JOINT STOCK COMPANY
ACRON

International Financial Reporting Standards Consolidated Financial Statements and Auditor's Report

31 December 2011

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Joint Stock Company Acron:

We have audited the accompanying consolidated financial statements of Joint Stock Company Acron and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 financial statements.

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

Opinion

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

17 April 2012

Moscow, Russian Federation

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	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	14	33,472	24,091
Exploration and Evaluation Licences and Expenditure	15	24,345	23,610
Leasehold land	13	515	507
Goodwill	16	1,267	1,267
Other non-current assets		975	833
Available-for-sale investments	17	19,950	24,398
Long-term loans receivable	11	68	42
Deferred tax assets	31	562	685
Total non-current assets		**81,154**	**75,433**
Current assets			
Inventories	12	9,179	7,165
Short-term loans receivable	11	920	956
Accounts receivable	10	10,695	5,925
Trading Investments	19	345	727
Cash and cash equivalents	9	14,630	7,597
Derivative financial asset	18	-	8
Other current assets		387	267
Total current assets		**36,156**	**22,645**
TOTAL ASSETS		**117,310**	**98,078**
EQUITY			
Share capital	24	3,125	3,125
Treasury shares	24	(79)	(52)
Retained earnings		36,726	26,200
Revaluation reserve		15,392	16,364
Other reserves	24	(5,588)	(741)
Cumulative currency translation difference		691	339
Share capital and reserves attributable to the Company's owners		**50,267**	**45,235**
Non-controlling interest		2,781	4,887
TOTAL EQUITY		**53,048**	**50,122**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	22	32,391	22,719
Finance lease liability	23	24	38
Other long-term liabilities		498	502
Derivative financial liability	18	220	6
Deferred tax liability	31	4,659	5,488
Total non-current liabilities		**37,792**	**28,753**
Current liabilities			
Accounts payable	20	4,123	1,673
Notes payable		315	658
Current income tax payable		1,495	266
Other taxes payable	21	258	312
Short-term borrowings	22	16,052	13,134
Advances received		3,524	2,674
Finance lease liability	23	18	20
Derivative financial liability	18	396	52
Other current liabilities		289	414
Total current liabilities		**26,470**	**19,203**
TOTAL LIABILITIES		**64,262**	**47,956**
TOTAL LIABILITIES AND EQUITY		**117,310**	**98,078**

Approved for issue and signed on behalf of the Board of Directors on 17 April 2012.

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V.Y. Kunitskiy
President

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A.V. Milenkov
Finance Director

	Note	2011	2010
Revenue	7	65,431	46,738
Cost of sales	25	(35,457)	(27,880)
Gross profit		**29,974**	**18,858**
Transportation expenses	27	(6,586)	(5,543)
Selling, general and administrative expenses	26	(4,574)	(4,364)
Loss on disposal of property, plant and equipment, net		(487)	(161)
Gain on sales of exploration permits	15	4,839	163
Gain/(loss) on disposal of investments	17,19	4,188	(8)
Other operating income/(expenses), net	29	283	(204)
Operating profit		**27,637**	**8,741**
Finance (expense)/income	28	(307)	221
Interest expense		(1,240)	(695)
Loss on changes in fair value of derivatives, net	18	(566)	(83)
Profit before taxation		**25,524**	**8,184**
Income tax expense	31	(5,196)	(1,905)
Net profit for the year		**20,328**	**6,279**
Other comprehensive income/(loss):			
Available-for-sale investments:			
- (Losses)/Gains arising during the year	17	(180)	3,983
- Disposal of available-for-sale investment – reclassification of revaluation to profit and loss	17	(4,252)	-
- Income tax recorded directly in other comprehensive income	31	886	(796)
Currency translation differences		447	52
Other comprehensive (loss)/income for the year		**(3,099)**	**3,239**
Total comprehensive income for the year		**17,229**	**9,518**
Net profit is attributable to:			
Shareholders of the Company		18,329	5,584
Non-controlling interest		1,999	695
Net profit for the year		**20,328**	**6,279**
Total comprehensive income is attributable to:			
Shareholders of the Company		17,709	8,280
Non-controlling interest		(480)	1,238
Total comprehensive income for the year		**17,229**	**9,518**
Earnings per share, basic and diluted (expressed in RUB per share)	**30**	**433.10**	**128.79**

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

	Note	2011	2010
Cash flows from operating activities			
Profit before taxation		**25,524**	**8,184**
Adjustments for:			
Depreciation and amortisation	13, 14	1,917	1,495
(Reversal)/impairment of property, plant and equipment, net	14	(164)	110
Provision/(reversal) for impairment of accounts receivable	10	13	(30)
Provision/(reversal) for inventory obsolescence	12	108	(34)
Loss on buyback of own debt securities		-	80
Gain on disposal of investments	17,19	(4,188)	-
Gain on disposal of exploration permits	15	(4,839)	(163)
Loss on disposal of land leasehold		-	48
Loss on disposal of property, plant and equipment	14	487	161
Interest expense		1,240	694
Interest income	28	(895)	(361)
Dividend income	28	(133)	(45)
Foreign exchange effect on non-operating balances		1,835	(21)
Operating cash flows before working capital changes		**20,905**	**10,118**
Increase in gross trade receivables		(634)	(1,464)
(Increase)/decrease in advances to suppliers		(1,598)	806
Increase in other receivables		(1,163)	(668)
Increase in inventories		(2,122)	(1,273)
Increase in other current assets		(112)	(130)
Increase in trade payables		2,089	174
(Decrease)/increase in other payables		(469)	494
Increase in advances from customers		850	174
Decrease/(increase) in trading investments		317	(629)
(Decrease)/increase in other current liabilities		(126)	115
Net change in other non-current assets and liabilities		(163)	3
Cash generated from operations		**17,774**	**7,720**
Income taxes paid		(4,413)	(1,750)
Interest paid		(2,833)	(2,688)
Net cash generated from operating activities		**10,528**	**3,282**
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,844)	(5,449)
Purchase of land leasehold		-	(51)
Proceeds from sale of exploration permits	15	5,455	327
Loans provided		(616)	(521)
Proceeds from loans repaid		528	414
Interest received		96	94
Dividends received		364	39
Proceeds from sale of available-for-sale investments	17	4,307	-
Purchase of available-for-sale investments		(46)	(4)
Net cash used in investing activities		**(756)**	**(5,151)**
Cash flows from financing activities			
Acquisition of non-controlling interest	24	(2,066)	(171)
Dividends paid to shareholders of the Company		(6,874)	(1,012)
Dividends paid to non-controlling shareholders		(3)	(24)
Acquisition of treasury shares	24	(4,129)	(499)
Proceeds from borrowings		39,144	33,323
Repayment of borrowings		(28,953)	(29,879)
Income received from derivative		140	-
Net cash (used in)/ generated from financing activities		**(2,741)**	**1,738**
Effect of exchange rate changes on cash and cash equivalents		2	22
Net increase/(decrease) in cash and cash equivalents		**7,033**	**(109)**
Cash and cash equivalents at the beginning of the year		**7,597**	**7,706**
Cash and cash equivalents at the end of the year		**14,630**	**7,597**

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

	Capital and reserves attributable to the Company's owners							
	Share capital (Note 24)	**Treasury shares (Note 24)**	**Retained earnings**	**Revaluation reserve**	**Other reserves (Note 24)**	**Cumulative currency translation difference**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	**3,125**	**(46)**	**21,687**	**13,711**	**(248)**	**296**	**3,868**	**42,393**
Comprehensive income								
Profit for the year	-	-	5,584	-	-	-	695	6,279
Other comprehensive income								
Fair value gains on available-for-sale securities (Note 17)	-	-	-	3,316	-	-	667	3,983
Currency translation differences	-	-	-	-	-	43	9	52
Income tax recorded in other comprehensive income (Note 31)	-	-	-	(663)	-	-	(133)	(796)
Total other comprehensive income	-	-	-	2,653	-	43	543	3,239
Total comprehensive income	-	-	5,584	2,653	-	43	1,238	9,518
Dividends declared (Note 24)	-	-	(1,110)	-	-	-	(9)	(1,119)
Acquisition of treasury shares (Note 24)	-	(6)	-	-	(493)	-	-	(499)
Acquisition of non-controlling interest (Note 24)	-	-	39	-		-	(210)	(171)
Balance at 31 December 2010	**3,125**	**(52)**	**26,200**	**16,364**	**(741)**	**339**	**4,887**	**50,122**
Balance at 1 January 2011	**3,125**	**(52)**	**26,200**	**16,364**	**(741)**	**339**	**4,887**	**50,122**
Comprehensive income								
Profit for the year	-	-	18,329	-	-	-	1,999	20,328
Other comprehensive income								
Fair value loss on investment in JSC Apatit (Note 17)	-	-	-	(1,172)	-	-	(1,127)	(2,299)
Disposal of investment in JSC Apatit (Note 17)	-	-	-	(2,169)	-	-	(2,083)	(4,252)
Fair value gains on available-for-sale securities (Note 17)	-	-	-	2,126	-	-	(7)	2,119
Currency translation differences	-	-	-	-	-	352	95	447
Income tax recorded in other comprehensive income (Note 31)	-	-	-	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 24)	-	-	(7,446)	-	-	-	(3)	(7,449)
Sale of treasury shares (Note 24)	-	41		-	4,661	-	-	4,702
Income tax expense on the treasury shares sold	-	-	-	-	(745)	-	-	(745)
Acquisition of treasury shares (Note 24)	-	(68)	-	-	(8,763)	-	-	(8,831)
Disposal of investment in subsidiary	-	-	169				(83)	86
Acquisition of non-controlling interest (Note 24)	-	-	(526)	-	-	-	(1,540)	(2,066)
Balance at 31 December 2011	**3,125**	**(79)**	**36,726**	**15,392**	**(5,588)**	**691**	**2,781**	**53,048**

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

1 Acron Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for 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 fertilisers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorod and Smolensk regions of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2010: Subero Associates Inc). As at 31 December 2011 and 2010 the Group was ultimately controlled by Mr. Viacheslav Kantor.

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

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, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations*).*

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.

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.

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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:

3 Summary of Significant Accounting Policies (continued)

3.3 Trade and other receivables (continued)

- 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:

	Number of years
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 Summary of Significant Accounting Policies (continued)

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 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.

3.10 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.

3 Summary of Significant Accounting Policies (continued)

3.10 Income tax (continued)

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.

3.11 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 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 32.1961, USD 1 = CNY 6.3009, EUR 1 = RUB 41.6714, CNY 1 = RUB 5.1111 (2010: USD 1 = RUB 30.4769,USD 1 = CNY 6.6227, EUR 1 = RUB 40.3331, CNY 1 = RUB 4.6170). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 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.

3 Summary of Significant Accounting Policies (continued)

3.12 Provisions for liabilities and charges (continued)

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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3 Summary of Significant Accounting Policies (continued)

3.16 Employee benefits (continued)

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.

3.17 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 Summary of Significant Accounting Policies (continued)

3.18 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.

3.19 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.

3.20 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.

3.21 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.

3.22 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 14. 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:

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (continued)

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 16). At 31 December 2011 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% (2010: 5.5%) 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 % (2010: 6%) higher than management estimates, the goodwill would still have not been impaired.

Impairment of exploration rights. At 31 December 2011 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, which are broadly in line with 2011 average prices. 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 15. Recoverable amounts of CJSC Verkhnekamsk Potash Company ("CJSC VPC") are sensitive to changes in discount rates. Any increase in discount rate by over 4.5% (2010: 0.5%) would lead to impairment charge of approximately RUB 2,229 (2010: RUB 2,100 RUB). No other CGU's recoverable amounts are sensitive to changes in the assumptions.

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 2011, total net assets of the JSC Acron-Trans were approximately RUB 154 (2010: RUB 126)

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 15.

5 Adoption of New or Revised Standards and Interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. This amendment does not have a material effect on the Group's consolidated financial statements;
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is not relevant to the Group;
- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have a material effect on the Group's consolidated financial statements;

5 Adoption of New or Revised Standards and Interpretations (continued)

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow the previous GAAP carrying value to be used as the deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as the deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in the classification of financial assets or changes in the business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify the measurement of the fair value of award credits. These amendments do not have a material effect on the Group's consolidated financial statements;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not currently applicable to the Group.

6 New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and have not been early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted).
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011);
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted).
- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).

6 New Accounting Pronouncements (continued)

- Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013).
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

The Group is currently assessing the impact of the interpretation on its consolidated financial statements, however the new standards, amendments to standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 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 may 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;
- 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.

7 Segment Information (continued)

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

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Eliminations	Other	Total
Revenue	33,246	16,729	9,151	2,830	44,311	(42,866)	2,030	65,431
EBITDA	12,623	6,453	854	728	18	-	86	**20,762**

Information for the reportable segments for the year ended 31 December 2010 is set out below.

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Eliminations	Other	Total
Revenue	22,752	11,038	7,024	2,006	28,688	(26,382)	1,612	46,738
EBITDA	6,141	2,414	862	561	763	-	(405)	**10,336**

Reconciliation of EBITDA to Profit Before Tax:

	2011	2010
Profit Before Tax	25,524	8,184
Add: Changes in fair value of derivatives; net	566	83
Add: Interest expense	1,240	695
Less: Finance expense/(income)	307	(221)
Operating Profit	**27,637**	**8,741**
Depreciation and amortisation	1,917	1,496
Add: Foreign currency (losses)/gains	(252)	93
Add: (Gain)/Loss on sale of investments	(4,188)	8
Add: Gain on disposal of licenses, land and leasehold	(4,839)	(163)
Add: Loss on disposal of property, plant and equipment	487	161
Total consolidated EBITDA	**20,762**	**10,336**

	2011	2010
Revenue		
Russia	10,284	7,358
European Union	8,597	7,530
Commonwealth of Independent States	4,357	2,590
Americas	17,173	8,785
China	15,584	13,439
Other regions	9,436	7,036
Total	**65,431**	**46,738**
Non-current assets		
Russia	44,496	42,182
China	11,206	3,120
Canada	885	1,376
Estonia	3,940	3,583
Europe	37	37
USA	10	10
Total	**60,574**	**50,308**

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 90% of total revenues (2010: 88%).

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

There are not revenues from customers which represent 10% of more of the total revenues.

8 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 Company's ultimate controlling party is disclosed in Note 1.

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 2011 and 2010 are detailed below.

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

8 Balances and Transactions with Related Parties (continued)

i Balances with related parties

Statement of financial position caption	Note	Relationship	2011	2010
Trade receivables, gross	10	Companies under common control	22	19
Prepayments	10	Companies under common control	-	1
Loans issued	11	Companies under common control	874	830
Trade payables	20	Companies under common control	(15)	(17)

ii Transactions with related parties

Statement of comprehensive income caption	Note	Relationship	2011	2010
Sales of chemical fertilisers	7	Companies under common control	47	41
Purchases of raw materials	25	Companies under common control	259	(216)
Charity	29	Companies under common control	(108)	(72)

iii Cross shareholding

At 31 December 2011 JSC Dorogobuzh, a 85.54% subsidiary of the Group (31 December 2010: 73.90%), did not own shares of JSC Acron (31 December 2010: 3,540,060 ordinary shares or 7.42%).

iv Loans issued

At 31 December 2011 short-term loans to parties under common control totalled RUB 874 (2010: RUB 798) at interest rates in the range of 8.25% to 8.8%. The loans were unsecured.

At 31 December 2011 there were no long-term loans to parties under common control (2010: RUB 32). The loans are unsecured.

In 2011 the Group accrued interest income of RUB 71 (2010: RUB 85).

v Key management personnel compensation

Total key management personnel compensation in the amount of RUB 225 (2010: RUB 201) was recorded in general and administrative expenses. Related state social and pension costs amounted to RUB 3 (2010: RUB 2).

9 Cash and Cash Equivalents

	2011	2010
Cash on hand and bank balances denominated in RUB	1,904	2,194
Bank balances denominated in USD	10,454	3,848
Bank balances denominated in EUR	733	732
Bank balances denominated in CAD	8	253
Bank balances denominated in EEK	-	1
Bank balances denominated in CHE	8	5
Bank balances denominated in CNY	1,523	564
Total cash and cash equivalents	**14,630**	**7,597**

Cash and cash equivalents include term deposits of RUB 4,036 (2010: RUB 3,154).

Cash on hand and bank balances include restricted cash balance of RUB 1,121 (2010: RUB 403) as a guarantee related to credit agreement between HSBC Bank (China), Raiffeisen Bank International AG and one of the subsidiaries of the Group in China.

Cash on hand and bank balances include USD escrow funds with BMO Trust in the amount of RUB 161 related to sale of permits to explore potash deposits in Canadian province of Saskatchewan.

The fair value of cash and cash equivalents 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:

	2011	2010
A to AAA* rated	6,479	686
BB- to BBB+* rated	5,044	5,886
Chinese banks with top internal credit ratings	1,523	574
Unrated	1,584	451
Total	**14,630**	**7,597**

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

10 Accounts Receivable

	2011	2010
Trade accounts receivable	2,485	1,851
Notes receivable	212	172
Other accounts receivable	731	236
Less: impairment provision	(101)	(194)
Total financial assets	**3,327**	**2,065**
Advances to suppliers	2,859	1,262
Value-added tax recoverable	3,825	2,467
Income tax prepayments	680	25
Other taxes receivable	117	113
Less: impairment provision	(113)	(7)
Total accounts receivable	**10,695**	**5,925**

Included in notes receivable at 31 December 2011 are notes receivable from banks in Russia of RUB 132 (2010: RUB 127) and from banks in China of RUB 80 (2010: RUB 45).

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

As of 31 December 2011, trade and other accounts receivable of RUB 101 (2010: RUB 194) 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 ageing of these receivables is as follows:

	2011	2010
Less than 3 months	-	-
From 3 to 9 months	1	1
From 9 to 12 months	6	4
Over 12 months	94	189
Total gross amount of impaired accounts receivable	**101**	**194**

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

	2011	2010
	Trade and other receivables	**Trade and other receivables**
Provision for impairment at 1 January	(194)	(227)
Provision for impairment	(12)	(144)
Provision used	91	121
Provision reversed	14	56
Provision for impairment at 31 December	**(101)**	**(194)**

The Group does not hold any collateral as security.

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

As of 31 December 2011, trade receivables of RUB 9 (2010: RUB 10) were past due but not impaired. The aging analysis of these trade receivables from past due date is as follows:

	2011	2010
Less than 3 months	-	-
From 3 to 9 months	8	4
From 9 to 12 months	-	3
Over 12 months	1	3
Trade accounts receivable past due not impaired	**9**	**10**

Analysis by credit quality of trade and other receivables is as follows:

	2011		2010	
	Trade receivables	**Notes receivable**	**Trade receivables**	**Notes receivable**
Current and not impaired – exposure to:				
- Notes receivable from top Russian and foreign banks	-	212	-	172
- Foreign traders and customers	2,971	-	1,761	-
- Small individual Russian companies and farms	55	-	80	-
- Chinese customers	80		42	-
Total current and not impaired	**3,106**	**212**	**1,883**	**172**

11 Loans Receivable

	2011	2010
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	874	798
Loans issued to third parties	46	158
	920	**956**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	-	32
Loans issued to third parties	68	10
	68	**42**

Loans receivable contain neither impaired nor overdue assets as of 31 December 2011 and 31 December 2010. No provision for impairment was recognised for loans receivable as of the respective dates.

At 31 December 2011 and 2010 short-term loans totalled RUB 920 and RUB 956, respectively, at interest rates in the range of 8.25 % to 8.80% (2010: 8.25 % to 8.80%). The loans were unsecured.

At 31 December 2011 and 2010 long-term loans totalled RUB 68 and RUB 42, respectively, at interest rates of 8.80% (2010: 8.80%). The loans were unsecured.

In 2011 the Group accrued interest income on loans receivable of RUB 74 (2010: RUB 88).

At 31 December 2011 and at 31 December 2010 the Group had two counterparties with aggregated loans receivable balances in excess of 88% and 80% of the Group's loans receivable balances, respectively. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group's primary activity.

12 Inventories

	2011	2010
Raw materials and spare parts	4,861	4,246
Work in progress	389	344
Finished products	3,929	2,575
	9,179	**7,165**

Raw materials are shown net of write-down of RUB 307 (2010: RUB 199). No inventory was pledged as security at 31 December 2011 and 2010.

13 Leasehold Land

	2011	2010
Cost		
Balance at 1 January	549	552
Additions	-	51
Disposals	-	(48)
Translation difference	17	(6)
Balance at 31 December	**566**	**549**
Accumulated amortisation		
Balance at 1 January	42	36
Amortisation for the year	5	5
Disposals	-	-
Translation difference	4	1
Balance at 31 December	**51**	**42**
Net book value		
Balance at 1 January	**507**	**516**
Balance at 31 December	**515**	**507**

At 31 December 2011, the Group's leasehold land with net book value of RUB 322 (2010: RUB 295) 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 2011, land use right with a net book value of RUB 461 (2010: RUB 207) had been pledged as security for long-term loans (Note 22).

14 Property, Plant and Equipment

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

Included in the 2011 additions to assets under constructions is approximately RUB 468 of capitalized borrowing costs in accordance with IAS 23, Borrowing costs (2010: RUB 289) at the average borrowing rate of 6.87% (2010: 9.33%).

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 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 2010 and 2011.

In 2011 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 operating segment) the Group reversed previously recognised impairment charge for Methanol CGU in the amount of RUB 164. The assets are now used in production of synthetic ammonia. In 2010 the Group recognised the impairment charge in Methanol CGU in the amount of 110.

The key assumptions used for value-in-use calculations at 31 December 2011 are as follows:

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	5-41%	9-15%
Growth rate beyond five years	2.3-3%	2.5%
Discount rate	10.8-11%	9.6%

The key assumptions used for value-in-use calculations at 31 December 2010 are as follows:

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	17-33%	9-15%
Growth rate beyond five years	3%	2.5%
Discount rate	9.9-13.1%	9.6%

14 Property, Plant and Equipment (continued)

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.

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Cost							
Balance at 1 January 2010	19,881	21,857	3,080	1,086	685	4,558	**51,147**
Additions	-	-	-	-	-	5,449	**5,449**
Transfers	150	891	668	667	16	(2,392)	**-**
Disposals	(326)	(605)	(49)	(61)	-	-	**(1,041)**
Translation difference	(51)	55	(13)	2	-	(43)	**(50)**
Balance at 31 December 2010	**19,654**	**22,198**	**3,686**	**1,694**	**701**	**7,572**	**55,505**
Accumulated Depreciation							
Balance at 1 January 2010	12,076	16,735	819	508	-	-	**30,138**
Depreciation charge	427	790	225	50	-	-	**1,492**
Disposals	(321)	(475)	(42)	(43)	-	-	**(881)**
Translation difference	(18)	16	2	-	-	-	**-**
Balance at 31 December 2010	**12,164**	**17,066**	**1,004**	**515**	**-**	**-**	**30,749**
Accumulated Impairment Loss							
Balance at 1 January 2010	228	298	-	3	-	5	**534**
Impairment Charge	-	138	-	-	-	-	**138**
Reversal of impairment	-	(27)	-	(1)	-	-	**(28)**
Translation difference	9	11		-	-	1	**21**
Balance at 31 December 2010	**237**	**420**	**-**	**2**	**-**	**6**	**665**
Net Book Value							
Balance at 1 January 2010	**7,577**	**4,824**	**2,261**	**575**	**685**	**4,553**	**20,475**
Balance at 31 December 2010	**7,253**	**4,712**	**2,682**	**1,177**	**701**	**7,566**	**24,091**

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 2011, assets under property, plant and equipment with a net book value of RUB 1,868 (2010: RUB 587) had been pledged as security for long-term loans (Note 22).

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:

	2011	2010
Balance at 1 January	**3,763**	**922**
Additions	6,677	2,880
Disposals/Transfers	(43)	(39)
Balance at 31 December	**10,397**	**3,763**

14 Property, Plant and Equipment (continued)

Leased assets

The following amounts were included in the consolidated financial statements in respect of property, plant and equipment where the Group is a lessee under a finance lease:

	2011	2010
Cost of transport	146	146
Accumulated depreciation	(87)	(66)
Carrying amount of transport	**59**	**80**

15 Exploration and Evaluation Licences and Expenditure

In May 2008 the Group's subsidiary, LLC 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 finalise the geological exploration by 15 February 2012;
- 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 1,172 at 6.87% (2010: RUB 1,791 at 8.8%). In 2011 the Group capitalised exploration and evaluation expenses including costs related to compliance with mining terms in the amount of RUB 0 (2010: RUB 293). No exploration and evaluation expenses were recognised in profit or loss.

During 2008 the Group's subsidiary North Atlantic Potash Inc. (former 101109718 Saskatchewan Ltd.) acquired 26 permits to explore for potash deposits in the Canadian province of Saskatchewan for RUB 1,457. 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 sold 8 permits to explore potash deposits with carrying value of RUB 447 to an unrelated party for RUB 3,330. During 2011 the Group also 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 RIO Tinto Exploration Canada Inc., also received an option to purchase additional 40% interest in permits before March 2013 and committed to perform additional exploration of potash deposits. The difference between consideration received in both transactions and carrying value of the exploration permits of RUB 4,839 was recorded in the statement of comprehensive income.

In 2011 the Group capitalised exploration and evaluation expenses including costs related to compliance with permit terms in the amount of RUB 179 (2010: RUB 0).

During 2010 the Group sold two permits with net book value of RUB 164 for RUB 327.

	2011	2010
Cost		
Balance at 1 January	**23,610**	**21,690**
Additions	1,351	2,084
Disposals	(616)	(164)
Balance at 31 December	**24,345**	**23,610**
Accumulated Amortisation		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	**-**	**-**
Net Book Value		
Balance at 1 January	**23,610**	**21,690**
Balance at 31 December	**24,345**	**23,610**

Exploration and evaluation expenditure comprise of:

	2011	2010
Apatite-nepheline deposits (development stage)	681	681
Potash deposits (exploration and evaluation stage)	22,779	21,607
Permits for exploration (exploration and evaluation stage)	885	1,322
	24,345	**23,610**

15 Exploration and Evaluation Licences and Expenditure (continued)

Exploration and evaluation expenditure impairment test 2011

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, beginning from projected start of operating activities. 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 at 31 December 2011 are as follows:

	North Atlantic Potash Inc	JSC North-Western Phosphorous Company	LLC Verkhnekamsk Potash Company
EBITDA margin range over the forecast period	43-47%	44-53%	63-69%
Growth rate beyond forecast period	1%	-	1%
Discount rate	12.9%	14.2%	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.

Exploration and evaluation expenditure impairment test 2010

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, beginning from projected start of operating activities. 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 at 31 December 2010 are as follows:

	North Atlantic Potash Inc	JSC North-Western Phosphorous Company	LLC Verkhnekamsk Potash Company
EBITDA margin range over the forecast period	43-47%	19-51%	53- 66%
Growth rate beyond forecast period	1%	-	1%
Discount rate	12.9%	10.7%	13.1%

During 2010 management renegotiated the terms and condition of mining license to postpone several milestone commitments which are stated above. As the result, management re-evaluated its projections for EBITDA margin, growth rate and discount rate for JSC North-Western Phosphorous Company and LLC Verkhnekamsk Potash Company.

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.

16 Goodwill

	2011	2010
Carrying amount at 1 January	**1,267**	**1,267**
Carrying amount at 31 December	**1,267**	**1,267**
Gross book value at 31 December	1,267	1,267
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:

	2011	2010
LLC Andrex	52	52
JSC Dorogobuzh	972	972
AS DBT	243	243
Total carrying amount of goodwill	**1,267**	**1,267**

17 Available-for-Sale Investments

	2011	2010
Balance at 1 January	**24,398**	**20,595**
Additions	46	4
Fair value loss recognised directly in other comprehensive income for shares of JSC Apatit	(2,299)	-
Disposal of shares of JSC Apatit	(4,260)	-
Fair value gain recognised directly in other comprehensive income	2,119	3,983
Disposals	(54)	(184)
Balance at 31 December	**19,950**	**24,398**

The Group has investments in the following companies:

Name	Activity	Country of registration	2011	2010
JSC Uralkaliy/JSC Silvinit	Potash mining	Russia	19,616	17,435
JSC Apatit	Apatite concentrate mining	Russia	-	6,559
Sberbank	Banking	Russia	196	258
Other			138	146
			19,950	**24,398**

In the second quarter of 2011 as the result of merger of JSC Silvinit and JSC Uralkaliy 634,000 shares of JSC Silvinit were converted into 84,589,726 shares of JSC Uralkaliy.

In 2011 the Group disposed of the entire interest in a subsidiary which owned 642,430 shares of JSC Apatit to a third party for a consideration of USD 137,835,000 (RUB 4,260) recognizing the net gain on disposal of RUB 4,252 in the statement of comprehensive income.

In 2011 the Group also recognised a RUB 8 loss on disposal of portion of Sberbank shares (2010: 0).

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 2011. At 31 December 2011 the share price quoted by MICEX for JSC Uralkaliy amounted to 231.9 roubles for 1 share. At 31 December 2010 the share price quoted for JSC Silvinit amounted to USD 902 for 1 share.

18 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 2011 the fair value of the contract was negative RUB (190).The total impact the revaluing this contract included in profit or loss for 2011 was RUB 190 loss.

In June 2011 the Group transacted a RMB/RUB cross currency swap agreement whereby the Group pays RMB fixed 2.215% based on the nominal amount of RMB 1,222 million and receives Russian roubles fixed 7.95% interest based on the nominal amount of RUB 5,250. The swap matures on 3 December 2012. At 31 December 2011 the fair value of the contract was negative RUB (328).The total impact the revaluing this contract included in profit or loss for 2011 was RUB 328 loss.

In June 2011 the Group transacted a RMB/USD cross currency swap agreement whereby the Group pays RMB fixed 0.0% based on the nominal amount of RMB 1,133 million and receives USD variable interest which is determined based on the monthly USD 3 months LIBOR+0.33% interest based on the nominal amount of USD 175 million. The swap matures on 26 November 2012. At 31 December 2011 the fair value of the contract was negative RUB (68).The total impact the revaluing this contract included in profit or loss for 2011 was RUB 68 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 2011 the fair value of both contracts was negative RUB (30) (2010: negative RUB (58)). The total impact the revaluing these contracts included in the statement of operations for 2011 was RUB 28 gain (2010: RUB 93 loss).

In September 2010 the Group transacted a USD/RUB cross currency swap agreement whereby the Group pays USD fixed 5.10% based on the nominal amount of USD 9,691 thousand and receives Russian roubles fixed 8.75% interest based on the nominal amount of RUB 300. The swap matures on 22 September 2011. The total impact the revaluing these contracts included in profit or loss for 2011 was RUB 17 profit (2010: RUB 8 profit). At 31 December 2010 the fair value of the contract was RUB 8 profit.

18 Derivative Financial Assets and Liabilities (continued)

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

	2011			
	Assets		**Liabilities**	
	Non Current	**Current**	**Non Current**	**Curent**
USD/RUB Cross currenccy interest rate swap	-	-	190	-
RMB/RUB Cross currenccy interest rate swap	-	-	-	328
RMB/USD Cross currenccy interest rate swap	-	-	-	68
USD non deliverable interest rate swap	-	-	30	-
	-	**-**	**220**	**396**

At 31 December 2010 the derivative financial assets and liabilities were:

	2010			
	Assets		**Liabilities**	
	Non Current	**Current**	**Non Current**	**Current**
USD/RUB Cross currenccy interest rate swap	-	8	-	-
USD non deliverable interest rate swap	-	-	6	52
	-	**8**	**6**	**52**

Movements in the carrying amount of derivative financial assets and liabilities were as follows:

	2010	**Change in the fair value**	**Cash proceeds from derivatives**	**2011**
Derivative financial assets/(liabilities)				
Cross currency interest rate swap contracts, net	8	(802)	207	(587)
Non deliverable interest rate swap contract, net	(58)	96	(67)	(29)
	(50)	**(706)**	**140**	**(616)**

19 Trading Investments

	2011	**2010**
Eurobonds	311	420
Corporate bonds	34	101
Promissory notes	-	150
Total debt securities		**671**
Corporate shares	-	56
Total trading investments	**345**	**727**

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 loss on trading investments recognised in the statement of comprehensive income was RUB 56 (2010: RUB 0).

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

	Eurobonds	**Corporate bonds**	**Promissory notes**	**Total**
- B1 rated	-	-	-	-
- B2 rated	132	-	-	132
- B3 rated	6	-	-	6
- Ba1 rated	-	-	-	-
- Ba3 rated	36	-	-	36
- B rated	73	-	-	73
- C rated	12	-	-	12
- Caa2 rated	-	-	-	-
- Unrated	52	34	-	86
Total debt securities	**311**	**34**	**-**	**345**

19 Trading Investments (continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2010 is as follows:

	Eurobonds	Corporate bonds	Promissory notes	Total
- B1 rated	15	-	-	15
- B2 rated	131	-	-	131
- B3 rated	74	-	-	74
- Ba1 rated	13	-	-	13
- B rated	122	-	-	122
- Caa2 rated	23	-	-	23
- Unrated	42	101	150	293
Total debt securities	**420**	**101**	**150**	**671**

None of the debt securities are past due or impaired as of 31 December 2011 and 2010.

20 Accounts Payable

	2011	2010
Trade accounts payable	2,965	876
Dividends payable	14	26
Total financial payables	**2,979**	**902**
Payables to employees	537	447
Accrued liabilities and other creditors	607	324
Total accounts payable and accrued expenses	**4,123**	**1,673**

21 Other Taxes Payable

	2011	2010
Value-added tax payable	76	104
Payroll taxes	93	70
Property and other taxes payable	89	138
	258	**312**

22 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2011	2010
Bonds issued	10,935	5,780
Credit lines	6,573	8,885
Term loans	30,935	21,188
	48,443	**35,853**

The Group's borrowings mature as follows:

	2011	2010
Borrowings due:		
- within 1 year	16,052	13,134
- between 1 and 5 years	32,363	19,006
- after 5 years	28	3,713
	48,443	**35,853**

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

	2011	2010
Borrowings denominated in:		
- RUB	12,080	7,920
- EUR	1,629	1,635
- USD	31,633	24,259
- CNY	3,101	2,039
	48,443	**35,853**

Bank loans denominated in CNY and EUR were collateralised by buildings, machinery and equipment with a net book value of RUB 1,868 (2010: RUB 587) (Note 14) and land use right with a net book value of RUB 461 (2010: RUB 207) (Note 13). The loans obtained from banks in China are secured by guarantees issued by third parties totalled RUB 1,886 (2010: RUB 1,196).

22 Short-Term and Long-Term Borrowings (continued)

With the exception of interest rate and cross currency swap agreements (Note 18), the Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2011 the fair value of borrowings was RUB 786 lower than the their carrying amount (RUB 393 lower than their carrying amounts at 31 December 2010).

At 31 December 2011 unused credit lines available under the long-term loan facilities were RUB 10,501 (31 December 2010: RUB 8,558). The terms and conditions of unused credit lines are consistent with other borrowings disclosed in Note 22.

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

	2011	2010
Short-term borrowings		
RUB		
Loans with fixed interest rates of 8.75% to 11% per annum	6	310
Bond Issue with fixed interest rate of 13.85% to 14.05% per annum	3,037	2,743
EUR		
Loans with floating interest rates of 3 MEURIBOR + 1.35% per annum	14	-
USD		
Loans with fixed interest rate of 5.2% to 6.75% per annum	4,025	4,182
Loans with floating interest rates of 1 MLIBOR + 3.75% to 3 MLIBOR + 4.25% per annum	5,945	3,860
CNY		
Loans with fixed interest rates of 4.62% to 9.8% per annum	3,024	2,039
Add: current portion of long-term debt	1	-
Total short-term borrowings	**16,052**	**13,134**

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

	2011	2010
Long-term borrowings		
RUB		
Loans with fixed interest rates of 6.316% to 8.85% per annum	1,138	1,830
Bonds with coupon payments of 7.95% to 14.05% per annum	7,898	3,037
EUR		
Loans with floating interest rates of 3 MEURIBOR + 1.35% to +1.75%	1,615	1,635
USD		
Loans with fixed interest rates of 6.2% to 6.75% per annum	4,508	9,228
Loans with floating interest rates of 1 MLIBOR +3.75% to 4.15, 12 MLIBOR + 5.6%, 3 MLIBOR + 4.25% per annum	17,155	6,989
CNY		
Loans with fixed interest rates of 6.2% to 7.76% per annum	78	-
Less: current portion of long-term debt	(1)	-
Total long-term borrowings	**32,391**	**22,719**

Out of the total borrowings, the loan agreements for a total of RUB 31,687 (2010: RUB 17,369) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency 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.

Out of the total borrowings the loan agreements for a total of RUB 25,614 (2010: RUB 3,657) contain a covenant, that requires the borrower to maintain a required level of cash flows through the accounts opened with the lending bank. The loan agreement 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 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.

Included in the long-term borrowings are loan agreements for a total of RUB 38 with fixed interest rates of 13% to 16% per annum.

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 this 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%.

22 Short-Term and Long-Term Borrowings (continued)

In November 2009 the Group placed through an offering to the public under an open subscription RUB denominated 13.85% non-convertible bonds with a face value of RUB 3,500 to be redeemed in November 2013. The holders of this bonds issue were granted an option to redeem the bonds in May 2012. At 31 December 2011, JSC Dorogobuzh had Company bonds in the amount of RUB 1,019 (2010: RUB 960).

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 2011 was RUB 10,486 with reference to MICEX Stock Exchange quotations as of this date (2010: RUB 6,190).

23 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 9.51% and are effectively collateralised by the leased assets, as the assets revert to the lessor in the event of default.

Finance lease liabilities minimum lease payments:

	2011	2010
Not later than 1 year	19	21
Later than 1 year and not later than 5 years	28	47
Future finance charges on finance lease	(5)	(10)
Present value of finance lease liabilities	**42**	**58**

The present value of finance lease liabilities matures as follows:

	2011	2010
Not later than 1 year	18	20
Later than 1 year and not later than 5 years	24	38
	42	**58**

24 Share Capital

The total authorised number of ordinary shares is 47,687,600 shares (2010: 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
At 31 December 2010	**47,687,600**	**(4,695,076)**	**3,125**	**(52)**	**3,073**
Sale	-	3,645,901	-	41	41
Acquisition	-	(6,104,425)	-	(68)	(68)
Net shares acquired		(2,458,524)		(27)	(27)
At 31 December 2011	**47,687,600**	**(7,153,600)**	**3,125**	**(79)**	**3,046**

In 2011 the Group had several transaction whereby it acquired and sold own shares on the open market. As the result of such transaction the Group acquired 2,458,524 shares (2010: 547,820 shares) of the Company for RUB 4,129 (2010: RUB 499) paid in cash. These transactions were recorded in other reserves in the statement of changes of equity.

A dividend was declared in 2011 in respect of 2010 to holders of ordinary shares of 40 roubles per ordinary share (2010: 25 roubles) Interim dividends for 9 months 2011 were 129 roubles per ordinary share.

During 2011 the Group increased its shareholding in JSC Dorogobuzh to 85.54% through acquisition of 115,908,158 shares of JSC Dorogobuzh for cash consideration of RUB 2,024. As the result of this transaction, the non controlling interest decreased by RUB 1,517.

During 2010, the Group increased its shareholding in OJC Dorogobuzh to 73.90%. The total purchase consideration comprised RUB 171 paid in cash. As the result of this transaction the non-controlling interest decreased by RUB 210.

In November 2011 the Group increased its ownership in AS BCT to 100% through acquisition of 2,340 voting shares which represents 15% of the capita,l for EUR 1,000,000 (RUB: 42) paid in cash. As the result of this transaction, the non-controlling interest decreased by RUB 23.

24 Share Capital (continued)

During 2011 and 2010 JSC Dorogobuzh decreased its ownership in the Company by selling to the Company 342,000 и 351,400 shares respectively. This did not have impact on total amount of treasury shares held by the Group. Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends. At 31 December 2011 JSC Dorogobuzh did not own any shares in the Company.

25 Cost of Sales

	2011	2010
Change in inventories of finished goods and work in progress	(1,699)	(123)
Staff costs	4,040	2,949
Materials and components used, including:	16,522	10,486
-Phosphate	*4,223*	*3,713*
-Potash	*5,729*	*4,048*
-Coal	*1,003*	*871*
-Sulfur	*1,158*	*811*
-Other	*4,409*	*1,043*
Fuel and energy	3,729	3,386
Natural gas	7,349	6,427
Depreciation and amortisation	1,917	1,491
Impairment (reversal)/loss	(164)	110
Production overheads	418	300
Repairs and maintenance	2,984	2,555
Social expenditure	361	299
	35,457	**27,880**

26 Selling, General and Administrative Expenses

	2011	2010
Staff costs	1,873	1,719
Change in provision for bad debts	14	(30)
Business trip expenses	436	233
Research and development costs	12	54
Taxes other than income tax	420	377
Marketing services	157	124
Audit, legal and consulting services	434	420
Bank services	178	328
Insurance	65	64
Buildings maintenance and rent	263	210
Security	261	237
Telecommunication costs	70	60
Representation expenses	84	66
Commission fees	150	33
Idle capacity costs	-	107
Other expenses	157	362
	4,574	**4,364**

27 Transportation Expenses

	2011	2010
Railway tariff	2,078	2,061
Freight	1,011	1,544
Maintenance	613	366
Container transport	1,268	700
Handling of goods	1,216	700
Other	400	172
	6,586	**5,543**

28 Finance Income/(expenses), net

	2011	2010
Interest income from loans provided and term deposits	895	361
Commission expense	(67)	-
Dividend income	133	45
(Loss) on purchase of own debt securities	-	(80)
Foreign exchange gain on financial transactions	4,760	1,931
Foreign exchange loss on financial transactions	(6,028)	(2,036)
	(307)	**221**

29 Other Operating Income/(expenses), net

	2011	2010
Charity expenses	(379)	(121)
Other income	410	11
Foreign exchange gain on operating transactions	3,249	1,204
Foreign exchange loss on operating transactions	(2,997)	(1,298)
	283	**(204)**

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

	2011	2010
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(5,367,602)	(4,329,863)
Weighted average number of shares outstanding	42,319,998	43,357,737
Profit attributable to the equity holders of the Company	**18,329**	**5,584**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**433.10**	**128.79**

31 Income Tax

	2011	2010
Income tax expense – current	5,016	1,925
Deferred tax charge/(credit) – origination and reversal of temporary differences	180	(20)
Income tax charge	**5,196**	**1,905**

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

	2011	2010
Profit before taxation	**25,523**	**8,184**
Theoretical tax charge at statutory rate of 20% thereon (2010: 20%)	5,105	1,637
Effects of different tax rates	175	-
Effect of 6.5% tax incentive granted to Acron	(1,001)	-
Tax effect of items which are not deductible or assessable for taxation purposes	647	147
Unrecognised tax loss carry forwards for the year	256	-
Other	14	121
Income tax charge	**5,196**	**1,905**

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% (2010: 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.

31 Income Tax (continued)

	1 January 2010	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2010	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2011
Tax effects of taxable temporary differences:							
Property, plant and equipment	540	30	-	570	191	-	761
Investments	4,069	15	796	4,880	(7)	(886)	3,987
Exploration rights	870	529	-	1,399	399	-	1,798
Tax effects of deductible temporary differences and tax loss carry forwards:							
Other temporary differences	43	(21)	-	22	(47)	-	(25)
Derivatives	-	-	-	-	(113)	-	(113)
Tax loss carry forwards	(1,322)	(621)	-	(1,943)	(239)	-	(2,182)
Inventories	3	35	-	38	(37)	-	1
Accounts receivable	(89)	26	-	(63)	56	-	(7)
Accounts payable	(57)	2	-	(55)	52	-	(3)
Staff costs payable	(30)	(15)	-	(45)	(75)	-	(120)
Recognised net deferred tax liability	**4,027**	**(20)**	**796**	**4,803**	**180**	**(886)**	**4,097**

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RUB 4,686 (2010: RUB 8,124). The Group controls timing of the reversal of those temporary differences.

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.

32 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2011 the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 2,583 (2010: RUB 61).

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 15).

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 2011 and 2010, the Group has issued financial guarantees to third parties in respect of borrowings by the Group's counterparties in the amount of RUB 2,563 and RUB 2,066, 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

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and interest rates, as well as periodic volatility in the RUB exchange rate. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

In 2010 and at the beginning of 2011, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilization of the exchange rate of the RUB against major foreign currencies, and increased liquidity levels in the banking sector.

32 Contingencies, Commitments and Operating Risks (continued)

iii Operating environment of the Group (continued)

Starting from the second half of 2011 the volatility in the currency, equity and commodities markets has increased following the uncertainties in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments.

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

Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to predict all developments in the economic environment which could have an impact on the industry and Group's activities which can 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 program seeks to minimize potential adverse effects on the financial performance of the Group. The Group believes it is taking all necessary measures to support the sustainability and growth of it's business in the current circumstances.

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.

32 Contingencies, Commitments and Operating Risks (continued)

iv Taxation (continued)

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 2011 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 2011 no provision for potential tax liabilities had been recorded (2010: no provision).

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks (2010: no obligations).

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.

33 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RUB 161 (2010: RUB 62), which were settled via non-cash transactions during the years ended 31 December 2011 and 2010, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

34 Financial and Capital Risk Management

34.1 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; (c) financial assets held to maturity and (d) 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 2011:

	2011			
	Loans and receivables	**Available-for-sale assets**	**Trading Assets**	**Total**
Assets				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	14,630	-	-	14,630
Trade and other receivables (Note 10)				
- Trade receivables, net of provision	2,384	-	-	2,384
- Notes receivable	212	-	-	212
- Other financial receivables	731	-	-	731
Loans receivable (Note 11)				
- Short term loans receivable	920	-	-	920
- Long term loans receivable	68	-	-	68
Trading Investment (Note 19)	-	-	345	345
Available-for-sale investments (Note 17)				
- Corporate shares	-	19,950	-	19,950
Total financial assets	**18,945**	**19,950**	**345**	**39,240**

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.

34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

The following table provides a reconciliation of financial assets with the measurement categories as of 31 December 2010:

	2010			
	Loans and receivables	Available-for-sale assets	Trading Assets	Total
ASSETS				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	7,597	-	-	7,597
Trade and other receivables (Note 10)				
- Trade receivables, net of provision	1,657	-	-	1,657
- Notes receivable	172	-	-	172
- Other financial receivables	236	-	-	236
Loans receivable (Note 11)				
- Short term loans receivable	956	-	-	956
- Long term loans receivable	42	-	-	42
Trading investments (Note 19)	-	-	727	727
Derivatives (Note 18)	8	-	-	8
Available-for-sale investments (Note 17)				
- Corporate shares	-	24,398	-	24,398
Total financial assets	**10,668**	**24,398**	**727**	**35,793**

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 2011	USD	EUR	CNY
Financial assets:			
Cash and cash equivalents	10,454	732	1,523
Accounts Receivable	1,384	87	192
	11,838	**819**	**1,715**
Financial liabilities:			
Accounts payable and other liabilities	(188)	(208)	(1,997)
Borrowings and notes payable	(31,633)	(1,629)	(3,101)
	(31,821)	**(1,837)**	**(5,098)**
Net position	**(19,983)**	**(1,018)**	**(3,383)**

At 31 December 2010	USD	EUR	CNY
Monetary financial assets:			
Cash and cash equivalents	3,848	732	564
Accounts receivable	604	11	43
Loans receivable	1	-	-
	4,453	**743**	**607**
Monetary financial liabilities:			
Accounts payable and other liabilities	(32)	(1)	(561)
Borrowings and notes payable	(24,259)	(1,635)	(2,039)
	(24,291)	**(1,636)**	**(2,600)**
Net position	**(19,838)**	**(893)**	**(1,993)**

34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

***(a) Market risk* (continued)**

(i) Foreign currency risk (continued)

In 2011 and 2010 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 18).

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

	2011	**2010**
Impact on post-tax profit and on equity of:		
USD strengthening by 10%	(1,532)	(1,522)
USD weakening by 10%	1,532	1,522

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 2011 and 2010 borrowings at variable rates amounted to RUB 24,729 and RUB 12,485 respectively (Note 22).

During 2011 and 2010 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 18).

At 31 December 2011, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 672 (2010: RUB 691) 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 stakes of JSC Uralkaliy and JSC Apatit, which are classified in the consolidated statement of financial position as available-for-sale as of 31 December 2011 and 31 December 2010, respectively (Note 17). 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 2011 and 31 December 2010.

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.

34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits 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 21,853 (2010: RUB 13,591) 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 9.

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 2011 and 31 December 2010 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 10).

(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 9), trading investments (Note 19) and available-for-sale investments (Note 17). 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.

34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2011						
Bonds issued * (Note 22)	16	3,860	1,027	7,798	-	**12,701**
Credit lines * (Note 22)	427	3,112	1,588	2,036	-	**7,163**
Term loans * (Note 22)	3,187	7,729	7,043	16,016	29	**34,004**
Interest payable (included in other liabilities)	282	-	-	-	-	**282**
Trade payables (Note 20)	2,965	-	-	-	-	**2,965**
Dividends and other distributions to shareholders (Note 20)	-	14	-	-	-	**14**
Derivative	-	396	220	-	-	**616**
Finance lease minimum lease payments (Note 23)	5	13	24	-	-	**42**
Financial guarantees	694	795	1,074	-	-	**2,563**
Total future payments, including future principal and interest payments	**7,576**	**15,919**	**10,976**	**25,850**	**29**	**60,350**

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2010						
Bonds issued * (Note 22)	193	3,356	3,248	-	-	**6,797**
Credit lines * (Note 22)	151	4,426	3,379	1,663	-	**9,619**
Term loans * (Note 22)	1,535	5,852	9,569	6,150	24	**23,130**
Interest payable (included in other liabilities)	212	-	-	-	-	**212**
Trade payables (Note 20)	855	21	-	-	-	**876**
Dividends and other distributions to shareholders (Note 20)	-	26	-	-	-	**26**
Derivative (Note 18)	-	52	6	-	-	**58**
Finance lease minimum lease payments (Note 23)	6	15	19	28	-	**68**
Financial guarantees	354	1,436	-	276	-	**2,066**
Total future payments, including future principal and interest payments	**3,306**	**15,184**	**16,221**	**8,117**	**24**	**42,852**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2011 and 31 December 2010, 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 unused credit lines available under long-term loan facilities were RUB 10,501 (2010: RUB 8,558).

34.2 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 2011, the Group's strategy, which was unchanged from 2010, was to maintain the gearing ratio at the level not exceeding 150%.

34 Financial and Capital Risk Management (continued)

34.2 Capital risk management (continued)

The gearing ratio as of 31 December 2011 and 31 December 2010 is shown in the table below:

	2011	2010
Long-term borrowings	32,391	22,719
Short-term borrowings	16,052	13,134
Total debt	**48,443**	**35,853**
Shareholders' equity	**53,048**	**50,122**
Gearing ratio, %	**91%**	**72%**

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 2011, 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 22).

The ratio of EBITDA/net interest expense as of 31 December 2011 and 31 December 2010 is shown in the table below:

	2011	2010
Operating profit	27,637	8,741
Depreciation and amortisation (Note 13, 14)	1,917	1,496
Add: foreign currency (losses)/gains (Note 29)	(252)	93
Add: (gain)/loss on disposal of investments	(4,188)	8
Add: gain on sale of mining licenses	(4,839)	(163)
Add: loss on disposal of property, plant and equipment	487	161
EBITDA	**20,762**	**10,336**
Interest income (Note 28)	(895)	(361)
Interest expense	1,240	694
Interest expense capitalized (Note 14,15)	1,640	2,080
Net interest expense	**1,985**	**2,413**
EBITDA/Net interest expense	**10:1**	**4:1**

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 22) 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.

35 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 20,295 (2010: RUB 25,125).

35 Fair Value of Financial Instruments (continued)

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 2011 the fair value of borrowings was RUB 786 lower than their carrying amounts. At 31 December 2010 the fair value of borrowings was RUB 393 lower than their carrying amounts.

36 Subsequent Events

Subsequent to 31 December 2011 the Group received new bank loans in the amount RUB 8,940 as well as paid off RUB 3,174 on existing credit facilities.

In February 2012 the shareholders of the Group decided to reorganize JSC Acron in the form of merger of JSC Granit (a fully owned subsidiary JSC Acron) into JSC Acron. As a result of the merger JSC Acron will receive the rights to 181,490,374 ordinary shares and 30,923,495 preferred shares of JSC Dorogobuzh (24.26% of the total share capital) which formerly belonged to JSC Granit. The shareholders also approved the reduction of the share capital of JSC Acron by reducing the total number of shares. The authorized share capital of JSC Acron will be reduced from RUB 238 to RUB 203 by cancelling 7,153,600 shares of JSC Acron (15.001% of the share capital), formerly belonging to JSC Granit. At the date of signing these financial statements the Group has not completed the process of reorganization.

In March 2012 the Group announced its plans to raise capital through issuance of non-convertible interest bearing 10 year bonds with a face value of RUB 15,000.