OJSC “PhosAgro”

Consolidated Financial Statements
for the years ended
31 December 2010, 2009 and 2008

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Independent Auditors' Report

To the Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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7 June 2011

	Note	2010 RUB Million	2009 RUB Million	2008 RUB Million
Revenues	7	76,951	60,785	92,191
Cost of sales	9	(47,670)	(39,894)	(36,594)
Gross profit		29,281	20,891	55,597
Administrative expenses	10	(5,247)	(3,914)	(3,416)
Selling expenses	11	(6,515)	(5,451)	(7,400)
Taxes, other than income tax		(999)	(1,113)	(1,044)
Other (expenses)/income, net	12	(1,833)	664	(1,564)
Operating profit		14,687	11,077	42,173
Finance income	13	1,380	1,694	2,231
Finance costs		(437)	(845)	(1,063)
Profit before taxation		15,630	11,926	43,341
Income tax expense	14	(3,649)	(3,250)	(10,824)
Profit for the year		11,981	8,676	32,517
Attributable to:				
Non-controlling interests		1,403	2,295	4,941
Equity holders of the Parent		10,578	6,381	27,576
Other comprehensive income:				
Revaluation of available-for-sale securities		227	1,405	(1,925)
Actuarial gains and losses		(377)	74	417
Foreign subsidiary translation difference		25	35	38
Other comprehensive income for the year		(125)	1,514	(1,470)
Total comprehensive income for the year		11,856	10,190	31,047
Attributable to:				
Non-controlling interests		1,305	2,353	5,081
Equity holders of the Parent		10,551	7,837	25,966
Basic and diluted earnings per share (in RUB)	24	993	599	2,590

The consolidated financial statements were approved on 7 June 2011:

Chief executive officer	Chief accountant
Volkov M.V.	Valenkova E.V.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

	Note	2010 RUB Million	2009 RUB Million	2008 RUB Million
ASSETS				
Non-current assets				
Property, plant and equipment	15	46,480	42,557	37,640
Intangible assets		776	711	577
Investments in associates	16	9,365	-	-
Other non-current assets	17	7,147	10,992	5,216
		63,768	54,260	43,433
Current assets				
Other current investments	19	3,300	917	7,972
Inventories	20	7,716	6,847	8,781
Current income tax receivable		379	717	1,245
Trade and other receivables	21	15,521	12,642	9,773
Cash and cash equivalents	22	5,261	5,622	14,348
		32,177	26,745	42,119
Total assets		95,945	81,005	85,552
EQUITY AND LIABILITIES				
Equity	23			
Share capital		360	360	360
Share premium		496	210	210
Treasury shares		(37)	-	-
Retained earnings		55,311	49,215	46,847
Reserves		2,120	2,147	691
Equity attributable to Equity holders of the Parent		58,250	51,932	48,108
Equity attributable to non-controlling interests		15,079	15,064	14,754
		73,329	66,996	62,862
Non-current liabilities				
Loans and borrowings	25	3,423	2,020	2,086
Defined benefit obligations	26	931	646	690
Deferred tax liabilities	18	2,700	2,557	1,770
		7,054	5,223	4,546
Current liabilities				
Trade and other payables	28	9,461	6,252	14,216
Current income tax payable		592	374	41
Loans and borrowings	25	5,509	2,160	3,887
		15,562	8,786	18,144
Total equity and liabilities		95,945	81,005	85,552

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

	Note	2010 RUB Million	2009 RUB Million	2008 RUB Million
OPERATING ACTIVITIES				
Profit before taxation		15,630	11,926	43,341
Adjustments for:				
Depreciation, amortisation and impairment		5,777	4,100	3,231
Loss on disposal of fixed assets	12	262	267	442
Interest expense		437	845	916
Interest income	13	(703)	(1,074)	(1,475)
Dividend income	13	(78)	(57)	(170)
Gain on disposal of investments	13	(731)	(337)	(74)
Operating profit before changes in working capital		20,594	15,670	46,211
(Increase)/decrease in inventories		(869)	1,934	(3,208)
(Increase)/decrease in trade and other receivables		(1,953)	1,250	(3,140)
Increase/(decrease) in trade and other payables		594	(7,820)	9,707
Cash flows from operations before income taxes and interest		18,366	11,034	49,570
Income tax paid		(2,940)	(1,602)	(12,591)
Interest paid		(293)	(701)	(727)
Cash flows from operating activities		15,133	8,731	36,252
INVESTING ACTIVITIES				
Loans repaid/(issued)		(4,376)	5,074	(6,007)
Acquisition of "AgroGard"	21	-	(4,801)	-
Acquisition of intangible assets		(191)	(166)	(190)
Acquisition of property, plant and equipment		(13,040)	(12,206)	(11,124)
Proceeds from disposal of property, plant and equipment		49	52	375
Proceeds from disposal of investments		2,359	2,605	2,935
Acquisition of subsidiaries	35	-	-	(1,079)
Acquisition of investments		(1,580)	(1,046)	(676)
Interest received		703	1,074	1,475
Dividends received		78	57	170
Cash and cash equivalents included in investments in associates upon deconsolidation	16	(977)	-	-
Cash flows used in investing activities		(16,975)	(9,357)	(14,121)
FINANCING ACTIVITIES				
Proceeds from borrowings		21,182	15,412	26,951
Repayment of borrowings		(16,110)	(17,078)	(28,153)
Acquisition of treasury shares		(75)	-	-
Proceeds from disposal of non-controlling interests		42	258	-
Acquisition of non-controlling interests		(3)	(5,133)	(7,475)
Dividends paid to non-controlling interests		(859)	(483)	(140)
Dividends paid to shareholders of the Parent		(2,469)	(948)	(943)
Finance leases paid		(227)	(207)	(245)
Cash flows from/(used in) financing activities		1,481	(8,179)	(10,005)
Net (decrease)/increase in cash and cash equivalents		(361)	(8,805)	12,126
Cash and cash equivalents at beginning of year		5,622	14,348	2,195
Effect of change in exchange rates		-	79	27
Cash and cash equivalents at end of year	22	5,261	5,622	14,348

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

		Attributable to equity holders of the Company								
RUB Million	Note	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury shares	Attributable to non-controlling interests	Total
Balance at 1 January 2008		360	210	24,063	2,425	(191)	67	-	13,544	40,478
Total comprehensive income for the year										
Profit for the year		-	-	27,576	-	-	-	-	4,941	32,517
Revaluation of available-for-sale securities		-	-	-	(1,925)	-	-	-	-	(1,925)
Actuarial gains and losses		-	-	-	-	277	-	-	140	417
Foreign subsidiary translation difference		-	-	-	-	-	38	-	-	38
		-	-	27,576	(1,925)	277	38	-	5,081	31,047
Transactions with owners, recognised directly in equity										
Effect of acquisition of additional shares in subsidiaries		-	-	(3,849)	-	-	-	-	(3,626)	(7,475)
Dividends to shareholders of the Company	23	-	-	(943)	-	-	-	-	-	(943)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(245)	(245)
		-	-	(4,792)	-	-	-	-	(3,871)	(8,663)
Balance at 1 January 2009		360	210	46,847	500	86	105	-	14,754	62,862
Total comprehensive income for the year										
Profit for the year		-	-	6,381	-	-	-	-	2,295	8,676
Revaluation of available-for-sale securities		-	-	-	1,405	-	-	-	-	1,405
Actuarial gains and losses		-	-	-	-	16	-	-	58	74
Foreign subsidiary translation difference		-	-	-	-	-	35	-	-	35
		-	-	6,381	1,405	16	35	-	2,353	10,190
Transactions with owners, recognised directly in equity										
Correction of non-controlling interests		-	-	170	-	-	-	-	(170)	-
Effect of acquisition of additional shares in subsidiaries	34	-	-	(3,285)	-	-	-	-	(1,691)	(4,976)
Disposal of non-controlling interests in subsidiary		-	-	50	-	-	-	-	209	259
Dividends to shareholders of the Company	23	-	-	(948)	-	-	-	-	-	(948)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(391)	(391)
		-	-	(4,013)	-	-	-	-	(2,043)	(6,056)
Balance at 31 December 2009		360	210	49,215	1,905	102	140	-	15,064	66,996

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

RUB Million	Note	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury shares	Attributable to non-controlling interests	Total
		Attributable to equity holders of the Company								
Balance at 1 January 2010		360	210	49,215	1,905	102	140	-	15,064	66,996
Total comprehensive income for the year										
Profit for the year		-	-	10,578	-	-	-	-	1,403	11,981
Revaluation of available-for-sale securities		-	-	-	227	-	-	-	-	227
Actuarial gains and losses		-	-	-	-	(279)	-	-	(98)	(377)
Foreign subsidiary translation difference		-	-	-	-	-	25	-	-	25
		-	-	10,578	227	(279)	25	-	1,305	11,856
Transactions with owners, recognised directly in equity										
Effect of acquisition of additional shares in subsidiaries		-	-	(10)	-	-	-	-	(52)	(62)
Disposal of non-controlling interests in subsidiary		-	-	91	-	-	-	-	107	198
Acquisition of treasury shares		-	-	-	-	-	-	(75)	-	(75)
Disposal of treasury shares		-	286	-	-	-	-	38	-	324
Dividends to shareholders of the Company	23	-	-	(4,563)	-	-	-	-	-	(4,563)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(1,345)	(1,345)
		-	286	(4,482)	-	-	-	(37)	(1,290)	(5,523)
Balance at 31 December 2010		360	496	55,311	2,132	(177)	165	(37)	15,079	73,329

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

1 Background

Organisation and operations

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

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

The Company's key shareholders are several Cyprus entities holding between 5% and 10% of the Company's ordinary shares each. During 2008-2010 the majority of the shares of the Company were ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guriev and his family members.

Russian business environment

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

2 Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Basis of measurement

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

Functional and presentation currency

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

These consolidated financial statements are presented in RUB.

Use of estimates and judgments

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Determination of the recoverable amount of property, plant and equipment, see note 15(a).

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

- Consolidation of OJSC "Apatit", see note 33.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Acquisitions and disposals of non-controlling interests

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

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

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise.

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

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

(c) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

(iii) Subsequent expenditure

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

(iv) Depreciation

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

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

- Buildings 12 to 17 years
- Plant and equipment 4 to 15 years

- Fixtures and fittings 3 to 6 years

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

- Buildings 15 to 30 years
- Plant and equipment 5 to 30 years
- Fixtures and fittings 2 to 10 years

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

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

(ii) Research and development

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

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

(iii) Other intangible assets

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

(iv) Amortisation

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

(e) Investments

Non-derivative financial instruments

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

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

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

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

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

(f) Inventories

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

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

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Impairment

Financial assets

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

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

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

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

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

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

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

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

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

(j) Share capital

(i) Preference share capital

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

(ii) Repurchase of share capital

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

(iii) Dividends

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

(k) Loans and borrowings

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

(l) Employee benefits

(i) Pension plans

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

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

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

(ii) Long-term service benefits other than pensions

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

(iii) State pension fund

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

(m) Provisions

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

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

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

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

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

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

(p) Revenues

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

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

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

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

(q) Finance income and costs

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

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

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

(r) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(s) New Standards and Interpretations

Standards that are effective for 2010 financial statements

- Revised IFRS 3 *Business Combinations* (2008). Effective 1 January 2010 the Group adopted the Revised IFRS 3 *Business Combinations* which introduces a number of changes:
  - the definition of a business was broadened;
  - contingent consideration is to be measured at fair value;
  - transaction costs, other than share and debt issue costs, should be expensed as incurred;
  - any pre-existing interest in the acquiree should be measured at fair value; and
  - any non-controlling interest should be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  The revised standard will have an impact on the accounting for future business combinations.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008). Effective 1 January 2010 the Group adopted the Amended IAS 27 *Consolidated and Separate Financial Statements* which requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement.

  The revised IAS27 did not have an impact on the financial statements, since the Group already adopted the accounting policy of recognition of the effect of changes in parent’s ownership interest in the subsidiary while maintaining the control, in equity.

- Amended IAS 7 *Statement of Cash Flows*. Effective 1 January 2010 the Group adopted the Amended IAS 7 *Statement of Cash Flows* which requires cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control to be classified as cash flows from financing activities. The adoption of this amendment resulted in a re-classification of cash outflow of RUB 5,133 million and RUB 7,475 million for purchase of non-controlling interests from investing to financing activity in 2009 and 2008 respectively.

- Amended IAS 17 *Leases*. Effective 1 January 2010 the Group adopted the Amended IAS 17 which removed the earlier exemption that allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed.

Standards that are not effective for 2010 financial statements

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. These pronouncements are not expected to have a material impact on the Group’s operations.

- Revised IAS 24 *Related Party Disclosures* (2010) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group does not intend to adopt this standard early.

4 Determination of fair values

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

(a) Investments in equity and debt securities

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

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

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

5 Financial risk management

(a) Overview

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

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

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

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

(b) Credit risk

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

Trade and other receivables

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

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

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

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

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

Current and non-current financial assets and cash and cash equivalents

The Group lends money to related parties, who have good credit standing. Management believes that there is no significant credit risk in respect of related party loans and third party loans since they are secured.

Cash and cash equivalents are primarily held with banks with high credit rating.

Guarantees

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

(c) Liquidity risk

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

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

(d) Market risk

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

(e) Currency risk

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

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

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

(f) Interest rate risk

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

(g) Capital management

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

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

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the countries their domicile and the bank covenants, see note 25.

6 Segment information

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

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

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

Certain assets, revenue and expenses, not allocated to any particular segment, and are therefore included into the "other operations" column. None of these operations meet any of the quantitative thresholds for determining reportable segments in 2010, 2009 or 2008.

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

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

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

Business segment information of the Group at 31 December 2009 and for the year then ended is as follows:

RUB million	**Phosphate-based products**	**Nitrogen fertilizers**	**Other operations**	**Inter-segment elimination**	**Total**
Segment revenue and profitability					
Segment external revenues, thereof:	53,283	6,469	1,071	-	60,823
Export	33,805	5,136	85	-	39,026
Domestic	19,478	1,333	986	-	21,797
Inter-segment revenues	-	2,130	-	(2,130)	-
Cost of goods sold	(36,796)	(5,540)	(1,409)	2,130	(41,615)
Gross segment profit/(loss)	16,487	3,059	(338)	-	19,208
Certain items of profit and loss					
Amortisation and depreciation	(3,341)	(283)	(115)	-	(3,739)
Total non-current segment assets	33,320	4,130	2,887	-	40,337
Additions to non-current assets	8,171	908	224	-	9,303

Business segment information of the Group at 31 December 2008 and for the year then ended is as follows:

RUB million	**Phosphate-based products**	**Nitrogen fertilizers**	**Other operations**	**Inter-segment elimination**	**Total**
Segment revenue and profitability					
Segment external revenues, thereof:	83,809	8,820	1,512	-	94,141
Export	56,315	6,319	-	-	62,634
Domestic	27,494	2,501	1,512	-	31,507
Inter-segment revenues	-	1,933	-	(1,933)	-
Cost of goods sold	(31,942)	(4,614)	(2,251)	1,933	(36,874)
Gross segment profit/(loss)	51,867	6,139	(739)	-	57,267
Certain items of profit and loss					
Amortisation and depreciation	(2,722)	(215)	(51)	-	(2,988)
Total non-current segment assets	28,576	3,353	2,239	-	34,168
Additions to non-current assets	8,625	552	1,947	-	11,124

The analysis of export revenue by regions is as follows:

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Europe	14,381	11,407	14,443
India	9,127	10,064	13,411
North and South America	14,334	4,731	19,108
Other regions	12,242	12,824	15,672
	50,084	39,026	62,634

In 2010 revenue from sales of phosphate-based products to one single customer amounted to approximately 20% (RUB 15,169 million) of the Group's total revenue (2009: 24% (RUB 14,529 million), 2008: 16% (RUB 15,174 million)).

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Total segment revenues	76,950	60,823	94,141
Accrual of provision for litigation	-	-	(1,992)
Difference in timing of revenue recognition between management accounts and IFRS	1	(38)	42
Consolidated revenue	76, 951	60,785	92,191

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Total segmental profit	28,225	19,208	57,267
Difference in depreciation and amortisation between management accounts and IFRS	(50)	(31)	(112)
Difference in timing of expenses recognition	(76)	558	(723)
Difference in timing of revenue recognition between management accounts and IFRS	1	(38)	42
Re-allocation of administrative expenses	1,044	641	442
Accrual and the reversal of the excess of cost of inventories over net realisable value	-	212	(253)
Other adjustments	137	341	(1,066)
Consolidated gross profit	29,281	20,891	55,597

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Total segment assets	44,317	40,337	34,168
Difference in the carrying value of the tangible fixed assets and intangible assets between management accounts and IFRS	2,939	2,931	4,049
Consolidated non-current segment assets	47,256	43,268	38,217

7 Revenues

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Sales of chemical fertilizers	59,172	45,365	72,246
Sales of apatite concentrate	13,887	11,928	14,279
Sales of nepheline concentrate	615	378	715
Other sales	3,277	3,114	4,951
	76,951	60,785	92,191

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

The domestic sales of apatite concentrate included in these consolidated financial statements amounted to RUB 7,995 million (2009: RUB 5,220 million, 2008: RUB 9,112 million).

8 Personnel costs

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Cost of sales	(8,789)	(8,117)	(7,424)
Administrative expenses	(2,809)	(2,050)	(1,735)
Selling expenses	(461)	(286)	(240)
	(12,059)	(10,453)	(9,399)

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

9 Cost of sales

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Materials and services	(21,013)	(15,390)	(14,102)
Salaries and social contributions	(8,789)	(8,117)	(7,424)
Natural gas	(4,459)	(3,726)	(3,222)
Depreciation and amortisation	(4,774)	(3,770)	(3,100)
Fuel	(3,674)	(2,625)	(3,243)
Sulphur and sulphuric acid	(2,447)	(2,613)	(5,474)
Electricity	(3,152)	(2,499)	(1,981)
Other items	(43)	(29)	(37)
Change in stock of WIP and finished goods	681	(1,125)	1,989
	(47,670)	(39,894)	(36,594)

10 Administrative expenses

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Salaries and social contributions	(2,809)	(2,050)	(1,735)
Depreciation, amortisation and impairment	(428)	(180)	(91)
Other	(2,010)	(1,684)	(1,590)
	(5,247)	(3,914)	(3,416)

11 Selling expenses

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Russian Railways infrastructure tariff and operators' fees	(3,272)	(2,390)	(1,918)
Materials and services	(1,401)	(1,307)	(1,268)
Port and stevedoring expenses	(1,291)	(1,196)	(767)
Salaries and social contributions	(461)	(286)	(240)
Custom duties	-	(233)	(3,189)
Depreciation and amortisation	(90)	(39)	(18)
	(6,515)	(5,451)	(7,400)

Effective from 1 February 2009, the Government of the Russian Federation cancelled the duties on exports of phosphate fertilizers to countries outside the CIS Customs Union. Effective from 1 May 2009, the Government of the Russian Federation also cancelled the duties on exports of apatite to countries outside the CIS customs Union. The duties, introduced in April 2008 were equal to 8.5% and 6.5% of the declared customs value of the phosphate fertilizers and apatite, respectively. In 2009 and 2008 export sales were presented gross of the export duties which amounted to RUB 233 million and RUB 3,189 million respectively, since in substance such export duties represent a part of the sales price and selling expenses to the Company.

12 Other income/(expenses), net

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Reversal of provision for litigation	-	1,992	-
Loss on disposal of fixed assets	(262)	(267)	(442)
Decrease/(increase) in provision for inventory obsolescence	151	69	(318)
Depreciation and amortisation	(83)	(111)	(22)
Impairment losses	(402)	-	-
Social expenditures	(964)	(755)	(183)
Other operating expenses	(273)	(264)	(599)
	(1,833)	664	(1,564)

In 2009, the Company reversed the provision for litigation with one of its customers (for further details refer to note 28).

13 Finance income

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Dividend income	78	57	170
Interest income	703	1,074	1,475
Foreign exchange gains/(losses), net	(132)	226	512
Gain on disposal of investments	731	337	74
	1,380	1,694	2,231

Interest income mainly relates to interest accrued on bank deposits and loans issued to related parties.

The gain on disposal of investment in 2010 relates mainly to disposal of 60% in a subsidiary LLC “FOSAGRO UKRAINE” for a consideration of RUB 1 million to a third party. At the moment of disposal, this subsidiary had negative net assets in the amount of RUB 288 million which resulted in recognition of a gain on disposal of RUB 289 million. The Group retained 40% shareholding in LLC “FOSAGRO UKRAINE” subsequent to the disposal.

14 Income tax expense

The Parent company’s applicable corporate income tax rate is 20% (2009: 20%, 2008: 24%).

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Current tax expense	(3,506)	(2,463)	(11,582)
Origination and reversal of temporary differences, including change in unrecognised assets	(143)	(787)	758
	(3,649)	(3,250)	(10,824)

Reconciliation of effective tax rate:

	2010		2009		2008	
	RUB Million	%	RUB Million	%	RUB Million	%
Profit before taxation	15,630	100	11,926	100	43,341	100
Income tax at applicable tax rate	(3,126)	(20)	(2,385)	(20)	(10,402)	(24)
Underprovided in respect of prior years	7	-	(23)	-	-	-
Tax effect of disposed subsidiary	-	-	60	1	-	-
Change in tax rate	-	-	-	-	354	1
Realisation of the deferred tax liability relating to investment in subsidiary due to intra-group transfer of investments	(329)	(2)	-	-	-	-
Non-deductible items	(574)	(3)	(577)	(5)	(606)	(1)
Change in unrecognised deferred tax assets	373	2	(325)	(3)	(170)	(1)
	(3,649)	(23)	(3,250)	(27)	(10,824)	(25)

The changes in the fair value of the available-for-sale securities represent permanent differences in accordance with the law of the relevant tax jurisdiction and no significant income tax charge was recognised in other comprehensive income.

15 Property, plant and equipment

RUB million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2008	9,130	21,364	634	5,961	37,089
Additions	8	1,204	-	9,912	11,124
Acquisition of subsidiary	789	895	3	37	1,724
Transfers	311	5,266	119	(5,696)	-
Disposals	(112)	(749)	(8)	(231)	(1,100)
At 1 January 2009	10,126	27,980	748	9,983	48,837
Additions	-	-	-	9,303	9,303
Transfers	1,668	6,498	111	(8,277)	-
Disposals	(119)	(566)	(19)	(75)	(779)
At 1 January 2010	11,675	33,912	840	10,934	57,361
Additions	-	-	-	10,614	10,614
Transfers	625	3,913	1,387	(5,925)	-
Transfer to investments in associates, see note 16	-	(1,183)	-	(10)	(1,193)
Disposals	(38)	(410)	(12)	(158)	(618)
At 31 December 2010	12,262	36,232	2,215	15,455	66,164
Accumulated depreciation					
At 1 January 2008	(1,639)	(6,282)	(358)	-	(8, 279)
Depreciation charge	(459)	(2,627)	(115)	-	(3,201)
Disposals	25	253	5	-	283
At 1 January 2009	(2,073)	(8,656)	(468)	-	(11,197)
Depreciation charge	(507)	(3,409)	(151)	-	(4,067)
Disposals	50	394	16	-	460
At 1 January 2010	(2,530)	(11,671)	(603)	-	(14,804)
Depreciation charge	(505)	(4,457)	(119)	-	(5,081)
Impairment	-	(213)	-	(190)	(403)
Transfer to investments in associates, see note 16	-	297	-	-	297
Disposals	27	272	8	-	307
At 31 December 2010	(3,008)	(15,772)	(714)	(190)	(19,684)
Net book value at 1 January 2009	8,053	19,324	280	9,983	37,640
Net book value at 1 January 2010	9,145	22,241	237	10,934	42,557
Net book value at 31 December 2010	9,254	20,460	1,501	15,265	46,480

(a) Impairment testing

At the reporting date the Group performed an impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of 5 to 10 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 13.8% (2009: 12.1%, 2008: 17%)
- Terminal growth rate 3% (2009: 3%, 2008: 3%)

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

(b) Security

Properties with a carrying amount of RUB 4,643 million (2009: RUB 4,970 million, 2008: RUB 4,989 million) are pledged to secure bank loans (see note 25).

(c) Leasing

Machinery with the carrying value of RUB 994 million (31 December 2009: RUB 963 million, 2008: RUB 972 million) is leased under various finance lease agreements, see note 27.

16 Investments in associates

In September and October 2010 two Group subsidiaries, PhosInt Limited and PhosAsset GmbH, increased their share capital which was subscribed by a related party resulting in the dilution of the Group's shareholding in these entities to 49%. As a consequence these entities and Nordwest AG, a subsidiary of PhosAsset GmbH (further the PhosInt Group) were deconsolidated from the Group. At the same time, the Group retained its preference right for the dividends from these entities in the amount of their retained earnings as at 31 December 2010 as determined by the executive management by reference to the IFRS financial statements of these entities.

As at 31 December 2010 these entities held a number of financial assets, including equity and debt instruments of Russian issuers, loans issued, property and cash. Accordingly, the fair value of the Group's shareholding in these entities after the loss of control is equal to the Group's share in the book value of the identifiable assets and liabilities of these entities at the moment of loss of control.

Once the total dividend distributed will reach the amount of retained earnings of PhosInt Group as at 31 December 2010, any subsequent dividend will be made proportionate to the shareholding in these companies.

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

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

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

	RUB Million
PhosInt Group	9,365
FOSAGRO UKRAINE	-
	9,365

The summarized financial data of the associates at 31 December 2010 is as follows:

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

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

17 Other non-current assets

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Advances issued for construction of property, plant and equipment, at cost	3,766	1,340	2,037
Advance for construction of residential property, at cost	2,278	3,600	-
Financial assets available-for-sale, at fair value	66	3,012	579
Other loans, at amortised cost	27	147	638
Financial assets available-for-sale, at cost	720	695	76
Financial assets held-to-maturity, long-term	-	669	676
Finance lease receivable	290	249	163
Loans issued to a related party, at amortised cost	-	1,280	1,047
	7,147	10,992	5,216

In 2009 the Group advanced RUB 3,600 million for the construction of residential property in Saint Petersburg. During 2010 the Group transferred RUB 200 million of additional advance for construction. Later in 2010 a portion of the advance was assigned to a related party for a consideration of RUB 1,561 million and settled in full subsequent to the reporting date. The remaining advance in the amount of RUB 2,278 million is expected to be settled in 2011.

As at 31 December 2009 financial assets available-for-sale, at fair value included equity and debt investments in OJSC "Acron", OJSC "Novatec", OJSC "Rostelecom" and OJSC "Sberbank" owned by PhosInt Group at that time. The investments are valued by reference to quotations in the relevant stock exchange, which corresponds to level 1 of the hierarchy of fair value measurements.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

RUB Million	Assets 2010	Liabilities 2010	Net 2010	Assets 2009	Liabilities 2009	Net 2009	Assets 2008	Liabilities 2008	Net 2008
Property, plant and equipment	25	(2,912)	(2,887)	20	(2,646)	(2,626)	23	(2,395)	(2,372)
Other long-term assets	10	(108)	(98)	41	(102)	(61)	-	(92)	(92)
Current assets	263	(115)	148	359	(262)	97	413	(124)	289
Liabilities	261	(63)	198	281	(42)	239	715	(34)	681
Tax loss carry-forward	167	-	167	395	-	395	-	-	-
Provision for tax loss carry-forward	(167)	-	(167)	(395)	-	(395)	-	-	-
Unrecognised deferred tax assets	(61)	-	(61)	(206)	-	(206)	(276)	-	(276)
Tax assets / (liabilities)	498	(3,198)	(2,700)	495	(3,052)	(2,557)	875	(2,645)	(1,770)
Set off of tax	(498)	498	-	(495)	495	-	(875)	875	-
Net tax assets / (liabilities)	-	(2,700)	(2,700)	-	(2,557)	(2,557)	-	(1,770)	(1,770)

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

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 26,306 million (31 December 2009: RUB 34,718 million, 31 December 2008: RUB 40,002 million). The deferred tax liability for these temporary differences has not been recognised because the Parent can control the timing of reversal of the temporary difference and it is probable that temporary differences will not reverse in the foreseeable future.

(b) Movement in temporary differences during the year

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

RUB Million	2008	Recognised in profit and loss	2009
Property, plant and equipment	(2,372)	(254)	(2,626)
Other long-term assets	(92)	31	(61)
Current assets	289	(192)	97
Liabilities	681	(442)	239
Tax loss carry-forward	-	395	395
Provision for tax loss carry-forward	-	(395)	(395)
Unrecognised deferred tax assets	(276)	70	(206)
Net tax assets / (liabilities)	(1,770)	(787)	(2,557)

RUB Million	2007	Effect of acquisition of a subsidiary	Recognised in profit and loss	2008
Property, plant and equipment	(2,449)	(328)	405	(2,372)
Other long-term assets	(18)	-	(74)	(92)
Current assets	120	-	169	289
Liabilities	253	-	428	681
Unrecognised deferred tax assets	(106)	-	(170)	(276)
Net tax assets / (liabilities)	(2,200)	(328)	758	(1,770)

19 Other current investments

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Bank promissory notes	766	-	1,866
Letters of credit	64	-	-
Bank deposits	4	186	616
Loans issued, at amortised cost	-	376	3,155
Loans issued to related parties, at amortised cost	2,466	292	2,329
Other financial assets	-	63	6
	3,300	917	7,972

For comparability purposes, the Group re-classified certain loans issued in 2008 and 2009 from “Other receivables” to “Other current investments”.

20 Inventories

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Raw materials and spare parts	4,344	4,307	5,185
Work-in-progress	329	333	365
Fertilizers	2,645	1,605	2,784
Apatit rock	293	491	531
Apatit concentrate	374	531	405
Provision for obsolescence	(269)	(420)	(489)
	7,716	6,847	8,781

Finished goods with the carrying value of RUB 36 million (31 December 2009: RUB 183 million, 31 December 2008: RUB 79 million) are pledged to secure bank loans, see note 25.

21 Trade and other receivables

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Receivable for shares of OJSC "AgroGard-Finance"	4,222	4,222	-
Taxes receivable	3,285	3,157	4,436
Advances issued	2,462	1,983	1,221
Trade accounts receivable	1,846	1,752	1,897
Receivables from related parties	2,546	1,080	1,666
Other receivables	1,117	498	634
Deferred expenses	185	135	172
Receivables from associates	131	53	44
Provision for doubtful accounts	(273)	(238)	(297)
	15,521	12,642	9,773

In November 2009 OJSC "AgroGard-Finance", a Russian agricultural producer, which is a related party, issued ordinary shares which were purchased by the group subsidiaries, resulting in the Group obtaining 79% of the charter capital in OJSC "AgroGard-Finance", for a cash consideration of RUB 4,801 million. In December 2009 the Group sold 69% of the charter capital to a related party for the consideration of RUB 4,222 million approximating the cost of acquisition. The payment for the shares was received in full in March and April 2011.

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

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Not past due	1,773	1,659	1,683
Past due 0-180 days	35	22	159
Past due 180-365 days	17	12	33
More than one year	21	59	22
	1,846	1,752	1,897

Provision for doubtful trade accounts receivable as at 31 December 2010 amounted to RUB 24 million (31 December 2009: RUB 70 million, 31 December 2008: RUB 18 million).

22 Cash and cash equivalents

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Cash in bank	2,857	1,914	9,409
Call deposits	2,400	3,642	4,901
Petty cash	4	66	38
	5,261	5,622	14,348

23 Equity

Share capital

Number of shares unless otherwise stated	Ordinary shares	Preferred shares of class "A1"	Preferred shares of class "A2"
Shares on issue at 31 December 2010, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2010, RUB 25 par value	100,000,000	30,000,000	-
Shares on issue at 31 December 2009, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2009, RUB 25 par value	100,000,000	30,000,000	-
Shares on issue at 31 December 2008, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2008, RUB 25 par value	100,000,000	30,000,000	-

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

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

Preferred shares have no right of conversion or redemption, but are entitled to an annual dividend of 35% of the net cash inflow received by the Parent Company from the distribution of profits by its investees for preferred shares of the class "A1" and 60% for the preferred shares of the class "A2" respectively.

If the dividend is not paid by the Company, preferred shares carry the right to vote in the annual shareholders' meeting following the meeting when the decision on non-payment or partial payment of dividends has been taken. The dividend is not cumulative. The preferred shares also carry the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation, preference shareholders first receive any declared unpaid dividends and the par value of the preferred shares ("liquidation value"). Thereafter all shareholders, ordinary and preferred, participate equally in the distribution of the remaining assets.

See note 36 regarding the changes in the rights of the preferred shareholders subsequent to the reporting date.

Dividends

In accordance with Russian legislation the Parent Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Parent Company had cumulative retained earnings of RUB 27,179 million (31 December 2009: RUB 11,305 million, 31 December 2008: RUB 8,607 million).

In June 2010 dividends in the amount of RUB 378.98 for each issued outstanding preferred share of class “A1” and of RUB 46,951.23 for each issued outstanding share of class “A2” were approved in the General shareholders’ meeting.

In December 2010 dividends in the amount of RUB 207.00 for each issued outstanding ordinary share were approved in the General shareholders’ meeting.

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

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

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

Treasury shares

During 2010 the Group purchased 180,492 preferred treasury shares of class "A1" representing 10.23% of such shares for the consideration of RUB 75 million. The Group sold 90,320 of these shares for a consideration of RUB 324 million with the result recognised in share premium in the statement of changes in equity. At the reporting date the Group held 90,172 preferred treasury shares of class "A1" representing 5.11% of such shares.

Special right of the Russian Federation for participation in governance of OJSC “Apatit”-"Golden share”

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

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

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

24 Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2010	2009	2008
Weigthed average number of ordinary shares in issue	10,647,708	10,647,708	10,647,708
Profit for the year attributable to ordinary shareholders of the parent, RUB million	10,578	6,381	27,576
Basic and diluted earnings per share, RUB	993	599	2,590

25 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 27. For more information about the Group's exposure to foreign currency risk, see note 29.

RUB Million	Contractual interest rate	2010	2009	2008
Current loans and borrowings				
Secured bank loans:				
RUB- denominated	Fixed at 2.0%-10.75%	1,944	632	3,606
USD-denominated	Variable at 1m LIBOR + 3.0%-3.3%	2,438	-	-
Unsecured loans:				
RUB-denominated, related parties loans	Fixed at 11%	-	250	-
RUB- denominated	Fixed at 2.1%-2.33%	229	-	-
RUB- denominated	Fixed at 8%-11.5%	-	1,143	40
USD-denominated	Fixed at 2.33%	674	-	-
Secured letter of credit				
EUR-denominated	Fixed at 0.9%-1.2%	31	-	83
Secured finance leases:				
USD-denominated	Fixed at 11.2-13.9%	187	123	114
Interest payable:				
USD-denominated		-	7	30
RUB- denominated		6	5	14
		5,509	2,160	3,887
Non-current loans and borrowings				
Secured bank loans:				
USD-denominated	Variable at 1m LIBOR + 3.7%	-	983	955
Secured letter of credit				
USD-denominated	Variable at 6m EURIBOR + 0.8%	-	334	325
EUR-denominated	Variable at 3m EURIBOR + 4.35%	1,855	-	-
EUR-denominated	Variable at 6m EURIBOR + 0.8%	337	-	-
EUR-denominated	Fixed at 0.9%	57	-	-
EUR-denominated	Fixed at 1.25%	596	-	-
Secured finance leases:				
USD-denominated	Fixed at 11.2%-13.9%	578	703	806
		3,423	2,020	2,086
		8,932	4,180	5,973

See note 15(b) and note 20 on the assets pledged as a security for bank loans.

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

26 Defined benefit obligations

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Pension obligations, long-term	549	418	473
Post-retirement obligations other than pensions	382	228	217
	931	646	690

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

The movement in the defined benefit obligation is made up as follows:

	Pension obligation RUB Million	Post-retirement obligation other than pension RUB Million
Present value of the defined benefit obligation at 1 January 2008	859	244
Interest cost	43	20
Benefit paid	(47)	(12)
Recognised actuarial (gains)/losses	(382)	(35)
Present value of defined benefit obligation at 31 December 2008	473	217
Interest cost	36	20
Benefit paid	(16)	(10)
Recognised actuarial (gains)/losses	(75)	1
Present value of defined benefit obligation at 31 December 2009	418	228
Interest cost	31	17
Benefit paid	(119)	(21)
Recognised actuarial (gains)/losses	219	158
Present value of defined benefit obligation at 31 December 2010	549	382

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

	2010	2009	2008
Discount rate	7%	9%	9%
Future pension increases	6%	6%	7%

27 Leases

Finance leases

LLC "FosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 1,100 railway wagons. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

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

	2009		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	227	104	123
Between one and five years	797	245	552
More than five years	195	44	151
	1,219	393	826

	2008		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	226	112	114
Between one and five years	870	298	572
More than five years	315	81	234
	1,411	491	920

Operating leases

During 2008-2010, LLC "FosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2010, which are recorded in the cost of sales, amounted to RUB 414 million (2009: RUB 453 million, 2008: RUB 467 million).

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

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Less than one year	278	262	181
Between one and five years	202	278	540
	480	540	721

28 Trade and other payables

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Trade accounts payable	2,266	2,368	8,500
Advances received	1,970	1,892	786
Provision for litigation	-	-	1,992
Accruals	632	649	578
Payables to employees	590	591	546
Taxes payable	799	538	1,233
Payables to related parties	50	84	209
Dividends payable	2,611	31	123
Other payables	543	99	249
	9,461	6,252	14,216

In 2008 the Group was involved in litigation with one of its customers with respect to the sale of apatite concentrate. The court decisions of the first, second and third instance were in favour of the claimant. In 2009 the Group appealed these decisions in the Supreme Arbitration Court of the Russian Federation. The court supported the Group's appeal and concluded that the matter should be re-examined in the court of the first instance. Following the decision of the Supreme Arbitration Court and management's assessment of the claim the provision of RUB 1,992 million was released in 2009. In 2010 the claimant withdrew its claim against the Group.

29 Financial instruments

Foreign currency risk

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

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

RUB Million	2010 USD denominated	2010 EUR denominated	2009 USD denominated	2009 EUR denominated	2008 USD denominated	2008 EUR denominated
Current assets						
Receivables	1,978	184	1,566	393	888	465
Current investments	-	-	-	-	1,205	78
Cash and cash equivalents	180	7	614	95	8,168	966
Non-current liabilities						
Non-current loans and borrowings	(578)	(2,845)	(2,020)	-	(2,086)	-
Current liabilities						
Payables	(632)	(12)	(609)	(252)	(11)	(159)
Current loans and borrowings	(3,299)	(31)	(130)	-	(144)	(83)
	(2,351)	(2,697)	(579)	236	8,020	1,267

Management estimate that a 10% strengthening/(weakening) of the USD and EUR against Russian Ruble, based on the Group's exposure as at the reporting date would have decreased/(increased) the Group's net profit for the year by RUB 505 million, before any tax effect (2009: RUB 34 million, 2008: RUB (929) million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009 and 2008.

Interest rate risk

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

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Fixed rate instruments			
Long-term loans and promissory notes receivable	27	2,096	2,361
Short-term promissory notes	766	-	1,866
Letters of credit	64	-	-
Finance lease receivable	290	249	163
Short-term deposits	2,404	3,828	5,517
Other short-term loans and, at amortised cost	2,466	668	5,484
Long-term borrowings	(1,231)	(703)	(806)
Short-term borrowings	(3,071)	(2,160)	(3,887)
	1,715	3,978	10,698
Variable rate instruments			
Long-term borrowings	(2,192)	(1,317)	(1,280)
Short-term borrowings	(2,438)	-	-
	(4,630)	(1,317)	(1,280)

At 31 December 2010, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 46 million (31 December 2009: RUB 13 million, 31 December 2008: RUB 13 million).

Liquidity risk

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

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

	2009							
RUB Million	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	1,615	1,683	682	1,001	-	-	-	-
Unsecured bank loans	1,393	1,444	1,444	-	-	-	-	-
Letters of credit	334	549	39	39	39	39	39	354
Interest payable	12	12	12	-	-	-	-	-
Secured finance leases	826	1,219	227	215	207	168	207	195
Trade and other payables	3,231	3,231	3,231	-	-	-	-	-
Financial guarantees given to related parties	1,415	1,415	1,415	-	-	-	-	-
	8,826	9,553	7,050	1,255	246	207	246	549

	2008							
RUB Million	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	4,561	4,883	3,867	40	976	-	-	-
Unsecured bank loans	40	41	41	-	-	-	-	-
Letters of credit	408	643	105	38	38	38	38	386
Interest payable	44	44	44	-	-	-	-	-
Secured finance leases	920	1,411	226	226	222	219	203	315
Trade and other payables	11,651	11,651	11,651	-	-	-	-	-
Financial guarantees given to related parties	1,105	1,105	1,105	-	-	-	-	-
	18,729	19,778	17,039	304	1,236	257	241	701

Credit risk

At the reporting date there was a significant concentration of credit risk in respect to accounts receivable from related parties in the amount of RUB 9,234 million. Of this amount RUB 4,222 million were secured by a pledge of shares of OJSC “AgroGard-Finance”. Subsequent to the reporting date RUB 8,415 million has been repaid by related parties, see notes 21 and 32(ii).

At the reporting date there are no significant overdue trade accounts receivable.

Fair values

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

30 Commitments

The Group has entered into a contract to purchase plant and equipment for RUB 7,446 million (31 December 2009: RUB 4,361 million, 31 December 2008: RUB 4,982 million).

See also note 7 describing sales restrictions on the domestic sales prices for apatite concentrate.

31 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

Taxation contingencies

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

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

During 2008, 2009 and 2010 several of the Group’s subsidiaries were involved in litigation brought against them by the Russian taxation authorities. The most significant litigations relate to claims against OJSC “Apatit” for various taxes, interest and penalties relating to the 2001, 2002 and 2003 tax years. The initial amounts claimed by the Russian taxation authorities in respect to the 2001, 2002 and 2003 tax years were RUB 5,329 million, RUB 3,855 million, and RUB 4,325 million, respectively. These claims were examined by Russian arbitration courts of the first, second and third instance with decisions in favour of the Group. The claims relating to the 2001 and 2002 tax years were additionally heard by the Supreme Arbitration Court of the Russian federation also with the decisions in favour of the Group. On the basis of management’s assessment of conclusions progressively reached by the Russian arbitration courts over the period from 2008 to 2010, the Group did not recongise provisions against these claims in the years ended 31 December 2008, 2009 and 2010.

In a view of the positive court decisions, Group management has concluded that no provision is required.

Environmental contingencies

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

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

32 Related party transactions

Transactions and balances with associates

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Sales of goods and services	345	187	157
Purchases of goods and services	(2,076)	(1,564)	(1,204)
Receivables	131	53	44
Payables	(26)	(26)	-

Transactions and balances with other related parties

(i) Transactions with other related parties

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Assignment of receivables to a related party	1,561	-	-
Sales to related parties	563	563	2,236
Purchases of goods and services	(163)	(164)	(122)
Interest income from related parties	131	266	177

(ii) Balances with other related parties

	2010 RUB Million	2009 RUB Million	2008 RUB Million
Long-term loans issued to related parties	-	1,280	1,047
Short-term loans issued to related parties	2,466	292	2,329
Short-term loans from related parties	-	(250)	-
Receivable for shares of OJSC “AgroGard-Finance”	4,222	4,222	-
Other receivables from related parties	2,546	1,080	1,666
Payables to related parties	(24)	(58)	(209)
Dividends payable to shareholders of the Parent	(2,094)	(2)	-

The balances due from related parties at 31 December 2010 include RUB 3,662 million of receivables from and loans issued to LLC “PhosAgro-Invest”, a related party. The loans and receivables were redeemed in full in March and April 2011. The remaining balance is represented with trade receivables from and loans issued to various entities of AgroGard Group and receivable for shares of OJSC “AgroGard-Finance”.

Receivables for shares of OJSC “AgroGard-Finance” were also redeemed in full in March and April 2011.

(iii) Key management remuneration

The remuneration of directors and other key management personnel amounted to RUB 271 million (2009: RUB 103 million, 2008: RUB 100 million).

See notes 16, 17, 21 and 23 and 29 describing other transactions with related parties.

33 Significant subsidiaries

Name	Country of incorporation	Effective shareholding as of 31 December 2010	Effective shareholding as of 31 December 2009	Effective shareholding as of 31 December 2008
Ammophos, OJSC	Russia	94%	94%	95%
Apatit, OJSC (1)	Russia	58%	59%	52%
Balakovo Mineral Fertilizers, LLC	Russia	100%	100%	100%
Cherepovetsky Azot, JSC (1),(2)	Russia	69%	69%	62%
NIUIF, OJSC	Russia	94%	94%	94%
NW Nordwest AG	Switzerland	-	100%	100%
PhosAgro AG, CJSC	Russia	100%	100%	100%
PC Agro-Cherepovets, LLC	Russia	100%	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%	100%
FosAgro-Trans, LLC	Russia	100%	100%	100%
PhosAsset GmbH	Switzerland	-	100%	100%
PhosInt Limited	Cyprus	-	100%	100%
Region-Agro-Belgorod, LLC	Russia	100%	100%	100%
Region-Agro-Don, LLC	Russia	100%	100%	100%
Region-Agro-Idel, LLC	Russia	-	-	51%
Region-Agro-Kuban, LLC	Russia	100%	100%	100%
Region-Agro-Kursk, LLC	Russia	100%	100%	100%
Region-Agro-Lipetsk, LLC	Russia	75%	75%	75%
Region-Agro-Oryol, LLC	Russia	100%	100%	100%
Region-Agro-Stavropol, LLC	Russia	100%	100%	100%
Region-Agro-Volga, LLC	Russia	87%	87%	87%
FOSAGRO UKRAINE, LLC	Ukraine	-	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%	100%

(1) including non-voting preferred shares

(2) see note 16 on put-call option agreement on acquisition of shares in JSC "Cherepovetsky "Azot".

Consolidation of OJSC "Apatit"

As at the reporting date the Group held 49.95% of ordinary and 85.48% of preferred shares in OJSC "Apatit". The remaining ordinary and preferred shares are widely held. In accordance with the subsidiary's charter, under certain circumstances, holders of preferred shares are entitled to vote in the meetings of the shareholders. As at the reporting date the preferred shares were non-voting. Management believes that the current shareholding allows the Group to exercise de-facto control over OJSC "Apatit".

34 Acquisition of shares in subsidiaries

In 2008, the Group acquired an additional 11% of OJSC "Apatit" from third parties for a consideration of RUB 5,660 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 2,886 million was recognised in retained earnings.

In 2008, the Group acquired an additional 12% of OJSC "Ammophos" from third parties for the total consideration of RUB 1,847 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 633 million was recognised in retained earnings.

In 2009, the Group acquired an additional 6.60% of OJSC "Apatit" from third parties for a consideration of RUB 4,590 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 3,059 million was recognised in retained earnings.

In 2009, the Group acquired an additional 6.88% of JSC “Cherepovetsky “Azot” from third parties for a consideration of RUB 543 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 226 million was recognised in retained earnings.

35 Acquisition of LLC PC “Agro-Cherepovets”

In 2008, the Group entered into agreement to acquire 67% of the participation rights in LLC PC “Agro-Cherepovets” for RUB 1,089 million, payable in cash. The fair values of net assets of the acquired subsidiary were determined at the date of acquisition as follows:

	RUB million
Non-current assets	1,770
Property, plant and equipment	1,724
Investments	46
Current assets	325
Inventories	205
Trade and other receivables	110
Cash and cash equivalents	10
Non-current liabilities	328
Deferred tax liabilities	328
Current liabilities	181
Trade and other payables	181
Net identifiable assets, liabilities	1,586
Share in net identifiable assets, liabilities acquired	1,063
Goodwill/(negative goodwill) on acquisition	26
Consideration paid	1,089
Less cash acquired in a business combination	(10)
Net cash outflow	1,079

The aggregate value of goodwill recognised on the acquisition of all participation rights of LLC PC “Agro-Cherepovets”, including goodwill which was included into the carrying amount of investment in associate during 2007, was RUB 174 million.

Should the acquisition took place as at 1 January 2008, the Group’s consolidated revenue would have amounted to RUB 93,122 million and consolidated net profit would have amounted to RUB 32,674 million.

36 Events subsequent to the reporting date

See notes 21and 23 for significant events which took place after 31 December 2010.

In March 2011, the rights of the holders of the preferred shares of the class “A1” and “A2” were amended as follows: the preferred shares are convertible into the same number of ordinary shares with the same par value based on the Board decision; the minimum annual dividend amounts to RUB 49 and RUB 50 for one preferred share of class “A1” and “A2”, respectively. The dividend is not cumulative. The dividend to holders of preferred shares is accrued upon discretion of the Board of Directors and General Shareholders’ meeting. However, if the dividend is not paid by the Company, preferred shares carry the right to vote in the annual shareholders’ meeting following the meeting when the decision on non-payment or partial payment of dividends has been taken.

In May 2011 the Board of Directors decided to convert “A1” preferred shares into ordinary shares.

In May 2011 the Group entered into several bank loan facility agreements in total amounting to USD 650 mln. The facility is repayable from 2012 till 2014 and bears interest of Libor+2.1 to Libor+2.9. The bank commission associated with the borrowings amount to USD 0.75 million.

In May 2011 the Group entered into an acquisition agreement for 24% of ZAO “Metachem” for a consideration of USD 6 mln and 21.85% of ZAO “Pikalevskaya soda” for a consideration of USD 5 mln.