent rating agency.



## 9 Accounts Receivable

	2012	2011
Trade accounts receivable	1,624	2,485
Notes receivable	314	212
Other accounts receivable	796	731
Impairment provision	(199)	(101)
<b>Total financial assets</b>	<b>2,535</b>	<b>3,327</b>
Advances to suppliers	2,229	2,859
Value-added tax recoverable	4,467	3,825
Income tax prepayments	327	680
Other taxes receivable	80	117
Impairment provision	(16)	(113)
<b>Total accounts receivable</b>	<b>9,622</b>	<b>10,695</b>

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As of 31 December 2012, trade and other accounts receivable of RUB 199 (2011: RUB 101) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The aging of trade and other accounts receivable is as follows:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	2,085	-	2,912	-
Past due for less than 3months	117	-	194	-
Past due from 3 to 9 months	17	(9)	9	(1)
Past due from 9 to 12 months	13	(7)	6	(6)
Past due over 12 months	188	(183)	95	(94)
<b>Total</b>	<b>2,420</b>	<b>(199)</b>	<b>3,216</b>	<b>(101)</b>

The movements in the provision for impairment of trade and other accounts receivable are as follows:

	2012	2011
	Trade and other receivables	Trade and other receivables
<b>Provision for impairment at 1 January</b>	(101)	(194)
Provision for impairment	(104)	(12)
Provision used	1	91
Provision reversed	5	14
<b>Provision for impairment at 31 December</b>	<b>(199)</b>	<b>(101)</b>

The Group does not hold any collateral as security for trade and other accounts receivable.

Besides trade accounts receivable and advances to suppliers, the other classes within accounts receivable do not contain impaired assets.

## 10 Loans Receivable

	2012	2011
<b>Short-term loans receivable</b>		
Loans issued to related parties (refer to Note 7)	-	874
Loans issued to third parties	1,363	46
	<b>1,363</b>	<b>920</b>
<b>Long-term loans receivable</b>		
Loans issued to third parties	23	68
	<b>23</b>	<b>68</b>

At 31 December 2012 and 2011 short-term loans totalled RUB 1,363 and RUB 920, respectively, at interest rates in the range of 5.31% to 8.25% (2011: 8.25 % to 8.80%). The loans were unsecured.



At 31 December 2012 and 2011 long-term loans totalled RUB 23 and RUB 68, respectively, at interest rates of 10% (2011: 8.80%). The loans were unsecured.

In 2012 the Group accrued interest income on loans receivable of RUB 58 (2011: RUB 74).

At 31 December 2012 had one counterparty with aggregated loans receivable balances in excess of 98% of the Group's loans receivable balances. At 31 December 2011 the Group had two counterparties with aggregated loans receivable balances in excess of 88% of the Group's loans receivable balances. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group's primary activity.

## 11 Inventories

	<b>2012</b>	<b>2011</b>
Raw materials and spare parts	6,742	4,861
Work in progress	1,051	389
Finished products	5,175	3,929
	<b>12,968</b>	<b>9,179</b>

Raw materials are shown net of obsolescence provision of RUB 305 (2011: RUB 307). No inventory was pledged as security at 31 December 2012 and 2011.

## 12 Leasehold Land

	<b>2012</b>	<b>2011</b>
<b>Cost</b>		
Balance at 1 January	566	549
Translation difference	(52)	17
<b>Balance at 31 December</b>	<b>514</b>	<b>566</b>
<b>Accumulated amortisation</b>		
Balance at 1 January	51	42
Amortisation for the year	7	5
Translation difference	(4)	4
<b>Balance at 31 December</b>	<b>54</b>	<b>51</b>
<b>Net book value</b>		
<b>Balance at 1 January</b>	<b>515</b>	<b>507</b>
<b>Balance at 31 December</b>	<b>460</b>	<b>515</b>

At 31 December 2012, the Group's leasehold land with net book value of RUB 300 (2011: RUB 322) was held and represent prepayments for land use rights with terms of 27 to 30 years expiring from March 2023 to November 2028. The leasehold land related to location of buildings and production facilities of Shandong Hongri Acron Chemical Joint Stock Company Ltd., the Group's subsidiary in the People's Republic of China.

At 31 December 2012, land use right with a net book value of RUB 424 (2011: RUB 461) had been pledged as security for long-term loans (Note 21).





### 13 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 January 2012</b>	20,168	24,108	4,648	1,339	911	15,589	<b>66,763</b>
Additions	-	-	-	-	-	16,771	<b>16,771</b>
Transfers	2,827	1,977	471	782	1,454	(7,511)	-
Disposals	(85)	(435)	(48)	(16)	-	-	<b>(584)</b>
Translation difference	(154)	(228)	(42)	(7)	-	(6)	<b>(437)</b>
<b>Balance at 31 December 2012</b>	<b>22,756</b>	<b>25,422</b>	<b>5,029</b>	<b>2,098</b>	<b>2,365</b>	<b>24,843</b>	<b>82,513</b>
<b>Accumulated Depreciation</b>							
<b>Balance at 1 January 2012</b>	12,645	18,125	1,396	551	-	-	<b>32,717</b>
Depreciation charge	539	1,264	291	110	-	-	<b>2,204</b>
Disposals	(81)	(417)	(47)	(8)	-	-	<b>(553)</b>
Translation difference	(39)	(127)	(8)	(5)	-	-	<b>(179)</b>
<b>Balance at 31 December 2012</b>	<b>13,064</b>	<b>18,845</b>	<b>1,632</b>	<b>648</b>	-	-	<b>34,189</b>
<b>Accumulated Impairment Loss</b>							
<b>Balance at 1 January 2012</b>	210	355	-	3	-	6	<b>574</b>
Impairment	13	-	-	-	-	-	<b>13</b>
Reversal of impairment	-	(102)	-	-	-	-	<b>(102)</b>
Translation difference	(11)	(14)	-	(2)	-	-	<b>(27)</b>
<b>Balance at 31 December 2012</b>	<b>212</b>	<b>239</b>	-	<b>1</b>	-	<b>6</b>	<b>458</b>
<b>Net Book Value</b>							
<b>Balance at 1 January 2012</b>	<b>7,313</b>	<b>5,628</b>	<b>3,252</b>	<b>785</b>	<b>911</b>	<b>15,583</b>	<b>33,472</b>
<b>Balance at 31 December 2012</b>	<b>9,480</b>	<b>6,338</b>	<b>3,397</b>	<b>1,449</b>	<b>2,365</b>	<b>24,837</b>	<b>47,866</b>





	Buildings and constructions	Plant and equipment	Transport	Other	Land	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 January 2011</b>	19,654	22,198	3,686	1,694	701	7,572	<b>55,505</b>
Additions	-	-	-	-	-	11,312	<b>11,312</b>
Transfers	356	1,661	974	101	210	(3,302)	-
Disposals	(49)	(132)	(56)	(465)	-	-	<b>(702)</b>
Translation difference	207	381	44	9	-	7	<b>648</b>
<b>Balance at 31 December 2011</b>	<b>20,168</b>	<b>24,108</b>	<b>4,648</b>	<b>1,339</b>	<b>911</b>	<b>15,589</b>	<b>66,763</b>
<b>Accumulated Depreciation</b>							
<b>Balance at 1 January 2011</b>	12,164	17,066	1,004	515	-	-	<b>30,749</b>
Depreciation charge	471	997	414	30	-	-	<b>1,912</b>
Disposals	(44)	(120)	(47)	(4)	-	-	<b>(215)</b>
Translation difference	54	182	25	10	-	-	<b>271</b>
<b>Balance at 31 December 2011</b>	<b>12,645</b>	<b>18,125</b>	<b>1,396</b>	<b>551</b>	-	-	<b>32,717</b>
<b>Accumulated Impairment Loss</b>							
<b>Balance at 1 January 2011</b>	237	420	-	2	-	6	<b>665</b>
Reversal of impairment	(53)	(111)	-	-	-	-	<b>(164)</b>
Translation difference	26	46	-	1	-	-	<b>73</b>
<b>Balance at 31 December 2011</b>	<b>210</b>	<b>355</b>	-	<b>3</b>	-	<b>6</b>	<b>574</b>
<b>Net Book Value</b>							
<b>Balance at 1 January 2011</b>	<b>7,253</b>	<b>4,712</b>	<b>2,682</b>	<b>1,177</b>	<b>701</b>	<b>7,566</b>	<b>24,091</b>
<b>Balance at 31 December 2011</b>	<b>7,313</b>	<b>5,628</b>	<b>3,252</b>	<b>785</b>	<b>911</b>	<b>15,583</b>	<b>33,472</b>

Included in the 2012 additions to assets under constructions is approximately RUB 944 of capitalized borrowing costs in accordance with IAS 23, Borrowing costs (2011: RUB 468) at the average borrowing rate of 6.14% (2011: 6.87%).

The assets transferred to the Group upon privatisation did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is 1 January 2012. At 31 December 2009 major subsidiaries of the Group exercised the option and purchased the land under production plants.

At 31 December 2012, assets under property, plant and equipment with a net book value of RUB 1,534 (2011: RUB 1,868) had been pledged as security for long-term loans (Note 21).

The Group incurs expenses directly related to the development of deposits. These expenses were capitalised in accordance with the Group accounting policy and included within assets under construction.

**Development expenditure comprises of:**

	2012	2011
<b>Balance at 1 January</b>	<b>10,397</b>	<b>3,763</b>
Additions	10,077	6,677
Transfers to other categories	(3,762)	(43)
<b>Balance at 31 December</b>	<b>16,712</b>	<b>10,397</b>

As at 31 December 2012 the buildings and constructions category includes the mining assets of RUB 2,686 (2011: RUB 37).



**Non-current assets impairment test.** Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

The Management concluded that there are no impairment indicators for CGUs, except for goodwill and mining assets, are present on 31 December 2012.

As the result of redeployment of assets previously used in production of methanol in Shandong Hongri Acron Chemical Joint Stock Company Limited (included in Hongri Acron operating segment) the Group reversed previously recognised impairment charge for Methanol CGU in the amount of RUB 102 (2011: RUB 164). The assets are now used in production of synthetic ammonia.

#### **14 Exploration and Evaluation Licences and Expenditure**

In May 2008 the Group's subsidiary, JSC Verkhnekamsk Potash Company, following an auction process, acquired a license for the exploration and development of the Talitsky section of the Verkhnekamsk potash deposit, located in Perm region, Russian Federation. The license expires in April 2028.

In accordance with the conditions of the license, the Group has the following commitments:

- to commence construction of an exploration complex by 15 October 2014;
- to commence the extraction of potash salt by 15 October 2016.

The Group accounted for the license at cost of RUB 16,829 and additionally capitalised borrowing costs of RUB 1,446 at 6.14% (2011: RUB 1,172 at 6.87%).

At 31 December 2012 the Group's subsidiary North Atlantic Potash Inc. (former 101109718 Saskatchewan Ltd.) had 18 permits to explore for potash deposits in the Canadian province of Saskatchewan for RUB 1,465. Duration of the permits is 5 years. Following exploration results the Group will have preferential right for purchase of exploration licenses.

In 2011 the Group entered into the agreement with RIO Tinto Exploration Canada Inc. to sell 40% interest in 9 permits to explore potash deposits for RUB 2,125. The net book value of 40% interest was RUB 169 on the date of sale. Under the agreement, including the amendment from 3 April 2013, RIO Tinto Exploration Canada Inc., also received an option to purchase additional 40% interest in permits before 31 August 2013 and committed to perform additional exploration of potash deposits.

In 2012 the Group capitalised exploration and evaluation expenses including costs related to compliance with permit terms in the amount of RUB 295 (2011: RUB 179).

	<b>2012</b>	<b>2011</b>
<b>Cost</b>		
<b>Balance at 1 January</b>	<b>24,345</b>	<b>23,610</b>
Additions	1,741	1,351
Disposals	-	(616)
Currency translation difference	285	-
<b>Balance at 31 December</b>	<b>26,371</b>	<b>24,345</b>
<b>Accumulated Amortisation</b>		
<b>Balance at 1 January</b>	-	-
Additions	-	-
Disposals	-	-
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>		
<b>Balance at 1 January</b>	<b>24,345</b>	<b>23,610</b>
<b>Balance at 31 December</b>	<b>26,371</b>	<b>24,345</b>

Exploration and evaluation expenditure comprise of:

	<b>2012</b>	<b>2011</b>
Apatite-nepheline deposits (production / development stage)	681	681
Potash deposits (development stage)	24,225	22,779
Permits for exploration (exploration and evaluation stage)	1,465	885
	<b>26,371</b>	<b>24,345</b>

#### **Exploration and evaluation expenditure impairment test**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections, prepared in nominal terms, based on financial budgets approved by management. The growth



rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs. The key assumptions used for value-in-use calculations are as follows:

	JSC North-Western Phosphorous Company		JSC Verkhnekamsk Potash Company	
	2012	2011	2012	2011
EBITDA margin range over the forecast period	45-50%	44-53%	62-70%	63-69%
Growth rate beyond forecast period	-	-	-	-
Discount rate	11.3%	14.2%	9.5%	12.2%

Management determined budgeted EBITDA margin based on peers performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

## 15 Goodwill

	2012	2011
Cost and carrying amount at 1 January	1,267	1,267
Cost and carrying amount at 31 December	1,267	1,267

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

	2012	2011
LLC Andrex	52	52
JSC Dorogobuzh	972	972
AS DBT	243	243
<b>Total carrying amount of goodwill</b>	<b>1,267</b>	<b>1,267</b>

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections, prepared in nominal terms, based on financial budgets approved by management covering a five year period. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs in 2012.

The key assumptions used for value-in-use calculations at 31 December 2012 are as follows:

- EBITDA margin range over the forecast period: 5.1%-22% (2011: 5-41%)
- Growth rate beyond five years: 1% (2011: 2.3%)
- Discount rate: 8% (2011: 10.8%)

Management determined budgeted EBITDA margin based on past performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.



## 16 Available-for-Sale Investments

	2012	2011
<b>Balance at 1 January</b>	<b>19,950</b>	<b>24,398</b>
Additions	3,876	46
Fair value loss recognised directly in OCI for shares of JSC Apatit	-	(2,299)
Disposal of investments in subsidiary	-	(4,260)
Fair value gain recognised directly in OCI	1,067	2,119
Disposals	(248)	(54)
Currency translation difference	36	-
<b>Balance at 31 December</b>	<b>24,681</b>	<b>19,950</b>

The Group has investments in the following companies:

Name	Activity	Country of registration	2012	2011
<b>Current</b>				
JSC Uralkali	Potash mining	Russia	19,857	-
<b>Total current</b>			<b>19,857</b>	<b>-</b>
<b>Non-current</b>				
JSC Uralkali	Potash mining	Russia	-	19,616
Sberbank	Banking	Russia	-	196
Azoty Tarnów	Fertilizers production	Poland	4,684	-
Other			140	138
<b>Total non-current</b>			<b>4,824</b>	<b>19,950</b>
<b>Total</b>			<b>24,681</b>	<b>19,950</b>

As at 31 December 2012 the investment in JSC Uralkali was classified as current according to management intention to dispose this investment within 12 months from the reporting date.

In 2012 the Group recognised RUB 248 gain on disposal of Sberbank shares (2011: RUB 8 loss).

Fair value of all investments was determined by reference to the current market value at the close of business on the date of a transaction or on 31 December 2012. At 31 December 2012 the share price quoted by MICEX for JSC Uralkali amounted to 234.75 roubles for 1 share (2011: 231.9 roubles for 1 share).

In the second half of 2012 Group acquired 8,833,660 shares of Poland company Azoty Tarnów (13.78% of share capital) for RUB 3,874. At 31 December 2012 the share price quoted at Warsaw Stock Exchange for Azoty Tarnów amounted to RUB 530.21.

## 17 Derivative Financial Assets and Liabilities

In June 2011 the Group transacted a USD/RUB cross currency swap agreement whereby the Group pays USD fixed 3.83% based on the nominal amount of USD 80,732 thousand and receives Russian roubles fixed 7.95% interest based on the nominal amount of RUB 2,250. The swap matures on 2 June 2014. At 31 December 2012 the fair value of the contract was liability RUB 256 (2011: liability RUB 190). The total impact of the revaluing this contract included in profit or loss for 2012 was RUB 66 loss (2011: RUB 190 loss).

In July 2010, the Group entered into two interest rate swap contracts with a combined non-deliverable nominal amount of USD 400 million. As the result of these the Group pays monthly USD fixed 0.9025% and 0.905% and receives variable interest which is determined based on the monthly USD LIBOR. The contractual settlement date of the contracts is 12 July 2013. At 31 December 2012 the fair value of both contracts was liability RUB 7 (2011: liability RUB 30). The total impact the revaluing these contracts included in the statement of operations for 2012 was RUB 23 gain (2011: RUB 28 gain).



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

	2012			
	Assets		Liabilities	
	Non Current	Current	Non Current	Current
USD/RUB Cross currency interest rate swap	-	-	256	-
USD non deliverable interest rate swap	-	-	-	7
	-	-	<b>256</b>	<b>7</b>

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

	2011			
	Assets		Liabilities	
	Non Current	Current	Non Current	Current
USD/RUB Cross currency interest rate swap	-	-	190	-
CNY/RUB Cross currency interest rate swap	-	-	-	328
CNY/USD Cross currency interest rate swap	-	-	-	68
USD non deliverable interest rate swap	-	-	30	-
	-	-	<b>220</b>	<b>396</b>

## 18 Trading Investments

	2012	2011
Eurobonds	355	311
US bonds	30	-
Corporate bonds	3	34
Promissory notes	472	-
<b>Total debt securities</b>	<b>860</b>	<b>345</b>
<b>Total trading investments</b>	<b>860</b>	<b>345</b>

Trading investments are carried at fair value which also reflects any credit risk related write-downs. As trading investments are carried at their fair values based on observable market data using bid prices from MICEX/RTS stock exchange, the Group does not analyse or monitor impairment indicators. The total gain on trading investments recognised in the statement of comprehensive income was RUB 61 (2011: RUB 56 loss).

Analysis by credit quality of debt trading securities outstanding at 31 December 2012 is as follows:

	US and Eurobonds	Corporate bonds	Promissory notes	Total
- B1 rated	35	-	-	35
- B2 rated	38	-	-	38
- B3 rated	58	-	-	58
- B+ rated	22	-	-	22
- BBB (BBB-) rated	152	-	472	624
- B rated	69	-	-	69
- C rated	11	-	-	11
- Unrated	-	3	-	3
<b>Total debt securities</b>	<b>385</b>	<b>3</b>	<b>472</b>	<b>860</b>

Analysis by credit quality of debt trading securities outstanding at 31 December 2011 is as follows:

	Eurobonds	Corporate bonds	Promissory notes	Total
- B2 rated	132	-	-	132
- B3 rated	6	-	-	6
- Ba3 rated	36	-	-	36
- B rated	73	-	-	73
- C rated	12	-	-	12
- Unrated	52	34	-	86
<b>Total debt securities</b>	<b>311</b>	<b>34</b>	<b>-</b>	<b>345</b>

None of the debt securities are past due or impaired as of 31 December 2012 and 2011.



## 19 Accounts Payable

	2012	2011
Trade accounts payable	3,647	2,965
Dividends payable	13	14
<b>Total financial payables</b>	<b>3,660</b>	<b>2,979</b>
Payables to employees	806	537
Accrued liabilities and other creditors	883	607
<b>Total accounts payable and accrued expenses</b>	<b>5,349</b>	<b>4,123</b>

## 20 Other Taxes Payable

	2012	2011
Value-added tax payable	225	76
Payroll taxes	137	93
Property and other taxes payable	131	89
	<b>493</b>	<b>258</b>

## 21 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2012	2011
Bonds issued	11,150	10,935
Credit lines	10,067	6,573
Term loans	40,342	30,935
	<b>61,559</b>	<b>48,443</b>

The Group's borrowings mature as follows:

	2012	2011
Borrowings due:		
- within 1 year	23,383	16,052
- between 1 and 5 years	38,060	32,363
- after 5 years	116	28
	<b>61,559</b>	<b>48,443</b>

The Group's borrowings are denominated in currencies as follows:

	2012	2011
Borrowings denominated in:		
- RUB	14,194	12,080
- EUR	1,735	1,629
- USD	41,757	31,633
- CNY	3,873	3,101
	<b>61,559</b>	<b>48,443</b>

Bank loans denominated in CNY and EUR were collateralised by buildings, machinery and equipment with a net book value of RUB 1,534 (2011: RUB 1,868) (Note 13) and land use right with a net book value of RUB 424 (2011: RUB 461) (Note 12). The loans obtained from banks in China are secured by guarantees issued by third parties totalled RUB 1,889 (2011: RUB 1,886).

With the exception of interest rate and cross currency swap agreements (Note 17), the Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2012 unused credit lines available under the long-term loan facilities were RUB 13,644 (31 December 2011: RUB 10,501). The terms and conditions of unused credit lines are consistent with other borrowings.



The details of the significant short-term loan balances are summarised below:

	2012	2011
<b>Short-term borrowings</b>		
<b>RUB</b>		
Loans with fixed interest rates of 8.75% to 11% per annum	3,010	6
Bond Issue with fixed interest rate of 13.85% to 14.05% per annum	3,037	3,037
<b>EUR</b>		
Loans with floating interest rates of 3M EURIBOR + 1.35% per annum	16	14
<b>USD</b>		
Loans with fixed interest rate of 4.35% to 6.82% per annum	1,189	4,025
Loans with floating interest rates of LIBOR + 3% to LIBOR+5.5% per annum	12,391	5,945
<b>CNY</b>		
Loans with fixed interest rates of 4.62% to 9.8% per annum	3,740	3,025
<b>Total short-term borrowings</b>	<b>23,383</b>	<b>16,052</b>

The details of the significant long-term loan balances are summarised below:

	2012	2011
<b>Long-term borrowings</b>		
<b>RUB</b>		
Loans with fixed interest rates of 6.316% to 8.85% per annum	34	1,138
Bonds with coupon payments of 7.95% to 14.05% per annum	8,113	7,898
<b>EUR</b>		
Loans with floating interest rates of 3M EURIBOR + 1.35% to +1.75%	1,560	1,615
Loans with fixed interest rate of 4.35% to 4.9% per annum	159	
<b>USD</b>		
Loans with fixed interest rates of 4.35% to 6.75% per annum	888	4,508
Loans with floating interest rates of LIBOR +3.5% to LIBOR + 5.5% per annum	27,289	17,155
<b>CNY</b>		
Loans with fixed interest rates of 6.2% to 7.98% per annum	133	77
<b>Total long-term borrowings</b>	<b>38,176</b>	<b>32,391</b>

Significant loan agreements contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, equity/total assets ratio, debt/equity ratio, debt/EBITDA ratio and EBITDA/interest expense ratio. The loan agreements provide for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower's failure to fulfil or appropriately fulfil its obligations to the bank. The loan agreements also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

In October 2012 the Group placed through an offering to the public under an open subscription RUB denominated 9.75% non-convertible bonds with a face value of RUB 5,000 to be redeemed in October 2015. No option to redeem these bonds were granted.

In May 2011 the Group placed through an offering to the public under an open subscription RUB denominated 7.95% non-convertible bonds with a face value of RUB 7,500 to be redeemed in May 2021. The holders of this bonds issue were granted an option to redeem the bonds beginning in May 2014. In the first quarter of 2012 the Group redeemed bonds in the amount of RUB 3,377.

In September 2009 the Group placed through an offering to the public under an open subscription RUB denominated 14.05% non-convertible bonds with a face value of RUB 3,500 to be redeemed in September 2013. The holders of these bonds issue were granted an option to redeem the bonds in September 2011. As the result of this option the bonds in the amount of RUB 2,545 were redeemed in 2011. The remaining bonds have current interest rate of 8.20%.

At 31 December 2012 the Group's subsidiary JSC Dorogobuzh held bonds in the amount of RUB 1,019 (2011: RUB 1,019).

All of the above bonds have been admitted to the quotation list B and are traded on MICEX. The fair value of the outstanding bonds balance at 31 December 2012 was RUB 11,258 with reference to MICEX quotations as of this date (2011: RUB 10,486).





## 22 Capital and reserves

The total authorised number of ordinary shares is 40,534,000 shares (2011: 47,687,600) with a par value of RUB 5 per share. All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
<b>At 31 December 2011</b>	<b>47,687,600</b>	<b>(7,153,600)</b>	<b>3,125</b>	<b>(79)</b>	<b>3,046</b>
Redemption of treasury shares	(7,153,600)	7,153,600	(79)	79	-
Acquisition	-	(56,263)	-	(4)	(4)
<b>At 31 December 2012</b>	<b>40,534,000</b>	<b>(56,263)</b>	<b>3,046</b>	<b>(4)</b>	<b>3,042</b>

In May 2012 JSC Acron finished reorganisation through merger of JSC Granit and reducing share capital through redemption of ordinary shares of JSC Acron owned by JSC Granit. As the result of reorganisation the number of voting shares of JSC Acron reduced by 15% and totalled 40,534,000 shares.

In 2012 the Group had several transactions whereby it acquired treasury shares in the mandatory redemption of the shareholders. As the result of such transactions the Group acquired 56,263 shares of the Company for RUB 65 paid in cash. These transactions were recorded in other reserves in the statement of changes of equity.

In 2012 interim dividends of 46 roubles per ordinary share were declared for 9 months 2012. In 2011 the dividends for 2010 and interim the dividends for 9 months 2011 were declared in amounts of 40 roubles and 129 roubles per ordinary share respectively.

### Acquisition of non-controlling interest

During 2012 the Group increased its shareholding in JSC Dorogobuzh from 85.54% to 86.95% through acquisition of 20,460,208 shares of JSC Dorogobuzh for cash consideration of RUB 116. As the result of this transaction, the non-controlling interest decreased by RUB 277.

### Shares issue to non-controlling interest

In October 2012 the Group attracted three third-party bank institutions (the banks) to financially co-invest in the project for the development of the Verkhnekamsk potassium-magnesium salts deposit located in Perm region of Russian Federation. The banks purchased equity interests in the Group subsidiary CJSC VPC totalling 38.05% for RUB 12,755 linked to put/call option agreements. CJSC VPC holds exploration license for the deposit.

Under terms of agreements one bank has the right, exercisable in October 2024, to sell the CJSC VPC shares back to the Group with the premium equivalent to interest income of the bank loans with comparable terms on the amount and duration of cash provided (thereafter "Premium"). Likewise, other two banks have the options to sell CJSC VPC shares with certain premium in 2019-2020. Furthermore, the premium is subject to upward pricing adjustment within initial public offering of CJSC VPC if that takes place during 6-months post-completion period.

The Group also has an unconditional right to purchase back 18.05% of the equity of CJSC VPC, exercisable until 31 December 2018 at a certain premium, subject to an upward pricing adjustment within CJSC VPC initial public offering.

Under terms of agreements with the banks the Group has an unconditional right to discharge its obligations by transferring its own equity instruments (ordinary shares of JSC Acron) in the quantity providing a fair value equal to the amount payable at the date of future settlement. Giving regard to these terms, the financing received by the Group was recorded in equity of the Group as a non-controlling interest in amount of RUB 12,755.

In accordance with the agreement with the banks the Group will also have to meet technical conditions during project development, including meeting deadlines for key project milestones. The Group is also obliged to attract or support attracting additional financing if currently approved investment budget would not be sufficient to complete the project. Failure to meet those technical conditions in the future enable the banks to sell the equity of CJSC VPC to the Group at a premium. Management does not believe that the technical risks of the project are significant.





**23 Cost of Sales**

	<b>2012</b>	<b>2011</b>
Change in inventories of finished goods and work in progress	(1,908)	(1,699)
Staff costs	4,614	4,040
Materials and components used, including:	19,079	16,522
-Phosphate	4,951	4,223
-Potash	6,643	5,729
-Coal	1,175	1,003
-Sulfur	1,109	1,158
-Other	5,201	4,409
Fuel and energy	4,081	3,729
Natural gas	7,884	7,349
Depreciation and amortisation	1,970	1,917
Impairment (reversal)/loss	(102)	(164)
Services	502	109
Production overheads	546	309
Repairs and maintenance	3,256	2,984
Social expenditure	518	361
	<b>40,440</b>	<b>35,457</b>

**24 Selling, General and Administrative Expenses**

	<b>2012</b>	<b>2011</b>
Staff costs	2,345	1,873
Change in provision for bad debts	8	14
Business trip expenses	170	144
Research and development costs	37	12
Taxes other than income tax	469	420
Marketing services	242	157
Audit, legal and consulting services	413	434
Bank services	282	178
Insurance	90	65
Buildings maintenance and rent	314	263
Security	266	261
Telecommunication costs	87	70
Representation expenses	428	376
Commission fees	147	150
Other expenses	178	157
	<b>5,476</b>	<b>4,574</b>



## 25 Transportation Expenses

	2012	2011
Railway tariff	2,177	2,078
Freight	929	1,011
Maintenance	669	613
Container transport	974	1,268
Handling of goods	1,516	1,216
Other	486	400
	<b>6,751</b>	<b>6,586</b>

## 26 Finance Income/(Costs), net

	2012	2011
Interest income from loans provided and term deposits	255	895
Commission expense	(150)	(67)
Dividend income	683	133
Other finance costs	(450)	(94)
Foreign exchange gain on financial transactions	8,292	4,760
Foreign exchange loss on financial transactions	(7,070)	(6,028)
	<b>1,560</b>	<b>(401)</b>

## 27 Other Operating Income/(Expenses), net

	2012	2011
Charity expenses	(279)	(379)
Other income	(212)	504
Foreign exchange gain on operating transactions	7,111	3,249
Foreign exchange loss on operating transactions	(6,614)	(2,997)
Loss on disposal of property, plant and equipment	(31)	(487)
	<b>(25)</b>	<b>(110)</b>

## 28 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 22). As at 31 December 2012 the shares of the Company have dilutive potential related right to settle in own shares (Note 22). The dilution effect do not exist at the reporting date, therefore, the dilutive earnings per share equal the basic earnings per share.

	2012	2011
Weighted average number of shares outstanding	40,534,000	47,687,600
Adjusted for weighted average number of treasury shares	(37,509)	(5,367,602)
<b>Weighted average number of shares outstanding</b>	<b>40,496,491</b>	<b>42,319,998</b>
Profit attributable to the equity holders of the Company	14,195	18,329
<b>Basic and diluted earnings per share (in Russian Roubles) attributable to the equity holders of the Company</b>	<b>350.52</b>	<b>433.10</b>



## 29 Income Tax

	2012	2011
Income tax expense – current	3,551	5,016
Deferred tax charge – origination and reversal of temporary differences	547	180
<b>Income tax charge</b>	<b>4,098</b>	<b>5,196</b>

Profit before taxation for financial reporting purposes is reconciled to tax charge as follows:

	2012		2011	
<b>Profit before taxation</b>	<b>18,959</b>	<b>100%</b>	<b>25,524</b>	<b>100%</b>
Theoretical tax charge at statutory rate of 20% thereon (2011: 20%)	3,792	20%	5,105	20%
Effects of different tax rates	(94)	-	175	-
Effect of Novgorod region tax incentive of 6.5%	-	-	(1,001)	(4%)
Tax effect of items which are not deductible or assessable for taxation purposes	349	2%	647	3%
Change in unrecognized deductible temporary differences	51	-	256	1%
Other	-	-	14	-
<b>Income tax charge</b>	<b>4,098</b>	<b>22%</b>	<b>5,196</b>	<b>20%</b>

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2011: 20%).

With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 13.5% to 20%, depending on applicable rates set by regional authorities.



	1 January 2011	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2011	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2012
<b>Tax effects of taxable temporary differences:</b>							
Property, plant and equipment	570	191	-	761	460	-	1,221
Investments	4,880	(7)	(886)	3,987	(110)	164	4,041
Exploration rights	1,399	399	-	1,798	731	-	2,529
Inventory	38	(37)	-	1	20	-	21
<b>Gross deferred tax liability</b>	<b>6,887</b>	<b>546</b>	<b>(886)</b>	<b>6,547</b>	<b>1,101</b>	<b>164</b>	<b>7,812</b>
Offset	(1,399)			(1,888)			(2,177)
<b>Recognised net deferred tax liability</b>	<b>5,488</b>	<b>546</b>	<b>(886)</b>	<b>4,659</b>	<b>1,101</b>	<b>164</b>	<b>5,635</b>
<b>Tax effects of deductible temporary differences and tax loss carry-forwards:</b>							
Derivatives	-	(113)	-	(113)	70	-	(43)
Tax loss carry-forwards	(1,943)	(239)	-	(2,182)	(638)	-	(2,820)
Accounts receivable	(63)	56	-	(7)	34	-	27
Accounts payable	(55)	52	-	(3)	10	-	7
Staff costs payable	(45)	(75)	-	(120)	5	-	(115)
Other temporary differences	22	(47)	-	(25)	(35)	-	(60)
<b>Gross deferred tax asset</b>	<b>(2,084)</b>	<b>(366)</b>	<b>-</b>	<b>(2,450)</b>	<b>(554)</b>	<b>-</b>	<b>(3,004)</b>
Offset	1,399			1,888			2,177
<b>Recognised net deferred tax asset</b>	<b>(685)</b>	<b>(366)</b>	<b>-</b>	<b>(562)</b>	<b>(554)</b>	<b>-</b>	<b>(827)</b>
<b>Recognised net deferred tax liability</b>	<b>4,803</b>	<b>180</b>	<b>(886)</b>	<b>4,097</b>	<b>547</b>	<b>164</b>	<b>4,808</b>

Substantially all deferred assets and liabilities presented in the statement of financial position are expected to be realised after more than 12 months from the reporting date.

### 30 Contingencies, Commitments and Operating Risks

#### i Contractual commitments and guarantees

As at 31 December 2012 the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 1,913 (2011: RUB 2,583).

In accordance with the conditions of the exploration licenses the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by license agreements (Note 14).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2012 and 2011, the Group has issued financial guarantees to third parties in respect of borrowings by the Group's counterparties in the amount of RUB 3,062 and RUB 2,563, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as no outflows are expected from such guarantees.

#### ii Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

#### iii Operating environment of the Group

##### **Russian Federation**

The Group operates mainly in the Russian Federation. Accordingly, the Group is exposed to the economic and financial markets of the Russian Federation, which display characteristics of an emerging market. Legal, tax and



regulatory systems continue to develop, but are associated with varying interpretations and requirements, which are also subject to 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 what influence the business environment in the Russian Federation on the operations and financial position. The future business environment may differ from management's assessment.

#### **People's Republic of China**

The Group's major subsidiary, Shandong Hongri Acron Chemical Joint Stock Company Ltd., is located in the People's Republic of China. The People's Republic of China (the "PRC") economic and legal system is not fully developed and has inherent uncertainties. The economy of PRC differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange, and allocation of resources.

Since 1978, the PRC Government has promulgated various reforms of its economic system and government structure. These reforms have resulted in significant economic growth and social progress for PRC in the last two decades. Many of the reforms are unprecedented or experimental and are expected to be modified from time to time.

The business and operations of the Group in PRC are governed by the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of a dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit legal protections available to the Group. In addition, any litigation in PRC may be protracted and result in substantial costs and diversion of resources and management attention.

#### **iv Taxation**

##### **Russian Federation**

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

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

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

Russian transfer pricing legislation enacted during the current period is effective for new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also allows the tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice.

Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

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



As at 31 December 2012 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2012 no provision for potential tax liabilities had been recorded (2011: no provision).

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks (2011: no obligations).

**v Environmental matters**

The environmental regulation in the Russian Federation is at evolving stage. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

## 31 Financial and Capital Risk Management

### 31.1 Financial risk management

#### Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; and (c) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2012:

	2012			Total
	Loans and receivables	Available-for-sale assets	Trading Assets	
<b>Assets</b>				
<b>Cash, cash equivalents and irrevocable deposits (Note 8)</b>				
- Cash on hand and bank balances	27,453	-	-	27,453
- Irrevocable deposits	1,435	-	-	1,435
<b>Trade and other receivables (Note 9)</b>				
- Trade receivables, net of provision	1,425	-	-	1,425
- Notes receivable	314	-	-	314
- Other financial receivables	796	-	-	796
<b>Loans receivable (Note 10)</b>				
- Short term loans receivable	1,363	-	-	1,363
- Long term loans receivable	23	-	-	23
<b>Trading Investments (Note 18)</b>				
-	-	-	860	860
<b>Available-for-sale investments (Note 16)</b>				
- Corporate shares	-	24,681	-	24,681
<b>Total financial assets</b>	<b>32,809</b>	<b>24,681</b>	<b>860</b>	<b>58,350</b>

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as designated.



The following table provides a reconciliation of financial assets with the measurement categories as of 31 December 2011:

	2011			Total
	Loans and receivables	Available-for- sale assets	Trading Assets	
<b>Assets</b>				
<b>Cash, cash equivalents and irrevocable deposits (Note 8)</b>				
- Cash on hand and bank balances	13,509	-	-	13,509
- Irrevocable deposits	1,121	-	-	1,121
<b>Trade and other receivables (Note 9)</b>				
- Trade receivables, net of provision	2,384	-	-	2,384
- Notes receivable	212	-	-	212
- Other financial receivables	731	-	-	731
<b>Loans receivable (Note 10)</b>				
- Short term loans receivable	920	-	-	920
- Long term loans receivable	68	-	-	68
<b>Trading Investment (Note 18)</b>	-	-	345	345
<b>Available-for-sale investments (Note 16)</b>				
- Corporate shares	-	19,950	-	19,950
<b>Total financial assets</b>	<b>18,945</b>	<b>19,950</b>	<b>345</b>	<b>39,240</b>

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

**(a) Market risk**

**(i) Foreign currency risk**

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities.

Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian Rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimise foreign currency exposure.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at the reporting date:

At 31 December 2012	USD	EUR	CNY
<b>Financial assets:</b>			
Cash, cash equivalents and irrevocable deposits	16,246	1,406	1,029
Accounts Receivable	3,355	63	988
	<b>19,601</b>	<b>1,469</b>	<b>2,017</b>
<b>Financial liabilities:</b>			
Accounts payable and other liabilities	(206)	(129)	(659)
Borrowings and notes payable	(41,757)	(1,735)	(4,502)
	<b>(41,963)</b>	<b>(1,864)</b>	<b>(5,161)</b>
<b>Net position</b>	<b>(22,362)</b>	<b>(395)</b>	<b>(3,144)</b>



<b>At 31 December 2011</b>	<b>USD</b>	<b>EUR</b>	<b>CNY</b>
<b>Monetary financial assets:</b>			
Cash, cash equivalents and irrevocable deposits	10,454	733	1,523
Accounts receivable	1,384	87	192
	<b>11,838</b>	<b>820</b>	<b>1,715</b>
<b>Monetary financial liabilities:</b>			
Accounts payable and other liabilities	(188)	(208)	(1,997)
Borrowings and notes payable	(31,633)	(1,629)	(3,102)
	<b>(31,821)</b>	<b>(1,837)</b>	<b>(5,099)</b>
<b>Net position</b>	<b>(19,983)</b>	<b>(1,017)</b>	<b>(3,384)</b>

In 2012 and 2011 the Group transacted several cross currency swap agreements to partially offset volatility of its cash flows from potential appreciation of RUB against USD in 2010-2013 (Note 17).

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from cash and cash equivalents, accounts receivable and borrowings.

	<b>2012</b>	<b>2011</b>
<i>Impact on post-tax profit and on equity of:</i>		
USD strengthening by 10%	(1,789)	(1,532)
USD weakening by 10%	1,789	1,532

The Group relies on export sales to generate foreign currency earnings. As the Group sells outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk arising primarily on volatility of USD rate, in which major export sales are denominated.

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

**(ii) Interest rate risk**

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2012 and 2011 borrowings at variable rates amounted to RUB 41,256 and RUB 24,729 respectively (Note 21).

During 2012 and 2011 the Group hedged this exposure using financial instruments in the form of interest rate swap contracts to partially offset volatility of its cash flows from potential fluctuations in interest rates 2010-2013 (Note 17).

At 31 December 2012, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 1,259 (2011: RUB 672) lower, mainly as a result of higher interest expense on variable interest liabilities.

The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

**(iii) Price risk**

The Group is exposed to an equity securities price risk, since it has an investment in equity stake of JSC Uralkali, which is classified in the consolidated statement of financial position as available-for-sale as of 31 December 2012 and 2011, respectively (Note 16). Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments was recognised as of 31 December 2012 and 31 December 2011.

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.





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

**(b) Credit risk**

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

The maximum exposure to credit risk of RUB 33,669 (2011: RUB 19,290) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents and originated financial guarantees. The amount does not include equity investments. The Group has no significant concentrations of credit risk.

**Cash and cash equivalents.** Cash and short-term deposits are placed in major multinational and Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 8.

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

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2012 and 2011 the Group had no counterparties with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 9).

**(c) Liquidity risk**

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

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 8), trading investments (Note 18) and available-for-sale investments (Note 16). Management estimates that the liquidity portfolio can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

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



	Demand and less than 3 months	From 3 to 12 months	From months to 2 years	From 2 years to 5 years	Over 5 years	Total
<b>As of 31 December 2012</b>						
Bonds issued * (Note 21)	15	4,051	3,724	5,487	-	13,277
Credit lines * (Note 21)	867	3,756	3,073	3,222	32	10,950
Term loans * (Note 21)	2,991	14,671	12,150	13,286	94	43,192
Interest payable (included in other liabilities)	290	-	-	-	-	290
Trade payables (Note 19)	3,647	-	-	-	-	3,647
Dividends and other distributions to shareholders (Note 19)	13	-	-	-	-	13
Derivatives (Note 17)	-	7	256	-	-	263
Finance lease minimum lease payments	4	12	10	-	-	26
<b>Total future payments, including future principal and interest payments</b>	<b>7,995</b>	<b>23,956</b>	<b>20,648</b>	<b>21,995</b>	<b>126</b>	<b>74,720</b>

	Demand and less than 3 months	From 3 to 12 months	From months to 2 years	From 2 years to 5 years	Over 5 years	Total
<b>As of 31 December 2011</b>						
Bonds issued * (Note 21)	16	3,860	1,027	7,798	-	12,701
Credit lines * (Note 21)	427	3,112	1,588	2,036	-	7,163
Term loans * (Note 21)	3,187	7,729	7,043	16,016	29	34,004
Interest payable (included in other liabilities)	282	-	-	-	-	282
Trade payables (Note 19)	2,965	-	-	-	-	2,965
Dividends and other distributions to shareholders (Note 19)	-	14	-	-	-	14
Derivative (Note 17)	-	396	220	-	-	616
Finance lease minimum lease payments	5	13	24	-	-	42
<b>Total future payments, including future principal and interest payments</b>	<b>7,576</b>	<b>15,919</b>	<b>10,976</b>	<b>25,850</b>	<b>29</b>	<b>60,350</b>

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

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts and bank deposits. Group's policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

As of 31 December 2012 unused credit lines available under long-term loan facilities were RUB 13,637 (2011: RUB 10,501).

### 31.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2012, the Group's strategy, which was unchanged from 2011, was to maintain the gearing ratio at the level not exceeding 150%.



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

	<b>2012</b>	<b>2011</b>
Long-term borrowings	38,176	32,391
Short-term borrowings	23,383	16,052
<b>Total debt</b>	<b>61,559</b>	<b>48,443</b>
<b>Shareholders' equity</b>	<b>79,120</b>	<b>53,048</b>
<b>Gearing ratio, %</b>	<b>78%</b>	<b>91%</b>

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio.

In 2012, the Group's strategy, which was unchanged from 2010, was to maintain EBITDA/net interest expense ratio at the level not lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortisation adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 21).

The ratio of EBITDA/net interest expense as of 31 December 2012 and 31 December 2011 is shown in the table below:

	<b>2012</b>	<b>2011</b>
Operating profit	18,729	27,731
Depreciation and amortisation	1,970	1,917
Add: foreign currency losses (Note 27)	(497)	(252)
Add: gain on disposal of investments	(309)	(4,188)
Add: gain on sale of mining licenses	-	(4,839)
Add: loss on disposal of property, plant and equipment	31	487
<b>EBITDA</b>	<b>19,924</b>	<b>20,856</b>
Interest income (Note 26)	(255)	(895)
Interest expense	1,152	1,240
Interest expense capitalized (Note 13,14)	2,390	1,640
<b>Net interest expense</b>	<b>3,287</b>	<b>1,985</b>
<b>EBITDA/Net interest expense</b>	<b>6:1</b>	<b>11:1</b>

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 21) and imposed by the statutory legislation of the Russian Federation, the People's Republic of China and Estonia. Since EBITDA is not standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

### **32 Fair Value of Financial Instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Trading, Available-for-sale investments and derivatives are carried in the consolidated statement of financial position at their fair value.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 7.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

- Level 1: quoted price in an active market;
- Level 2: valuation technique with inputs observable in markets;
- Level 3: valuation technique with significant non-observable inputs.

All available-for-sales and trading financial instruments of the Group were included in level 1 category in the amount of RUB 25,541 (2011: RUB 20,295).



Fair values of derivatives financial assets and liabilities were determined based on valuation technique with inputs observable in markets and were included in level 2.

There are no other financial instruments which fair value was determined based on inputs other than level 1 or level 2 category.

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

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

**Liabilities carried at amortised cost.** The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2012 the fair value of borrowings was RUB 114 higher than their carrying amounts. At 31 December 2011 the fair value of borrowings was RUB 786 lower than their carrying amounts.

### **33 Subsequent Events**

No significant events occurred after the balance sheet date that require reporting.