



EUROCHEM
MINERAL AND CHEMICAL COMPANY

Enabling our future

Annual Report and Accounts 2011



Enabling our future



EuroChem is Russia's largest mineral fertilizer producer and ranks among the top three European and top ten global producers by profitability. We aim to become a top five player by size and profitability within the next five years, while maintaining our competitive cost advantage through greater efficiency and deeper vertical integration.

EuroChem was founded ten years ago. Over this period we have developed the business, our people, and our technical expertise to form one of the world's leading agrochemical companies.

The next decade will be hugely exciting for us. In the drive for sustainable competitive advantages within our industry, we will continue to raise the bar in everything we do. And in constantly striving to deliver value for all our stakeholders, our goal is to make a significant contribution to driving progress in global agriculture.



To access our online Annual Report
please visit our website at
www.eurochem.ru



...by supplying world markets

Our strategic investments have made it possible for us to supply a wide range of quality fertilizer products to customers in more than 90 countries.

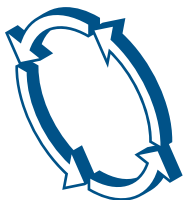
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...by increasing our geographic footprint

With increased production capacity and secure access to raw materials, we are ready to expand our operations and increase our strategic positioning.

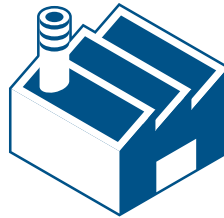
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...by placing sustainability at the core

We recognize that superior shareholder returns depend on our commitment to good governance, social responsibility and environmental accountability.

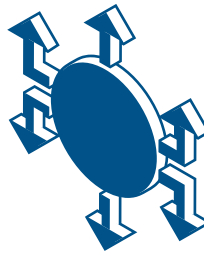
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...by becoming a top five player

Once potash is on stream, we will be one of only four fertilizer producers in the world with a significant presence in all three primary nutrient segments, and a top five fertilizer producer by total nutrient capacity.

See page 30



...by driving a flexible business model

Coupled with our vertical integration model, our strategic investments have enhanced our production flexibility and allow us to adapt quickly to market demand.

See page 32



...by empowering our people

Whether on the factory floor or in the classroom, our employees benefit from continuous professional development to unlock their potential.

See page 34

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Highlights

Unlocking growth

Our main production segments are nitrogen and phosphate fertilizers, to which we plan to add potash. EuroChem will then be one of only four fertilizer producers in the world with a significant presence in all three primary nutrient segments, and one of the top five fertilizer producers globally by total nutrient capacity.

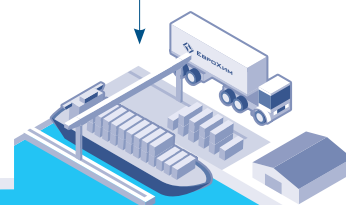
However, capacity isn't everything in a commodity business. The cost of producing and delivering product to customers is critical. We continued making progress in our quest to seek vertical integration in our operations throughout the last 12 months. To build on our competitive advantages, we acquired natural gas assets, broadened our raw material base, and expanded on international markets, while working to further refine our product offering.

Sustainable competitive advantages

- Vertically integrated business model benefiting from access to lower-cost raw materials such as apatite and natural gas, and backed by our own rail stock, dedicated repair and service centres, port infrastructure and ocean freight capability.
- Established distribution network in Russia's Black Earth Region and the CIS, two of the world's fastest-growing fertilizer markets.
- Iron ore production as a co-product of apatite beneficiation at the Kovdorskiy GOK mine substantially adds to the Phosphate segment's profitability while mitigating cash flow exposure to fertilizer cyclicity.
- Flexible production and a comprehensive product range comprising more than 100 unique products allow EuroChem to quickly adapt and maximise margins according to market demand.
- Future global cost leadership in potash supported by the unique features of EuroChem's Gremyachinskoe potash development and the attractive characteristics of the well-developed Verkhnekamskoe deposit.

**Over 100
unique products**
allow EuroChem to quickly adapt and maximise margins

2.3 MMT p.a.
debut of Tuapse Transhipment Terminal

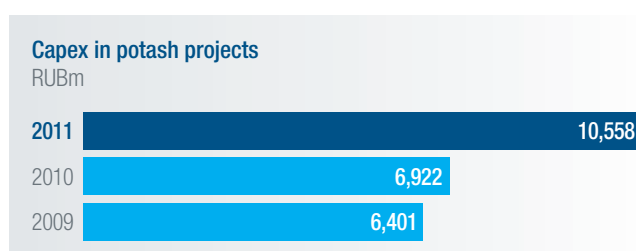
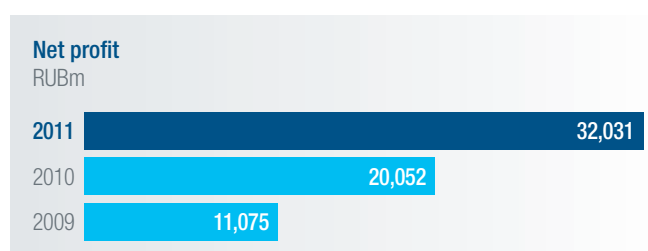
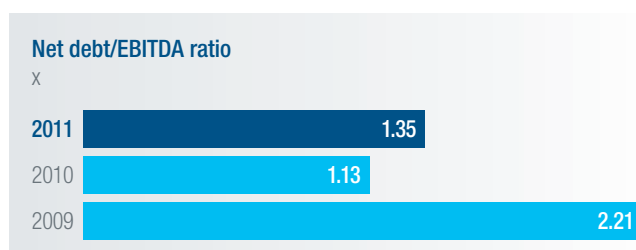
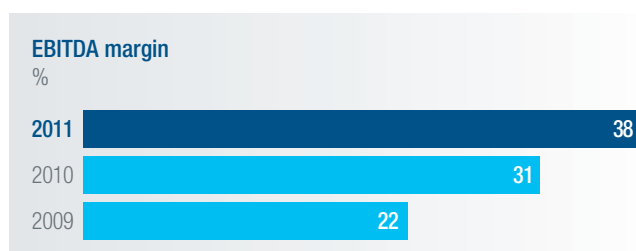
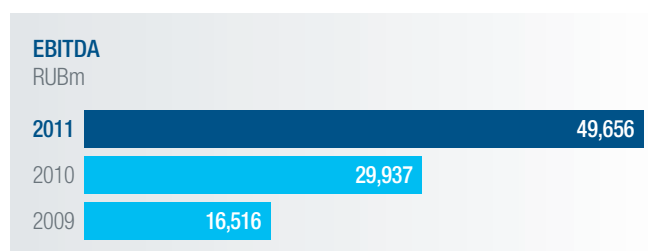
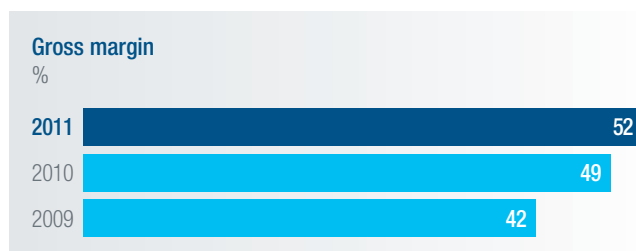
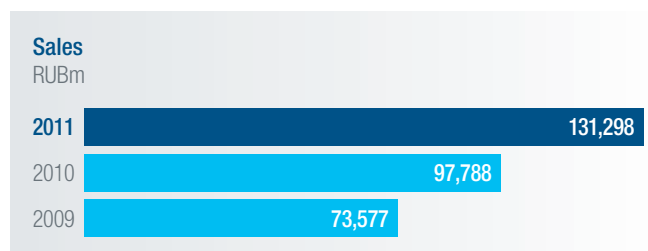


i 76% of our sales are outside Russia
See page 9

2011 Operational highlights

- Successful operational debut of the 2.3 MMT p.a. Tuapse Transshipment Terminal
- Sinking operations at the Gremyachinskoe skip shaft #1 reached a depth of 400 metres
- Activation of environmental monitoring stations at our production facilities

Financial highlights

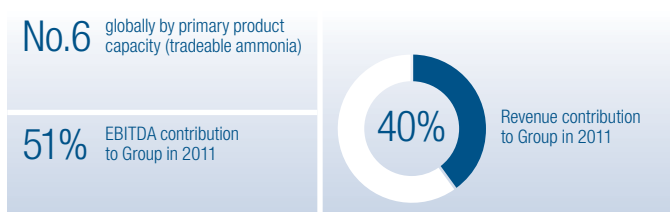


EuroChem at a glance

“We plan to make EuroChem one of the world’s top five agricultural chemical companies by production and profitability. To achieve this, we’re implementing a strategy combining unparalleled organic growth potential and disciplined M&A activity.”

Dmitry Strezhnev
Chief Executive Officer

Nitrogen



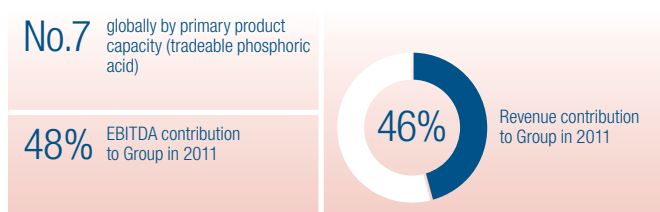
Our Novomoskovskiy Azot and Nevinnomysskiy Azot facilities have a combined annual capacity of 2.8 MMT of ammonia, which is the basic material for all nitrogen fertilizers.

Investments in products with high margins per unit of gas, efficiency, and production flexibility have been the backbone of our competitiveness in nitrogen, the sustainability of which is supported by the purchase of natural gas assets in the Yamal Peninsula. Furthermore, our acquisition of high-quality nitrate capacity in Belgium will provide us with value-added production coupled with strategic logistics positioning.

Our two nitrogen plants in Russia also produce organic synthesis products, such as ethanol, acetic acid, and de-icing agents.

EuroChem is Russia’s only producer of acetic acid and granulated urea, and we plan to launch Russia’s only melamine production plant in spring 2012.

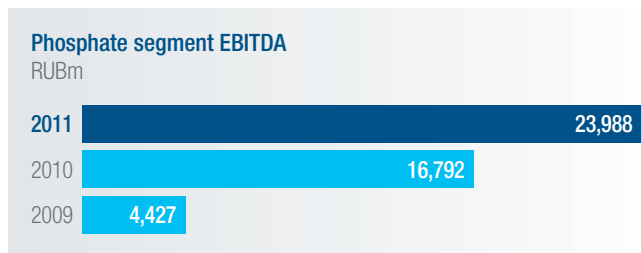
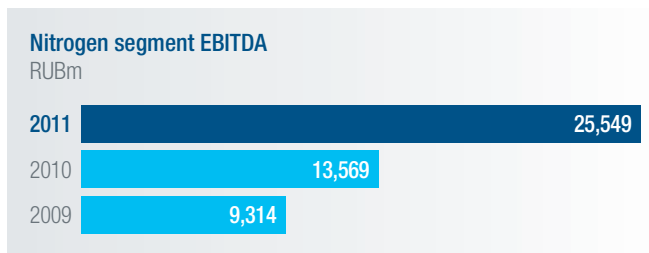
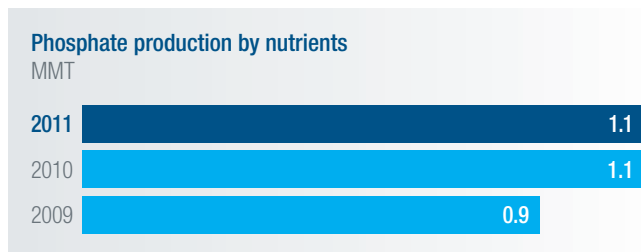
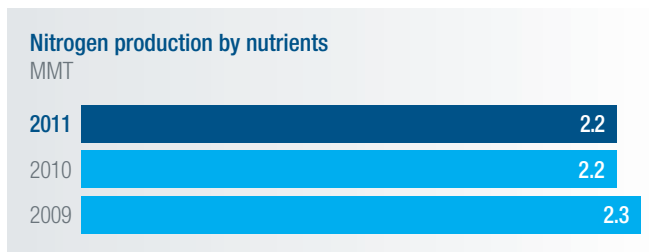
Phosphates



Our Phosphate segment is vertically integrated, with high-quality apatite from our Kovdorskiy GOK mining facility supplying our Lifosa, Phosphorit and EuroChem-BMU phosphate plants, which can produce a combined 2.4 MMT of MAP, DAP and NP per year, as well as 380 KT of feed phosphates.

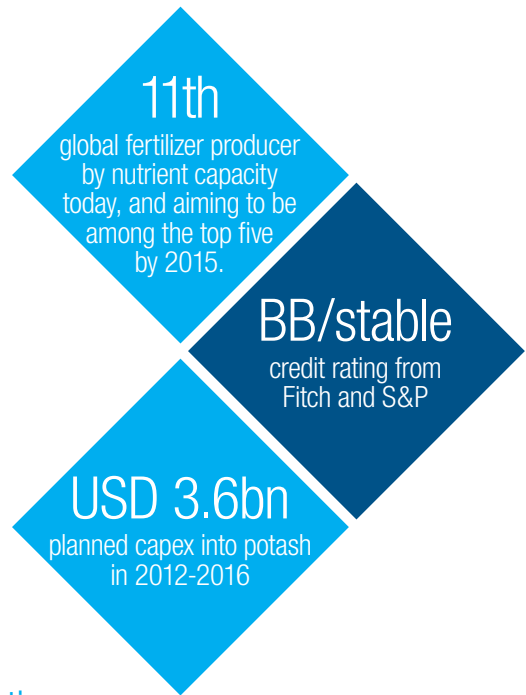
By virtue of its geology, Kovdorskiy GOK’s Zhelezny open pit mine also provides us with up to 5.7 MMT of iron ore annually. Our mining facility is also the world’s only producer of baddeleyite concentrate.

To further secure the availability of raw materials for EuroChem’s Phosphate segment, we acquired phosphate rock mining rights in 2010 for deposits located in Kazakhstan’s Karatau Basin, which we plan to start developing within the next year.

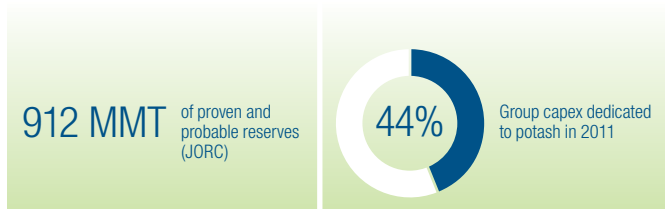


Logistics | Our logistics infrastructure is a vital component of our vertically integrated business model. It includes port facilities and transshipment terminals, rail stock, and brokerage services. In late 2011 and early 2012, we acquired two Panamax vessels to complement the fleet of ships we rent on long-term leases.

i Further information on our segments is in our management report See pages 36-51



Potash



With the commissioning of our first potash mine and production facilities, EuroChem will become the fourth major global fertilizer producer operating in all three primary nutrient segments.

Greymachinskoe deposit (Volgograd)

- License acquired in 2005 at state auction
- Purchase price of RUB 3.0bn
- Reserves and resources: 1.9bn tonnes*
- Depth of 1,000-1,200 metres
- High nutrient content: KCl average content 37% (in the range of 23.4-40.9%); NaCl content 57-61%; MgCl content 0.10-0.15%; CaSO₄ content 4-5%
- Phase I: capacity of 2.3 MMT p.a.
- Phase II: capacity doubled to 4.6 MMT p.a.
- RUB 27.0bn in total cumulative investments as of 31 December 2011

Verkhnekamskoe deposit (Perm)

- License acquired in 2008 at state auction
- Purchase price of RUB 4.1bn
- Reserves: 1.5bn tonnes*
- Depth of c. 500 metres
- KCl average content 30%
- Phase I: capacity of 2.0 MMT p.a.
- Phase II: capacity increased by 1.4 MMT p.a. to total of 3.4 MMT p.a.
- RUB 8.6bn in total cumulative investments as of 31 December 2011

* A+B+C1+C2+P1 according to Russian reserves classification. Because of rounding, some figures may not exactly add up to the totals.

Distribution



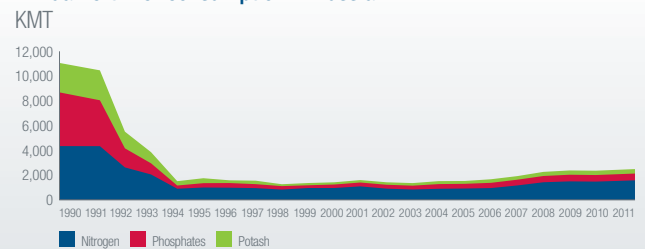
Our distribution business consists of a sales network in Russia and Ukraine that sells fertilizers, seeds and crop protection products, as well as offering various consulting services to local agricultural producers.

The development of our distribution network is an important part of EuroChem's sustainable growth strategy. Not only does having our own distribution capability help us enhance value all the way to the end consumer, it also gives us a strong foothold in our home market, and provides important revenue in the same currency as the majority of our operating costs.

With the collapse of the Soviet Union, fertilizer application fell throughout the CIS. Fertilizer consumption in Russia is estimated to have declined drastically in the 1990s, to less than a tenth of earlier rates. Only recently have we seen application trends reverse, as better educated and better equipped farmers have both the incentive and means to increase yields.

However, fertilizer consumption is still very low in Russia. In fact, according to the most recent data from the Food and Agriculture Organization, Russia consumes 16 kilograms of fertilizer per hectare of arable land, compared to 154 in India, 160 in the European Union, and 468 in China. But the landscape is changing fast and Russia is displaying the highest growth trends globally. In the past five years alone, fertilizer consumption increased 30%, while EuroChem's distribution business saw a tenfold increase in revenues from RUB 1.4bn to RUB 14.0bn in 2011.

Annual fertilizer consumption in Russia



Sales & trading

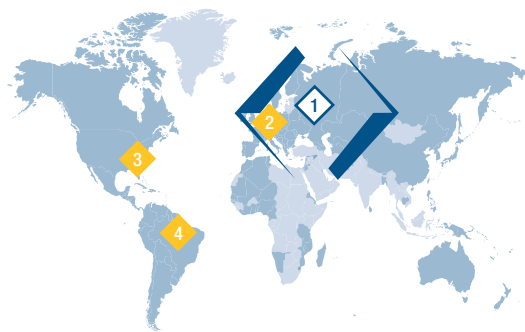
Our international network currently includes the Swiss-based trader EuroChem Trading GmbH, which is responsible for global sales outside the CIS and North America; a Florida-based trading company, EuroChem Trading USA Corp., responsible for North American sales; and EuroChem Comercio de Produtos Quimicos Ltda, which is based in São Paulo and supports our sales efforts in this rapidly expanding market.

Where we operate

EuroChem is a vertically integrated company with natural gas, mining, fertilizer production, logistics, and distribution facilities and infrastructure in Russia, Belgium, Lithuania, Estonia, Ukraine, the US, and Brazil.

1 Head Office	10 Novomoskovskiy Azot
2 EuroChem Trading	11 Nevinnomysskiy Azot
3 EuroChem Trading USA	12 EuroChem Antwerpen
4 EuroChem Comercio de Produtos Quimicos	13 Severneft-Urengoy
5 Tuapse Terminal	14 Kovdorskiy GOK
6 Murmansk Terminal	15 Phosphorit
7 Sillamae Terminal	16 Lifosa
8 EuroChem-VolgaKaliy	17 EuroChem-BMU
9 EuroChem-Usolskiy potash complex	18 Sary Tas Fertilizers

- ◇ Head Office
- ◆ Company offices
- ◆ Port terminals
- ◆ Nitrogen
- ◆ Phosphate
- ◆ Potash



Shaded areas represent countries with EuroChem's presence via production, logistics or distribution subsidiaries.



More than
90
countries consume
EuroChem products

Nitrogen

Our nitrogen strategy is to continuously emphasize higher value-added production. Our related activities range from upstream natural gas operations to melamine production.



- 10
- 11
- 12
- 13

[Read more on page 36 →](#)

Phosphates

Our Kovdorskiy GOK apatite mine is a key component of our competitiveness. We plan to increase our reserve base with phosphate rock production in Kazakhstan.

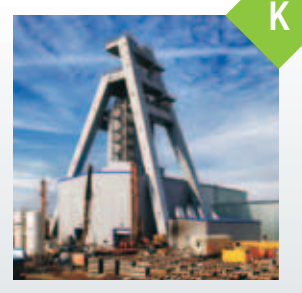


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[Read more on page 40 →](#)

Potash

EuroChem holds licenses to develop potash reserves in Russia which entitle it to an estimated fifth-largest volume of potash reserves globally. The Gremyachinskoe deposit is recognised as one of the world's most attractive greenfield developments. Over the next five years EuroChem's planned investments in potash will amount to c. USD 3.6bn.



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- 9

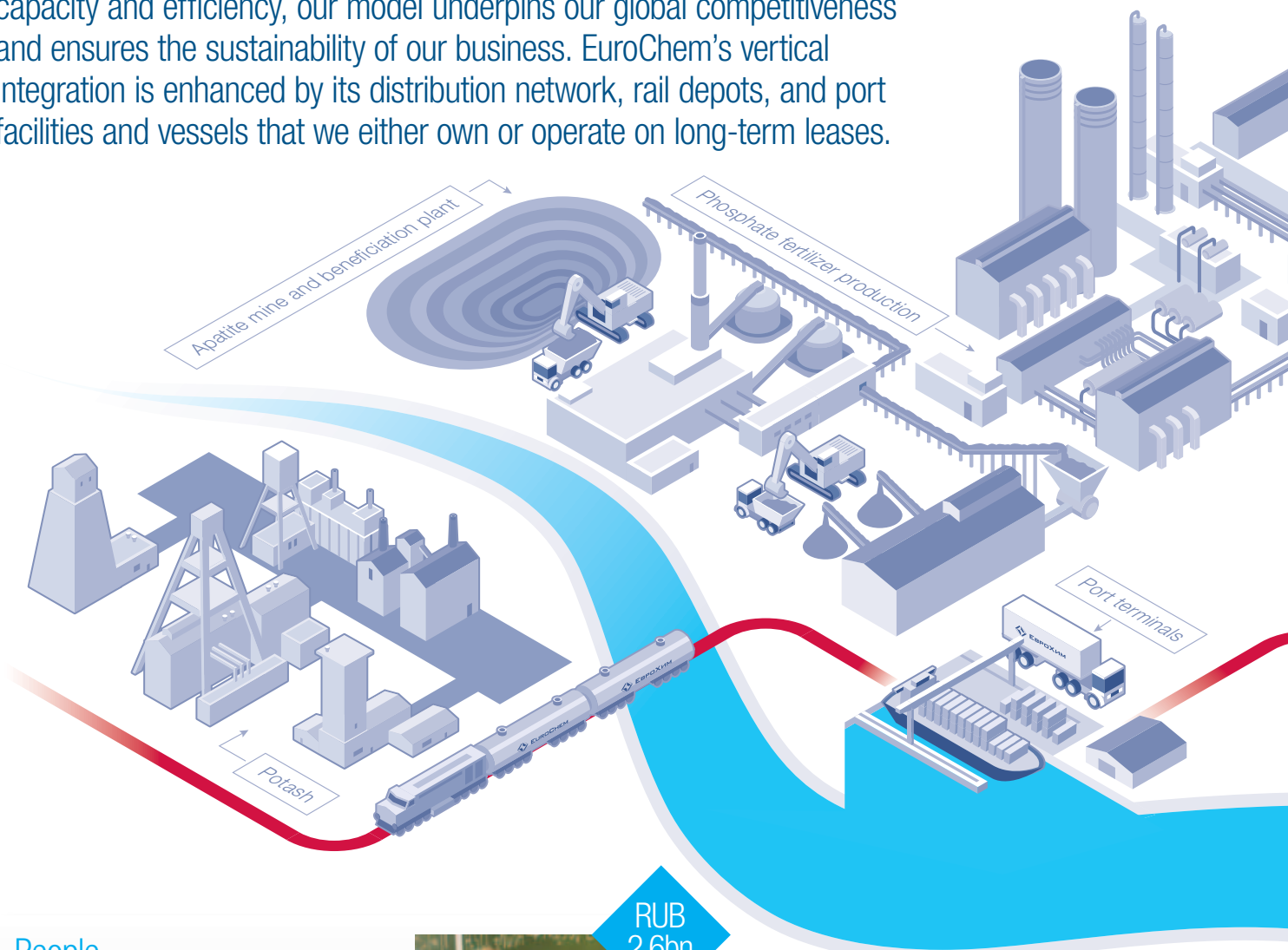
[Read more on page 44 →](#)



Vertically integrated business model

3,800
support service and
repair specialists

EuroChem's vertically integrated business model allows us to create value at every step of the production chain. Together with our access to lower-cost raw materials, and our investments in both production capacity and efficiency, our model underpins our global competitiveness and ensures the sustainability of our business. EuroChem's vertical integration is enhanced by its distribution network, rail depots, and port facilities and vessels that we either own or operate on long-term leases.



People

RUB 2.6bn invested in communities, social projects and charities over the last ten years

In addition to our direct contribution to local budgets, our social programmes, investments in social infrastructure, grants and charitable giving – which exceeded RUB 450m in 2011 – demonstrate our concern and care for the social fabric of the towns where we operate, and our desire to work with local residents, authorities, and organisations to create a better future for all.



RUB
2.6bn

See our social report at www.eurochem.ru/ →



Raw materials

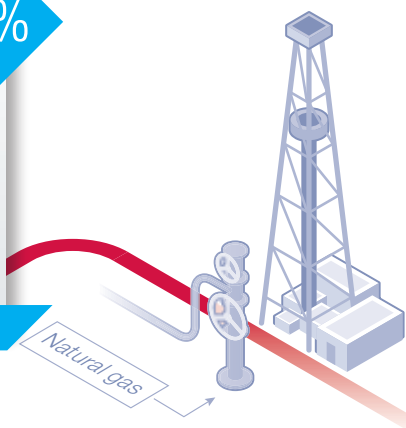
Up to 80% self-sufficient in phosphate rock

EuroChem's upstream integration starts with apatite mining operations and natural gas production for its Phosphate and Nitrogen segments respectively. Our Potash segment will benefit from the start of production at EuroChem-VolgaKaliy and EuroChem-Usol'skiy Potash where we expect to reach a combined 8 MMT of annual capacity.



80%

See pages 36-47 →



RUB 150bn

Products

RUB 150bn projected investments in nitrogen, phosphates and potash for 2012-2016 – mostly on new construction and development

EuroChem produces and sells more than 100 different products, including ammonia, urea, AN, CAN UAN, MAP, DAP, and methanol, with melamine and potash in the pipeline. We are taking steps to further diversify our product range, while increasing the efficiency of our production processes and reducing the environmental footprint of operations. Our diversified product mix provides us with a competitive advantage in both domestic and international markets, while our substantial degree of sales flexibility allows us to quickly adapt to customer demand and economic conditions.



See pages 36-47 →



Group sales by region

% of Group sales



1 Russia	24%
2 Asia	23%
3 Latin America	15%
4 Europe	14%
5 CIS	12%
6 North America	8%
7 Africa	3%
8 Australasia	1%

Distribution

25 distribution centres in Russia and the Ukraine

In addition to offering a full range of EuroChem fertilizers, our distribution centres provide third-party crop protection products, seeds, and consulting services. The expansion of our distribution network has provided us with a strong foothold in Russia, the world's fastest growing large agricultural market, and the attractive Ukrainian market. Our sales reflect the Russian market growth story – from 2009 to 2011, sales from our Distribution segment increased 160% from RUB 5.32bn to RUB 13.97bn. We now boast a 25% market share in Russia, where our presence is heavily concentrated within the Black Earth Region.



25

See pages 36-47 →

Chairman's statement

“We have spent the last 12 months building on our strategy to become a leading global player within the fertilizer market. While pursuing our drive to have a presence in all three primary nutrients, we also acted on our strategy to move closer to our end-users and further secure our raw material base.”



Andrey Melnichenko
Chairman

As it approached its tenth anniversary, EuroChem was well positioned to capitalize on the previous 12 months' momentum. The economic downturn showed us that the industry fundamentals, although slightly shaken, were nonetheless structurally sound and the year's uncertain global macroeconomic backdrop did not upset our performance. With crop prices and fertilizer application rates remaining at comfortable levels throughout the year, EuroChem finished 2011 with a record-setting RUB 131bn in revenues.

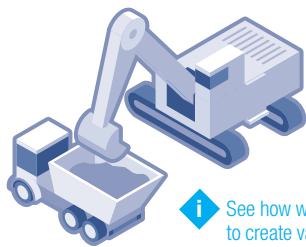
Our industry is driven by the fundamental need to provide more food, fuel, and fibre to a growing global population. The investments we've made over the last ten years, and what we plan to do for the next decade, are there to help meet this challenge.

EuroChem stands out by its unmatched organic growth potential. We have channelled investments into both increasing the efficiency of our business and expanding its product mix to provide it with stability and resilience. Coupled with prudent financial management, the strategic rationale behind these investments stood out during the economic downturn and has since contributed to building our strong balance sheet, which has allowed us to capture strategic opportunities as they arise.

Adding to our ambitious organic growth programme, in late September 2011 we approved the Company's acquisition of nitrogen fertilizer production assets from BASF. Strategically located in Antwerp, Belgium, these assets will provide EuroChem with value-added production in Western Europe, a key premium market and our second home market after Russia. In a move designed to further sharpen our competitive edge in nitrogen, the Board went on to approve the acquisition of a natural gas operator in Russia.

Together with our potash development projects, which continued to make great headway despite their complexity, these game-changing acquisitions have brought us one step closer to realizing our strategy to become a global top five player by both size and profitability.

Over the last ten years, we've earned a well-deserved place amongst the world's top fertilizer producers. Our objective now is not only to become a top five player by size and profitability, but also to be one of the most environmentally responsible agrochemical producers.



 See how we are continuing to create value
See page 22



Ten years of performance

Ten years is a major milestone for a Russian company today, but at EuroChem we know it is only the beginning. The systems and strategies we have put in place and executed over these last ten years have served to define our priorities and have provided us with the right tools to see them through. Marking this anniversary milestone, our revenues for the year grew to a record RUB 131bn in 2011. This is not only the result of a robust market environment, but also stems from ten years of focused teamwork targeting improvements in production efficiency and product quality combined with environmental and social initiatives. As we look to consolidate our newly acquired assets in Russia and Western Europe, while simultaneously moving closer to entering the select club of potash producers, I see the next ten years as more promising and value-creating than ever.

People

On behalf of the Board, I am pleased to report that a record total of 17,100 employees benefited from professional training in 2011. Whether at our facilities or in university classrooms, we once again strived to ensure our employees were fully enabled to improve their professional skills and contribute to our growth. Additionally, following in the footsteps of the 27 graduates of 2009, 35 employees were enrolled in EuroChem-supported MBA programmes in 2011, something we are all very proud of as it not only unlocks their managerial potential and leadership skills, but also serves to encourage those around.

Environment

Ten years ago, as we began acquiring the assets which form the backbone of today's EuroChem, we already knew that profitability and accountability work best together. During Russia's troubled economic times of the 1990s, these assets appeared to most as a huge liability due to their significant investment requirements, particularly in environmental expenditure. We have since been actively engaged in reducing their environmental footprint, by decreasing emissions and lowering the energy intensity of our production processes. Throughout 2011, an aggregate RUB 1.1bn was spent on Company-wide environmental and industrial safety. If we look back at the past ten years, that investment adds up to an impressive RUB 6.3bn. It is deeply satisfying to see that these investments have not only provided immediate benefits to the environment, but have also benefited our employees, their families and our Company.

Board

We had some changes to the Board this year as Charles Adriaenssen opted not to seek re-election following his fifth term in June 2011. As a member of the Corporate Governance and the Personnel Committee, Charles played an important role in developing EuroChem's corporate governance systems. We have been actively seeking the right balance of experience and talent to replace Charles' vacant seat, while also taking other issues, such as gender diversity, into consideration.

On the executive side, Igor Nechaev joined the management team from January 2011 as Logistics Director, following his appointment by the Board in late 2010. His appointment comes as we seek to expand our foothold across key markets by de-bottlenecking logistical constraints and getting closer to our end-users.

Looking ahead

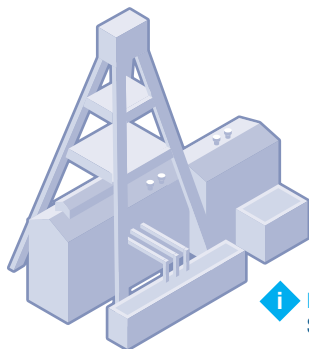
Our strategic actions have provided us with clear opportunities. Seizing them and realizing their full potential will require coordinated efforts from all sides of the business. The Board and I will continue to provide the necessary support and steering to our management team as it leads the consolidation of our newly acquired assets and positions us for our next growth phase.


Chief Executive's review

“We celebrated our tenth anniversary with record financial results. In a period marked by credit fears and macroeconomic uncertainty, the unique fundamentals of our industry once again stood out as a reminder of the crucial role our products play. As we proceed with the integration of newly acquired assets and move further down the path to potash, we are now strategically positioned for unparalleled value creation and growth.”



Dmitry Strezhnev
Chief Executive Officer



 Follow our path to potash
See pages 44-47

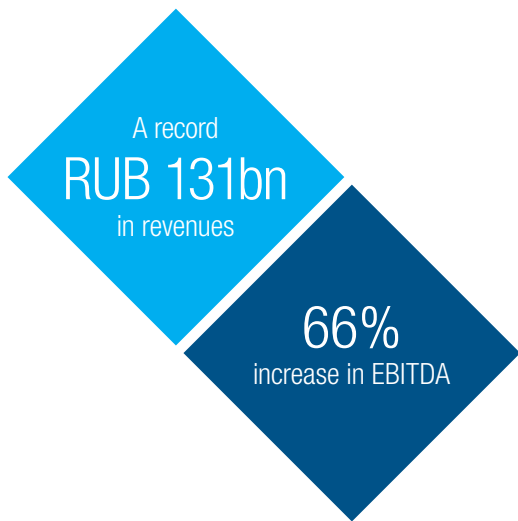
2011 will be remembered as a transformational year for EuroChem. While we continued working on adding potash to our production mix, we also ventured further upstream and refined our global footprint.

We started the year with a great first half performance and, despite the macroeconomic gloom that followed, we closed 2011 with revenues of RUB 131bn and EBITDA of RUB 50bn, which represented increases of 34% and 66% on the previous year, respectively.

While nitrogen and phosphate fertilizer sales volumes remained fairly stable, we saw a noticeable increase in the share of higher-margin products. Investments in granulated urea production proved justified as sales of this premium urea product increased 32% year-on-year.

In potash, delays in the sinking of the Gremyachinskoe cage shaft prompted us to halt the cementation process in favour of freezing technology. By using this very same technology, the sinking rate at the future mine's skip shaft #1 remained steady throughout the year and the VolgaKaliy team had reached a depth of 400 metres by year end – and 506 metres as of 15 March 2012. At the same time, we went ahead and brought forward the sinking of skip shaft #2. While the start of production at VolgaKaliy is now unlikely before 2014-15, we nevertheless aim to reach a full annual capacity of 4.6 MMT in 2016-17. In retrospect, this delay further validated our initial decision to mitigate sinking risks by using two competing technologies. Building on our experience with freezing technology, we announced the start of active sinking at our second potash project. Sinking at the Verkhnekamskoe skip shaft #1 began in December and work on the cage shaft followed in March 2012, leading us to pencil in 2016 for initial production. While we expect VolgaKaliy to complete the sinking of the skip shaft #1 in early 2013, the next months will continue to represent considerable risks as we cross significant aquifers under increasing pressures. Combined, the risks and commitment these investments represent constitute the sizeable barriers to entry which make potash such a unique product.

In nitrogen, we complemented our investments targeting efficiency improvements at our two nitrogen plants with the acquisition of natural gas assets in Western Siberia and downstream nitrates and NPK production in Belgium. With sufficient existing capacity to meet up to a quarter of our annual needs, the former should, over time, boost our ammonia gas efficiency and support our cost advantages. Meanwhile, the BASF fertilizer assets fit perfectly within our manufacturing footprint strategy by providing us with both a world-class production base from which to grow our position in the premium European market, and the ideal platform to expand our global sales.



In phosphates, we updated the wet-process phosphoric acid shop at Phosphorit and proceeded with the overhaul of the plant's industrial measurement and monitoring equipment. We continued our dialogue with the Kazakh authorities to secure additional feedstock reserves for our phosphate facilities and are now expecting to start phosphate rock mining from 2013. In our phosphate raw material mining operations, we announced plans to allocate in excess of RUB 97m to Kovdorskiy GOK to implement a series of measures to upgrade production processes and equipment, increase production efficiency and further enhance environmental protection.

Our environmental programmes were praised as the best in Russia last year. As part of our efforts to better understand and address the impact of our operations, we installed environmental monitoring stations near our Nevinnomyskiy and EuroChem-BMU plants and launched the award-winning "Novomoskovsk Clean Water Program."

In mid-year, we reached a milestone in our logistics development with the operational debut of our Tuapse Transhipment Terminal. The terminal is a key future driver of the global competitiveness of our Gremyachinskoe potash production.

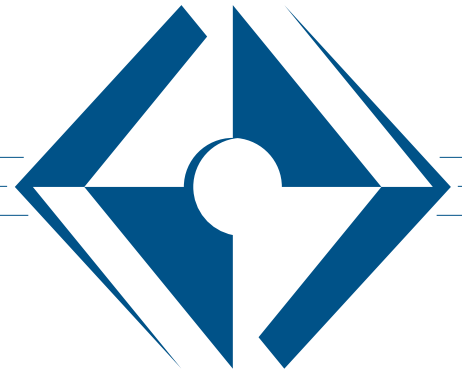
Most importantly, as our track record shows, we have accomplished all the above at a reasonable price. By prioritising sound and prudent financial management we have not only secured sustainable and profitable production and shareholder returns, but also placed EuroChem in a position to seize further value-building opportunities.

2011

- March**
 - Two air-quality monitoring stations are installed at Nevinnomyskiy Azot.
 - Decision to allocate RUB 1.5bn to tackle effluent emission at Novomoskovskiy Azot in a programme running through to 2015.
- May**
 - EuroChem officially launches the Tuapse Transhipment Terminal.
- June**
 - Commissioning of the Gremyachaya rail station.
- July**
 - EuroChem cargo ships pioneer use of the Northern Sea Route to deliver iron ore concentrate to China.
 - EuroChem secures a five-year USD 1.3bn Pre-Export Finance term loan facility from a pool of 15 banks, making it the largest bank debt financing in the chemicals sector in Central and Eastern Europe since 2009.
- August**
 - The Tuapse terminal successfully completes its inaugural loading operations.
 - EuroChem takes top honours at the seventh annual "Best National Russian HR programme" awards.
- September**
 - Fitch reaffirms EuroChem at "BB" with stable outlook.
 - EuroChem announces its intention to acquire 100% of BASF's fertilizer assets in Antwerp, Belgium.
- October**
 - EuroChem-VolgaKaliy named "Prospector of the Year" at the seventh international MINEX mining forum.
 - Standard & Poor's confirms EuroChem's corporate credit rating of "BB"/stable.
 - EuroChem signs long-term RUB 20bn loan agreement with Sberbank.
- November**
 - EuroChem recognised as Russia's 2011 Corporate Charity Leader by the Russian Ministry of Economic Development for its youth programmes and regional development of ice sports.
 - The Russian Union of Industrialists and Entrepreneurs rewards EuroChem for its implementation of environmental monitoring networks.
- January 2012**
 - EuroChem completes the acquisition of 100% of natural gas operator Severneft-Urengoy.
 - EuroChem announces plans to invest USD 32m in environmental protection at its Phosphorit plant.
- March 2012**
 - EuroChem completes its acquisition of BASF's fertilizer assets in Antwerp, Belgium.

2012

Addressing the issues that matter



1. Population growth

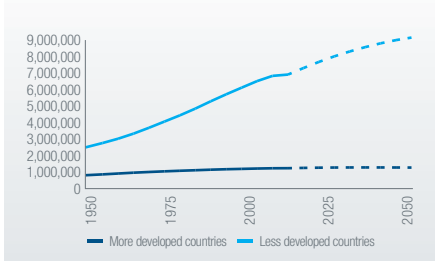
The world welcomed its seventh billion citizen this year, and every day another 200,000 seats are needed at the table.

We estimate that global farmland productivity needs to increase by at least 15% by 2020 to keep global food consumption per capita on a par with today's level.

To meet this core challenge facing the global food system, agricultural producers must continue to increase farmland output and efficiency to keep up with demand and contain food price growth.

Population growth remains a key driver of increased fertilizer consumption.

World population growth



2. Available land

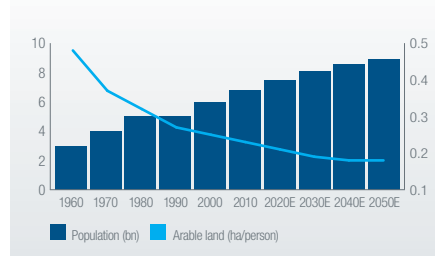
This increasing food burden is compounded by another challenge: the decreasing amount of land available for cultivation.

Between 1960 and 2011, while the global population increased 130%, cultivated land increased a mere 10% – meaning that if one acre of agricultural land fed 2.4 people in 1960, that same acre must now manage to feed 4.8 people.

Throughout the world, but predominantly in developing countries, the rapid pace of industrialisation has led to increasing urban footprints and decreasing land available for agriculture.

Highlighting this trend, as of 2011 and for the first time in its history, more people in China now live in cities as opposed to rural agricultural areas.

Arable land per capita vs population



3. Changing diets

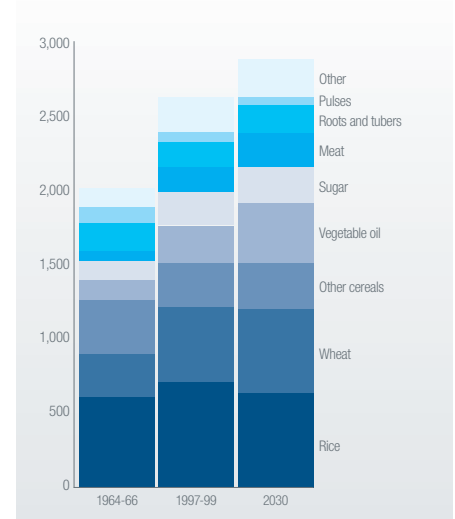
Growing prosperity especially in emerging markets, leads to significant dietary changes.

This trend has been especially strong in emerging economies, where greater individual wealth has not only brought increased food consumption per capita, but also greater protein intake.

This change in dietary standards adds to the burden of a growing population, as protein-rich foods, such as meat and poultry, are resource-intensive sources of calories.

Already today, nearly half the world's cereal production is used to produce animal feed. Over the next 20 years, more than 25% of the projected increase in demand for crops will come from the growing need to produce animal feed rather than as a result of population growth.

Kilocalories per capita/day



Sources: World Bank, UN, FAOSTAT, BP, EuroChem estimates.

4. Global economy

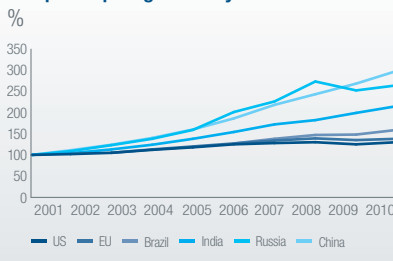
Emerging economies are a key driving force behind fertilizer demand.

From 2001 to 2010, the combined gross national income per capita (PPP dollars) of the BRIC countries (Brazil, Russia, India, and China) rose by an estimated 125%, while the US and world averages increased 30% and 56% respectively over the same period.

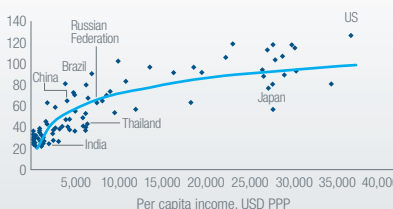
In addition, the world's population has gone from 2.5 billion people in 1950 to 7.0 billion in 2011, which much of the increase coming from Asia, Africa and South America.

It is this unprecedented growth phase that drives both increased consumption and improvements in dietary standards.

GNI per capita growth dynamic



Per capita meat consumption
PPP dollars



5. Soil fertility

More nutrients need to be applied to bring yields per acre to levels capable of meeting the increasing food demand.

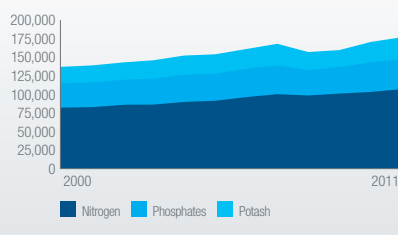
Crops deplete the nutrient content of the soil in which they grow. With each successive harvest, these nutrients must be replaced simply to maintain stable production levels.

Nitrogen fertilizers must be continuously applied since nutrient not used by crops is heavily subject to leaching. For phosphates and potash, any reduced or delayed application during one harvest cycle will lead to the requirement for a heavier application pattern over the following cycle.

Arable land also needs fertile soil to grow the crops that are in demand.

While each crop requires different nutrients for optimal growth, N, P, and K fertilizers work best when combined together.

World fertilizer consumption in 2000-2011
KMT nutrients



6. Alternative fuels

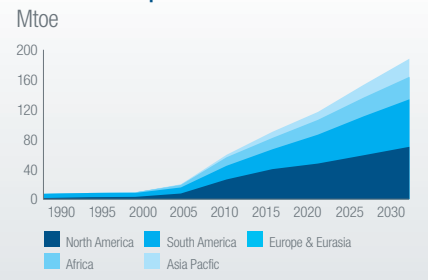
Biofuels account for a small but rapidly growing share of consumption of the world's food resources.

The quest to find an alternative to oil at the same time as decreasing CO₂ emissions has led to an increase in biofuel production.

Between 1980 and 2011, the share of US corn production destined for ethanol production has risen from under 1% to over 24% in 2011.

Globally, biofuel production has grown from seven million tonnes of barrel equivalent (Mtoe) in 1990 to 60 Mtoe in 2011. According to some estimates, this number could grow to 188 Mtoe by 2030.

Global biofuel production



The global industry – peer analysis

EuroChem is unique within the fertilizer sector. Already a major player, it stands out both as a privately-held business and as a company with exceptional strategic vision and significant expansion plans. No other company of this scale in the sector boasts a comparable potential for purely organic growth.

Today, EuroChem represents 1.9% of annual global mineral fertilizer production measured by MMT of nutrient content. By growing faster than the market and adding potash to our product mix, we aim to account for 3.3% of annual global production within the next five years.

Production in nutrient content (MMT p.a.)

	2006	2011	2016	10-year CAGR
Nitrogen (N)	2.0	2.2	3.5	5.8%
Phosphates (P ₂ O ₅)	0.9	1.1	1.7	6.0%
Potash (K ₂ O)	0.1	0.1	1.3	32.3%
Total EuroChem	3.0	3.4	6.4	8.0%
Nitrogen (N)	96.3	106.9	113.0	1.6%
Phosphates (P ₂ O ₅)	38.0	40.7	44.9	1.7%
Potash (K ₂ O)	26.7	29.2	36.3	3.1%
Total world	161.0	176.9	194.3	1.9%
EuroChem market share	1.9%	1.9%	3.3%	

Sources: Company data, CRU, Fertecon, IFA.

We view Europe and the CIS as our core markets. In 2011, we further developed our distribution capabilities in the CIS and set out to expand our production geography with facilities in Belgium. In sales of nutrient content, our 2011 market share was 2.6% in Europe and 14.2% in the CIS.

Data on 2011 sales in MMT of nutrients

Europe	Total market	EuroChem	EuroChem's share
Nitrogen (N)	11.23	0.22	1.99%
Phosphates (P ₂ O ₅)	2.64	0.21	8.02%
Potash (K ₂ O)	3.07	0.00	0.10%
Total N, P, K	16.94	0.44	2.59%

CIS ex-Russia	Total market	EuroChem	EuroChem's share
Nitrogen (N)	2.34	0.18	7.84%
Phosphates (P ₂ O ₅)	0.58	0.10	17.08%
Potash (K ₂ O)	0.84	0.01	1.49%

Russia	Total market	EuroChem	EuroChem's share
Nitrogen (N)	1.58	0.44	27.59%
Phosphates (P ₂ O ₅)	0.55	0.14	26.12%
Potash (K ₂ O)	0.36	0.01	3.21%

Russia and CIS	Total market	EuroChem	EuroChem's share
Nitrogen (N)	3.91	0.62	15.81%
Phosphates (P ₂ O ₅)	1.13	0.24	21.47%
Potash (K ₂ O)	1.20	0.02	2.01%
Total N, P, K	6.24	0.89	14.18%

Sources: Company data, CRU, Fertecon, IFA.

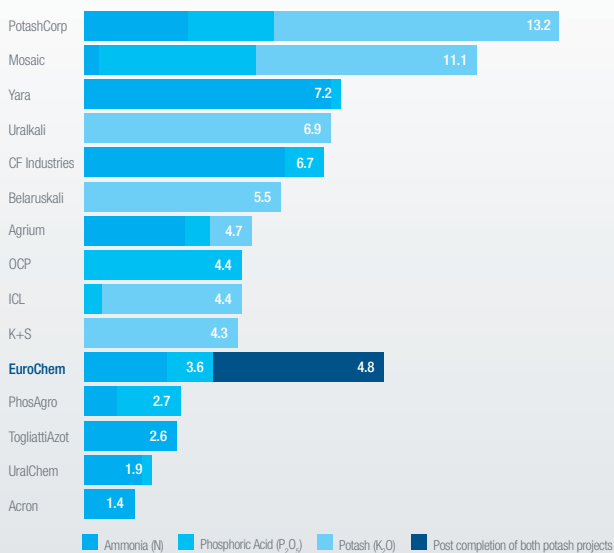
* Because of rounding, some figures may not exactly add up to the totals.

We use the trailing 12 months (LTM) figures provided by those fertilizer companies which publicly report their financial information as one of the ways to benchmark EuroChem's performance. For 2011, EuroChem ranked eighth in terms of revenues and seventh by EBITDA and operating cash flow – providing it with a 38% EBITDA margin, the fourth highest in the sector on an LTM basis.

Our solid cash flow generation provided us with the flexibility to pursue both organic and M&A growth opportunities. As in the previous year, EuroChem ranked third globally in term of capital expenditure. In 2011, we spent an aggregate USD 810m on upgrading existing production capacity, launching new product lines and on our ambitious potash strategy.

Ranking by nutrient capacity

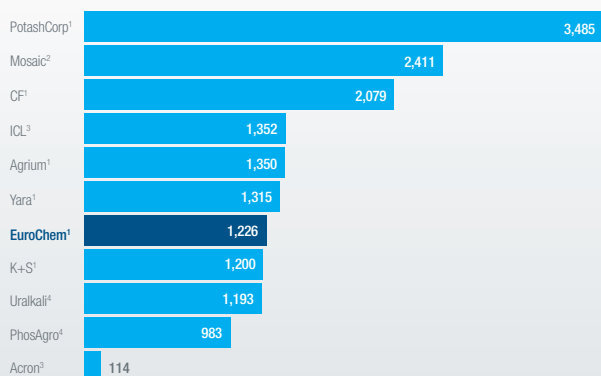
MMT p.a.



Sources: Company data, CRU, Fertecon, IFA.

Operating cash flow

USDm



¹ 12 months ended 31 December 2011.

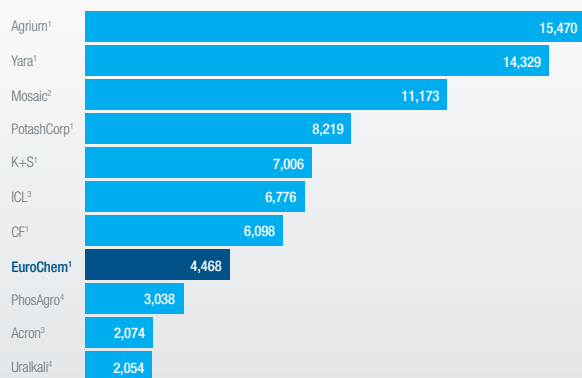
² 12 months ended 30 November 2011.

³ 12 months ended 30 September 2011.

⁴ 12 months ended 30 June 2011.

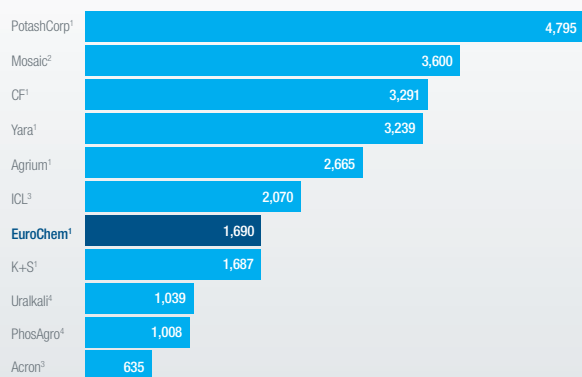
Sales

USDm



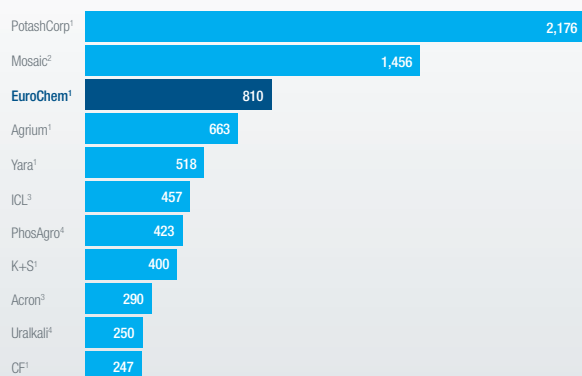
EBITDA

USDm



Capex

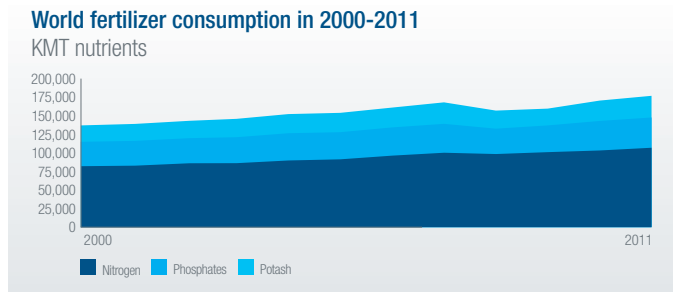
USDm



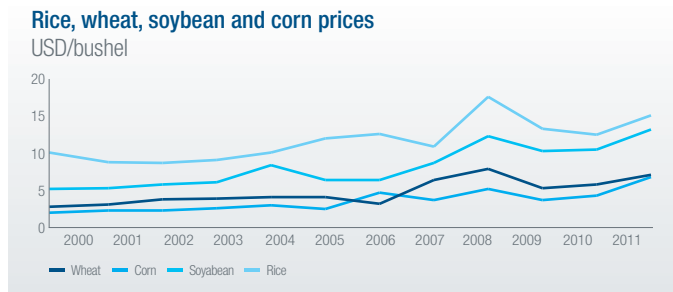
Market drivers

Fertilizer demand remained robust across all geographies throughout the first nine months of the year as high grain prices both incentivised farmers to maximise yields and made fertilizers more affordable. A combination of depleted fertilizer inventories, capacity delays, and production shutdowns provided the necessary traction for sustained price increases up until the fourth quarter when global macroeconomic nervousness caught up with the sector.

- Fertilizer fundamentals were unscathed despite the year's macroeconomic uncertainty and European and US debt concerns.
- Global stock-to-use ratios in major grains remained below their long-term averages and continued to prop up soft commodity prices.
- Although less severe and more localised than in 2010, weather-related supply shocks maintained upward pressure on agricultural commodity prices.
- Attractive grain prices incentivised farmers to maximise yields and supported stronger-than-expected fertilizer demand and prices.
- During the first six months of the year, mounting social unrest across certain geographies resulted in supply-side production shutdowns and further highlighted issues of food security.
- Throughout the year fertilizer markets remained relatively tight on production turnarounds, delays in capacity ramp-up and restricted export volumes out of China.



Source: IFA.



Source: CBOT.

January

Potash

- BPC concludes a 6-month contract for potash supply at USD 400/MT (CFR) with Chinese buyers.

M&A

- Cargill announces plans to spin off its 64% majority stake in Mosaic to its shareholders and creditors in a USD 24.3bn deal.

March

Potash

- K+S completes its take-over of Vancouver-based junior potash mining firm Potash One.
- World Bank launches fund to invest in Allana Potash's Ethiopian potash project.
- BASF sells its 10% stake in K+S AG into the market.

Nitrogen

- Ma'aden completes its first ammonia shipment.
- Ukraine's Group DF secures control of Azot Cherkassy.

2011

February

Nitrogen

- Petrobras' Três Lagoas ammonia and urea plant receives construction approval.
- Mounting civil unrest in Libya forces Yara to suspend ammonia and urea production at its Marsa el-Brega facility.
- Ukraine's Group DF acquires Severodonetsk Azot.

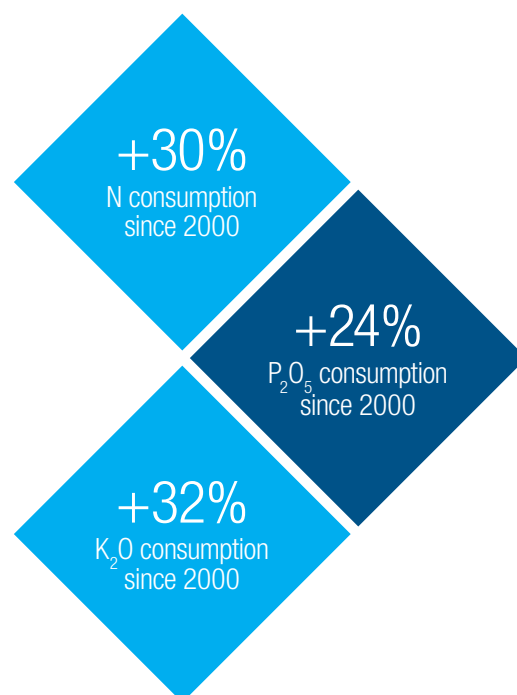
June

Phosphates

- Ma'aden starts initial DAP production at Ras Az Zawr.

Potash

- K+S sells its COMPO business.
- BHP Billiton approves a further USD 488m to develop its Jansen potash project in Saskatchewan.
- Uralkali and Silvinit complete their merger.

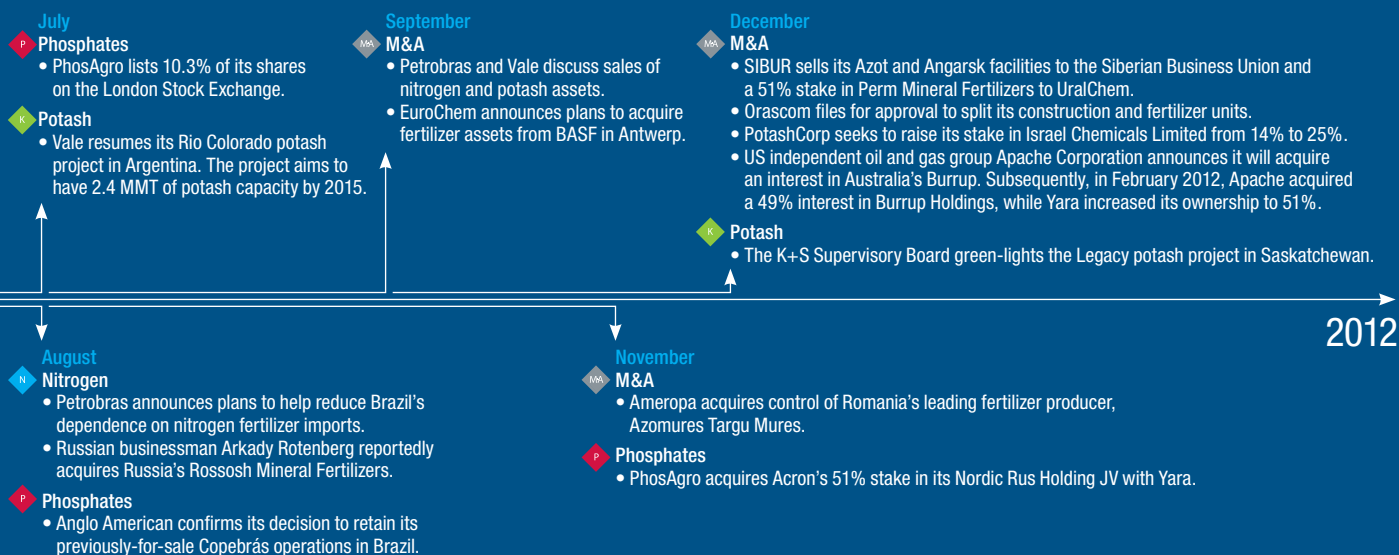


Despite the significant breakthroughs in food production and agricultural science achieved over the last century, we are still far from having enough food to feed an estimated nine billion people by 2050. The first half of 2011 saw civil unrest across a number of geographies, and behind these public demonstrations lay the issue of food security. By supporting farmers across the globe to increase production yields, the fertilizer industry is able to help meet the rising demand for food.

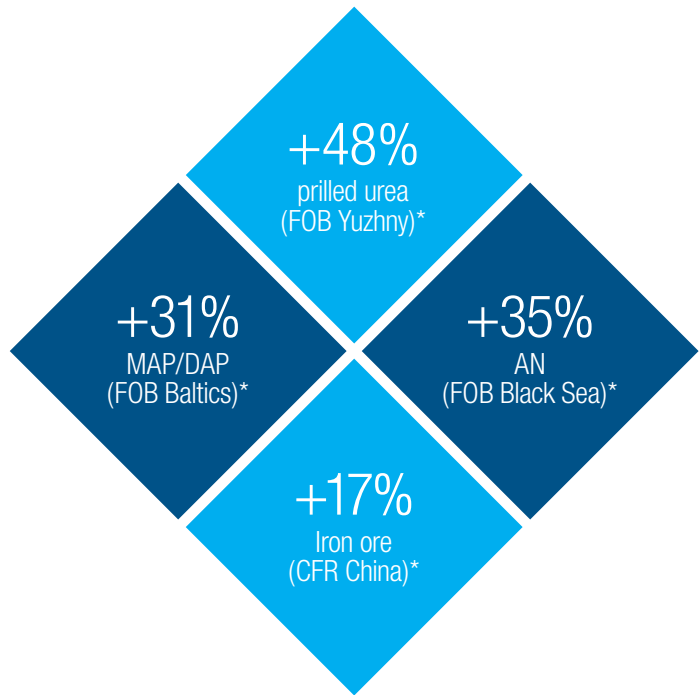
Nitrogen

- Global agricultural consumption of nitrogen increased by 3.6% in 2011, from 103.3 MMT to 106.9 MMT of nutrients. In the medium term, the nitrogen market is expected to grow by up to 4% per year.
- Throughout the first nine months of 2011, a combination of strong demand, low inventories, and healthy soft commodity prices pushed average urea prices to USD 425/MT (FOB Black Sea) compared to USD 287/MT in 2010 and USD 250/MT in 2009.
- In China, a reduction in the duration of the lower tax export window and the introduction of a sliding export duty on urea, which in practice meant the duty increased from 7% to 35-40%, brought a sharp decrease in Chinese exports, further lifting urea prices.
- Rising coal prices continued to push costs up for Chinese urea producers. Additionally, more than 2 MMT of capacity was shut down in 2011 due to environmental and energy concerns.

- Reacting to global macroeconomic fears, prices for nitrogen fertilizers significantly decreased in the fourth quarter and troughed in December at USD 323/MT for urea (FOB Black Sea) and USD 255/MT for AN (FOB Black Sea). However, as of January, urea and AN prices had already climbed back to USD 382/MT and USD 299/MT respectively.
- Natural gas prices rose practically everywhere, in Russia by 15% in rouble terms to c. USD 3.1/mmBtu, in Ukraine to USD 10.7/mmBtu delivered to the plant, and for Eastern-European producers prices reached c. USD 11.5-12/mmBtu. In the US, shale gas flow kept the Henry Hub below USD 4.00/mmBtu, while spot gas in Europe climbed from USD 6.70/mmBtu in 2010 to USD 9.5/mmBtu in 2011. Oil-based formula-priced gas in Western Europe increased to about USD 15/mmBtu in Q4 2011, compared to USD 10.8/mmBtu in Q1 2011.
- Current marginal producers (Ukraine, Eastern Europe) are estimated to break even at USD 280-300/tonne for urea (FOB Black Sea).
- New capacity in the Middle East, North Africa and other low-cost gas regions remains a challenge for future supply – demand balance in the sector. Projected additions of competitive new ammonia supply in 2012 include Qafco V (Mesaieed, Qatar – 1.5 MMT), Sorfert Algérie (Arzew, Algeria – 1.5 MMT), and MOPCO-Agrium (Damietta, Egypt – 0.8 MMT).



Market drivers *continued*



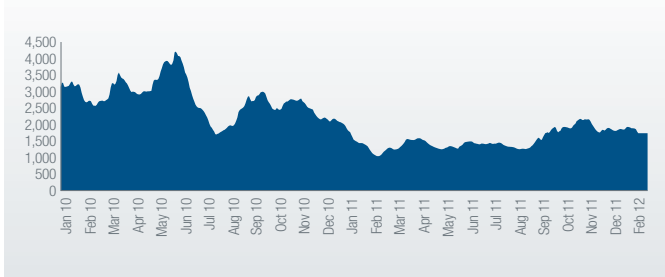
Phosphates

- Global consumption of phosphate fertilizers increased 2.5% to 40.7 MMT of nutrients in 2011.
- Average DAP prices for 2011 increased up to USD 633/MMT (FOB Baltic) from USD 485/MMT and USD 328/MMT in 2010 and 2009, respectively. However, DAP prices retreated to USD 553/MMT (FOB Baltic) in early January 2012 as inventories increased on temporarily lacklustre demand.
- In Q1 2011, Agrifos permanently shut down its phosphoric acid and DAP/ MAP units in Pasadena, Texas, removing 280 KMT of P₂O₅ acid capacity, and 500 KMT of DAP/MAP capacity from the market.
- Following a series of postponements, commercial production at Ma'aden, the phosphate sector's main new project, was expected in H1 2012.
- The phosphate rock supply industry remains relatively consolidated – threatening non-integrated phosphate capacity.

Potash

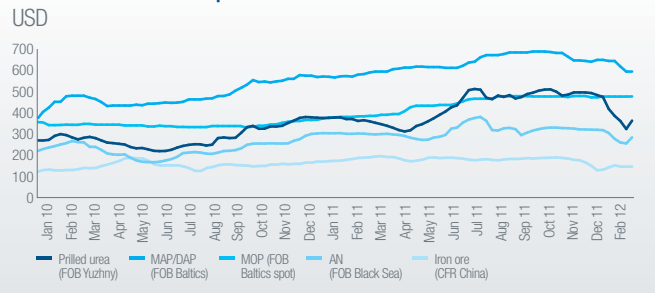
- Global potash sales in 2011 increased 5% to 55.6 MMT of KCl in 2011, and potash fertilizer consumption reached 29.2 MMT of K₂O compared to 27.4 MMT the previous year.
- In 2011 MOP spot prices increased from a range of USD 430-480/MT (CFR) in Q1 to 530-560/MT at the end of 2011.
- From 1 July, BPC increased MOP contract price to USD 470/MT (CFR) for Chinese buyers and from 1 August to USD 490/MT (CFR) for Indian deliveries.
- Uralkali and Silvinit completed their merger in Russia and K+S finalised the acquisition of a majority stake in Potash One (Canada). Global miners continued to voice their desire to enter the potash market.
- Given the high degree of consolidation, China and Brazil remain interested in and capable of building or buying their own potash production as a matter of national food security.

Baltic Dry Index (BDI)



Shipping rates, as illustrated by the Baltic Dry Index chart above, remained considerably depressed in 2011 and helped EuroChem move more products to key offshore markets. Revenues from Asia and Latin America surged 98% and 91% respectively and accounted for a combined 37% of our nitrogen fertilizer revenues, while sales of phosphate fertilizer to Asia increased 47% to represent 32% of our total fertilizer sales.

Fertilizer and iron ore prices



* 2011 average fertilizer prices vs 2010.

Our strategy

Our strategy is designed to generate more growth and derive additional value throughout EuroChem. Encompassing all the moving parts of the business, it signposts the way to our short-term strategic targets while securing long-term sustainability through strong shareholder returns and value creation.

Nitrogen

- Revamp/upgrade existing assets
- Build new ammonia capacity
- Optimise product mix
- Secure competitive gas supply

Phosphate/mining

- Revamp/upgrade existing assets
- Optimise product mix
- Secure competitive supply of P₂O₅ covering 100% of needs

Potash

- Start own potash production
- Self-sufficiency in complex fertilizers (NPK)



Logistics

- Continuously optimise transshipment, freight and rail costs
- Maximise return on capital tied up in logistics assets

Distribution

- Focus on distribution channels in target markets (Former Soviet Union and Europe)
- Full-scale distribution networks in Russia and Ukraine

Governance, environmental and social

- Adhere to best practice in corporate governance, social responsibility and environmental accountability
- HSE components in KPIs

Delivering on our strategy

What we have achieved in 2011

Strategic imperative	Developments	What's next?
Own potash production	Gremyachinskoe: Sinking operations at skip shaft #1 went as planned and had reached a depth of 400 metres by the end of 2011 and 506 metres by 15 March 2012. However, the difficult subsoil conditions encountered from the second quarter of the year considerably slowed the sinking rate of the cage shaft and prompted us to suspend the cementation process in favour of freezing technology. The sinking of skip shaft #2 was brought forward by nine months.	<ul style="list-style-type: none"> • Continue moving toward bringing potash online. • Ready the Gremyachinskoe cage shaft for freezing and resume sinking in Q2 2013.
	Verkhnekamskoe: The skip shaft #1 sinking operations started on 15 December and had reached a depth of 50 metres at the end of 2011 and 128 metres as at 15 March 2012.	<ul style="list-style-type: none"> • Complete ground-freezing operations at the cage shaft and start active shaft sinking in Q2 2012.
Own natural gas production	We believe that back-integrating into natural gas production is the most efficient way to counter rising gas prices. Our purchase of Severneft-Urengoy provides EuroChem with 1.1bn m ³ of natural gas capacity, or a little less than 25% of its annual needs. This acquisition is designed to boost our ammonia gas efficiency rate by providing us with savings of up to USD 70-80 per 1,000 m ³ (relative to 2011 prices).	<ul style="list-style-type: none"> • Develop natural gas by-products: 220 KMT p.a. of gas condensate and total proven and probable gas reserves of 50bn m³ as well as 32 MMT of recoverable oil reserves. • Increase natural gas production capacity.
Targeted M&A activity	In May, a EuroChem-led group of investors indicated its willingness to acquire Russian ammonia and NPK producer Rossosh, but was eventually priced out. In September, EuroChem announced its intention to acquire BASF's Antwerp fertilizer assets and, in early 2012, we completed the acquisition of Severneft-Urengoy, a gas exploration and production company operating in Russia's Yamalo-Nenets Autonomous Region.	<ul style="list-style-type: none"> • Integrate the acquisitions and realisation of the related synergies. • Consider further targeted M&A activity to build our presence in premium markets and increase the share of higher value-added products in our mix.
Improved logistics	With the successful operational debut of the Tuapse Transshipment Terminal, another strategic milestone toward our goal to become a global cost leader in potash was achieved. Additionally, in late June, the Gremyachaya rail station was commissioned. This station has been handling the delivery of building material and equipment.	<ul style="list-style-type: none"> • Launch a transshipment terminal in Ust Luga on the Baltic Sea to serve exports of potash from our Verkhnekamskoe deposit.
Reduced environmental footprint	Our "Novomoskovsk Clean Water Program" was singled out as one of the most innovative and efficient environmental projects in Russia by the Union of Industrialists and Entrepreneurs. To further analyse and monitor the impact of our operations, we installed two sets of environmental monitoring stations at EuroChem-BMU and Nevinnomysskiy Azot.	<ul style="list-style-type: none"> • Plan wastewater programmes at VolgaKaliy, Kovdorskiy GOK, and Phosphorit. • Deploy additional stations and analyse plant output alongside environmental readings.
Access to phosphate rock	Following 2010's acquisition of phosphate rock mining rights in Kazakhstan, we continued formulating our investment plan for the future mining site, which includes the development of phosphate rock reserves, the construction of integrated mining and processing installations and downstream NPK fertilizer production facilities.	<ul style="list-style-type: none"> • Possible formation of a joint venture between EuroChem and a local partner to define and coordinate the construction of the fertilizer production facility, as well as optimise development of the phosphate rock deposit.

Enabling our future...



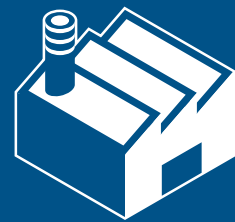
...by supplying world markets

Our strategic investments have made it possible for us to supply a wide range of quality fertilizer products to customers in more than 90 countries.



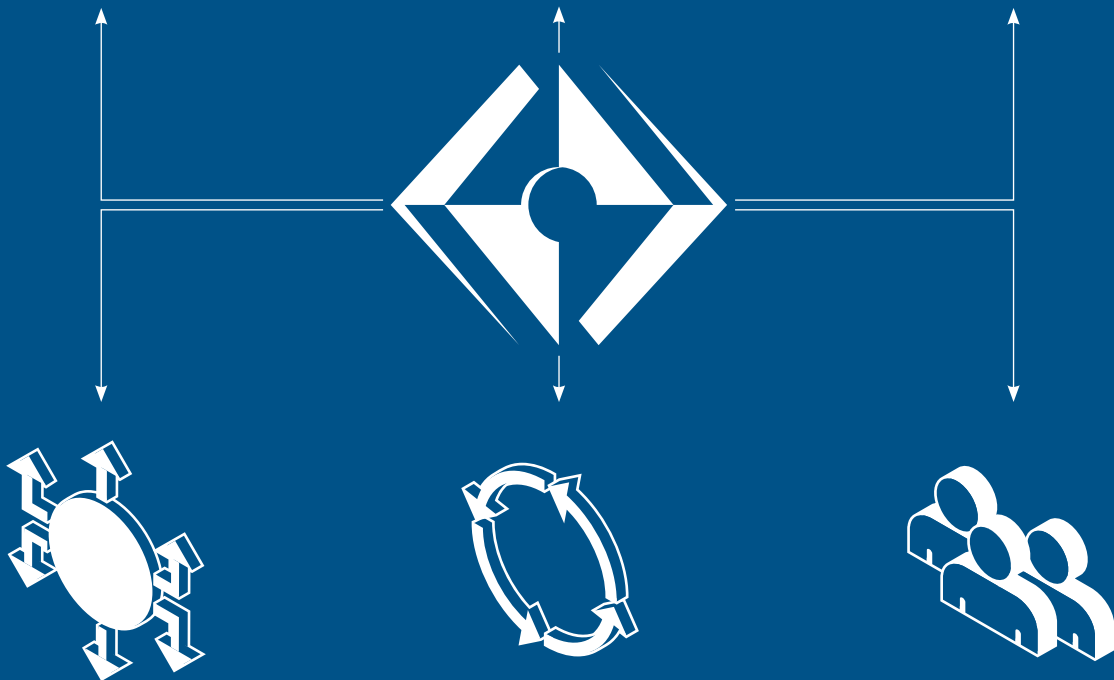
...by increasing our geographic footprint

With increased production capacity and secure access to raw materials, we are ready to expand our operations and increase our strategic positioning.



...by becoming a top five player

Once potash is on stream, we will be one of only four fertilizer producers in the world with a significant presence in all three primary nutrient segments, and a top five fertilizer producer by total nutrient capacity.



...by driving a flexible business model

Coupled with our vertical integration model, our strategic investments have enhanced our production flexibility and allow us to adapt quickly to market demand.

...by placing sustainability at the core

We recognize that superior shareholder returns depend on our commitment to good governance, social responsibility and environmental accountability.

...by empowering our people

Whether on the factory floor or in the classroom, our employees benefit from continuous professional development to unlock their potential.

...by supplying world markets

Our strategic investments have made it possible for us supply a wide range of quality fertilizer products to customers in more than 90 countries.

The world needs feeding. We help by providing vital products to the world markets.

- The population has reached 7 billion and continues to grow.
- There is a gap between food demand and food yield.
- EuroChem is helping bridge this gap and improve agricultural productivity.

 Read more www.eurochem.ru →

Increasing yields



By 2050, the global population is expected to reach 9 billion. As income rises, diets evolve to include more protein. The increase in demand for food and feed is competing with the increasing use of crops for energy use. With a limited amount of available arable land, the gap between demand and yield is widening. Fertilizers are there to help the earth provide more for all.

70%
increase in food
demand by 2050

Customers
in more than
90
countries



7billion
World population in 2011



9billion
World population in 2050

It's all about enabling our future...
At EuroChem we will show you how

...by increasing our geographic footprint

With increased production capacity and secure access to raw materials, we are ready to expand our operations and increase our strategic positioning.

“As we proceed with the integration of newly acquired assets and move further down the path to potash, we are now strategically positioned for unparalleled value creation and growth.”

Dmitry Strezhnev
Chief Executive Officer

[Read more www.eurochem.ru](http://www.eurochem.ru) →

EuroChem Antwerpen

Antwerp, Belgium

Increase in fertilizer trading volumes by almost 50%

- 2.3 MMT of NPK, AN, CAN Geographical diversification.
- One of the largest fertilizer complexes in Europe to further expand our 3% market share in Europe.

Superior logistics and access to premium European customer base

- The EuroChem Antwerpen facilities are surrounded by the Scheldt and Scheldt-Rhine Canal and have access to jetties providing infrastructure for fertilizer distribution and raw material procurement via the North Sea and Rhine River.
- Superior platform to support EuroChem's international expansion.

Access to technology

- These facilities produce a range of premium NPK grades and benefit from their integration within the BASF Verbund site.

12 MMT p.a.
total fertilizer capacity
with EuroChem
Antwerpen

Severneft-Urengoy

Novy Urengoy, Yamalo-Nenets
Autonomous District, Russia



Product	Capacity	Proven and probable reserves
Natural gas	1.1bn m ³ p.a.	50bn m ³
Gas condensate	220,000 MT p.a.	–
Oil	–	32 MMT

Risks	Strategic responses
Differential in natural gas cost between Russian and European/US producers is decreasing	<ul style="list-style-type: none"> → Partial back integration into natural gas production → Move closer to end-users to secure competitiveness
New supply from low gas cost areas may cause unfavourable shift in EuroChem's position on global cost curve	<ul style="list-style-type: none"> → Deep modernisation of ammonia production, improving ammonia gas efficiency → Launch production of higher-value added and premium products (LDAN, NPK, AdBlue)

...by placing sustainability at the core

We recognise that superior shareholder returns depend on our commitment to good governance, social responsibility and environmental accountability.



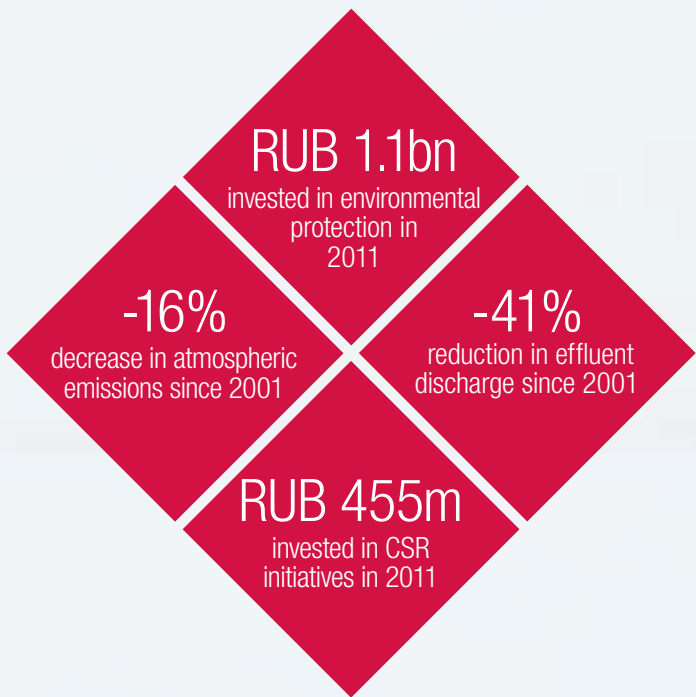
We are proud sponsors of Russian youth hockey and are building hockey arenas in the towns where we operate.

- We plan to construct a total of five arenas.
- We opened the first in Novomoskovsk in 2011 and expect the Nevinnomysk arena to open in 2012.

Location	Seating capacity	Completion	Number of places in junior sports schools
Novomoskovsk	700	2011	150
Nevinnomysk	700	2012	150
Kingisepp	500	2013	150
Belorechensk	500	2014	150
Kotelnikovo	500	2015	150

 [Read more www.eurochem.ru](http://www.eurochem.ru) →





Environmental footprint



We are actively engaged in reducing our environmental footprint, by decreasing emissions and lowering the energy intensity of our production processes. Since 2001, we invested over RUB 6 billion on environmental and industrial safety.

...by becoming a top five player

The development of our potash deposits are a top priority and key value driver for us.

“As we proceed with the integration of newly acquired assets and move further down the path to potash, we are now strategically positioned for unparalleled value creation and growth.”

Dmitry Strezhnev
Chief Executive Officer

Once potash is on stream, EuroChem will be one of only four fertilizer producers in the world with a significant presence in all three primary nutrient segments – potash (K), phosphate (P) and nitrogen (N) – and a top five fertilizer producer globally by total nutrient capacity.

Our ambitious strategic investment programme is complemented by targeted efficiency investments at current production sites and our ability to capture value building M&A opportunities.

 Read more www.eurochem.ru →



8.0 MMT p.a. (4.8 MMT K₂O)

Planned potash capacity once both phases of the Gremyachinskoe and Verkhnekamskoe deposits are completed.

Top five potash producers by nutrient capacity (K₂O, MMT p.a., 2011)

PotashCorp	8.0
Uralkali	6.9
Mosaic	6.2
Belaruskali	5.5
K+S	4.3

EuroChem is bringing 4.8 MMT p.a. of K₂O capacity on stream.

8 MMT p.a.
of capacity coming
on stream

USD 6bn
committed to potash

Our commitment

We have committed USD 6bn to the development of our potash business. As of end-2011, we had made investments of USD 930m and USD 314m at our Gremyachinskoe and Verkhnekamskoe potash deposits respectively. The remainder will span 2012-2021, with over 50% to be invested in the next three years.

Since 2000, global fertilizer consumption has increased 29% to 177 MMT of N, P₂O₅, and K₂O nutrient.

+32%
increase in global potash fertilizer application since 2000

+30%
increase in global nitrogen fertilizer application since 2000

+24%
increase in global phosphate fertilizer application since 2000

...by driving a flexible business model

Coupled with our vertical integration model, our strategic investments have enhanced our production flexibility and allow us to adapt quickly to market demand.

We plan to invest USD 1.4bn in our Nitrogen and Phosphate segments between 2012 and 2016 to upgrade our production facilities and bring new products online. We are launching Russia's first melamine line in 2012 and adding LDAN and additional NPKs to our mix from 2014.

USD 1.4bn
planned investment
in Nitrogen
and Phosphate

85%
of planned capital
expenditure is
discretionary

Vertical integration

- 2.8 MMT p.a. of ammonia (1.1bn m³ of natural gas)
- 2.7 MMT p.a. apatite ore with 5.7 MT of iron ore as co-product

Ammonia is the basic building block for nitrogen fertilizers. As an integrated producer, we can adjust and channel our ammonia capacity to better respond to market demand and maximise margins.

Investment flexibility

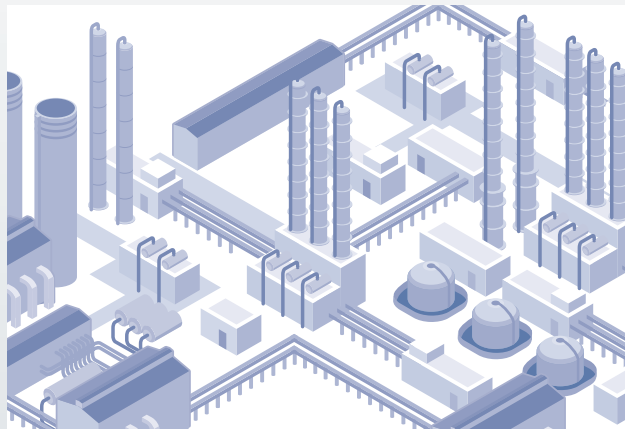
- Up to 85% of planned capital expenditure may be postponed by at least 1-2 years

We continually monitor the cost competitiveness of all our products, and manage our product portfolio so that we focus most of our energy on those products that are most competitive and where our cost advantage can be maintained or enhanced.

Strategic objective

Maintain and increase our cost advantage over our competition through vertical integration and investment in efficiency improvements.

In the mineral fertilizer industry, competitiveness mainly depends on the cost of delivering products to key markets and end-users. Our cost advantage is due largely to our vertically integrated business model: in other words, the ownership and control we have over the means of manufacturing and distributing our products. By integrating more of these services into our business, we can maintain and increase our cost advantage.



See pages 8 and 9 →

...by empowering our people

We employ some of the best professionals in the industry. Through our own training centres and cooperation with a number of universities we ensure that our future staffing needs are met. We are an attractive and responsible employer with a strong corporate culture. Our employees are EuroChem's main asset and the foundation of our success.

“Whether at our facilities or in university classrooms, we once again strived to ensure our employees were fully enabled to improve their professional skills and contribute to our growth.”

Andrey Melnichenko
Chairman

 Read more www.eurochem.ru →

EuroChem MBA programme



Since we began our MBA programme in 2007, a first cohort of 27 employees received their MBA designation in 2009 and a second cohort of 35 is set to graduate in 2012. The two-year MBA degree is a collaborative partnership between Kingston Business School (UK) and the Academy of National Economy (Russia).



17,100

employee participation
in education
programmes

20,801

employees in 2011

Employee participation

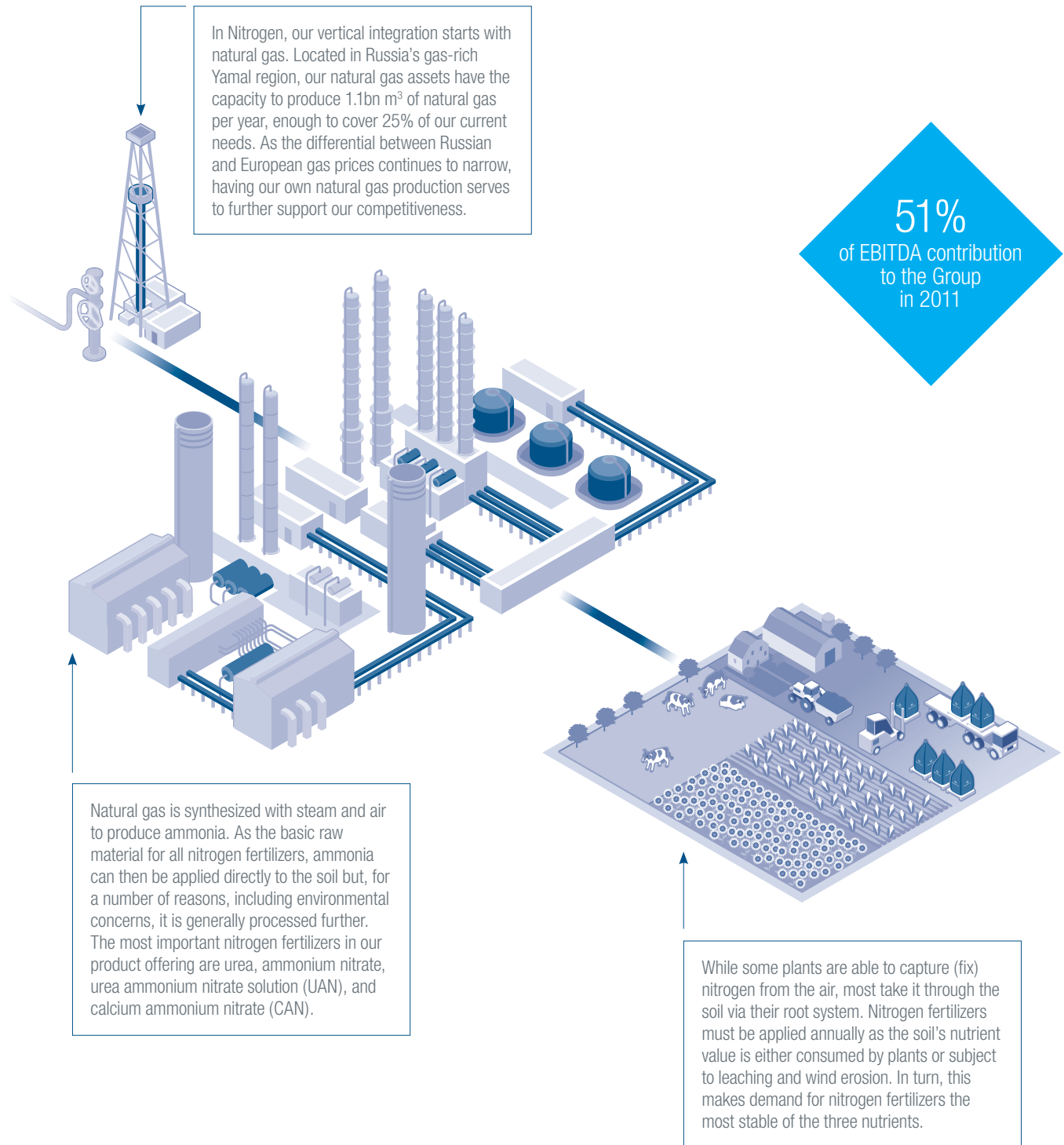
Our employees have access to valuable continuous professional development. Our training programme is carried out at our own licenced training centres, backed by hands-on experience at our facilities under the supervision of experienced industrial training instructors. In 2011, 82% of employees benefited from training and qualification enhancement programmes.

Year	Number of employees participating in continuous education	Total employees
2011	17,100	20,801
2010	12,844	19,614
2009	13,365	20,034
2008	13,820	21,526

Management report

Nitrogen

Nitrogen is essential for the development and growth of plants and is particularly crucial for growth, colour and yield.



The following table highlights our nitrogen strategy to continuously emphasize higher value-added production. In 2011, we continued to channel lower value-added ammonia for the production of premium, lower-gas-content, nitrogen fertilizers.

	Sales volumes (KMT)			Change %
	Average nitrogen content %	2011	2010	
Ammonia	82%	242	521	(54%)
Urea (prilled/granulated)	46%	1,920	1,709	12%
Ammonium nitrate	34%	1,732	1,710	1%
Urea ammonium nitrate	32%	719	680	6%
Calcium ammonium nitrate	27%	191	140	37%

Over the period 2012-2016, EuroChem plans to invest up to USD 700m into the Nitrogen segment. These investments include the launch of LDAN production and the upgrade of ammonia facilities at Nevinnomysskiy Azot and Novomoskovskiy Azot. Approximately 57% of the planned capex is development-driven, while 43% is maintenance-related.

2011 key developments

- Globally, nitrogen fertilizer sales increased 3.6%, from 103.3 MMT in 2010 to an estimated 106.9 MMT in 2011. Global consumption is expected to grow by an additional 1.9% and reach 108.9 MMT in 2012.
- The industry continued to consolidate with most European fertilizer companies being up for sale. EuroChem agreed to acquire BASF fertilizer assets in Antwerp and Ameropa acquired a majority stake in the Romanian fertilizer producer Azomures. Late in the year, Russia's SIBUR Holding agreed to sell the Kemerovo and Angarsk fertilizer plants to the Siberian Business Union, while a 51.2% share of its Perm plant went to UralChem. Group DF took control of the Severodonetsk and Cherkassy plants as well as the distribution of "Minudobreniya" (Rossosh) reported to have been acquired by Russian businessman Arkady Rotenberg in August 2011.
- Prices took off early in the year before levelling off at an average USD 425/tonne (FOB Yuzhny) for prilled urea, the most widely used nitrogen fertilizer globally, compared to USD 288/tonne and USD 250/tonne in 2010 and 2009 respectively.
- Limited capacity additions:
 - Engro Fertilizers Ltd (Pakistan – 1.3 MMT prilled urea; 0.75 MMT ammonia), was commissioned in spring 2011, but gas curtailments restricted urea production throughout the year.
 - Sorfert – OCI project (Algeria – 1.2 MMT granulated urea; 1.45 MMT ammonia), was initially expected in August 2011 but was delayed to early 2012. Shipments are scheduled to commence in April 2012.
 - Qafco V (Qatar – 1.3 MMT granulated urea) was commissioned in late December with ramp-up in Q1 2012 and full capacity expected by Q3 2012. Qafco V's two ammonia plants (0.8 MMT each) are to start production in 2012.
- China's impact in 2011:
 - The country's export policy underwent significant changes as the government stepped up its efforts to curb urea exports. The lower tax export window was reduced from seven to three months which, combined with the introduction of a sliding-scale tariff system, resulted in urea exports from China falling from 7 MMT in 2010 to approximately 3.6 MMT in 2011.
 - The world's largest nitrogen fertilizer producer tightened its energy control to cope with the country's power deficit. Coupled with high coal prices, strict limitations on energy consumption took approximately 1.4 MMT and 2.6 MMT of ammonia and urea capacity offline respectively, according to Fertecon.
 - While China's total nitrogen fertilizer capacity is expected to remain unchanged over the next few years, it will nonetheless be significantly more concentrated. By 2015, 80% of the country's nitrogen output is to come from about 250 companies, versus 394 in 2011, with the appearance of 20 to 30 large nitrogen groups. If 4.6 MMT of capacity is expected to come online, approximately 5 MMT of existing and outdated capacity should be shut down.

SWOT analysis

Strengths

- Diversified customer base, including solid foothold in key home markets (Russia, Ukraine, and Western Europe)
- Economies of scale
- Advantageous cost positioning: in Russia due to relatively low natural gas prices, in Belgium due to proximity to end-users
- Production flexibility helps adapt to demand and maximise margins
- Convenient logistics and proximity to own transshipment terminal

Opportunities

- Further increase self-sufficiency in Russia with own natural gas
- Develop/acquire distribution platform in Western European market
- Build or buy significant new ammonia capacity in regions of lower-cost natural gas such as the Middle East or North Africa
- Product mix enhancement with value-added, lower-gas-content and premium product lines
- Further incremental efficiency improvements though deep modernisation
- Russian and CIS markets offer unmatched growth potential
- Supply Western European operations with lower-cost feedstock

Weaknesses

- Age of equipment leads to relatively high maintenance costs and restricts maximum efficiency improvements
- Transportation costs are relatively high at Novomoskovskiy Azot due to location

Threats

- Import trade barriers exist in several target markets
- Gradual increase in gas and energy costs in Russia
- Falling/low natural gas prices increase relative competitiveness of previously marginal and unprofitable producers (increase in competitive supply)
- New ammonia capacity in lower-cost gas regions (e.g. Middle East, North Africa) may unfavourably alter the supply-demand balance in the sector
- Impact of shale gas development on natural gas prices in the United States and globally

Management report

Nitrogen *continued*

Revenue by region



	Revenue %	Change to 2010 % (percentage points)
1 Russia and CIS	33%	(3)
2 Latin America	22%	7
3 Asia	15%	5
4 Europe	14%	(8)
5 North America	11%	(1)
6 Africa	3%	(1)
7 Australasia	2%	1

Revenue by product



	Revenue %	Change to 2010 % (percentage points)
1 Urea	38%	7
2 Ammonium nitrate	22%	(1)
3 UAN	10%	1
4 Complex	7%	(2)
5 Other	7%	(2)
6 Ammonia	5%	(4)
7 Methanol	5%	(1)
8 CAN	3%	3
9 Acetic acid	3%	(1)

Nitrogen segment performance*

For the 12 months ended 31 December 2011, sales volumes for our Nitrogen segment amounted to 5,647 KT, which was broadly in line with the 5,671 KT recorded in 2010. The slight slip in 2011 sales volumes appeared as a result of the abrupt market pullback observed in the fourth quarter of the year. Urea and CAN registered the strongest year-on-year growths by increasing 12% and 37%, respectively, while ammonia and complex fertilizer products retreated 54% and 12% respectively. Sales volumes of granulated urea, which enjoyed an average premium of USD 18/tonne over prilled product throughout 2011, rose 32% to 919 KT.

The positive shifts in the structure of sales coupled with a robust pricing environment largely compensated for the stable sales volumes as revenues for the Nitrogen segment rose by 34% to RUB 63.1bn. Nitrogen segment EBITDA rose 88% to RUB 25.5bn as compared to 2010.

Mirroring the January 2011 increase in natural gas prices in Russia, expenses for natural gas used as raw material at our nitrogen plants increased 13% to RUB 13.6bn in 2011 from RUB 12.0bn in 2010. For a closer look at how natural gas prices impact our business please refer to pages 54 and 65.

Gas consumption per tonne of ammonia (mmBtu/tonne)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Novomoskovskiy Azot*	42.15	42.36	39.80	40.00	41.10	40.01	39.42	39.2	39.09
Nevinnomysskiy Azot*	37.38	36.55	36.91	37.16	36.73	37.12	36.58	36.0	36.42

Most efficient plant out of

50 plants globally 32.5

Average of 50 plants globally 38.0

* Based on actual annual average calorific content of gas supplied to plants.
Sources: EuroChem, Integer Research.

In light of rising natural gas prices, we have been gradually investing in higher-margin products so as either to reduce the natural gas content per tonne of finished product or raise the margin per unit of gas consumed. As mentioned above, with a first line launched in 2009 and a second line in 2010, granulated urea has provided further depth to our product offering and contributed to higher profitability. Our next major investment to come online in nitrogen will be the launch of melamine production at Nevinnomysskiy Azot. With an ultimate aim of import substitution, we plan to have 50 KMT of melamine capacity per year. The initial start-up of the production line is expected in Q2 2012.

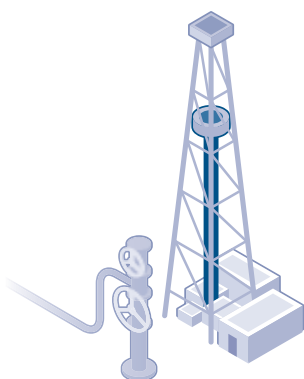
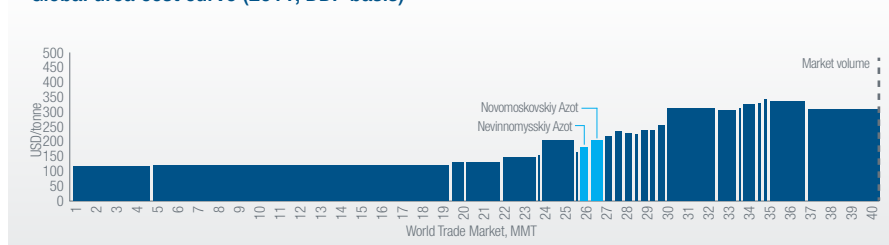
In 2011, we took advantage of record-low freight rates to secure our position in offshore markets. Revenues from Asia and Latin America surged 98% and 91% respectively and accounted for a combined 37% of Nitrogen revenues (2010: 25%), while Russia and the CIS represented 33% of sales (2010: 36%).

Fertilizer prices, average for the year

USD/tonne	2005	2006	2007	2008	2009	2010	2011
Urea prilled (FOB Yuzhny)	219	222	307	489	250	288	425

Sources: Fertecon, Fertilizers Week, FMB, The Market.

Global urea cost curve (2011, DDP basis)



i A reconciliation of segmental revenue to external revenues is provided after the segment review
See page 50

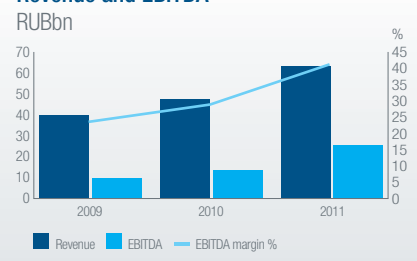
* Segmental revenues (both volume and value) are shown gross, i.e. inclusive of intra-segment sales.

Nitrogen segment

RUBbn, or as indicated	2011	2010	Change 2010-2011	2009	Change 2009-2010
Revenue including sales to other segments	63.11	47.22	34%	39.58	19%
Cost of sales	(28.42)	(25.04)	13%	(20.30)	23%
Gross profit	34.69	22.17	56%	19.28	15%
Other expenses	(11.09)	(10.25)	8%	(11.36)	(10%)
EBIT	23.60	11.92	98%	7.92	51%
EBITDA	25.55	13.56	88%	9.31	46%
Gross profit margin	55%	47%	8pp	49%	(2pp)
EBIT margin	37%	25%	12pp	20%	5pp
EBITDA margin	40%	29%	12pp	24%	5pp
Capex	4.68	5.25	(11%)	6.79	(23%)
Net working capital	7.75	2.43	219%	3.72	(35%)
Fixed assets	45.57	27.94	63%	24.21	15%
Total capital employed	53.33	30.37	76%	27.93	9%
ROCE*	44%	39%	5pp	28%	11pp
Staff	7,564	7,701	(2%)	8,285	(7%)
Production (MMT)					
Ammonia	2.66	2.76	(4%)	2.79	(1%)
Urea	2.20	1.98	11%	1.80	10%
Ammonium nitrate	2.42	2.35	3%	2.30	2%
CAN	0.20	0.15	32%	0.03	440%
UAN	0.69	0.69	(1%)	0.68	1%
Methanol	0.42	0.43	(3%)	0.32	34%
Acetic acid	0.15	0.16	(3%)	0.17	(6%)
Sales, including sales to other segments (MMT)					
Ammonia	0.24	0.52	(54%)	0.64	(19%)
Urea	1.92	1.71	12%	1.51	13%
Ammonium nitrate	1.73	1.71	1%	1.83	(7%)
CAN	0.19	0.14	36%	0.02	770%
UAN	0.72	0.68	6%	0.67	1%
Methanol	0.33	0.33	(1%)	0.23	43%
Acetic acid	0.11	0.13	(12%)	0.14	(7%)
Tonnes of ammonia produced per employee	351	358	(2%)	337	6%

* Calculated as EBITDA less income tax paid divided by total capital employed.

Revenue and EBITDA



Capacity utilization

	2011	2010	2009	2008
Novomoskovskiy Azot	96%	96%	101%	99%
Nevinnomysskiy Azot	91%	102%	97%	93%
Total	94%	99%	100%	96%

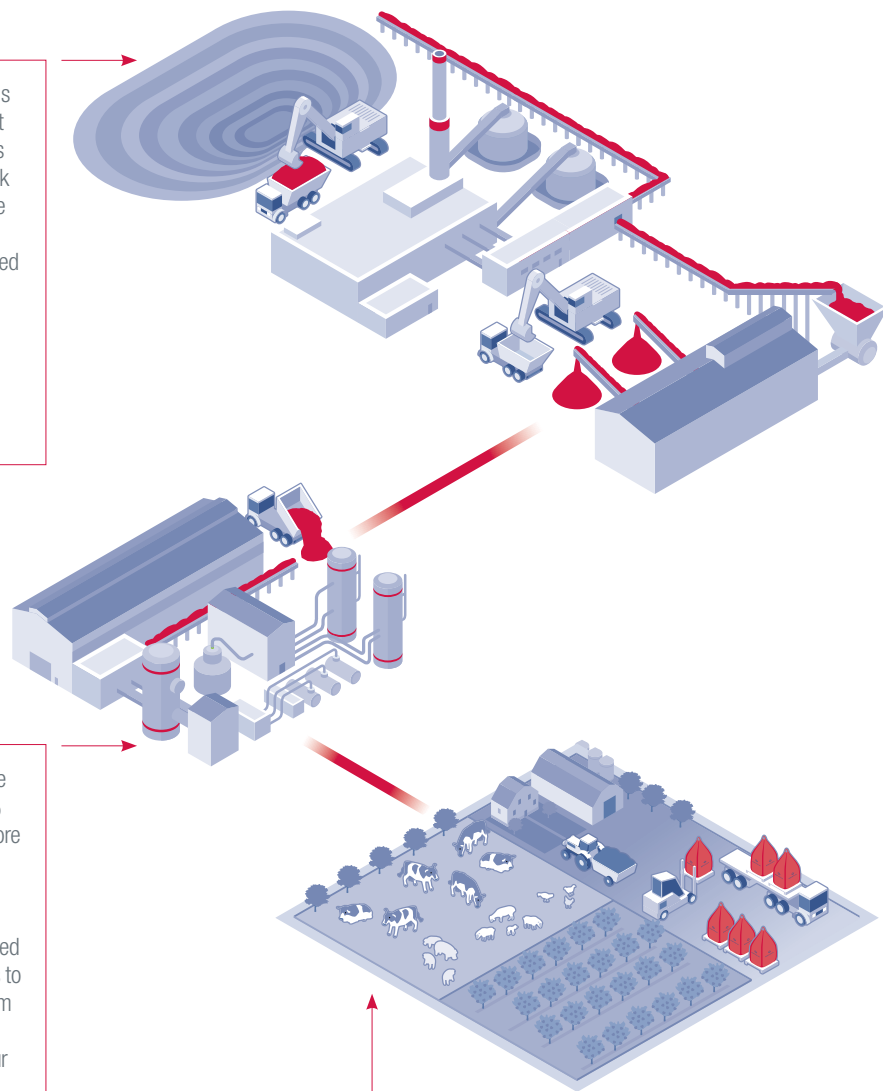
RUB 63.1bn
Nitrogen segment
revenues

Management report

Phosphates

Phosphorus is an essential plant nutrient for photosynthesis and other yield-developing processes, such as root development and drought resistance, and plays a key role in the ripening of seeds and fruits; while animals need it for general nutrition and growth. Phosphorus is second to nitrogen in terms of volume as a crop nutrient, and its products include phosphate fertilizers, compound fertilizers, and feed phosphates.

Our vertical integration in phosphates begins at our Kovdorskiy GOK apatite (high nutrient content phosphate rock) mine, which allows us to meet up to 80% of our phosphate rock raw material needs. Because phosphate ore is mainly mined from fossil-rich regions, such as ancient sea beds, its supply is limited to certain geographies. In order to reach self-sufficiency and secure production margins, EuroChem has been actively engaged in the development of phosphate rock deposits in Kazakhstan, where mining is set to start in 2013.



The ore from our Zhelezny mine has a unique feature – it contains iron ore with 63%-64% Fe content as well as P_2O_5 -rich apatite. Iron ore is a sizeable co-product of our raw material mining operations and significantly adds to profitability. The phosphate used in most mineral fertilizers is obtained by reacting mined phosphate ore with sulphuric and nitric acids to produce phosphoric acid (P_2O_5). Diammonium phosphate (DAP) and monoammonium phosphate (MAP), which also contain sulphur and ammonia, are the two main phosphate fertilizers.

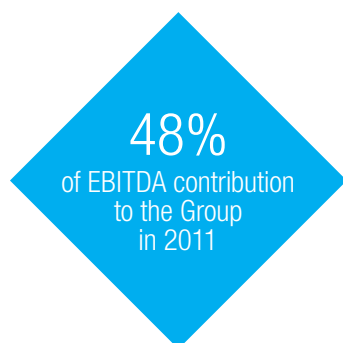
Because it is slow to dissolve, phosphate benefits the soil over a number of years, in contrast to nitrogen which will need sustained applications given its predisposition to leaching.

Our main products in phosphates are DAP and MAP, which mainly differ by their respective nitrogen and phosphorus content. Feed phosphates are feeding additives important to the cattle, poultry and pork industries. Our phosphate plants also produce an extensive range of compound fertilizers (NP, NPK), which are blends of nitrogen, phosphate and potassium.

Over the next five years (2012-2016), EuroChem plans to invest over USD 675m into the Phosphate segment to construct an NPK plant at EuroChem-BMU and increase ore extraction and processing capacities at Kovdorskiy GOK. Approximately 63% of this planned capex is attributed as development capex and 37% as maintenance.

Key recent and ongoing investment projects

- Increase of sulphuric acid capacity at Phosphorit and EuroChem-BMU.
- Build NPK production at EuroChem-BMU to correspond to potash production coming on stream at VolgaKaliy.
- Feed phosphates at Lifosa.
- Kazakhstan: two-phase project, starting with phosphate rock supply and ending with construction of NPK/AN/LDAN production aimed at Central Asia and North-Western China.



2011 key developments

- Global phosphate fertilizer consumption increased by 2.5%, from 39.7 MMT (P_2O_5) in 2010 to an estimated 40.7 MMT (P_2O_5) in 2011. We currently expect global consumption to grow by 3.2% to 42.1 MMT (P_2O_5) in 2012.
- Low levels of phosphate fertilizer inventories coupled with strong demand and encouraging farm economics throughout the better part of the year supported prices. DAP (FOB Baltic) averaged USD 633/tonne compared to USD 485/tonne and USD 328/tonne in 2010 and 2009, respectively.
- Taking advantage of favourable equity and fertilizer market conditions, PhosAgro proceeded with its initial public offering in July.
- In China, a reduction in the length of the export window combined with the introduction of a sliding-scale formula for duties (export duties increased up to 17% for DAP and 30% for MAP) contained Chinese DAP/MAP exports to 4.9 MMT in 2011 according to Chinese Customs. Also, no new phosphate capacity additions were included in the country's twelfth Five-Year Plan (2011-2015).
- India, which accounts for approximately 6 MMT of the 14 MMT of global DAP imports, announced its intention to purchase 7-8 MMT of phosphate fertilizers from April 2011 through March 2012 from PhosChem, the leading supplier of DAP in India (2 MMT) at USD 612/MT. In early September, as DAP prices increased up to USD 677/tonne, the global phosphate market effectively split into spot and contract markets.
- Despite significant capacity coming online in 2011 – Ma'aden in Saudi Arabia (3 MMT of DAP) and a number of projects in China (0.8 MMT of incremental MAP/DAP capacity), the phosphate market remained fairly tight. Ma'aden appears to have acted as a deterrent to any additional capacity over the last few years.

SWOT analysis

Strengths

- Own supply of high P_2O_5 content (37-38%) apatite accessible through open-pit mining
- Phosphate fertilizer facilities located close to ports and their target markets (Europe and Russia/CIS)
- EU-based Lifosa benefits from no import tariffs in Europe
- Absence of environmentally harmful substances in apatite (cadmium), which is particularly important for exports to Europe
- Lifosa's reputation as a high-quality producer allows for premium pricing
- By virtue of Kovdorskiy GOK's geology, added benefit of iron ore as co-product of apatite mining

Opportunities

- Developing phosphate rock mining deposits in Kazakhstan to reach raw material self-sufficiency
- Raise production at Kovdorskiy GOK by c. 10%
- Further efficiency improvements at EuroChem-BMU and Phosphorit
- Construction of phosphate and NPK fertilizer plant in Kazakhstan
- Integration of NPK production once potash is on stream will significantly help increase scale and margins, especially at EuroChem-BMU

Weaknesses

- Transportation costs for Kovdor apatite are relatively high for Lifosa and EuroChem-BMU
- Relatively high maintenance costs and restrictions on maximum efficiency improvements due to age of equipment
- Increased costs associated with depth of mine

Threats

- New capacity expansions can unfavourably alter the supply-demand balance in the sector and/or compress the normally higher margins enjoyed by integrated producers like EuroChem

Management report

Phosphates *continued*

Revenue by region



	Change to 2010 % (percentage points)	
1 Russia and CIS	35%	1
2 Asia	32%	3
3 Europe	18%	–
4 Latin America	6%	(7)
5 North America	6%	1
6 Africa	3%	2
7 Australasia	0%	–

Phosphate segment performance*

Total Phosphate segment sales volumes retreated 8% to 7,868 KT in 2011 as compared to 2010. Despite a 32% increase in NP fertilizers, total Phosphate segment sales volumes were dragged down by 11% lower iron ore sales volumes, which were mainly affected by lower production volumes and the postponement of some shipments to 2012. MAP, DAP, and feed phosphates inched up 1% and amounted to 2,106 KT versus 2,085 KT in the previous year.

As in the Nitrogen segment, the overall strong pricing environment which characterized the better part of the year pushed Phosphate segment revenues to RUB 63.9bn. MAP and DAP, our top selling products in phosphates, accounted for 51% of Phosphate revenues in 2011. The 32% increase in revenues pushed segment EBITDA to RUB 24.0bn, a 43% increase on the previous year.

Iron ore and baddeleyite, the two co-products of our phosphate rock mining activity, together accounted for 37% and 55% of 2011 Phosphate segment revenues and EBITDA, respectively.

The Phosphate segment sales geography was slightly reshaped as shipments to Asia increased 47% to represent 32% of the segment's revenues in 2011 while sales to Africa had a threefold increase as our sales team won a key Ethiopian tender in the fourth quarter. On the other side of the scale, phosphate sales to Latin America slid 39% in favour of deliveries to India. Combined, these three markets accounted for 41% of 2011 Phosphate segment sales, while Russia and the CIS remained stable at 35%.

Revenue by product



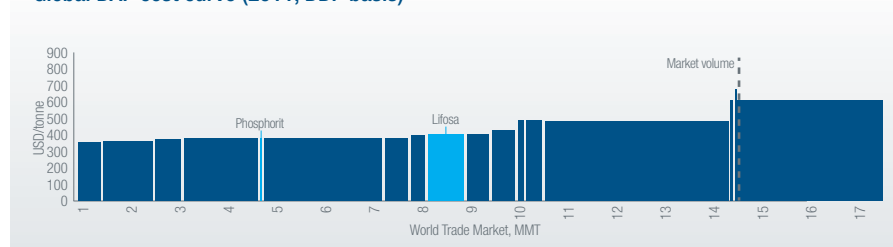
	Change to 2010 % (percentage points)	
1 MAP, DAP	51%	(2)
2 Iron ore	35%	3
3 Feed phosphates group	6%	–
4 Apatite	2%	–
5 Baddeleyite	2%	1
6 NP	2%	–
7 Others	2%	(1)
8 Complex fertilizers	0%	(1)

Fertilizer prices, average for the year

USD/tonne	2005	2006	2007	2008	2009	2010	2011
DAP (FOB, Baltic Sea)	237	246	411	923	328	485	633
MAP (FOB, Baltic Sea)	233	245	408	930	329	484	636

Sources: Fertecon, Fertilizers Week, FMB, The Market.

Global DAP cost curve (2011, DDP basis)



i A reconciliation of segmental revenue to external revenues is provided after the segment review
See page 50

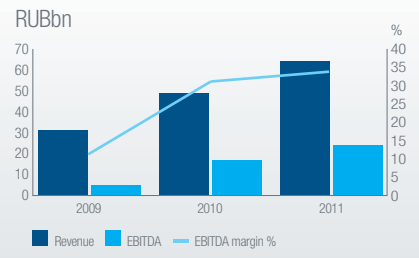
* Segmental revenues (both volume and value) are shown gross, i.e. inclusive of intra-segment sales.

Phosphate segment

RUBbn or as indicated	2011	2010	Change 2010-2011	2009	Change 2009-2010
Revenue including sales to other segments	63.92	48.50	32%	31.12	56%
Cost of sales	(31.97)	(24.22)	32%	(20.33)	19%
Gross profit	31.95	24.28	32%	10.80	125%
Other expenses	(10.17)	(9.26)	10%	(7.86)	18%
EBIT	21.78	15.02	45%	2.94	411%
EBITDA	23.99	16.79	43%	4.43	279%
Gross profit margin	50%	50%	0pp	35%	15pp
EBIT margin	34%	31%	3pp	9%	22pp
EBITDA margin	38%	35%	3pp	14%	21pp
Capex	6.40	4.94	30%	2.65	86%
Net working capital	19.62	12.81	53%	4.55	182%
Fixed assets	22.51	18.15	24%	14.93	22%
Total capital employed	42.13	30.96	36%	19.47	59%
ROCE*	52%	49%	3pp	15%	34pp
Staff	6,776	6,808	0%	7,492	(9%)
Production (MMT)					
Apatite	2.58	2.70	(5%)	2.51	8%
Iron ore	5.25	5.70	(8%)	5.57	2%
MAP	0.96	0.94	2%	0.67	40%
DAP	0.96	0.91	5%	0.96	(5%)
NP, NPK	0.12	0.10	21%	0.07	43%
Sales, including sales to other segments (MMT)					
Apatite	0.17	0.21	(21%)	0.22	(5%)
Iron ore	5.47	6.12	(11%)	5.58	10%
MAP	0.94	0.96	(2%)	0.72	33%
DAP	0.93	0.89	4%	0.95	(6%)
NP, NPK	0.12	0.11	5%	0.07	57%
Tonnes of output per employee	1,456	1,520	(4%)	1,305	16%

* Calculated as EBITDA less income tax paid divided by total capital employed.

Revenue and EBITDA



Capacity utilization

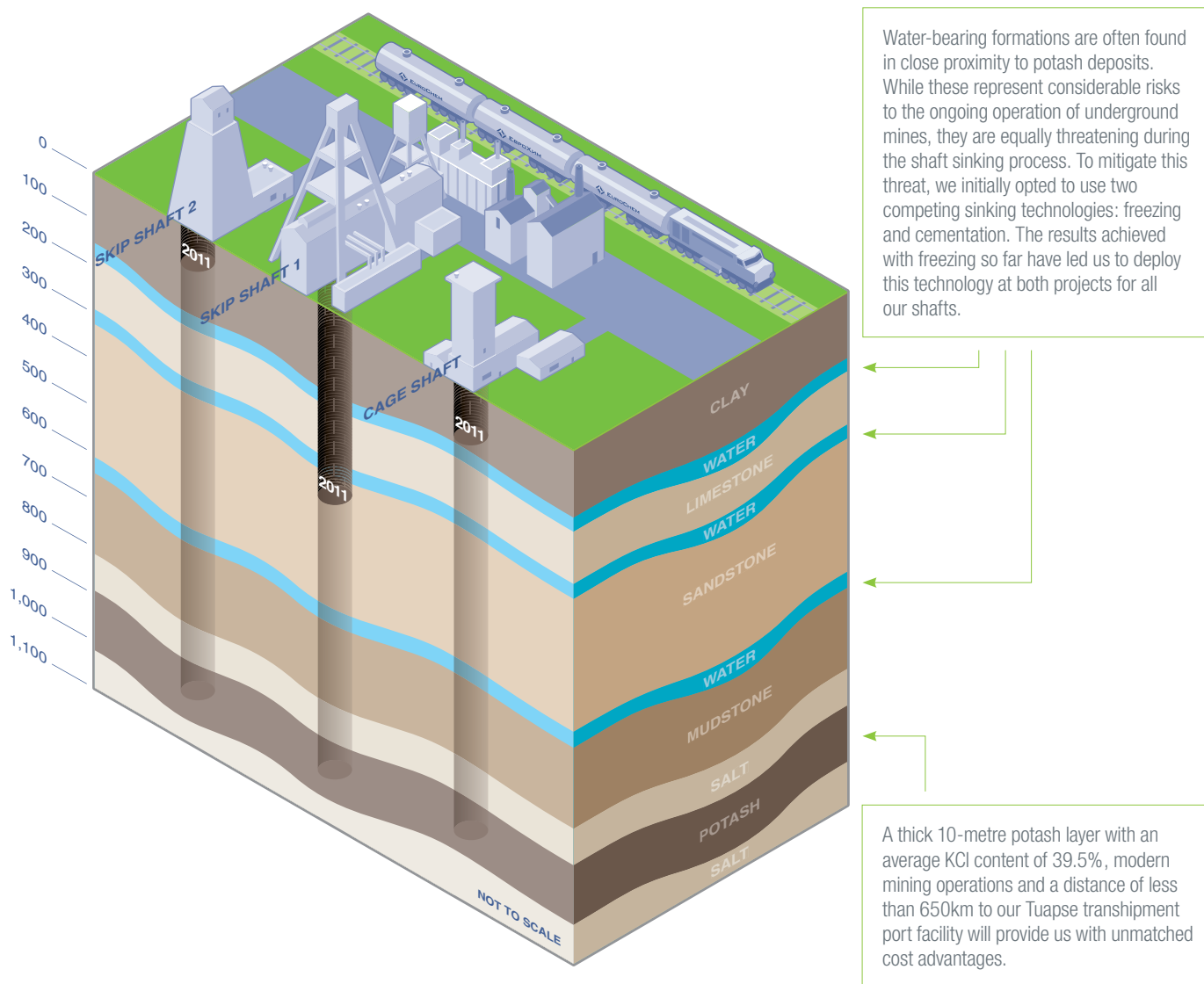
	2011	2010	2009	2008
Phosphorit	79%	84%	72%	69%
EuroChem-BMU	87%	86%	53%	72%
Lifosa	92%	93%	97%	87%
Total	86%	88%	77%	77%

RUB 63.9bn
Phosphate segment
revenue

Management report

Potash

Alongside nitrogen and phosphate, potassium (K) is the third primary nutrient. It improves crop quality by promoting plant growth and regulating water retention. It enhances the flavour and colour of fruit and vegetables as well as the oil content of fruits.



The most common form of potassium is potash, a salt mined directly from ancient marine deposits. Potassium is measured in units of potassium oxide (K_2O). Potash (KCl) typically refers to potassium-based fertilizers (to convert tonnes of KCl to tonnes of K_2O , multiply by 0.6).

Because potash application ensures the maximum effectiveness of the other two primary nutrients it is often blended as NPK, mixed in optimal proportions of N, P, and K for the targeted crop.

Our strategy to become a top five global producer by nutrient capacity is centred on the development of our two potash deposits. The Gremyachinskoe deposit is recognised as the most advanced greenfield potash project globally, and its development has been a top priority for us.

By the end of 2011, the sinking of the seven-metre-diameter skip shaft #1 had reached a depth of 400 metres (506 metres by 15 March 2012). The 1,147-metre-deep shaft is being sunk by EuroChem-VolgaKaliy using a traditional freezing methodology. The sinking rate of the cage shaft was considerably slowed down by the difficult geological conditions encountered. As a result, we opted to switch from cementation to freezing in order to minimize any further risks to sinking operations and delays to the start of production. Furthermore, we accelerated the start of the second phase of the project and began sinking operations on skip shaft #2.

Once our potash production is on stream, we plan to consume up to 1 MMT internally to feed our current and planned NPK operations. While we have not yet fixed marketing plans for the remainder of our projected annual 8 MMT, and despite coming in on the lower end of the global cost curve, we intend to use this capacity wisely and aim to achieve a strong long-term return on our potash investment.

EuroChem's main planned investments in Potash (2012-2016, USDm):

	2012	2013	2014	2015	2016
Total Potash	920	1,027	828	569	290
Gremyachinskoe	691	707	521	321	14
Verkhnekamskoe	229	320	307	248	276
Total next 5 years: USD 3,634 m					

2011 key developments

- Global MOP production increased by about 5% and amounted to 55.6 MMT (KCl), while global potash fertilizer consumption increased 6.4%, from 27.4 MMT (K₂O) in 2010 to 29.2 (K₂O) in 2011.
- The high demand levels observed in the first half of the year were exacerbated by a depleted supply chain and fuelled strong price hikes.
- In early 2011, the Belarusian Potash Company (BPC) entered into a six-month contract with Chinese buyers at a price of USD 400/tonne (CFR). Canpotex followed with a similar half-year contract with China and confirmed the trend to shorter-term six-month contracts, versus the one-year agreements previously in place. From 1 July, BPC increased Chinese contract prices to USD 470/tonne (CFR), and from 1 August to USD 490/tonne (CFR) for India.
- Spot prices had increased from USD 430-480/tonne (CFR) in Q1 to 530-560/tonne (CFR Brazil and SE Asia) by year end.
- Approximately 4 MMT of new KCl capacity was brought on stream in 2011, mainly from brownfield projects in Canada, Russia, China, Chile, and Jordan, bringing global annual operational capacity to 71 MMT.

- Several potash projects were announced or further progressed in 2011:
 - In mid-2011, BHP Billiton approved an additional USD 488m of investment to develop its Jansen potash project in Saskatchewan. With production reportedly starting from 2015, Jansen full capacity is announced at 8 MMT per year of agricultural grade potash.
 - In Q4 2011, K+S' project Legacy was given the green light by the company's Supervisory Board. Representing investments of USD 3.1bn, the solution potash mining project is reportedly to start production in 2015, reaching its 2.9 MMT annual capacity in 2023.
 - In late 2011, the Agrium Board of Directors approved a 1 MMT brownfield expansion to its Vanscoy facility in Saskatchewan. The expansion is expected to increase the company's total annual production capacity to 3 MMT. Most of the project construction is to take place in 2012 and 2013.
- The Russian government announced the liberalization of the domestic potash market from 2013, with KCl supplies to Russian NPK producers to be at a discount to export netback prices until then.

Projected key capacity additions 2011-2015

- EuroChem remains the farthest advanced greenfield project globally (Gremyachinskoe phase I: 2.3 MMT).
- Major brownfield expansions planned by Canpotex members include 6.1 MMT at PotashCorp and 1.4 MMT at Mosaic.
- An additional 2.8 MMT in brownfield expansion was announced at Uralkali prior to 2015.

Over the next five years, EuroChem's planned investments in potash will amount to c. USD 3.6bn; with USD 2.2bn and USD 1.4bn earmarked for the Gremyachinskoe and Verkhnekamskoe deposits, respectively.

SWOT analysis

Strengths

- Vast reserves (an estimated 3.2bn tonnes*); estimated fifth largest globally
- Close proximity of the Gremyachinskoe deposit to the Black Sea port of Tuapse
- High nutrient content averaging 39.5% KCl at Gremyachinskoe and 30.8% KCl at Verkhnekamskoe
- Deposits are located in areas with existing infrastructure
- Industry estimates place EuroChem among leaders on cash cost delivered to key markets curve
- Own transshipment terminal to support Gremyachinskoe (Tuapse)

Opportunities

- Become one of the leading players (up to 8 MMT in annual capacity)
- Use advanced technology for shaft sinking and enrichment, resulting in lower cash cost per tonne of production

Weaknesses

- Limited in-house experience in mining and lack of potash greenfield mine construction know-how in the global market may lead to higher costs due to the need to engage sub-contractors for planning and construction of mines and processing facilities

Threats

- Prolonged, significantly worse-than-expected market conditions could negatively affect EuroChem's ability to continue financing these investment projects
- Significant risks involved in sinking shafts to 1,200 metres below surface (Gremyachinskoe), through water layers and other challenging geological conditions
- Significant capacity additions resulting in oversupply in the industry

* A+B+C1 according to Russian reserves classification.

Management report

Potash *continued*

Potash segment performance

Our investments in potash came to a total of RUB 10.6bn in 2011, of which RUB 8.4bn and RUB 2.1bn were invested at the Gremyachinskoe and Verkhnekamskoe projects, respectively. The Gremyachinskoe investments primarily targeted shaft sinking operations and the construction of the beneficiation plant. Expenditures at Verkhnekamskoe mainly covered the drilling and freezing of the shafts and the construction of temporary buildings and structures necessary for the active sinking phase. As of 31 December 2011, we had already committed an aggregate RUB 35.6bn to our Potash segment.

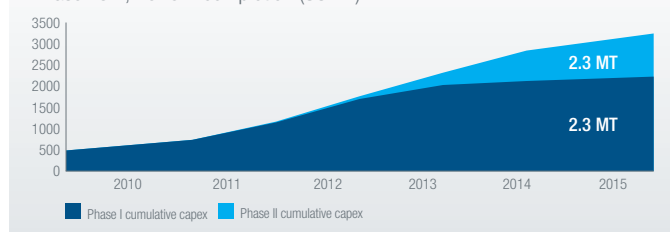
Gremyachinskoe deposit (Volgograd)

Sinking operations at the VolgaKaliy skip shaft #1 had reached a depth of 400 metres by 31 December 2011. The sinking of the 1,147-metre-deep shaft is being performed using a traditional freezing methodology and is expected to be completed in the first quarter of 2013. As at 15 March 2012 the shaft had reached a depth of 506 metres.

As announced in late December 2011, due to considerably slow sinking progress at the cage shaft, the cementation process was halted in favour of freezing technology. As a result, sinking operations at the cage shaft have been temporarily suspended and are set to resume in the second quarter of 2013. At the same time, a decision was taken to move ahead with our phase II underground expansion plans consisting of a second skip shaft. We continue to expect to reach full extraction capacity for phases I and II of the project (4.3 MMT KCl), in line with our initial schedule. Regardless of the phase I delay or the acceleration of phase II, at present we do not anticipate any material changes to our total planned capital expenditures.

Gremyachinskoe cumulative capex

Phase I & II, 2010 – completion (USDm)



Fertilizer prices, average for the year

USD/tonne	2005	2006	2007	2008	2009	2010	2011
MOP spot (FOB Black Sea)	157	183	216	723	636	344	445
MOP contract (FOB Black Sea)	157	151	169	456	493	298	381

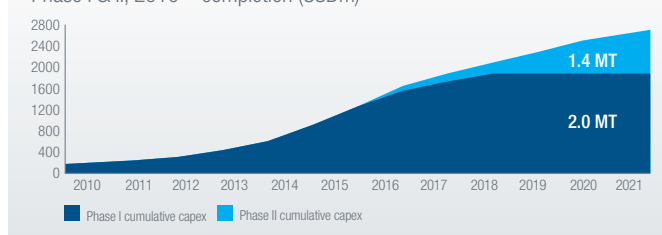
Sources: Fertecon, Fertilizers Week, FMB, The Market.

Verkhnekamskoe deposit (Perm)

Skip shaft #1 sinking operations at the Verkhnekamskoe deposit commenced 15 December and had reached a depth of 128 metres by 15 March 2012. On average, the shaft has been sinking at a rate of 1.5 metres per day. In contrast to the Gremyachinskoe deposit, the Verkhnekamskoe potash layer sits approximately 500 metres below ground. Ground-freezing operations around the cage shaft are being completed and we expect shaft sinking to begin in the second quarter of 2012.

Verkhnekamskoe cumulative capex

Phase I & II, 2010 – completion (USDm)



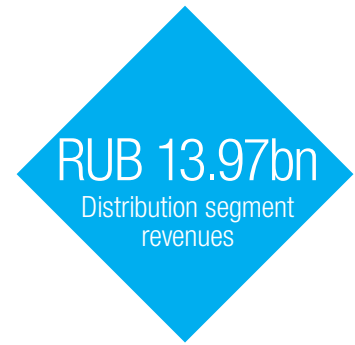
USD 3.6bn
planned capex
into Potash
in 2012-2016



i Along with nitrogen and phosphate, potash is one of the three key plant nutrients. With its Gremyachinskoe and Verkhnekamskoe potash projects, EuroChem holds the fifth largest licensed reserves globally.

Management report

Distribution



Our sales in Russia and Ukraine are supported by our retail network consisting of 25 distribution centres in key agricultural districts of Russia and Ukraine.

Contrary to our international operations, where we have until now been primarily working with wholesalers, our distribution platform is designed to get us closer to our end-users. Our strategy here is to sell yields, not just fertilizers.

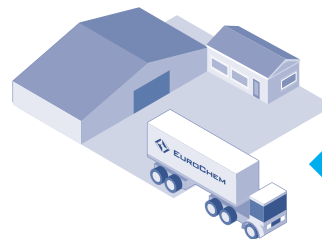
Today, we see the Russian market as the world's fastest growing large agricultural market for the simple reason that, following the collapse of the Soviet Union, fertilizer application patterns in Russia suffered an estimated ten-fold decrease. In addition to fertilizers, seeds, and crop protection services, we provide farmers with consulting and soil analysis services to help them increase production yields.

Our centres offer the full range of agriculture support services, including:

- Leading crop protection products
- Seeds
- Compound fertilizers
- Advanced fertilizer application systems
- Storage, delivery, and packaging services
- Agricultural advisory services
- Soil analysis and field mapping for individually tailored solutions.

We saw robust growth in our Distribution segment, which focuses on delivering fertilizers and other agrochemical products to farmers in southern Russia, the Black Earth Region, and in the Ukraine. Segment sales grew 64% to RUB 13.97bn in 2011 compared to RUB 8.54bn in 2010. Distribution segment EBITDA increased 74% to RUB 853m. Our fertilizer outlets recorded a 21% year-on-year increase as sales volumes reached 1,154 KT.

Since acquiring Mosaic's distribution network in Ukraine in 2007, our annual sales there have grown from 220 KT (2006: 133 KT) to 640 KT in 2011 (2010: 524 KT).



 Find out more about our Distribution segment
See page 5

SWOT analysis

Strengths

- Good coverage of key agricultural regions of Russia and Ukraine
- Agrochemical consulting services, including soil analysis services, coupled with high-quality seeds and crop protection offering
- Growing brand recognition associated with quality and reliability
- High storage capacity

Opportunities

- Increase presence in Southern and Central Russia and Ukraine
- Establish presence in neighbouring CIS countries
- Raise farmer awareness of the commercial attractiveness of higher-value-added agrochemical products

Weaknesses

- Limited presence in certain key agricultural regions of Ukraine
- Limited fertigation infrastructure in Russia/CIS
- Traditional farmer approach to fertilizers in Russia – limited application know-how and preference for certain traditional types of fertilizer

Threats

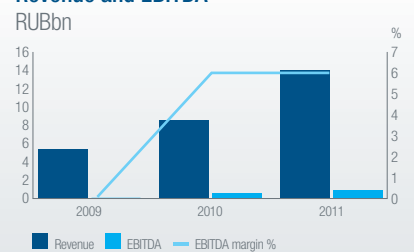
- Price regulations in Russia can lead to the contraction of domestic sales margin
- Intensifying competition
- Currency risks in Ukraine

Distribution

RUBbn, or as indicated	2011	2010	Change 2010-2011	2009	Change 2009-2010
Revenue including					
sales to other segments	13.97	8.54	64%	5.39	58%
Cost of sales	(12.70)	(7.64)	66%	(4.97)	54%
Gross profit	1.30	0.90	42%	0.43	109%
Other expenses	(0.45)	(0.44)	3%	(0.43)	2%
EBIT	0.82	0.46	78%	(0.01)	n/a
EBITDA	0.85	0.49	74%	0.02	n/a
Gross profit margin	9%	11%	(2pp)	8%	3pp
EBIT margin	6%	5%	1pp	0%	5pp
EBITDA margin	6%	6%	–	0%	6pp
Capex	0.06	0.18	(64%)	0.02	800%
Net working capital	0.83	0.44	88%	0.29	52%
Fixed assets	0.44	0.41	6%	0.20	105%
Total capital employed	1.26	0.85	49%	0.49	73%
ROCE*	65%	54%	11pp	(1%)	55pp
Staff	182	165	10%	187	(12%)
Sales (MMT) (top 5)					
Urea	0.107	0.042	154%	0.018	133%
Ammonium nitrate	0.499	0.442	13%	0.306	44%
UAN	0.078	0.044	78%	0.017	159%
MAP	0.122	0.084	46%	0.092	(9%)
NP and NPK	0.285	0.246	16%	0.140	76%

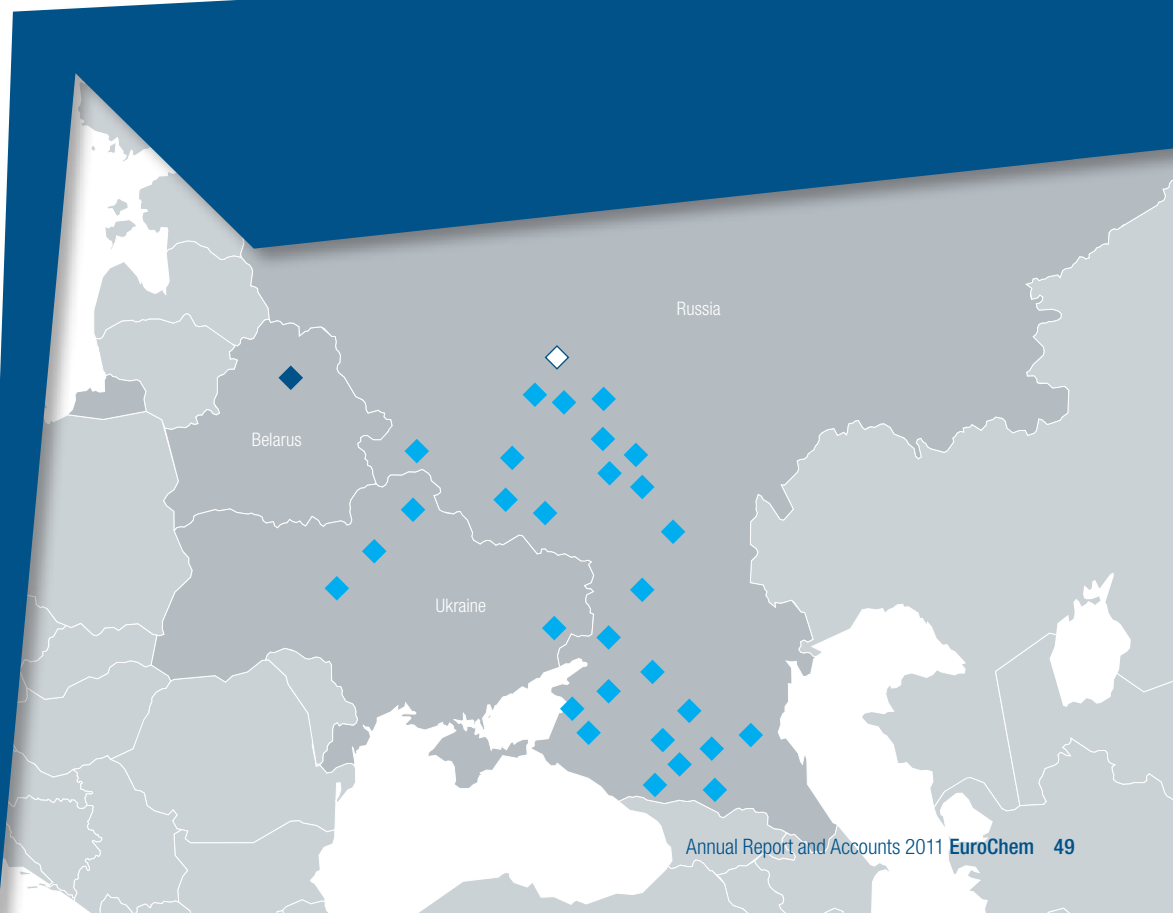
* Calculated as EBITDA less income tax paid divided by total capital employed.

Revenue and EBITDA



Our centres

- ◇ Head Office
- ◆ Representative office
- ◆ Distribution centres



Management report

Logistics and international sales

Group sales by region

% of Group sales



		Change to 2010 % (percentage points)
1 Russia	24%	–
2 Asia	23%	4
3 Latin America	15%	–
4 Europe	14%	(5)
5 CIS	12%	(1)
6 North America	8%	–
7 Africa	3%	1
8 Australasia	1%	–

Logistics

While our logistics function is not a reportable business segment, it is a vital component of our vertically integrated business model. Capturing transportation margins allows us to reduce overall transportation costs and protect our market competitiveness.

EuroChem's logistics infrastructure includes port facilities and transshipment terminals, rail stock, and brokerage services. In late 2011 and early 2012, we acquired two Panamax vessels to complement the fleet of ships we rent on long-term leases.

Our Tuapse Transshipment Terminal began operating in July 2011. Located on the Black Sea coast, this terminal – our latest – is an important component of the future cost-competitiveness of our potash shipments from Gremyachinskoe, and is capable of handling 2.3 MMT of fertilizers per year. To support potash exports from our Verkhnekamskoe potash project we plan to construct a fertilizer transshipment facility of even bigger size in Ust Luga.

Shipments of iron ore from Kovdorskiy GOK to Asian markets are despatched from our 1.5 MMT capacity Murmansk Bulk Terminal. In July 2011, for the first time ever, EuroChem cargo ships, under nuclear-powered ice-breaker escort, took the Northern Sea Route to deliver iron ore concentrate from Kovdor to China. Following the Russian Arctic coast, rather than using the traditional routes via either the Suez Canal or the Cape of Good Hope, significantly reduced both delivery time and transportation costs.

We also operate a terminal in Sillamae (Estonia) which has the capability to handle 800 KT of methanol and 200 KT of other chemical products per year. Additionally, EuroChem uses the Klaipeda (Lithuania) port facilities which can cater for 3.5 MMT of bulk fertilizers, 1 MMT of phosphate rock, and up to 0.5 MMT of liquid chemicals.

To keep transportation costs down and minimize bottlenecks, we also own and operate a c. 7,000-strong rail stock and 45 locomotives.

International sales

Our international sales network currently includes the Swiss-based EuroChem Trading GmbH, which is responsible for global sales outside the CIS and North America; EuroChem Trading USA Corp., a Florida-based trading company responsible for North American sales; and EuroChem Comercio de Produtos Quimicos Ltda, which is based in São Paulo and supports our sales efforts in this rapidly expanding market. Revenues from these three companies are attributed to the Nitrogen and Phosphate segments.

Reconciliation of segment and external sales volumes (KMT)

2011	Nitrogen	Phosphates	Distribution	Other	Intra-group sales	External sales
Nitrogen fertilizers						
Ammonia	242	–	–	–	(210)	32
Urea	1,920	–	107	83	(120)	1,990
AN	1,732	–	499	0	(511)	1,724
UAN	719	–	78	101	(83)	815
CAN	191	–	52	–	(61)	181
Organic synthesis products	442	–	–	–	–	442
Phosphate fertilizers						
MAP, DAP	–	1,866	122	–	(140)	1,849
NP	–	115	45	–	(48)	112
Feed phosphates group	–	240	12	–	–	251
Complex fertilizers group (NPK)	401	0	239	2	(59)	583
Apatite concentrate	–	166	–	–	(2)	164
Iron ore concentrate	–	5,468	–	–	–	5,468
Baddeleyite concentrate	–	12	–	–	–	12
	5,647	7,868	1,154	186	(1,235)	13,623

76%

of sales outside Russia



i At Tuapse, one of our priorities was to build a new terminal using the best industrial and environmental safety standards in the world. Operating since July 2011, it is capable of handling 2.3 MMT of fertilizer per year and is an important component of the future cost competitiveness of our potash exports from Gremyachinskoe.

Management report

Income statement

Revenues

The favourable shifts in the production structure and the strong product pricing environment prevailing throughout most of the year boosted our consolidated revenues 34% to RUB 131.3bn, a new Company record. The Group's EBITDA margin grew seven percentage points to 38% on full-year EBITDA of RUB 49.7bn.

Revenue structure

	2011	% change	2010	% change	2009
	RUBm		RUBm		RUBm
Nitrogen	63,108	34%	47,222	19%	39,577
Phosphates	63,925	32%	48,502	56%	31,124
Distribution	13,974	64%	8,544	58%	5,395
Other*	(9,709)	50%	(6,480)	157%	(2,519)
Total	131,298	34%	97,788	33%	73,577

* Including revenue from segment 'Other' and elimination of internal sales.

Sales outside Russia grew 34% in 2011 and accounted for 76% of total Group sales. In the context of a weakening Russian rouble in 2011, this increase in non-rouble-denominated sales further improved our results in rouble terms. Full-year sales outside Russia accounted for 75% and 78% of the Nitrogen and Phosphate segments, respectively. Sales of iron ore and baddeleyite, which are both co-products of our phosphate rock mining operations at Kovdorskiy GOK, generated 26% of the Group's EBITDA in 2011 (2010: 25%).

As highlighted in the table below, volumes had a negligible effect on revenue growth in 2011. The year's strong fertilizer pricing environment, especially on the nitrogen side as a result of a shift to more value-added products, was the key revenue driver for us in 2011. While production volumes grew for the first nine months of the year, the sharp demand contraction that materialized in the last few months of the year eroded many of the gains which had been achieved over the previous year. As a result of lower production volumes on lower-Fe-content apatite rock mining, iron ore volumes decreased substantially; however, this was mitigated by higher than expected average iron ore prices.

Revenue drivers – volume, prices

Total change in revenues (RUBm)	2011/2010				2010/2009			
	Volume effect	Price effect	Other	Total	Volume effect	Price effect	Other	Total
Nitrogen	425	14,950	–	15,375	387	5,360	–	5,747
Phosphates	122	8,427	–	8,549	5,887	12,228	–	18,115
Mining	(1,328)	7,997	–	6,669	–	–	–	–
Resale	1,147	1,183	–	2,330	–	–	–	–
Other sales	–	–	587	587	–	–	347	347
Total	367	32,557	587	33,511	6,274	17,589	347	24,210

34%
increase in revenue

Cost of sales and gross margin

As in 2010, the year-on-year revenue growth achieved in 2011 outpaced the rate of increase in costs of sales. Costs of sales increased 27% to RUB 63.6bn in 2011 compared to RUB 50.2bn the previous year.

The cost of sales structure and its evolution over the last three years is shown below.

Cost of sales structure

	2011			2010			2009	
	RUBm	% of total	% change	RUBm	% of total	% change	RUBm	% of total
Materials and components	40,601	61%	43%	28,351	56%	30%	21,889	51%
Labour	8,064	12%	11%	7,269	14%	14%	6,362	15%
Energy	6,694	10%	19%	5,625	11%	22%	4,620	11%
Depreciation of plants and equipment	3,656	5%	29%	2,837	6%	20%	2,363	6%
Utilities and fuel	3,618	5%	21%	3,001	6%	45%	2,063	5%
Changes in work in progress and finished goods	(2,850)	(4)%	387%	(585)	(1)%	(128)%	2,065	5%
Other costs	3,858	6%	4%	3,706	7%	5%	3,523	8%
Total	63,641			50,206		17%	42,884	

Materials and components used or resold increased 43% to RUB 40.6bn and represented 61% of 2011 cost of sales. During the same period, gas costs for fertilizer production increased by 13% to RUB 13.6bn, mainly in line with the annual domestic gas price increase in Russia.

Following the 15% rise effective 1 January 2011, average natural gas prices for 2011 at our Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,179 and 3,330 per 1,000m³ respectively (c. USD 3.37 and 3.53/mmBtu), compared to RUB 2,753 and 2,920/1,000m³ (c. USD 2.80 and 2.97/mmBtu) in 2010. The prices paid at our facilities compared with 2011 averages of USD 4.01/mmBtu in the US (Henry Hub), USD 9.53/mmBtu in Europe (spot), and an estimated USD 10.70/mmBtu for Ukrainian producers (delivered to plant). As announced on 20 January 2012, we completed the acquisition of natural gas assets in Western Siberia with sufficient existing capacity to cover up to a quarter of our annual needs in natural gas and thus counter the effects of Russia's rising natural gas price. Our partial back integration into natural gas production should, over time, support our cost advantages in the Nitrogen segment.

Energy costs increased from RUB 5.6bn in 2010 to RUB 6.7bn in 2011. This 19% year-on-year growth was mainly brought on by the liberalization of the Russian wholesale electricity market from January 2011.

Partially as a result of salary indexation from January, labour costs increased 11% in 2011 and totalled RUB 8.1bn as compared to RUB 7.3bn the previous year. Despite this increase, labour costs registered a two percentage point drop within the cost structure and accounted for 12% of cost of sales in 2011.

Management report

Income statement *continued*

Structure of materials and components 2011

RUBm

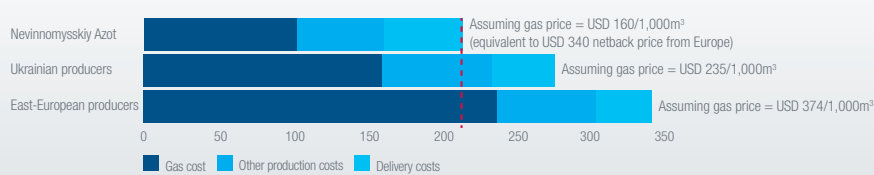


	2011	2010	2009
1 Natural gas	13,619	12,006	9,250
2 Apatite	7,566	5,442	1,039
3 Other	6,871	5,111	4,741
4 Goods for resale	5,296	2,991	2,671
5 Sulphur	2,964	1,499	1,448
6 Ammonia	2,990	264	340
7 Potassium chloride	1,295	1038	955
Total	40,601	28,351	20,444

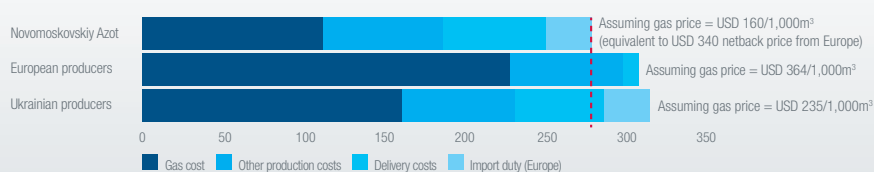
Despite the gradual increase of natural gas prices in Russia, we continue to benefit from cost advantages over competitors operating in areas with higher gas prices, such as, for example, Ukraine and Europe. The Russian government's current intention to gradually raise domestic gas prices to a level equivalent to the European netback price has prompted us to initiate a partial back integration into gas production so as to provide us with a natural hedge. Nevertheless, despite the planned increase, as illustrated in the tables below, a significant cost advantage is expected to remain even when assuming domestic gas prices reach European netback levels

Maintaining competitiveness in nitrogen

Prilled urea, delivered to Brazil cost (USD/tonne)



Prilled urea, delivered to Europe cost (USD/tonne)



* Gas costs for Western Europe as at German border.

Distribution, general and administrative and other operating expenses

Compared to 2010, total distribution costs increased by RUB 1.2bn or 7% to reach RUB 19.0bn as compared to RUB 17.8bn in 2010. Transportation costs remained the main component of distribution costs and accounted for 84% of these expenses in 2011 compared to 87% the previous year. Despite the year's lower iron ore sales volumes and the oversupply situation on the freight market, slightly higher fertilizer sales volumes for some products coupled with longer average shipping distances nudged transportation costs up 3% to RUB 15.8bn.

General and administrative (G&A) expenses were 24% higher in 2011 at RUB 4.7bn, as compared to the RUB 3.8bn of the previous year. G&A labour costs, which went from representing 56% to 52% of G&A expenses, rose 16% year-on-year to RUB 2.4bn. The increase was spurred by a combination of salary indexation and increased personnel intake for the development of our potash deposits. Other expenses grew 42%, in part due to increases in property tax expenses which stemmed from additions to fixed assets.

Other operating expenses were higher in 2011 and amounted to RUB 191m, as compared to RUB 17m in 2010. Behind these expenses were operating (i.e. those not resulting from financial activities) foreign exchange losses of RUB 200m from the depreciation of the US dollar against the Russian rouble in 2011 versus gains of RUB 208m the previous year on strong US dollar appreciation.

	2011			2010			2009		
	RUBm	% of total	% change	RUBm	% of total	% change	RUBm	% of total	
Transportation	15,838	84%	3%	15,406	87%	8%	14,218	84%	
Export duties	—	—	—	—	—	100%	222	1%	
Other distribution costs	3,114	16%	31%	2,379	13%	(5)%	2,504	15%	
Subtotal Distribution	18,952	100%	7%	17,785	100%	5%	16,944	100%	
Labour	2,436	52%	16%	2,093	56%	31%	1,594	49%	
Audit, consulting and legal	258	6%	33%	194	5%	(6)%	206	6%	
Provision for impairment of receivables	28	1%	(15)%	33	1%	(62)%	87	3%	
Other G&A expenses	1,932	42%	35%	1,434	38%	4%	1,374	42%	
Subtotal G&A	4,653	100%	24%	3,754	100%	15%	3,261	100%	
(Reversal of provision)/ provision for tax risks	—	—	—	—	—	—	—	—	
Sponsorships	447	—	7%	418	—	106%	203	—	
Foreign exchange (gain)/loss	200	—	(196)%	(208)	—	(69)%	(679)	—	
Other operating (income)/expenses, net	(456)	—	137%	(193)	—	(177)%	251	—	
Subtotal other net operating (income)/expenses	191	100%	1,023%	17	100%	(108)%	(225)	100%	

Management report

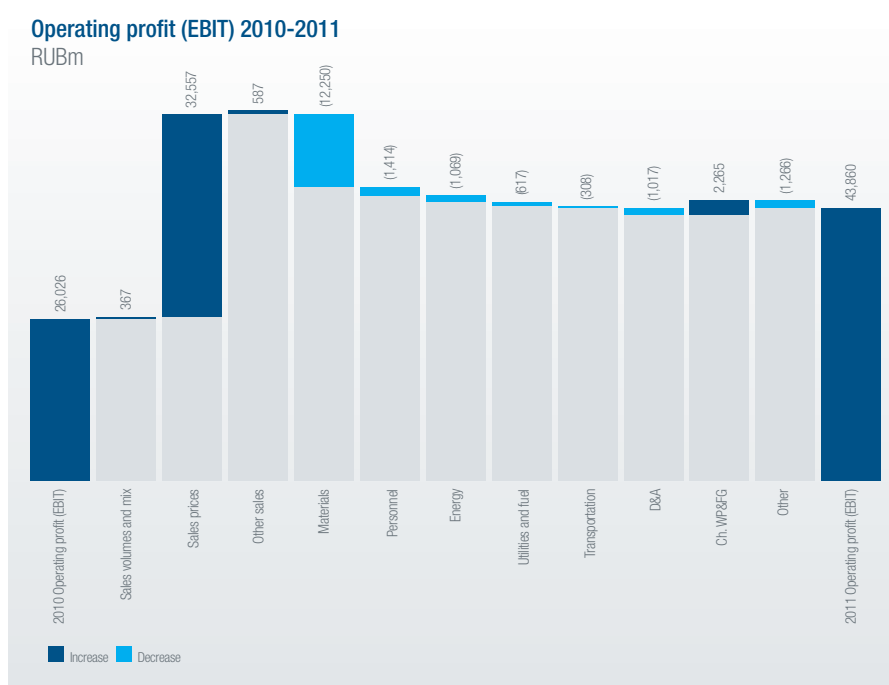
Income statement *continued*

Operating profit and operating margin

Our operating, or EBIT, margin for 2011 grew 6 percentage points to 33% as the increase in revenues, which was primarily a function of a more favourable pricing environment, outpaced growth in cost of sales and other expenses. EBITDA margin also improved, gaining 7 percentage points and increasing to 38%; one percentage point lower than the record EBITDA margin of 39% achieved in 2008.

	2011		2010		2009
	RUBm/%	% change	RUBm/%	% change	RUBm/%
Operating profit	43,860	69%	26,026	33%	10,712
Revenues	131,298	34%	97,788	143%	73,577
Operating profit margin	33%	6pp	27%	12pp	15%
EBITDA margin	38%	7pp	31%	9pp	22%

The following diagram highlights the positive and negative influences of various components of our operating profit in 2011 relative to 2010.



Finance income and costs

Below the operating profit line, we received RUB 614m in gross dividend income from shares in the German potash producer K+S Aktiengesellschaft (K+S), as compared to RUB 148m in 2010. EuroChem recorded an unrealised financial foreign exchange loss of RUB 3.8bn in 2011, compared to a loss of RUB 390m in 2010 mainly due to the accounting effect of the rouble exchange rate depreciation on the Group's predominantly USD-denominated debt.

Interest expense grew 51% to RUB 3.1bn in 2011 compared with RUB 2.1bn a year earlier as the Company secured a series of new long-term facilities in the second half of the year. Other financial income of RUB 1.0bn was mainly recognised on USD/RUB non-deliverable forward contracts and changes in the fair value of sold call options on shares of K+S RUB 574m and RUB 550m, respectively.

Taxation

The Company's consolidated effective tax rate for 2011 was 20.1% (2010: 19.8%; 2009: 19.2%), virtually equivalent to the statutory 20% profit tax rate in the Russian Federation where most of the Company's assets are located.

Balance sheet

Working capital

Working capital management is an important part of our financial strategy. In 2011, net working capital increased significantly from RUB 10.8bn in 2010 to RUB 17.0bn. This was mainly the result of a build-up of inventories at stronger prices during the fourth quarter slowdown and the weaker pricing environment.

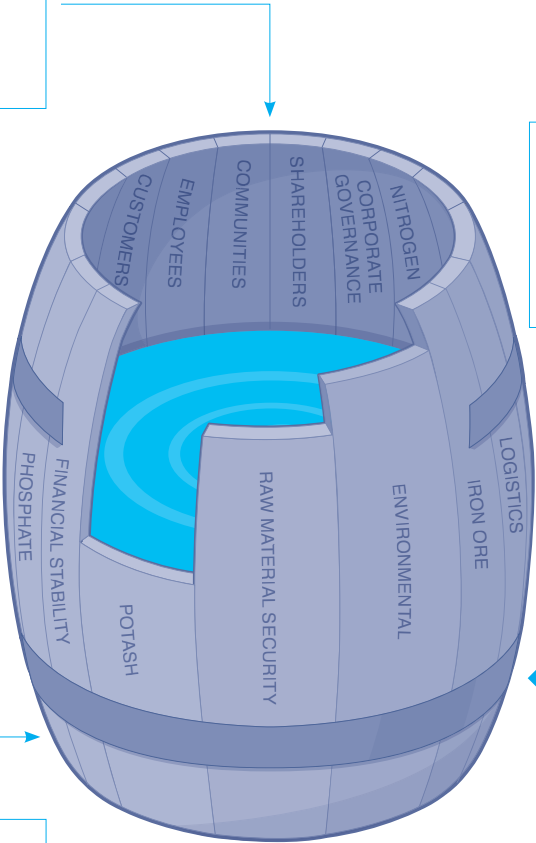
Working capital	2011		2010		2009
	RUBm	% change	RUBm	% change	RUBm
Inventories	14,957	52%	9,828	21%	8,105
Including finished goods	6,446	66%	3,891	21%	3,207
Trade receivables	3,436	27%	2,711	26%	2,151
Other receivables and current assets	10,191	35%	7,523	(1%)	7,630
Subtotal	28,584	42%	20,062	12%	17,886
Trade payables	3,061	40%	2,183	59%	1,373
Other accounts payable and current liabilities	8,479	19%	7,121	77%	4,032
Subtotal	11,540	24%	9,304	72%	5,405
Net working capital	17,044	58%	10,758	(14%)	12,481
Finished goods, days	37		28		28
Trade debtors, days	10		10		11
Trade creditors, days	19		16		12

Finished goods days rose from 28 in 2010 to 37 in 2011, notably as a result of the weaker buyer activity observed in the last quarter of the year. Nevertheless, by maintaining relatively strict sales terms predominantly requiring prepayment or letters of credit confirmed by reputable financial institutions, trade debtor days remained stable at 10.

Sustainability

At EuroChem we constantly strive to maintain and develop the sustainability and growth of our business and products while expanding our production capacity and supporting the drive for added efficiency within the agriculture sector, to help provide the world with the food it needs. We remain committed to investing in our employees, communities, and the environment to secure tomorrow's prosperity.

Justus von Liebig, who is regarded as the father of the fertilizer industry, formulated the "Law of the Minimum". Illustrated as a barrel with staves of unequal length, von Liebig's law states that your maximum yield will be determined by your most limiting nutrient.



EuroChem's commitment to building and securing stakeholder value is driven by similar beliefs. We firmly believe that environmental, social, operational, and financial performance are all interlinked and must be developed in concert to secure and sustain our growth.

i Take a closer look at our vertically integrated business model and its impact See pages 8-9

We want to become a leading global top five fertilizer producer, but getting there is really just one part of our story. The following pages showcase our achievements in some of the other key areas designed to keep us at the top.

Environment

We've come a long way since acquiring EuroChem's first assets. Because of the nature of our business, from the very beginning we highlighted environmental safeguards as a prerequisite to increasing both efficiency and production volumes. A clear trend has since emerged. While efficiency improvements and investments in new production lines have steadily increased capacity and ramped up output over the years, over the same time frame targeted environmental investments have steadily reduced our operational footprint.

In 2011, our annual environmental expenditure exceeded RUB 1bn for the first time. Totalling an aggregate RUB 1.1bn, environmental protection expenditures increased by 16% compared to 2010.

RUBm	2004	2005	2006	2007	2008	2009	2010	2011
Environmental protection expenditures	348.9	544.4	671.9	894	803.8	762.2	917.9	1,067.7

As in past years, our environmental investments in 2011 were primarily directed at further reducing volumes of emissions and effluent discharge. The upgrade of outdated equipment and the launch of new production lines also helped to bring down our energy consumption. And, at the same time as conserving valuable resources, these investments also contribute to the competitiveness of our production.

Kg/tonne	2004	2005	2006	2007	2008	2009	2010	2011
Atmospheric emissions	1.34	1.26	1.26	1.24	1.24	1.20	1.20	1.13

m ³ /tonne	2004	2005	2006	2007	2008	2009	2010	2011
Effluent discharge	5.75	5.45	5.25	4.60	4.04	3.48	3.35	3.38

m ³ /tonne	2004	2005	2006	2007	2008	2009	2010	2011
Non-recycled water consumption	4.77	4.41	4.94	4.40	3.59	3.30	3.39	3.43

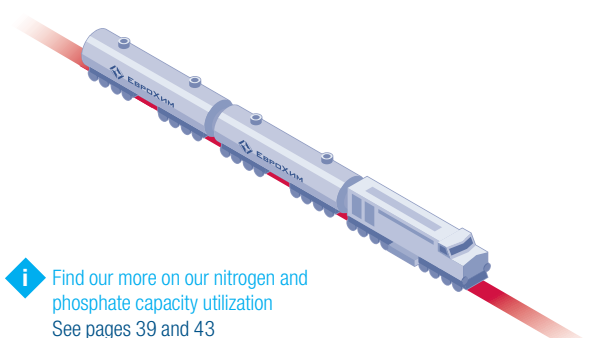
kWh/tonne	2004	2005	2006	2007	2008	2009	2010	2011
Energy consumption	154.97	147.94	155.50	148.72	140.41	133.47	134.40	137.88

We are proud of these results and to further diminish our environmental footprint we are introducing a series of health, safety and environment (HSE) components within our management's key performance indicator structure.

Production

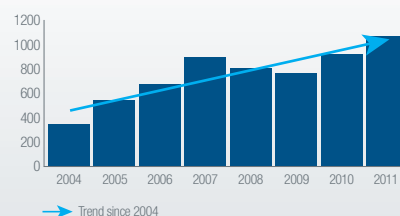
As indicated above, while preventive maintenance and repairs, capital expenditure on new equipment, and investment in new technologies are primarily carried out to increase production efficiency, these activities offer the added benefit of ultimately reducing our operational footprint.

Maintenance (RUBm)	2008	2009	2010	2011
Maintenance and repair expenses	5,767,132	4,377,957	5,436,338	6,855,773
Sustaining capital expenditure, including capitalised maintenance and repair costs	7,431,883	4,828,166	4,344,110	8,221,820
Total	13,199,015	9,206,123	9,780,448	15,077,593



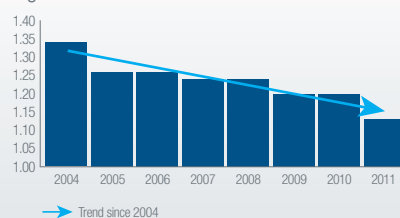
i Find out more on our nitrogen and phosphate capacity utilization
See pages 39 and 43

Environmental protection expenditures RUBm



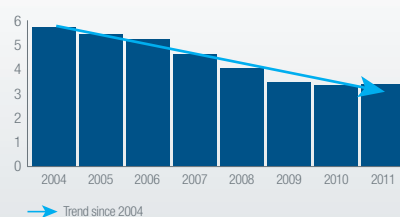
Atmospheric emissions Kg/tonne

-16%



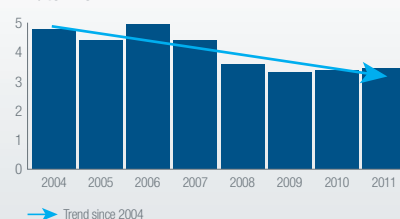
Effluent discharge m³/tonne

-41%



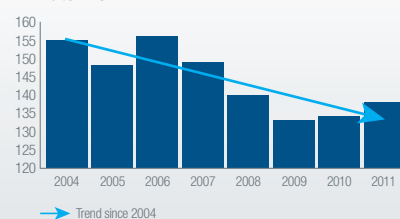
Non-recycle water consumption m³/tonne

-28%



Energy consumption kWh/tonne

-11%



Sustainability *continued*

Employees

Our employees are directly responsible for the Company's current success and our HR policies play a fundamental role in driving and supporting EuroChem's growth. In order to retain the very best staff, we operate a fair employment policy to keep our teams motivated and productive. Throughout the Group's businesses, we remain committed to investing in health and safety and fair remuneration, while rewarding outstanding performance. This is because we fully realize that in the end, in a commodity business, what really differentiates one company from another is the quality of its workforce.

A strong focus on empowering lower management has allowed us to maintain a lean and effective structure even as we decrease staff at existing production units and take on new employees for our potash developments. As a result, the ratio of management to total staff has reduced to a 12%/88% split. Our targeted employee engagement initiatives have brought staff turnover at production units to an enviable 3.4%, down from over 10% in 2006. Productivity, measured by tonnes of output by employee, remained in line with 2010 at 1,358 tonnes per employee.

In 2011, the growth in average monthly remuneration slightly outpaced productivity as a result of the highly skilled workforce intake for the development of our Gremyachinskoe and Verkhnekamskoe potash deposits.

Local communities and state authorities

We are committed to being an exemplary corporate citizen in the countries and regions of our presence and are engaged in a continuing dialogue with state authorities and local communities. We are the top regional employer in the areas of our presence and a leading contributor to regional and federal budgets.

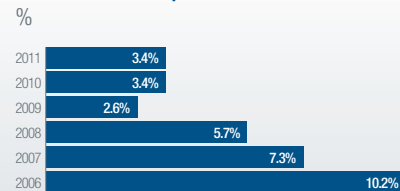
In 2011, EuroChem spent a total of RUB 455m on social and charity programmes, up from RUB 412m in 2010 and surpassing the our previous record of RUB 445m invested in 2008.

	2008	2009	2010	2011
Income tax	9,295,501	2,437,953	4,699,114	7,851,478
Property tax	286,543	362,536	488,890	570,059
Mining tax	212,551	117,220	122,249	170,370
Land tax	142,621	181,217	190,549	207,088
Environmental fees	36,025	76,364	111,920	94,092

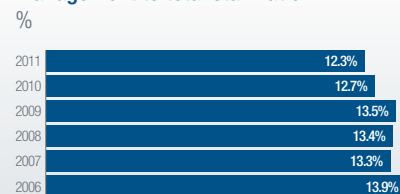
	2008	2009	2010	2011
Social and charitable expenses	445	203	418	455

In 2011, the Russian Union of Industrialists and Entrepreneurs recognised EuroChem's corporate responsibility achievements with one of its "Russia's Best Companies" awards: in our case for "Development of Non-Financial Reporting in the Chemical Industry". The award was given to EuroChem's corporate sustainability report for its transparency and the quality of our dialogue with stakeholders.

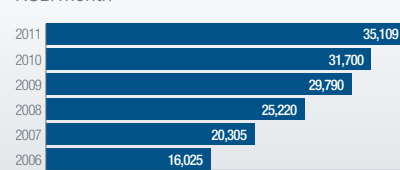
Staff turnover at production units



Management to total staff ratio



Average monthly remuneration per employee

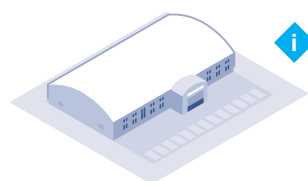
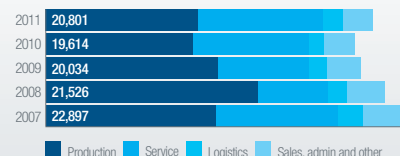


Production output per employee



Permanent employees

As at 31 December



i EuroChem corporate social responsibility reports are available at www.eurochem.ru/sustainability/social-reporting

Occupational health and safety

We seek to implement and maintain leading occupational health and safety standards. Over the years we have made substantial improvements to our health, safety and environment (HSE) management system, and these have earned EuroChem the reputation of a responsible industrial enterprise where HSE issues are a top priority.

In 2011, EuroChem's lost time injury frequency rate (LTIFR), which is calculated as number of injuries resulting in absence from work per million hours worked, was 1.45. Additional International Fertilizer Association safety and occupational health information is available at www.fertilizer.org

LTIFR (injuries per million hours worked)*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
IFA	4.35	4.38	6.98	5.00	–	–	3.09	2.80	2.35	2.82	–
Russia	3.19	2.81	2.44	2.13	1.94	1.81	1.69	1.56	1.31	1.38	–
EuroChem	1.79	1.73	1.85	1.39	1.71	1.44	1.34	1.28	1.11	1.25	1.45

* As per IFA methodology based on 1,600 working hours per person per year.

Number of industrial accidents resulting in absence from work at EuroChem production sites

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of industrial accidents	89	86	77	57	66	51	37	35	28	29	33

Financial stability

The cyclicity of the business we are in, and its effects on our cash flows, requires us to adopt a sensible debt policy. We manage debt levels prudently and our policy is to maintain a net debt/normalized EBITDA ratio of between 1.5x and 2.0x.

	2008	2009	2010	2011
Net debt/EBITDA (x)	0.57	2.2	1.13	1.35

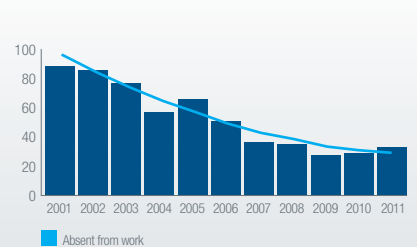
	2008	2009	2010	2011
Funds from operations/gross debt (x)	0.65	0.21	0.55	0.41

	2008	2009	2010	2011
Free operating cash flow/gross debt (%)	4%	(67%)	9%	18%

	2008	2009	2010	2011
EBITDA/interest expenses (x)	35.2	8.3	14.5	15.3

	2008	2009	2010	2011
Return on capital employed (%)	46%	17%	27%	33%

Number of industrial accidents



Risk management report

Risk management

Our ambitious strategic targets require us to pursue opportunities that involve a multitude of risks. Evaluating these risks and understanding how they relate to each other allows us to optimise our risk management system and thereby limit uncertainties. EuroChem's risk management strategy and system are integrated throughout the Group's business activities.

Risk management is a continuous process which aims to reveal the operational, financial and strategic risks arising within our business. Risks to our reputation are as important, but widely viewed as a derivative of the other three types of risks. To mitigate these risks, our risk management system models, evaluates, and prioritises every risk by its degree of likelihood and the severity of its potential impact.

Our key risks are detailed below and illustrated in our strategic risk maps on pages 64-65.

Operational risks

Unplanned production shutdowns or equipment failures

Our operational performance and financial results are directly related to our ability to manufacture, and ultimately sell, our products. Any unplanned equipment failure or capacity shutdown at one of our facilities could result in disruptions to production and have a negative effect on the Group's profitability. We address these risks through a combination of regular preventative maintenance and repair work and continuous employee technical training programmes coupled with equipment and business interruption insurance.

Health, safety and environment (HSE)

We have deployed and actively implement environmental management and other safety systems certified to ISO 9001, ISO 14001, and OHSAS 18001 at all our production subsidiaries. We regularly review our HSE procedures, including on-site emergency plans with a particular focus on potential emergency situations involving hazardous chemicals and other dangerous items. Starting from this year, as part of our drive to promote accountability in health, safety and the environment, we have introduced HSE components within our management KPI system.

Logistics

With up to 5 MMT of main raw materials needed to be delivered to our plants, and up to 15 MMT of final product to be shipped to our customers by rail and sea every year in a timely way, logistic functions are essential to the success of our business model. We employ various techniques, from daily planning to insurance, in order to reduce the probability and possible impact of potential events adversely affecting our ability to supply our plants and customers.

Fraud and bribery

We expect everyone within the Group to display the highest standards of ethical behaviour and the sound corporate governance practice we have developed over the years plays a vital role by setting the tone at the top. In addition to having preventive and detective controls, which include transaction monitoring procedures, we have also installed dedicated insider trading whistleblower services. To further mitigate these risks, our Internal Affairs and Internal Audit units regularly evaluate the integrity of our internal control systems.

Construction risks

Delays in the construction of new production lines or facilities could result in non-compliance with our set strategic targets and lead to the erosion of our competitiveness and significant losses of benefits. To minimize these risks we have recruited experienced personnel and leading contractors and have also taken out insurance policies covering mining, logistics, property, and business interruption risks.

Financial risks

Our revenues are mostly derived from the sale of products which can generally be classified as commodities. Because prices for nitrogen and phosphate fertilizers, and iron ore concentrate, are largely determined by supply and demand factors they are subject to relatively high volatility. Overall, the supply and demand environment is multi-dimensional and can be affected by factors ranging from raw material curtailments and key input pricing to government subsidies, farmer economics and financing availability. The main objective of the financial risk management function at EuroChem is to reduce the volatility, in a cost-effective manner, of the Group's likely future cash flows to the extent necessary for maintaining the desired level of strength of its balance sheet (across-the-cycle net debt/next 12 months' EBITDA ratio of between 1.5x and 2.0x).

Product prices

Fluctuations in fertilizer and iron ore prices significantly impact our cash flows. Although our ability to mitigate these risks through financial instruments is limited by liquidity constraints, we also address them by constantly seeking to improve our competitive advantage and our position on the global cost curve, which we view as the best protection from price volatility in the longer term. Over the last few years, we have been investing heavily in increasing the efficiency of our production processes, expanding our raw material base and broadening our product offering. Together with the expansion of our sales and production geographies, these strategic investments have contributed to the relative stability of margins across our production segments by spreading the risks associated with the seasonality and cyclicity of product demand.

Foreign currency risk

EuroChem revenues, expenses, capital expenditure, investments, and borrowings are denominated in different currencies. While a significant portion of our revenues come from export sales denominated in US dollars, our expenses, excluding debt servicing, are almost entirely incurred in Russian roubles. As a result, our profitability and debt burden can be significantly affected by currency swings. This risk has been exacerbated by the heightened currency volatility observed in the wake of the financial crisis. We currently mitigate this risk by matching cash flows and using derivative financial instruments such as forward currency contracts to limit our exposure to currency fluctuations.

Interest rate risk

We are exposed to interest rate risk because the majority of our debt portfolio, apart from rouble bond and Eurobond issues maturing in 2018 and 2012, respectively, is represented by loans with floating interest rates. Nevertheless, we consider the impact of rising interest rates on our cash flows to be limited as periods of rising interest rates tend to overlap with periods of elevated commodity prices. At the same time, we may occasionally use interest rate swaps or other derivatives to hedge our exposure to interest rate risk.

Increases in costs

In Russia, we have been facing cost pressures from increases in the prices paid for freight, natural gas, electricity and rail transportation. To mitigate their impact we seek to enhance or maintain EuroChem's position on the global cost curve through improvements in energy efficiency at our production facilities; by optimising logistics with our own rail stock, transshipment terminals, and sea-going vessels; and by reducing dependency on third-party suppliers.

Other financial risks that we continuously monitor include liquidity risk, credit risk, financial covenants and ratings risks, and material tax risks.

Strategic risks

We classify as strategic the risks surrounding investment and business decisions, changes in the competitive landscape, including structural changes in the supply and demand environment, and regulatory actions. We mitigate these risks through the monitoring and analysis of a number of strategic factors during the regular strategy reviews at the Board of Directors and Executive Board levels.

Key strategic risks to our Nitrogen, Phosphate, Potash, and Distribution segments are highlighted in our strategic risk maps and table on pages 64-65.

Reputational risks

We see our reputation as one of our most valuable assets. Risks to our reputation encompass operational, financial, and strategic dimensions and can have repercussions throughout the Group's business. To mitigate these risks we rely on our sound corporate governance and robust HSE standards. Additionally, our public, government, and investor relations functions follow our unified communication policy which is underpinned by our timely, accurate, open and transparent approach to disclosure. Our reputational risk management is complemented by our crisis communications system and insider trading whistleblower service.

2011 developments

Strategic and financial risks

We have created a portfolio of non-deliverable forward contracts to maintain a natural hedge on our liabilities and hedge operating cash flow against risks of a strong rouble appreciation.

During the first half of the year we actively sold short calls on our K+S shares to preserve the value of our financial investment.

Operational risks

In 2011, a comprehensive analysis of our operational risks enabled us to develop valuable action plans to better anticipate and respond to operational threats as they emerge. As well, we introduced a number of key insurance products, which have considerably improved EuroChem's strategic and operational risk management. We spent 2011 developing an integrated insurance programme to be rolled out Company-wide from 2012. The programme will allow substantial cost savings and includes a comprehensive approach to the Company's compulsory and voluntary insurance plans.

To further address HSE risks, we opened environmental monitoring offices at EuroChem-BMU in late 2011 and have invested USD 32m in the overhaul of wastewater treatment plants.

Emergence of new risks in 2012

Integration risks

While we expect to gain significant operational efficiencies with our acquisition of natural gas assets in Russia and fertilizer production capacity in Belgium, we also realize that these ventures are accompanied by considerable new sets of risks.

Severneft-Urengoy: EuroChem is an agricultural chemical company and has no track record in natural gas extraction. Furthermore, the profitability of this asset to EuroChem depends on its ability to supply natural gas directly to one of EuroChem's plants via the Gazprom-owned gas transportation system. The integration risks created by this acquisition will be mitigated primarily through the retention of key employees and executive personnel. Commercial risks will be addressed by EuroChem in 2012.

EuroChem Antwerpen: The integration risks at our Western European assets are of a different nature. While the product mix at EuroChem Antwerpen is similar to the Group's existing product portfolio in Russia, it is the first acquisition of the Group in Western Europe and hence poses significant "soft" cultural risks. To mitigate these risks, in addition to differences in financial reporting, legislation, and technical standards, we have assessed and are addressing areas of potential cultural incompatibility, such as management style, governance and communication practices, which may threaten the realisation of our expected synergies.

Plans for 2012 and beyond

The primary aim of our risk management system is to continuously improve the efficiency of our business processes by anticipating, assessing, and promptly addressing risks so as to mitigate any potential negative impact. Over the next year, we will continue the task of embedding our risk management standards throughout our key business segments, to encompass all major steps from procurement to production and product delivery to customers.

Contingencies, commitments and operating risks are further discussed in note 31 to our 2011 IFRS Financial Statements on page 109 of this report. Additional information on financial and capital risk management is provided in note 32 to the financial statements.

Risk management report *continued*

Overview of main risks and trends in their assessment



Each circle represents the estimated position of a key risk as at 31 December 2011. The dotted arrows illustrate changes to risk perception over the previous six-month period. The absence of an arrow implies a stable risk perception.

The table below summarises the key factors behind the highlighted changes in the risk assessments shown:

		Preceding six months		Following six months	
		Direction	Cause	Direction	Cause
P3	Lack of own phosphate rock capacity	Increasing	Additional delays to the start of phosphate rock mining operations in Kazakhstan	Stable	No further changes prior to the expected start-up of production in 2013 in Kazakhstan
R2	Import duties and other trade barriers in key markets	Decreasing	Expected Russia WTO accession from second half of 2012	Decreasing	Removal of anti-dumping duties
K1	Technical risks to potash projects	Increasing	Difficult subsoil conditions have led to production start-up delays	Stable	Significant changes are not expected until the completion of skip shaft #1
N1	Narrowing of natural gas price differential between Russia and Europe	Decreasing	Acquisition of Severneft-Urengoy	Decreasing	Investment strategy targeting further integration in natural gas and other raw materials
L1	Logistical bottlenecks	Decreasing	Operational debut of Tuapse and purchase of Panamax vessel	Decreasing	Acquisition of second Panamax vessel in early 2012

Area	Ref. code	Nature	Description	Strategic response	How do we measure up?
Potash	K1	Technical	Delays in the launch of potash production due to various issues surrounding logistics, geological conditions, shaft sinking and ore extraction operations.	Involvement of experienced mining sub-contractors. Constant monitoring of project management systems and controls. Insurance taken out for shafts.	Despite delays at the Gremyachinskoe cage shaft and the acceleration of the skip shaft #2 sinking, overall capex spending remains as planned. More details on potash are available on page 44 of this report.
	K4	Potash prices	Decline in price for potash fertilizers may result in sub-optimal returns from the potash project.	Achieve the lowest cost-delivered-to-market globally. Increase own consumption of K by raising NPK capacity. Secure own logistics and shipping channels.	Launched Tuapse transshipment terminal. We estimate the break-even potash price for our VolgaKaliy project to be substantially lower than the current USD 480/tonne FOB Baltic. Average FOB Baltic spot potash prices were USD 445/MT in 2011 (USD 473/MT over the last five years).
Nitrogen	N1	Gas cost increase	Differential in natural gas cost between Russian and European/US producers is decreasing.	Own natural gas production/buying gas producer. Deep modernisation of ammonia production, improving ammonia gas efficiency. Launch production of higher-value-added and premium products (LDAN, NPK, AdBlue). Investments in nitrogen fertilizer capacity in regions of lower gas costs (Saudi Arabia, North Africa).	The purchase of Severneft-Urengoy potentially provides EuroChem with 25% of its annual natural gas requirements at lower price. Launch of Russia's first melamine production line in March 2012. See prilled urea delivered to Brazil/Europe cost advantages on page 54 of this report.
	N2	Technical	Technical/operational risks relating to the age and depreciation of equipment. Unplanned stoppages can significantly affect cash flows.	Full insurance coverage, including business interruptions.	2011 capacity utilization at Novomoskovskiy Azot and Nevinnomysskiy Azot was 96% and 91% respectively.
	N3	New supply	New supply from low gas cost areas may cause unfavourable shift in EuroChem's position on global cost curve.	Cost reduction, modernisation and efficiency of nitrogen production.	As illustrated on page 38, Nevinnomysskiy Azot and Novomoskovskiy Azot remain comfortably positioned on the global cost curve.
Phosphate	P1	Iron ore	Iron ore price levels are largely a factor of Chinese economic; risk to EuroChem cash flows.	Adjust debt levels for potential volatility in iron-ore-related cash flows; review hedging on ongoing basis.	Each 10 USD/tonne change in iron ore CFR China price translated into a USD 17m change in EBITDA in the nearest quarter and up to USD 40m in the nearest 12 months. Own vessels for freight and use of Northern Sea Route to cut transportation costs.
	P2	New and more efficient capacity	New supply from low cost areas (e.g. Saudi Arabia, Morocco) may cause unfavourable shift in EuroChem's position on global cost curve.	Tight cost control; added flexibility at production plants; increase NPK production in line with own potash ramp-up; increase foothold in the domestic and CIS markets. Target reductions in logistics costs.	Our Lifosa and Phosphorit facilities are among the lowest cost producers globally as illustrated on page 42.
	P3	Deficit of own phosphate rock	Reliance on third-party supplies may result in margin pressure as a result of our exposure to rising phosphate rock prices or its limited availability.	Increase phosphate rock resource base with Kazakhstan operations; decrease rock consumption by switching to NPK from MAP/DAP at phosphate plants; increase phosphate rock storage capacity; alternate supply options.	We are 80% self-sufficient in phosphate rock. The start of mining at our Kazakhstan operations is expected to gradually take us closer to full self-sufficiency.
Logistics	L1	Bottlenecks/increasing costs	Limited fertilizer transshipment capacity in Russia. Growth in the cost of rail and port services. Limited warehousing capacity within port infrastructure.	Build and operate own port terminals and transshipment capacity (Tuapse, Ust Luga); warehousing and storage facilities, acquisition of rolling stock and vessels.	With our investments in logistics infrastructure, EuroChem's own or long-term-contracted transshipment capacity covers 82% of our needs, while our wholly-owned 7,000 rail cars and 45 locomotives represent 85% of our total rolling stock requirements.
Environment	E1	Environmental/reputational	Nature of production coupled with age of certain assets dictate additional environmental precautions and investments. Reputational risks.	Measure and monitor environmental footprint and public perception. Commit funds to reduce the environmental impact of operations. Rapid response to environmental emergencies – real and alleged. Policy of openness to the public.	Since 2004: Effluent discharge: -41% Non-recycled water usage: -28% Emissions: -16% Energy consumption: -11% See page 59 for additional information on our environmental investments.
Financial	F1	Cash flow/debt capacity shortage	EuroChem may not be able to cover all its planned investments from operating cash flows and new debt.	Maintain maximum readiness to tap all possible sources of debt and/or equity finance; extend debt maturity profile, implement effective hedging strategy, IPO, study of alternative funding options, review financial covenants, strategic partner, and project financing.	2011: operating CF/capex = 1.51. Over the next five years, capex is not expected to exceed operating cash flows under base case scenario.

Our governance

Sound governance resonates well beyond the boardroom. By consistently striving to build trust and a sound control environment while fostering growth, we underpin the long-term sustainability of the business in the interests of our shareholders and of the society in which we operate.

Our approach to governance

Sound governance resonates well beyond the boardroom. By consistently striving to build trust and a sound control environment while fostering growth, we underpin the long-term sustainability of EuroChem's business in the interests of our shareholders and of the wider communities in which we operate.

We continue to work on developing sound strategic oversight, effective communications and strong controls. These form the bedrock of sustainable growth.

Our governance approach is informed by a clear social strategy:

- prioritising health and safety and investing in our workforce has provided us with talent and commitment and has reinforced employee engagement;
- our customers have come to know and respect EuroChem as a reliable, high-quality partner and supplier;
- beyond the direct economic impact of our business lies our systematic approach to investing in education, sports and environmental protection to support local communities;
- being a responsible corporate citizen has allowed us to build a solid, continuous and productive dialogue with authorities at local, state, and federal levels.

EuroChem is a member of the Russian National Council on Corporate Governance. We are firmly committed to fostering national dialogue on improving corporate governance standards and we hope that our participation contributes to its development.

Some questions for the EuroChem Directors



Andrey Melnichenko
Chairman of the Board

Q. Why is EuroChem so committed to sound corporate governance and information disclosure?

A. Although it is currently a privately held company, there will come a time when we seek to list EuroChem's shares on an international exchange. While our sales are global, our assets are still concentrated in Russia. Because a certain stigma continues to be attached to Russian companies as a result of past corporate governance weaknesses, we wish to not only explain but also to demonstrate our governance story well in advance so as to be appropriately valued by the international investment community when the time comes.

Possibly more importantly, we firmly believe that sound governance is good for business – our actions resonate through the whole production chain. Over the last few years, the Board has set out and tested a system which helps us anticipate, assess and mitigate risks, while pursuing targeted strategic development initiatives that are focused on building the sustainability of our business. We have overseen the development of a strong management team – one I feel is amongst the very best in Russia – and have been working together in pursuit of value-building growth through vertical integration and the capture of opportunities in Russia and elsewhere.



Richard Sheath
Audit Committee Chairman, Corporate Governance & Personnel Committee

Q. Where do you see your priorities for the next few years in reporting and control?

A. We have made tremendous progress on the financial reporting side. Our annual audited financial statements are now being issued in mid-February and we will continue pressing management and our auditors for opportunities to make our reporting systems and controls even more efficient. EuroChem has always looked to report effectively to its external stakeholders and it was pleasing to see our annual report nominated for an award by the UK Investor Relations Society this year; we will now be looking to develop a better system of key performance indicators and to integrate these into our external reporting.

On the internal control and risk management front, our priorities in 2012 will centre on consolidating the progress we have made over the past year: putting a tighter structure around financial reporting controls; improving the monitoring of investment projects and capital expenditure; embedding better health and safety risk management processes and awareness; and strengthening further our environmental risk assessment and monitoring.

We are also very conscious that moving into new areas of raw material sourcing, production, and distribution generates exposures across the risk spectrum. Full awareness and the development of effective control systems will be crucial and the Committee will be overseeing quite tightly management's responses to these new areas of activity.



George Cardona
Strategy Committee Chairman

Q. Why do you have a Strategy Committee?

A. EuroChem has numerous important investment decisions to make, some of them in relation to very large projects which can take years to build and will be producing revenues for decades; and there are also acquisitions and disposals. The Committee gives both management and the Board the opportunity to discuss these matters in greater depth and detail than would be possible in a full Board meeting. Management finds it useful to have the Committee provide some challenge and act as a sounding-board. The full Board will always consider major opportunities and projects, but finds it very helpful to have the Committee take a closer look – and to review each opportunity at an early stage.

In 2011, as a Committee, we guided the Company through two transformational acquisitions as we further consolidated our vertical integration and expanded our geographical reach. We will continue to focus on ensuring that we fully capture the resulting synergies while continuing to strengthen our raw material position. I also see our role as helping management prioritise and recognise at an early stage any organisational stresses that might arise from our ambitious investment programme and growth strategy.

Our governance *continued*



Vladimir Stolin
Corporate Governance & Personnel Committee Chairman



Keith Jackson
Strategy Committee, Audit Committee

Q. How do you go about ensuring that management is effectively incentivised?

A. Motivation and incentivisation largely come from the leadership provided by the senior executives and the Board. Of course the CEO is key in this. At EuroChem, it is this leadership combined with working in a fast-growing and changing business that is the key source of motivation.

But objective-setting and financial rewards also have a role to play. Both management and the Corporate Governance & Personnel Committee invest a lot of time not only in setting clear objectives and targets but also in assessing performance against them. At both stages the Committee discusses the objectives and performance in detail, often directly with the senior manager concerned as well as with the CEO. We then make recommendations to the full Board, at times having made adjustments to self-assessment and the CEO's evaluation to take account of the views of the Board.

We have aimed for a well-balanced bonus structure which incentivises both short-term performance during the year and long-term performance on specific projects as approved by the Board. We are also very conscious of the need to flex the objectives in line with the development and needs of the business. For example, we are not only accountable to our shareholders, but also to our employees, our local communities, and the environment, and to reflect this we have revisited our remuneration system to target health and safety in the workplace.

Q. How do you make sure you are in a position to monitor performance, both across the business and on individual strategic initiatives such as the development of potash resources?

A. Over the last four years the Board of Directors and the Executive Board have established a strong working relationship which is underpinned by a high degree of openness. One of our key priorities has always been to facilitate and accelerate information flows within the Company. We ensured that the EuroChem IT department developed and implemented tailor-made applications to meet our requirements, with some of these applications now recognised as amongst the most innovative in the software sector. This has given us the confidence that management are in a strong position to continually monitor the Company's operational and financial performance. Having full access to management information systems at all times has also meant that performance indicators are available to the directors in a timely way.

In addition we have been working on improving both the initial presentation and the ongoing reporting aspects of all our investment initiatives, providing us with the right tools to evaluate the investment ideas generated by the executive team and to keep an eye on progress. As a result we now have regular and clear updates on the capital investment portfolio. For example, on the VolgaKaliy potash project, we now receive regular investment bulletins and we will maintain this tight focus as the project proceeds. The necessity to sustain good shareholder returns drives our strategy but both the price and pace of growth, and the returns on our investment, must constantly be monitored in order not to erode shareholder value. For this reason we will continue to work with management to further strengthen our investment analysis and monitoring process.



Nikolay Pilipenko
Audit Committee



Dmitry Strezhnev
CEO

Q. What do you see as a key issue for the Board over the next twelve months?

A. In 2011 we made two important decisions that will prove decisive for the Group's development in the coming years. The first of these – the purchase of natural gas assets in Western Siberia – is another key step in our strategy to build a vertically integrated company with its own resource base. The second, which is the acquisition of production assets in Belgium, will strengthen the Company's long-term position on the European fertilizer market.

Both of these transactions have significant value-building potential. The realisation of this potential will, to a large extent, depend on our ability to quickly and seamlessly integrate them within the existing business model. This will require flexibility from our processes, information systems, and corporate governance practices to adapt while retaining their core principles. I believe a key task for us in 2012 will be to ensure that information flows remain accurate, comprehensive, and timely during the consolidation phase. The need to establish effective communication channels and methods which will allow us to react quickly to changes and challenges within the competitive landscape will be crucial. The preservation of sound corporate governance practices will be essential at this stage of EuroChem's development. These should help the Company evolve, while maintaining and promoting transparency, accountability, and responsibility.

Q. What is expected of EuroChem directors?

A. EuroChem directors are ultimately responsible for the Company's governance and are required to operate with due diligence and discipline across the business. Naturally, all directors are expected to display effective leadership and be accountable for their actions. It is important that trust is nurtured and earned through managing the business in a responsible and sustainable way.

The Board has a clear and defined direction for the strategic and organic development and progress of the business. We rely on our non-executive directors to help us ensure the Company meets the expectations of the investment community and we are committed to the highest standards of corporate governance and robust compliance practices.

It is important that we embed a culture of openness and transparency and that our non-executive directors play an integral part in our continuous drive to improve and raise the standards by which we conduct, monitor, and grow the business to achieve our vision now and in the future.

Our governance *continued*

The Board of Directors is modelled on UK board practice and non-executive directors are encouraged to actively debate and challenge management and the strategic decision-making process.

How our governance is structured

The Board's primary activities include:

- Setting strategic priorities and analysing management's performance against those goals.
- Oversight of control and risk management procedures.
- Determining and reviewing EuroChem's investment policy and individual initiatives.
- Considering M&A opportunities that have been reviewed and proposed by management.
- Exercising oversight of EuroChem senior management at both Group and manufacturing levels, including advice on key strategic decisions.

Board membership, committees, and attendance

The EuroChem Board of Directors consists of seven directors, three of whom are fully independent. We expect our non-executive directors, while maintaining their independence, both to help us maintain a clear strategic direction and to oversee the strengthening of our internal operations.

Director	Board attendance			Committee attendance		
	Attended/held	In person	In absentia	Audit ³	Strategy	Corporate Governance and Personnel
Chairman						
Andrey Melnichenko	18/18	8	10	–	–	–
Executive director						
Dmitry Strezhnev (CEO)	18/18	8	10	–	–	–
Non-executive directors						
George Cardona ¹ (Strategy Committee Chairman)	17/18	8	9	–	6/6	–
Nikolay Pilipenko	18/18	8	10	10/10	–	–
Independent, non-executive directors						
Richard Sheath (Audit Committee Chairman)	18/18	8	10	10/10	–	6/6
Vladimir Stolin (Corporate Governance and Personnel Committee Chairman)	18/18	8	10	–	–	6/6
Keith Jackson	18/18	8	10	10/10	6/6	–
Charles Adriaenssen ²	8/8	2	6	–	–	2/6

¹ George Cardona did not participate in one Board meeting as the discussion concerned EuroChem's financial investments in K+S Aktiengesellschaft. Mr Cardona has been on the K+S Supervisory Board since 2009.

² Charles Adriaenssen opted not to seek re-election and stepped down from the Board following the AGM held on 26 June 2011. The subsequent vacant director position will be filled by the Board in accordance with EuroChem's Code of Regulations. Any director appointed by the Board to fill a vacancy will serve until the next annual election of directors.

³ The Audit Committee held a total of ten meetings, four of which were teleconferences.

Short biographies of each of the directors are presented on page 75 of this report. Full CVs for all Board directors are provided in Appendix 1 to this report, which is available online at www.eurochem.ru.

Director independence

At present, three out of the Board's five non-executive directors (out of a total of six directors in addition to the Chairman) are fully independent in that they are independent of the Company's executives, affiliates, and major counterparties and have no relation with the Company that could potentially influence their objectivity. A member's independent status is confirmed by the Board of Directors each time he or she is elected. The Board of Directors appoints the General Director and the members of the Management Board and determines the length of their terms. More detailed information on the executive team is available on the EuroChem website: www.eurochem.ru/about/corp-gov/management.

Where did we focus in 2011?

The Board of Directors focuses on long-term strategic development by assessing major initiatives, monitoring performance and ensuring that the core elements of sound control, risk management and effective structures are in place. Over the years we have developed a deep understanding of the business and an effective working relationship with the executive team. We signed off on a number of strategic milestones this year, including EuroChem's geographical expansion in Western Europe with the announced acquisition of BASF fertilizer assets in Belgium and, in a first for a fertilizer producer, our upstream integration into natural gas production. Across the Group, we have given an extra push to investments and controls in health and safety management systems with the goal of further improving safety standards in the workplace.

Additionally, we continued to press for a tighter financial reporting calendar and increased oversight on the way we assess and mitigate risks, particularly around our capital investment projects. These are bound to be crucial issues for us in 2012, as we accelerate the development of the Gremyachinskoe potash deposit and start integrating the assets acquired in Belgium and Western Siberia.

2011 was a year of significant strategic initiatives which pave the way to new markets and growth opportunities.

Looking ahead

The six-month forward agenda we use has helped us create a normal cycle for reviewing ongoing issues such as budgets, financial reporting and strategy. The timing, expectations and goals of these reviews are well understood by the Board and management and include detailed updates on core operational areas, investment projects and strategy.

The table below summarises the Board's activities over the year.

Strategic planning and investments	<ul style="list-style-type: none"> Revisited and repositioned the nitrogen, phosphate, potash, mining, distribution and logistics strategies up to 2016. Monitored strategic developments and analysed opportunities presented by management. Signed off on several transforming acquisitions. Increased our monitoring of the Gremyachinskoe potash deposit development, especially targeting risks associated with any changes in either the project's budget or timeline. Approved further international expansion with the announced acquisition of fertilizer assets in Belgium. Expanded the raw material base of the business to secure long-term cost advantages, notably by increasing phosphate rock reserves and acquiring a natural gas operator.
Financial reporting control, internal control, and risk management	<ul style="list-style-type: none"> Worked on enhancing budget controls and progress monitoring for large-scale investment projects, including identifying and addressing future bottlenecks. Oversaw the development of documented financial reporting controls and the tightening of reporting deadlines, bringing forward IFRS reporting to within 45 days after the close of the reporting period. Approved insurance coverage for large-scale investment projects. Reviewed the approach to financial risk management and health and safety risks. Reviewed the priorities and focus of the internal audit function. Oversaw preparations for responding to new transfer pricing tax regulations. Monitored the development of IT solutions within our unified information system to reduce internal reporting delays and increase risk assessment capabilities.
Employee incentives and development	<ul style="list-style-type: none"> Developed an internal key executive and management succession and contingency reserve programme. Evaluated the achievement of management targets in 2011, setting new targets for 2012. Introduced changes to the incentives and bonus programme to include health and safety components and indicators.
Corporate governance and information disclosure	<ul style="list-style-type: none"> Assessed the Board's performance. Oversaw compliance of the Corporate Social Responsibility Report with international standards, reviewed verification procedures. Rolled out an insider trading policy and tightened procedures ensuring we are in line with anti-trust regulations.

Some specific areas we will focus on in 2012 include:

Enhancing monitoring of the integration process	<ul style="list-style-type: none"> Strengthening the monitoring systems to exercise full oversight in the integration of newly acquired assets.
Increasing value and insights from accounting system	<ul style="list-style-type: none"> Further narrowing the gap between the reporting period and the production and release of our IFRS accounts.
Increase HSE accountability	<ul style="list-style-type: none"> Continue developing our KPI compliance to integrate workplace safety and environmental targets.

The Board Committees

Detailed oversight is performed at Committee level. Although full investigatory powers are delegated to the Committees, these remain accountable to the Board, which retains ultimate responsibility. This delegation of authority ensures the Board focuses its attention on the key issues of our business.

The Audit Committee

The Audit Committee's primary function is to oversee the quality of the financial reporting process, including the integrity and reliability of information disclosure. In 2011, the Committee held ten meetings, of which four were teleconferences. The Audit Committee has two fully independent members: Richard Sheath, Chairman of the Committee, and Keith Jackson; the third member, Nikolay Pilipenko, is a non-executive director, but not fully independent as he served as EuroChem CFO until 2008. The CFO and Head of Internal Audit attend all meetings, with the external auditors and the Corporate Secretary, amongst others, also actively participating.

The Committee holds discussions with PricewaterhouseCoopers, EuroChem's external auditors, twice a year without the presence of management. In addition, the Chairman of the Committee regularly meets with the Head of Internal Audit. Throughout the year, the Committee remains in regular contact with the CFO, the Head of Internal Audit, the risk management desk and the Corporate Secretary.

The table below summarises the Committee's activities during 2011.

External audit	<ul style="list-style-type: none"> Appraised the auditor's performance in 2011, discussed 2012 audit fees and reviewed the nature of the audit relationship considering any questions of independence which may arise from relations with management or the provision of non-audit services. Reviewed the co-operation process and communications between external and internal auditors. Considered the financial reporting, audit risks and the level of audit work on reporting controls. Discussed with the statutory auditors of the Russian Accounting Standards accounts their experience and opinions to form a fuller view of the control environment.
Financial reporting	<ul style="list-style-type: none"> Reviewed quarterly and annual consolidated financial reports, monthly management reports, and the preparation of the annual report. Oversaw the development of a structured control framework for the preparation of financial reports, including assurance over financial reporting accuracy, across the Group's companies. Guided the development of a comprehensive system for monitoring capital projects and key performance indicators. Reviewed the scope for accelerated financial reporting. Monitored adherence to debt covenants.
Risk management and internal control systems	<ul style="list-style-type: none"> Analysed and approved the introduction of insurance coverage for large investment projects. Reviewed HSE risk management functions to improve performance. Assessed financial risk management approaches including scope for hedging. Revised insider information rules and procedures to reflect the latest regulatory amendments. Recommended and established an insider trading compliance function.
Internal audit	<ul style="list-style-type: none"> Reviewed the role and re-defined the priorities of the internal audit function. Reviewed the conclusions of internal audits particularly with an increased focus on the Greymachinskoe potash development and logistics.
Information disclosure	<ul style="list-style-type: none"> Advised on the preparation of the corporate social responsibility report. Reviewed contingency and succession planning for the finance function. Reviewed external communications and crisis communications policies.

 More information about compliance with the provisions of the Code of Corporate Conduct can be found in Attachment 1 to this annual report, which is available on the EuroChem website www.eurochem.ru

The Strategy Committee

The Strategy Committee has two members: George Cardona, Chairman of the Committee, and Keith Jackson. Both are non-executive directors. Six meetings were held in 2011 with the CEO, CFO, and head of strategic planning in attendance. The Committee analyses and recommends to the Board the overall strategy of the Company and the specific proposals put forward by management. This includes segment strategy, strategic expenditures, mergers and acquisitions, and any other strategic ideas generated by the Executive Board, with whom it meets informally throughout the year as strategic opportunities develop.

During 2011 the Committee's areas of focus included:

Strategic planning and implementation	<ul style="list-style-type: none"> Review of ongoing strategy investments and analysis of new strategic opportunities, including acquisitions and discussions with potential strategic partners. Analysis of investment programme budgets and effectiveness of budgeting process and planning.
Financing of strategic projects	<ul style="list-style-type: none"> Monitoring financing plans for the Company's investment projects and compliance with debt covenants.
Operational efficiency and HSE	<ul style="list-style-type: none"> Modernisation of production units, including to ensure compliance with environmental requirements and labour safety standards.
Access to raw materials	<ul style="list-style-type: none"> Review of plans to enhance access to raw materials, including taking part in license auctions.

The Corporate Governance & Personnel Committee

The Corporate Governance & Personnel Committee currently has two members: Richard Sheath and Vladimir Stolin, its Chairman. Both are independent directors. During 2011, the Committee held six joint-presence meetings and focused in particular on the staffing requirements at ongoing investment projects and the introduction of health and safety performance indicators within the management incentive programme. The Committee also worked on reviewing and updating EuroChem's Code of Business Conduct and Ethics Code.

During 2011 the Committee's areas of focus included:

Remuneration and incentives	<ul style="list-style-type: none"> Review of performance indicators and their assessment methodology as well as the development of health and safety components to be included to the incentive system.
Appointments and staffing	<ul style="list-style-type: none"> Oversight of key management appointments at Kovdorskiy GOK. Continued development of the management succession pool.
HR policy	<ul style="list-style-type: none"> Development of the Group's internal employee reserve pool. Refining of systems to retain key employees through social, professional development and financial incentives.
Corporate governance	<ul style="list-style-type: none"> Recommendation of an updated version of the Code of Ethics.

Remuneration

Issues concerning Board member remuneration are referred to the General Meeting of Shareholders. Remuneration is fixed and adjusted according to Committee memberships and Chairmanships; however, as set out in the Board Member Remuneration Regulations, only non-executive directors are entitled to remuneration.

The total amount of remuneration paid to Board members for their performance in 2011 amounted to RUB 34,866,163; this included RUB 1,602,463 in compensation for work-related expenses.

Director remuneration as well as payment procedures and expenses compensation criteria are subject to the Board Member Remuneration Regulations, which were approved at the General Meeting dated 25 February 2009.

Dividends

When recommending dividend payments, the Board of Directors takes into account the long-term development of the Company, the prevailing economic and financial environment, and the interests of shareholders.

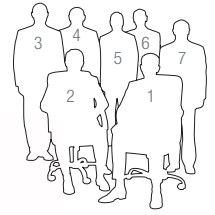
During 2011, the Company did not pay any dividends to shareholders.

EuroChem's dividend policy and historical dividend payout information are available at: www.eurochem.ru/about/corp-gov/dividends

The Company takes out Directors' and Officers' Liability insurance which covers both the Board directors and members of the Executive Board.

EuroChem strives to meet at all times the requirements of the National Code of Corporate Conduct (issued by the Russian Federal Securities Market Commission) and fully complies with the requirements set out by Russian stock exchanges for securities listings. During the year it made a number of changes to Company regulations and practices to tighten compliance.

Board of Directors



Shareholding structure and influence

EuroChem has adopted a best-in-class approach to corporate governance in Russia:

- Management develops and executes strategy;
- Board of Directors performs an overall oversight function;
- Half of the Board comprises independent directors with long-standing experience and reputations;
- Three committees: Audit, Corporate Governance & Personnel, Strategy;
- Transparent and open ownership structure;
- Long-term shareholder commitment;
- Prudent dividend policy, consistent with the financial standing of the Company.

Transparency and disclosure

- IFRS reporting since 2002; audited by PwC;
- Annual reports issued since 2005;
- Corporate social reporting since 2005;
- Financial statements and majority of corporate governance documents publicly available on regularly-updated website.

1 Andrey Melnichenko (39)

Chairman of the Board of Directors

Non-executive chairman of EuroChem since 2007

- A company that holds Andrey's business interests owns 92% of EuroChem's shares.
- In 1993 Andrey co-founded MDM Bank, one of Russia's largest private banks. From 1997 to 2001 he was the chairman of the management board, and then, until 2005, Chairman of the Board of Directors.
- Over the past 19 years, Andrey has played a significant role in building some of Russia's most successful corporations. These include EuroChem, SUEK and TMK, Russia's largest manufacturer and exporter of steel pipes.
- He has been a director of RAO UES Russia and TMK, and is currently a director of SUEK. Andrey also sits on the management board of the Russian Union of Industrialists and Entrepreneurs.
- Andrey studied physics at Moscow State University and graduated from Plekhanov Russian Academy of Economics, majoring in Finance and Credit.

2 Dmitry Strezhnev (43)

Member of the Board of Directors, CEO of EuroChem

CEO of EuroChem since 2003 and a Board member since 2007

- Dmitry owns 8% of EuroChem's shares.
- Before joining EuroChem as CEO, Dmitry was the head of Agrodortekhsnab LLP and Tekhsnab-2000 LLC, trading companies that sell road and construction machinery and provide maintenance works. He was also deputy director of Dorstroykomplekt CJSC, a company specialising in highway engineering, and then head of the Likinsk Bus Manufacturing Plant OJSC, a large vehicle manufacturer.
- For several years Dmitry combined two executive positions in RusPromAvto LLC, a car, trucks, buses, road and construction equipment manufacturer, and in GAZ OJSC, an automobile factory.
- He is a member of the board of directors of SUEK since 2011.
- He graduated with honors from Lomonosov Moscow State University with a degree in physics and has an MBA from the Academy of National Economy of the Government of the Russian Federation.

3 Nikolay Pilipenko (46)

Member of the Audit Committee

Non-executive director since 2009

- Nikolay was EuroChem CFO from 2006 to the end of 2008. Before joining the company he worked for ABB Group, one of the world's leading manufacturers of power equipment, automation products and technologies, holding various managerial positions in Russia, Spain, and Switzerland.
- Nikolay graduated from Moscow State University and holds a PhD in economics.

4 Vladimir Stolin (64)

Chairman of the Corporate Governance & Personnel Committee

Independent non-executive director since 2007

- In 1989 Vladimir founded Ecopsy Consulting, a leading Russian company specialising in human resource management, motivation and development. He managed Ecopsy as general manager and later as chairman of the Board.
- During his career Vladimir spent several years in the US working as a consultant at RHR International in Chicago. He graduated from Lomonosov Moscow State University with a degree in psychology and was subsequently awarded a doctorate in psychology and a professorship.
- He is the author of numerous scientific and general publications about management and psychology. For many years his career involved education and research, including lecturing at university level.

5 Richard Sheath (49)

Chairman of the Audit Committee, member of the Corporate Governance & Personnel Committee, Independent non-executive director since 2007

Independent non-executive director since 2007

- Richard is a director and co-founder of Independent Audit Limited, a consultancy specialising in corporate governance. He advises the boards of major companies in the UK and overseas on all aspects of governance, with a particular focus on audit and risk committees, risk governance, control culture and corporate reporting.
- Previously he was a partner in the risk management consulting practice of PricewaterhouseCoopers and spent six years with the firm in Russia.
- He began his career with the Bank of England and HM Treasury (the UK Finance Ministry). He graduated in History from the University of York and has an MBA from City University (London).

6 Keith Jackson (62)

Member of the Strategy Committee, member of the Audit Committee

Independent non-executive director since 2007

- Keith has been senior vice president and a divisional CFO of Anglo American plc, the Chairman of the Board of Directors of Cleveland Potash Ltd, and the CFO of Cape plc and AMCORP SA. He has also worked with Charter plc, a diversified industrial group, and was CFO of Petrosur, an Argentine urea fertilizer company.
- Keith is a non-executive director and the chairman of the audit committee at Chamberlin plc, a UK foundry and engineering group.
- Keith graduated from Selwyn College, Cambridge with a degree in economics, and has an MBA from Manchester Business School.

7 George Cardona (60)

Chairman of the Strategy Committee

Non-executive director since 2007

- George is the founder and CEO of London-based Cardona Lloyd & Co and was Head of Strategy at HSBC Group before being appointed as HSBC's General Manager for International Banking.
- He has been a member of the board of directors at several banks and financial companies in Europe and the Americas. In 1979 he was appointed as Special Adviser to the UK Treasury under the Thatcher administration. He is a member of the Boards of Directors of SUEK and Linea Limited.
- George graduated from Trinity College, Oxford with a degree in philosophy, political science and economics.



To the Shareholders and Board of Directors of EuroChem Group:

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'ZAO PricewaterhouseCoopers Audit', is written over a faint, larger version of the same signature.

14 February 2012
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit

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Consolidated statement of financial position

as at 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	7	100,752,901	73,121,566
Mineral rights	10	14,271,178	7,318,107
Goodwill		295,275	204,866
Intangible assets	8	610,463	814,523
Restricted cash	13	7,980	143,898
Available-for-sale investments	9	11,044,815	34,680,888
Available-for-sale investments pledged as collateral	9	11,423,184	3,182,443
Derivative financial assets	17	124,353	–
Deferred tax assets	26	1,806,374	969,064
Other non-current assets		167,920	–
Total non-current assets		140,504,443	120,435,355
Current assets:			
Inventories	11	14,957,399	9,827,892
Trade receivables	12	3,435,913	2,710,818
Prepayments, other receivables and other current assets	12	10,190,762	7,523,132
Originated loans	29	6,301,867	–
Derivative financial assets	17	–	36,751
Restricted cash	13	77,238	37,461
Fixed-term deposits	13	20,865,910	–
Cash and cash equivalents	13	8,506,949	8,896,623
Total current assets		64,336,038	29,032,677
TOTAL ASSETS		204,840,481	149,468,032
LIABILITIES AND EQUITY			
Equity attributable to owners of the parent:			
Share capital	14	6,800,000	6,800,000
Treasury shares	14	(29,679,427)	(7,760)
Retained earnings and other reserves		106,265,011	87,388,382
		83,385,584	94,180,622
Non-controlling interests		6,985,154	323,896
Total equity		90,370,738	94,504,518
Non-current liabilities:			
Bank borrowings	15	73,228,199	11,464,834
Bonds issued	16	9,964,656	18,772,380
Derivative financial liabilities	17	493,739	–
Deferred income tax liabilities	26	4,681,605	1,908,932
Other non-current liabilities and deferred credits		894,977	795,321
Total non-current liabilities		89,263,176	32,941,467
Current liabilities:			
Bank borrowings	15	4,167,140	12,589,767
Bonds issued	16	9,332,241	–
Derivative financial liabilities	17	167,050	127,981
Trade payables	19	3,061,104	2,182,951
Other accounts payable and accrued expenses	19	6,378,011	5,860,875
Income tax payable		1,436,216	682,050
Other taxes payable		664,805	578,423
Total current liabilities		25,206,567	22,022,047
Total liabilities		114,469,743	54,963,514
TOTAL LIABILITIES AND EQUITY		204,840,481	149,468,032

Approved on behalf of the Board of Directors 14 February 2012.



Dmitry Strezhnev
Chief Executive Officer



Andrey Ilyin
Chief Financial Officer

The accompanying notes on pages 81 to 116 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

		2011	2010
Sales	20	131,298,080	97,787,533
Cost of sales	21	(63,641,275)	(50,205,529)
Gross profit		67,656,805	47,582,004
Distribution costs	22	(18,952,488)	(17,784,897)
General and administrative expenses	23	(4,653,188)	(3,754,449)
Other operating income/(expenses)	24	(190,858)	(16,695)
Operating profit		43,860,271	26,025,963
Dividend income	9	613,927	147,946
Loss on disposal of non-current assets held for sale		–	(429,598)
Gain on disposal of available-for-sale investments	9	914,434	1,407,261
Financial foreign exchange gain/(loss) – net		(3,803,986)	(389,660)
Interest income		644,524	180,444
Interest expense		(3,122,871)	(2,066,011)
Other financial gain/(loss) – net	25	993,863	134,831
Profit before taxation		40,100,162	25,011,176
Income tax expense	26	(8,068,769)	(4,958,699)
Net profit for the period		32,031,393	20,052,477
Other comprehensive income/(loss)			
Currency translation differences, net of tax		495,249	(695,283)
Revaluation of available-for-sale investments	9	(12,689,257)	9,642,508
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	9	(914,434)	(1,407,261)
Total other comprehensive income/(loss) for the period		(13,108,442)	7,539,964
Total comprehensive income for the period		18,922,951	27,592,441
Net profit for the period attributable to:			
Owners of the parent		32,028,279	19,997,844
Non-controlling interests		3,114	54,633
		32,031,393	20,052,477
Total comprehensive income attributable to:			
Owners of the parent		18,908,932	27,588,209
Non-controlling interests		14,019	4,232
		18,922,951	27,592,441
Earnings per share – basic and diluted (in RR)	27	489.05	294.38

Consolidated statement of cash flows

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

	2011	2010
Operating profit	43,860,271	26,025,963
Income tax paid	(7,099,060)	(3,736,157)
Operating profit less income tax paid	36,761,211	22,289,806
Depreciation and amortisation	23 4,483,328	3,465,963
Net loss on disposals and write-off of property, plant and equipment	135,294	370,788
Impairment/(reversal of impairment) of receivables and change of provision for obsolete and damaged inventories	59,921	(32,578)
Other non-cash (income)/expenses	328,434	(1,147,301)
Gross cash flow	5 41,768,188	24,946,678
Changes in operating assets and liabilities:		
Trade receivables	(797,594)	(111,650)
Advances to suppliers	(340,301)	(424,551)
Other receivables	(661,151)	(5,443)
Inventories	(5,057,047)	(1,534,620)
Trade payables	926,166	244,784
Advances from customers	(112,931)	761,765
Other payables	209,285	1,768,154
Restricted cash, other assets and liabilities	96,141	548,842
Net cash – operating activities	36,030,756	26,193,959
Cash flows from investing activities		
Capital expenditure on property, plant and equipment and intangible assets	(23,805,400)	(20,417,298)
Investment grants received	–	146,764
Purchase of mineral rights	–	(46,611)
Prepayments for other non-current assets	(105,750)	–
Cash flow relating to the acquisition of the oil and gas subsidiary	29 60,572	–
Loan provided to the acquired subsidiary before acquisition	28, 29 (13,714,173)	–
Acquisition of construction subsidiaries, net of cash acquired	29 (145,966)	–
Proceeds from sale of property, plant and equipment	52,333	48,306
Proceeds from sale of available-for-sale investments	9 2,706,075	5,398,834
Cash proceeds from derivatives	17 1,464,701	226,061
Dividends received, net of tax	9 452,004	140,549
Net change in fixed-term deposits	13 (20,865,910)	–
Interest received	198,637	172,059
Net cash – investing activities	(53,702,877)	(14,331,336)
Free cash inflow/(outflow)	5 (17,672,121)	11,862,623
Cash flows from financing activities		
Proceeds from bank borrowings	15 80,670,680	10,424,846
Repayment of bank borrowings	15 (31,234,477)	(25,751,901)
Proceeds from bonds, net of transaction costs	–	9,955,112
Prepaid and additional transaction costs	(5,234)	(15,239)
Interest paid	(2,708,618)	(1,672,262)
Acquisition of additional interest in subsidiaries	30 (210,529)	(448,983)
Dividends paid	14 –	(5,834,000)
Purchase of own shares	14 (29,671,667)	–
Net cash – financing activities	16,840,155	(13,342,427)
Effect of exchange rate changes on cash and cash equivalents	442,292	(300,345)
Net decrease in cash and cash equivalents	(389,674)	(1,780,149)
Cash and cash equivalents at the beginning of the period	13 8,896,623	10,676,772
Cash and cash equivalents at the end of the period	13 8,506,949	8,896,623

Consolidated statement of changes in equity

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

	Note	Attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Treasury shares (Note 14)	Cumulative currency translation differences	Revaluation of available-for-sale investments	Retained earnings	Total		
Balance at 1 January 2010		6,800,000	(7,760)	1,884,761	5,095,017	58,664,359	72,436,377	758,683	73,195,060
Comprehensive income/(loss)									
Profit for the period		–	–	–	–	19,997,844	19,997,844	54,633	20,052,477
<i>Other comprehensive income/(loss)</i>									
Currency translation differences		–	–	(644,882)	–	–	(644,882)	(50,401)	(695,283)
Revaluation of available-for-sale investments	9	–	–	–	9,642,508	–	9,642,508	–	9,642,508
Disposal of available-for-sale investments	9	–	–	–	(1,407,261)	–	(1,407,261)	–	(1,407,261)
<i>Total other comprehensive income/(loss)</i>		–	–	(644,882)	8,235,247	–	7,590,365	(50,401)	7,539,964
Total comprehensive income/(loss)		–	–	(644,882)	8,235,247	19,997,844	27,588,209	4,232	27,592,441
Transactions with owners									
Dividends	14	–	–	–	–	(5,834,000)	(5,834,000)	–	(5,834,000)
Acquisition of additional interest in subsidiaries		–	–	–	–	(9,964)	(9,964)	(439,019)	(448,983)
Total transactions with owners		–	–	–	–	(5,843,964)	(5,843,964)	(439,019)	(6,282,983)
Balance at 31 December 2010		6,800,000	(7,760)	1,239,879	13,330,264	72,818,239	94,180,622	323,896	94,504,518
Balance at 1 January 2011		6,800,000	(7,760)	1,239,879	13,330,264	72,818,239	94,180,622	323,896	94,504,518
Comprehensive income/(loss)									
Profit for the period		–	–	–	–	32,028,279	32,028,279	3,114	32,031,393
<i>Other comprehensive income/(loss)</i>									
Currency translation differences		–	–	484,344	–	–	484,344	10,905	495,249
Revaluation of available-for-sale investments	9	–	–	–	(12,689,257)	–	(12,689,257)	–	(12,689,257)
Disposal of available-for-sale investments	9	–	–	–	(914,434)	–	(914,434)	–	(914,434)
<i>Total other comprehensive income/(loss)</i>		–	–	484,344	(13,603,691)	–	(13,119,347)	10,905	(13,108,442)
Total comprehensive income/(loss)		–	–	484,344	(13,603,691)	32,028,279	18,908,932	14,019	18,922,951
Transactions with owners									
Repurchase of own shares	14	–	(29,671,667)	–	–	–	(29,671,667)	–	(29,671,667)
Acquisition of subsidiaries	29	–	–	–	–	–	–	6,825,465	6,825,465
Acquisition of additional interest in subsidiaries	30	–	–	–	–	(32,303)	(32,303)	(178,226)	(210,529)
Total transactions with owners		–	(29,671,667)	–	–	(32,303)	(29,703,970)	6,647,239	(23,056,731)
Balance at 31 December 2011		6,800,000	(29,679,427)	1,724,223	(273,427)	104,814,215	83,385,584	6,985,154	90,370,738

The accompanying notes on pages 81 to 116 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

1 The EuroChem Group and its operations

EuroChem Group comprises the parent entity, Open Joint Stock Company Mineral Chemical Company "EuroChem" (the "Company"), and its subsidiaries (collectively the "Group" or "EuroChem Group").

The Group's principal activities include extracting minerals (iron-ore, apatite and baddeleyite), producing fertilisers and their distribution in domestic and foreign markets. The Group manufactures a large number of products, the most significant of which is a wide range of mineral fertilizers (nitrogen and phosphate groups).

A company that holds the business interests beneficially of Mr. Andrey Melnichenko owns 100% of Linea Limited registered in Bermuda, which in turn owns 92.2% (31 December 2010: 95.0%) of EuroChem Group S.E. The remaining 7.8% (31 December 2010: 5.0%) is held by Mr. Dmitry Strezhnev, CEO of the Group. EuroChem Group S.E. owns 90.86% of the Company (31 December 2010: 99.9%).

During the year ended 31 December 2011 the ownership structure changed:

- In the second quarter of 2011 a company representing the interests of Mr. Dmitry Strezhnev, increased its shareholding in EuroChem Group S.E. from 5.0% to 7.8% by acquiring 2.8% from Linea Limited (Bermuda), whose shareholding in EuroChem Group S.E. decreased from 95.0% to 92.2%.
- In the second and third quarters of 2011 the Group bought back from EuroChem Group S.E. 6,148,651 of its own ordinary shares which represent 9.04% of the issued share capital (Note 14).

The Group's manufacturing facilities are primarily based in the Russian Federation with the exception of one entity, Lifosa AB, located in Lithuania.

The Company was incorporated and domiciled in the Russian Federation on 27 August 2001 as a closed joint stock company. On 3 April 2006 the Company changed its legal form to an open joint stock company. The Company has its registered office at:

Dubininskaya St. 53, bld. 6
Moscow, Russian Federation

2 Basis of presentation and significant accounting policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by available-for-sale investments, which are accounted for at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated (Note 4).

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The Group has a subsidiary located in Lithuania, where the functional currency is the Lithuanian Lita, which is the currency of measurement in Lifosa AB's financial statements. These have been translated into Russian Roubles, the presentation currency, at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Translation from functional to presentation currency. These consolidated financial statements have been presented in Russian Roubles ("RR"), which management believes is the most useful currency to adopt for users of these consolidated financial statements. The results and financial position of each group entity are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") as follows:

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and deposits are presented in the consolidated statement of comprehensive income in a separate line "Financial foreign exchange gain/(loss) – net". All other foreign exchange gains and losses are presented in the profit and loss within "Other operating income/(expenses)".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

2 Basis of presentation and significant accounting policies *continued*

In addition to RR, the Group enters into transactions in other currencies, such as the United States Dollar ("US\$") and the Euro.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

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

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

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Minor repair and maintenance costs are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit and loss.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and land improvements	15 to 80
Transfer devices	25 to 30
Machinery and equipment	2 to 30
Transport	5 to 25
Other items	1 to 8

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

2 Basis of presentation and significant accounting policies *continued*

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

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit and loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Mineral resources. Mineral resources are recognised as assets when acquired as part of a business combination and then depleted using the unit-of-production method based on total proved mineral reserves. Estimated proven and probable mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and are determined by independent professional appraisers.

Other intangible assets. The Group's other intangible assets have definite and indefinite useful lives and primarily include acquired land lease agreements and capitalized computer software costs.

Acquired computer software licenses, beneficial land and equipment lease agreements are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets with definite useful lives are amortised using the straight-line method over their useful lives:

	Useful lives in years
Land lease agreements	45
Equipment lease agreements	5
Software licences	5

Intangible assets with an indefinite useful life are not amortised. The Group tests such intangible assets for impairment at least annually and whenever there are indications that intangible assets may be impaired.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Exploration assets. Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, plant and equipment after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

Development expenditure. Development expenditure incurred by the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in the assets under construction category.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

2 Basis of presentation and significant accounting policies *continued*

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

Financial assets held for trading are classified in this category if acquired principally for the purpose of selling in the short term. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

The "Held-to-maturity" classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. At 31 December 2011 and 31 December 2010 the Group did not have "held to maturity" investments.

All other financial assets are included in the available-for-sale category.

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

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

De-recognition of financial assets. The Group de-recognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

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

Derivative financial instruments. As part of trading activities the Group is also party to derivative financial instruments including forward, options and swap contracts in foreign exchange and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate.

The Group has no derivatives accounted for as hedges.

2 Basis of presentation and significant accounting policies *continued*

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the reporting date for each country where the Group subsidiaries are registered. The income tax charge comprises current tax and deferred tax and is recognised in the profit and loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity. The most significant Group subsidiaries are registered in Russia, where the corporate income tax rate can range from 15.5% to 20%, depending on applicable rates set by regional authorities (2010: from 15.5% to 20%).

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

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

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

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

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss. When a receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the profit and loss.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Term deposits for longer than three months that can be redeemed, subject to the interest income being forfeited, may be classified as cash equivalents if the deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal.

The longer the deposit's term, the less likely it becomes that the instrument is being held to meet short term cash needs and is subject to insignificant changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in non-current assets.

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

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

2 Basis of presentation and significant accounting policies *continued*

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

Borrowings. Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Investment grants. Investment grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Investment grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

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

Asset retirement obligations. The estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property, plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period.

Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period.

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

Revenues from the rendering of services are recognised in the period the services are provided. Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable. Interest income is recognised on a time-proportion basis using the effective interest method.

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

Earnings per share. Earnings per share is determined by dividing the profit and loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting year.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment). Segments whose sales or result are ten percent or more of all the segments are reported separately. Segment reporting is prepared in a manner consistent with the internal reporting provided to the chief operating decision-maker.

3 Critical accounting estimates, and judgements in applying accounting policies

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

Taxation. Judgments are required in determining current income tax liabilities (Note 26). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred taxes provision in the period in which such determination is made.

Deferred income tax recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and estimates based on the last three years' taxable profits and expectations of future income that are believed to be reasonable under the circumstances (Note 26).

Land. Certain industrial premises of the Group's subsidiary OJSC Baltyskie Generalnie Gruzy are located on land occupied under a short-term lease. The management believes that no losses will be sustained by the Group due to the short-term nature of the land lease since it will be able to either purchase the land or to secure its use via a long-term lease agreement in due course.

Related party transactions. The Group enters into transactions with its related parties in the normal course of business. These transactions are priced predominantly at market rates. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining whether transactions are priced at market or non-market interest rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties and performing effective interest rate analyses.

Fair value of LLC Severneft-Urengoy net assets. The Group applied a number of estimates to define the provisional fair value of LLC Severneft-Urengoy's net assets. In estimating the fair values of mineral rights over proven reserves acquired the Group applied the residual method which is based on a discounted cash flow analysis of the estimated future economic benefits attributable to the rights, net of the attributable other assets. Estimates used in discounted cash flow analysis represent management's best estimates based on currently available information. The fair value of mineral rights over unproven reserves was estimated applying the market approach, based on comparable deals in mineral rights.

4 Adoption of new or revised standards and interpretations

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

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

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have a material effect on the Group's consolidated financial statements;

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

4 Adoption of new or revised standards and interpretations *continued*

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

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

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011);
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012). The Group is currently assessing the impact of the amendments on its consolidated financial statements;
- Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

4 Adoption of new or revised standards and interpretations *continued*

- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

5 Statement of cash flows

In managing the business, management focuses on a number of cash flow measures including “gross cash flow” and “free cash flow”. Gross cash flow refers to the operating profit after taxes and adjusted for items which are not of a cash nature, which have been charged or credited to the profit and loss. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities. The gross cash flow for the year ended 31 December 2011 was RR 41,768,188 thousand (2010: RR 24,946,678 thousand).

Free cash flows are the cash flows available to providers of finance of the business, be this debt or equity. The free cash outflow for the year ended 31 December 2011 was RR 17,672,121 thousand (2010: inflow of RR 11,862,623 thousand).

Since these terms are not standard IFRS measures EuroChem Group's definition of gross cash flow and free cash flow may differ from that of other companies.

6 Segment information

The Group is a vertically integrated business with operations spanning mining, fertilizer manufacturing, organic synthesis products, sales and distribution. The Group produces a large number of products, the most significant of which is a wide range of mineral fertilizers (nitrogen and phosphate groups). On a monthly basis the Management Board reviews the financial reports of the Group, evaluates the operating results and allocates resources between the operating segments. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between segments are carried out on an arm's length basis. The Management Board assesses the performance of the operating segments based on, among others, a measure of profit before taxation adjusted by interest expense, depreciation and amortization, financial foreign exchange gain or loss, other non-cash and extraordinary items, excluding net profit for the period attributed to non-controlling interests (EBITDA). Since this term is not a standard IFRS measure EuroChem Group's definition of EBITDA may differ from that of other companies.

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

- Nitrogen – the production and sale of nitrogen mineral fertilizers and organic synthesis products;
- Phosphates – the production and sale of phosphate mineral fertilizers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the development of several deposits of potassium salts (“potash”) under the licenses acquired by the Group with a view to start production and marketing of potassium fertilizers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilizers (including those not produced by the Group), seeds, crop protection items etc. via a number of retailers located within Russia and the CIS;
- All other – certain logistics and service activities, central management, investment income and other items.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

6 Segment information *continued*

The segmental results for the year ended 31 December 2011 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	53,086,640	10,021,192	63,107,832	25,549,392
Phosphates	60,347,654	3,577,106	63,924,760	23,988,466
Potash	–	–	–	(599,306)
Distribution	13,963,802	10,542	13,974,344	853,242
Other	3,899,984	14,461,705	18,361,689	207,683
Elimination	–	(28,070,545)	(28,070,545)	(343,516)
Total	131,298,080	–	131,298,080	49,655,961

The segmental results for the year ended 31 December 2010 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	40,315,242	6,906,632	47,221,874	13,568,863
Phosphates	46,475,125	2,027,108	48,502,233	16,791,934
Potash	–	–	–	(420,652)
Distribution	8,542,966	649	8,543,615	489,870
Other	2,454,200	17,500,796	19,954,996	(225,390)
Elimination	–	(26,435,185)	(26,435,185)	(267,572)
Total	97,787,533	–	97,787,533	29,937,053

A reconciliation of total profit before taxation is provided as follows:

	Note	2011	2010
EBITDA		49,655,961	29,937,053
Depreciation and amortisation	23	(4,483,328)	(3,465,963)
Idle property, plant and equipment write-off	7, 21	(57,025)	(171,370)
Loss on disposal of non-current assets held for sale		–	(429,598)
Gain on disposal of available-for-sale investments	9	914,434	1,407,261
Financial foreign exchange gain/(loss) – net		(3,803,986)	(389,660)
Interest expense		(3,122,871)	(2,066,011)
Other financial gain/(loss) – net	25	993,863	134,831
Non-controlling interest		3,114	54,633
Profit before taxation		40,100,162	25,011,176

Substantially all of the Group's operating assets are located in the Russian Federation. Operating assets located in foreign countries are mainly represented by assets of the Group's production subsidiary Lifosa AB, located in Lithuania.

The analysis of non-current assets other than financial instruments and deferred tax assets by geographical locations was:

	2011	2010
Non-current assets, located in Russia	110,269,252	76,355,779
Non-current assets, located in foreign countries	5,660,565	5,103,283
Total	115,929,817	81,459,062

The analysis of Group sales by geographical area was:

	2011	2010
Export	100,205,625	74,759,773
Domestic	31,092,455	23,027,760
Total sales	131,298,080	97,787,533

6 Segment information *continued*

The analysis of Group sales by region was:

	2011	2010
Russia	31,092,455	23,027,760
CIS	15,935,617	12,566,964
Asia	30,250,071	18,634,080
Europe	18,609,096	18,371,193
Latin America	19,169,024	14,185,236
North America	11,074,561	8,402,679
Africa	4,119,944	2,305,478
Australasia	1,047,312	294,143
Total sales	131,298,080	97,787,533

The sales are allocated by regions based on the destination country. There were no sales in excess of 10% to any one country, except for Russia, during the year ended 31 December 2011 and 31 December 2010.

The Group had sales in excess of 10% to one customer during the year ended 31 December 2011 and 31 December 2010. Revenues from this customer represented 11% of total Group revenues for the year ended 31 December 2011 (2010: 11%) and were allocated to the Nitrogen, Phosphates, and Other segments.

7 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings	Land and land improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2011	9,776,542	6,299,009	5,220,003	31,249,434	8,010,112	1,859,231	37,104,517	99,518,848
Additions and transfers from assets under construction	2,718,312	2,916,200	1,071,894	6,055,154	2,589,195	595,195	8,355,393	24,301,343
Acquisitions through business combinations (Note 29)	637,156	4,532,068	1,785,627	637,999	27,812	9,645	440,992	8,071,299
Disposals	(20,405)	(43,278)	(9,613)	(396,078)	(90,288)	(46,942)	(40,819)	(647,423)
Idle property, plant and equipment write-off	(49,425)	(1,012)	(1,151)	(28,719)	(25)	(4,137)	(11,196)	(95,665)
Currency translation difference (Note 2)	60,116	56,867	27,994	115,943	11,231	9,533	5,569	287,253
Balance at 31 December 2011	13,122,296	13,759,854	8,094,754	37,633,733	10,548,037	2,422,525	45,854,456	131,435,655
Accumulated depreciation and impairment								
Balance at 1 January 2011	(2,710,905)	(1,763,793)	(2,548,389)	(15,209,332)	(3,262,248)	(902,615)	–	(26,397,282)
Charge for the year	(475,886)	(400,671)	(392,912)	(2,494,801)	(628,031)	(306,931)	–	(4,699,232)
Disposals	15,605	16,474	9,543	345,663	73,372	29,726	–	490,383
Idle property, plant and equipment write-off	18,385	781	544	15,948	8	2,974	–	38,640
Currency translation difference (Note 2)	(12,735)	(18,696)	(9,423)	(61,283)	(5,727)	(7,399)	–	(115,263)
Balance at 31 December 2011	(3,165,536)	(2,165,905)	(2,940,637)	(17,403,805)	(3,822,626)	(1,184,245)	–	(30,682,754)
Net carrying value								
Balance at 1 January 2011	7,065,637	4,535,216	2,671,614	16,040,102	4,747,864	956,616	37,104,517	73,121,566
Balance at 31 December 2011	9,956,760	11,593,949	5,154,117	20,229,928	6,725,411	1,238,280	45,854,456	100,752,901

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

7 Property, plant and equipment *continued*

	Buildings	Land and land improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2010	7,389,446	4,373,517	4,113,852	23,837,874	7,258,905	1,310,536	31,778,459	80,062,589
Additions and transfers from assets under construction	2,590,702	1,989,524	1,154,673	8,130,286	822,698	586,316	5,452,776	20,726,975
Disposals	(10,116)	(4,153)	(5,599)	(396,225)	(64,679)	(29,297)	(8,389)	(518,458)
Idle property, plant and equipment write-off	(95,972)	(5,575)	(5,670)	(132,548)	(1,042)	(410)	(103,120)	(344,337)
Currency translation difference (Note 2)	(97,518)	(54,304)	(37,253)	(189,953)	(5,770)	(7,914)	(15,209)	(407,921)
Balance at 31 December 2010	9,776,542	6,299,009	5,220,003	31,249,434	8,010,112	1,859,231	37,104,517	99,518,848
Accumulated depreciation and impairment								
Balance at 1 January 2010	(2,438,128)	(1,560,251)	(2,313,315)	(13,880,982)	(2,740,503)	(746,993)	–	(23,680,172)
Charge for the year	(348,185)	(244,324)	(261,536)	(1,867,825)	(583,109)	(187,535)	–	(3,492,514)
Disposals	9,565	4,009	5,467	318,328	58,063	24,231	–	419,663
Idle property, plant and equipment write-off	45,433	4,372	5,662	116,323	829	348	–	172,967
Currency translation difference (Note 2)	20,410	32,401	15,333	104,824	2,472	7,334	–	182,774
Balance at 31 December 2010	(2,710,905)	(1,763,793)	(2,548,389)	(15,209,332)	(3,262,248)	(902,615)	–	(26,397,282)
Net carrying value								
Balance at 1 January 2010	4,951,318	2,813,266	1,800,537	9,956,892	4,518,402	563,543	31,778,459	56,382,417
Balance at 31 December 2010	7,065,637	4,535,216	2,671,614	16,040,102	4,747,864	956,616	37,104,517	73,121,566

The analysis of the Group's assets under construction is as follows:

	2011	2010
Construction in progress	39,622,027	31,791,727
Exploration expenses	75,891	–
Advances given to construction companies and suppliers of property, plant and equipment	6,156,538	5,312,790
Total assets under construction	45,854,456	37,104,517

As at 31 December 2011 borrowing costs totaling RR 129,809 thousand (2010: nil) were capitalised in property, plant and equipment at an average interest rate of 5.43% (2010: nil).

In 2009 the Group obtained licenses for the exploration and evaluation of the Darganovsky and Ravninny potash fields. On 1 March 2011 the Group received official confirmation of the estimated resources covered by these licenses. From this date the Group has capitalised expenses related to the evaluation stage of these fields and as at 31 December 2011 recognised RR 75,891 thousand in assets under construction (31 December 2010: nil). Expenses incurred before 1 March 2011 relating to the exploration of these fields and amounting to RR 7,302 thousand were recognised in profit and loss (2010: RR 144,833 thousand). Generally, such expenses are paid in the period the services are provided.

During the year ended 31 December 2011 the Group decided to mothball certain production equipment with a gross carrying value and accumulated depreciation of RR 95,665 thousand and RR 38,640 thousand, respectively, at 31 December 2011 (2010: gross carrying value of RR 344,337 thousand and accumulated depreciation of RR 172,967 thousand) and recognised a loss of RR 57,025 thousand in these consolidated financial statements (2010: RR 171,370 thousand) (Note 21).

As at 31 December 2011 all of the Group's major Russian-based subsidiaries had acquired the land on which their main production facilities are located. Other subsidiaries continue to occupy the land plots under lease agreements. For these land plots the future minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
Shorter than 1 year	170,284	151,398
Between 1 and 5 years	667,601	594,938
Longer than 5 years	4,131,399	3,934,046
Total	4,969,284	4,680,382

8 Intangible assets

	Note	Acquired software and licenses	Other	Total
Cost at 1 January 2010		406,096	201,571	607,667
Accumulated amortisation		(178,955)	(1,255)	(180,210)
Carrying amount at 1 January 2010		227,141	200,316	427,457
Additions		6,733	611,831	618,564
Disposals cost and write-offs		–	(149,082)	(149,082)
Accumulated amortisation on disposals		–	153	153
Amortisation charge		(79,950)	(3,230)	(83,180)
Currency translation difference		8	603	611
Cost at 31 December 2010		412,837	664,923	1,077,760
Accumulated amortisation		(258,905)	(4,332)	(263,237)
Carrying amount at 31 December 2010		153,932	660,591	814,523
Additions		–	361	361
Acquired through business combinations	29	–	538	538
Disposals cost and write-offs		–	(9)	(9)
Accumulated amortisation on disposals		–	9	9
Amortisation charge		(83,258)	(123,994)	(207,252)
Currency translation difference		197	2,096	2,293
Cost at 31 December 2011		413,034	667,909	1,080,943
Accumulated amortisation		(342,163)	(128,317)	(470,480)
Carrying amount at 31 December 2011		70,871	539,592	610,463

Other intangible assets mainly comprise the right to construct a sea port terminal located in Ust-Luga, Russian Federation, which was acquired in December 2010. This asset is amortised on a straight line basis over an estimated average useful life of 5 years.

In 2010 the Group wrote-off the exclusive lease agreement for the berth in the sea port located in Murmansk previously recognized as an intangible asset with an indefinite useful life and with a carrying value of RR 148,974 thousand, as the key terms of the agreement were adversely amended to bring them in line with market conditions.

As at 31 December 2011 the Group did not hold any intangible assets with indefinite useful life.

No impairment was recognised for the intangible assets at 31 December 2011 and 31 December 2010.

9 Available-for-sale investments, including shares pledged as collateral

At 31 December 2011 and 31 December 2010 available-for-sale investments comprised the shares of K+S Group, a German manufacturer and vendor of potassium-based fertilizers.

	2011	2010
K+S Group ordinary shares	11,044,815	34,680,888
K+S Group ordinary shares pledged as collateral	11,423,184	3,182,443
Total available-for-sale investments	22,467,999	37,863,331

Movements in the carrying amount of available-for-sale investments, including shares pledged as collateral, were:

	2011	2010
Carrying amount at 1 January	37,863,331	33,619,657
Revaluation of available-for-sale investments	(12,689,257)	9,642,508
Disposal of available-for-sale investments, including:		
– available-for-sale investments at cost	(1,791,641)	(3,991,573)
– reclassification of revaluation to profit and loss	(914,434)	(1,407,261)
Carrying amount at 31 December	22,467,999	37,863,331

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

9 Available-for-sale investments, including shares pledged as collateral *continued*

K+S Group shares, including shares pledged as collateral

At 31 December 2011 the Group held 15,440,170 shares, or 8.067% of the issued share capital (31 December 2010: 16,656,595 shares, or 8.7% of the issued share capital) of K+S Group with a fair value of RR 22,467,999 thousand (31 December 2010: RR 37,863,331 thousand) with reference to the share price quoted on the Xetra trading system of Euro 34.92 per share (31 December 2010: Euro 56.36 per share). A negative reserve was recognised in equity due to a decrease in the fair value of the investment below its historical cost of RR 273,427 thousand at 31 December 2011 (31 December 2010: accumulated increase RR 13,330,264 thousand).

During the year ended 31 December 2011 the Group sold 1,191,425 ordinary shares of K+S Group to EuroChem Group S.E., the parent company of the Group, for RR 2,649,247 thousand (Note 28) and 25,000 K+S Group shares on the open market for RR 56,828 thousand and recognised a gain of RR 914,434 thousand in the profit and loss.

In May 2011 the Group received dividend income from K+S Group of RR 613,927 thousand (2010: RR 147,946 thousand) before withholding tax of RR 161,923 thousand (2010: RR 7,397 thousand).

K+S Group shares pledged as collateral

At 31 December 2011 the Group had outstanding European call options giving counterparties the right to buy 2,858,000 K+S Group ordinary shares secured by these shares as collateral (31 December 2010: European call options over 1,400,000 K+S Group ordinary shares) with a fair value of RR 4,158,861 thousand (31 December 2010: RR 3,182,443 thousand) with reference to the share price quoted on the Xetra trading system (Note 17).

At 31 December 2011 the Group had 6,350,094 K+S Group shares pledged as collateral for a bank loan with a fair value of RR 9,240,436 thousand (31 December 2010: nil) with reference to the share price quoted on the Xetra trading system (Note 15). As agreed with the lender, out of these, 1,358,000 shares with a fair value of RR 1,976,113 thousand simultaneously represent collateral under the call options described above.

Therefore, as at 31 December 2011 the total number of K+S Group shares pledged as collateral was 7,850,094 with fair value of RR 11,423,184 thousand (31 December 2010: 1,400,000 shares with fair value RR 3,182,443 thousand). Pledged shares have been reclassified to a separate line named "Available-for-sale investments pledged as collateral" in the consolidated statement of financial position, as the mortgagee had the right to use and dispose of the collateral. The Group holds economic exposure in relation to the encumbered shares. The mortgagee is obliged to replace the original financial collateral by transferring equivalent financial collateral on the due date for the performance of the relevant financial obligations covered by the arrangement; failing this the mortgagor has a right against the mortgagee for the delivery of securities equivalent upon performance of obligations of the mortgagor.

Certain reclassifications have been made to prior year amounts in the consolidated statement of financial position and related notes to conform to the current period presentation. The reclassifications relate to K+S Group shares pledged as collateral to the value of RR 2,273,174 thousand which were reclassified to the line "Available-for-sale investments pledged as collateral" from the line "Available-for-sale investments".

10 Mineral rights

	Note	2011	2010
Rights for exploration and production:			
Verkhnekamskoe potash deposit		4,087,166	4,087,166
Gremyachinskoe potash deposit		3,017,781	3,017,781
Kovdorsky apatite deposits		166,549	166,549
Rights for exploration, evaluation and extraction:			
Yuzhny hydrocarbon deposit		24,495	24,495
Perelyubsko-Rubezhinskiy hydrocarbon deposit		22,116	22,116
Rights for proven and unproven mineral resources:			
Zapadno-Yaroyakhinsky hydrocarbon deposits	29	6,953,071	—
Total mineral rights		14,271,178	7,318,107

In accordance with the conditions of the licence agreements for developing the potash deposits, the Group has the following major commitments:

- to commence extraction of potash salt at the Gremyachinskoe potash deposit by 1 November 2014;
- to commence construction of an exploration complex at the Verkhnekamskoe potash deposit by 15 April 2012;
- to commence extraction of potash salt at the Verkhnekamskoe potash deposit by 15 April 2014.

The Group has started construction of the mining facilities at both sites. The management believes that either each stage of the process will be completed according to the schedule or the license terms in respect of the timing of these stages will be renegotiated. As of 31 December 2011 and 31 December 2010 the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase.

10 Mineral rights *continued*

As of 31 December 2011 licenses for the exploration, evaluation and extraction of crude hydrocarbons at the Yuzhny and Perelyubsko-Rubezhinskiy deposits were in the exploration phase.

Under the terms of valid licenses for the exploration and development of potash and apatite deposits, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of the construction of mining facilities and commencement of the extraction of mineral resources by certain dates. If the Group fails to materially comply with the terms of the license agreements there are circumstances whereby the licenses can be revoked. The management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licenses.

11 Inventories

	2011	2010
Materials	5,821,720	3,872,290
Work in progress	1,180,983	832,876
Finished goods	6,445,567	3,891,113
Catalysts	1,784,203	1,558,325
Less: provision for obsolete and damaged inventories	(275,074)	(326,712)
Total inventories	14,957,399	9,827,892

12 Trade receivables, prepayments, other receivables and other current assets

	2011	2010
Trade receivables		
Trade receivables denominated in RR	1,074,277	1,142,115
Trade receivables denominated in US\$	2,306,373	1,519,960
Trade receivables denominated in Euro	119,195	119,862
Trade receivables denominated in other currencies	182,696	94,520
Less: impairment provision	(246,628)	(165,639)
Total trade receivables – financial assets	3,435,913	2,710,818
Prepayments, other receivables and other current assets		
Advances to suppliers	3,737,569	3,347,157
VAT recoverable and receivable	5,040,882	3,737,607
Income tax receivable	198,767	18,416
Other taxes receivable	43,513	32,076
Other receivables	891,306	511,926
Less: impairment provision	(161,311)	(151,607)
Subtotal non-financial assets	9,750,726	7,495,575
Interest receivable	440,036	27,557
Subtotal financial assets	440,036	27,557
Total prepayments, other receivables and other current assets	10,190,762	7,523,132
Total trade receivables, prepayments, other receivables and other current assets	13,626,675	10,233,950
Including		
Financial assets	3,875,949	2,738,375
Non-financial assets	9,750,726	7,495,575

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

12 Trade receivables, prepayments, other receivables and other current assets *continued*

As of 31 December 2011, accounts receivable, prepayments and other current assets of RR 407,939 thousand (31 December 2010: RR 317,246 thousand) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to counterparties which are facing significant financial difficulties. The ageing of these receivables is as follows:

	2011	2010
Less than 3 months	6,064	–
From 3 to 12 months	20,837	12,689
Over 12 months	381,038	304,557
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets	407,939	317,246

As of 31 December 2011, trade receivables of RR 298,277 thousand (31 December 2010: RR 289,456 thousand) were past due but not impaired. The ageing analysis of these trade receivables from past due date is:

	2011	2010
Less than 3 months	252,291	175,959
From 3 to 12 months	23,189	97,316
Over 12 months	22,797	16,181
Trade accounts receivable past due not impaired	298,277	289,456

The movements in the provision for impairment of accounts receivable are:

	Note	2011		2010	
		Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January		165,639	151,607	224,784	124,615
Provision charged	22, 23	107,798	24,252	39,026	61,318
Provision used		(21,573)	(6,386)	(36,390)	(13,550)
Provision reversed	22, 23	(7,662)	(12,829)	(58,464)	(21,400)
Foreign exchange difference		2,426	4,667	(3,317)	624
Total provision for impairment of accounts receivable		246,628	161,311	165,639	151,607

13 Cash and cash equivalents and fixed-term deposits

	2011	2010
Cash on hand and bank balances denominated in RR	1,491,231	868,314
Bank balances denominated in US\$	1,849,003	1,378,554
Bank balances denominated in Euro	1,278,936	489,559
Balances denominated in other currencies	250,026	88,065
Term deposits denominated in RR	1,633,327	2,437,055
Term deposits denominated in US\$	1,320,939	3,255,216
Term deposits denominated in Euro	445,277	82,760
Term deposits denominated in other currencies	238,210	297,100
Total cash and cash equivalents	8,506,949	8,896,623
Fixed-term deposits in RR	13,550,300	–
Fixed-term deposits in US\$	7,283,471	–
Fixed-term deposits in Euro	32,139	–
Total fixed-term deposits	20,865,910	–
Current restricted cash	77,238	37,461
Non-current restricted cash	7,980	143,898
Total restricted cash	85,218	181,359

Term deposits at 31 December 2011 and 31 December 2010 are held to meet short term cash needs and have various original maturities but can be withdrawn on request without any restrictions.

Fixed-term deposits have various original maturities and can be withdrawn with early notification and/or with penalty accrued or interest income forfeited.

13 Cash and cash equivalents and fixed-term deposits *continued*

No bank balances, term and fixed-term deposits are past due or impaired. Analysis of the credit quality of bank balances, term and fixed-term deposits is as follows:

	2011	2010
A to AAA rated**	4,880,724	6,033,888
BB- to BBB+ rated**	24,011,552	2,607,990
B- to B+ rated**	505,694	59,493
Unrated	53,763	375,126
Total*	29,451,733	9,076,497

* The rest of the balance sheet item 'cash and cash equivalents' is cash on hand.

** Based on the credit ratings of independent rating agencies Standard & Poor's and Fitch Ratings as at 14 January 2012.

At 31 December 2011 current restricted cash of RR 77,238 thousand was held in bank accounts in compliance with statutory regulations (31 December 2010: RR 37,461 thousand).

At 31 December 2011 RR 7,980 thousand of non-current restricted cash was held in bank accounts as security deposits for third parties. At 31 December 2010 non-current restricted cash totalling RR 143,898 thousand consisted of RR 103,434 thousand of cash held in an escrow account as a collateral for a squeeze-out in Lifosa AB and RR 40,464 thousand was represented by deposits against possible environmental obligations as required under statutory Lithuanian rules and letters of credit for equipment procurement.

The fair value of cash and cash equivalents is equal to their carrying amount.

14 Equity

The nominal registered amount of the Company's issued share capital at 31 December 2011 is RR 6.8 billion (31 December 2010: RR 6.8 billion). The total authorised number of ordinary shares is 68 million shares (31 December 2010: 68 million shares) with a par value of RR 100 per share. All authorised shares have been issued and fully paid.

	Number of ordinary shares	Share capital RR thousand	Number of treasury shares	Treasury shares at acquisition cost RR thousand
At 31 December 2010	68,000,000	6,800,000	68,000	(7,760)
At 31 December 2011	68,000,000	6,800,000	6,216,651	(29,679,427)

Treasury shares. During the year ended 31 December 2011 the Group bought back from EuroChem Group S.E., the parent company of the Group, 6,148,651 of its own ordinary shares which represent 9.04% of the issued share capital for RR 29,671,667 thousand paid in cash (Note 28). The valuation of EuroChem's shares was performed by a reputable international firm of appraisers.

The treasury shares were transferred from LLC PG Phosphorit to the Group's wholly-owned subsidiary EuroChem Capital Management Ltd.

At 31 December 2011 EuroChem Capital Management Ltd. held 6,216,651 ordinary shares of the Company (31 December 2010: LLC PG Phosphorit held 68,000 ordinary shares). These shares represent 9.14% of the Company's share capital and carry voting rights in the same proportion as other ordinary shares. The voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. For the year ended 31 December 2011, the net statutory profit of the Company as reported in the published annual statutory accounting report was RR 13,979,113 thousand (2010: RR 8,442,616 thousand) and the closing balance of the accumulated profit including the net statutory profit totalled RR 69,924,828 thousand (31 December 2010: RR 56,292,392 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation in relation to the depletion of distributable reserves. Accordingly management believes that, at present, it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Other reserves. As at 31 December 2011 other reserves in the consolidated statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 1,724,223 thousand (31 December 2010: RR 1,239,879 thousand) and a negative reserve related to the decrease in the fair value of the investments in the shares of K+S Group below their historical cost of RR 273,427 (31 December 2010: accumulated increase RR 13,330,264 thousand) (Note 9).

Dividends. During 2011 the Group did not declare and pay dividends. In 2010 the shareholders approved an interim dividend of RR 1,598,440 thousand (RR 23.53 per share) for the first half 2010 and RR 4,235,560 thousand (RR 62.35 per share) for the third quarter 2010. The total amount of dividends attributable to treasury shares has been eliminated. All dividends were declared and paid in Russian Roubles.

Notes to the consolidated financial statements *continued*

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(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

15 Bank borrowings

	2011	2010
Balance as at 1 January	24,054,601	39,047,758
Bank loans received, denominated in RR	19,920,000	4,376,000
Bank loans received, denominated in US\$	55,713,268	5,882,093
Bank loans received, denominated in Euro	5,037,412	166,753
Bank loans repaid, denominated in RR	–	(4,376,000)
Bank loans repaid, denominated in US\$	(31,234,477)	(18,031,409)
Bank loans repaid, denominated in Euro	–	(3,344,492)
Capitalisation and amortisation of transaction costs, net	463,404	291,491
Foreign exchange loss	3,441,131	42,407
Balance as at 31 December	77,395,339	24,054,601
	2011	2010
Current bank borrowings		
Current portion of long-term bank loans in US\$	–	12,757,772
Short-term bank loans, denominated in Euro	4,167,140	–
Less: short-term portion of transaction costs	–	(168,005)
Total current bank borrowings	4,167,140	12,589,767
Non-current bank borrowings		
Long-term bank loans, denominated in RR	20,000,000	–
Long-term bank loans, denominated in US\$	53,430,421	25,259,687
Long-term bank loans, denominated in Euro	1,365,495	341,543
Less: current portion of long-term bank loans in US\$	–	(12,757,772)
Less: long-term portion of transaction costs	(1,567,717)	(1,378,624)
Total non-current bank borrowings	73,228,199	11,464,834
Total bank borrowings	77,395,339	24,054,601

At 31 December 2011 and 31 December 2010 the fair value of borrowings was not materially different from their carrying amounts.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Under the terms of loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and cross-default provisions.

Interest rates and outstanding amounts

A syndicated loan facility obtained in October 2008 for US\$ 1.5 billion was fully repaid in August 2011 (31 December 2010: US\$ 767,442 thousand).

A US\$ 1.3 billion 5-year club loan facility was obtained in August 2011, bearing a floating interest rate of 1 month Libor +1.8%. At 31 December 2011 the outstanding amount totalled US\$ 1.3 billion (31 December 2010: nil).

In September 2011 the Group signed a RR 20 billion 5-year non revolving loan facility with a leading Russian bank. In October 2011 the facility was fully utilised and as at 31 December 2011 the outstanding amount was RR 20 billion (31 December 2010: nil).

In September 2009 the Group signed a loan agreement for Euro 85 million. In 2010 it was converted into a revolving committed facility. In 2011 an amendment was signed which increased the limit up to Euro 140 million, with a floating interest rate based on 1 month Euribor and maturity in March 2012. At 31 December 2011 the outstanding amount was Euro 100 million (31 December 2010: nil).

In March 2010 the Group signed a US\$ 261 million, 10-year export credit agency-backed loan facility for financing the on-going construction of the cage shaft at the Gremyachinskoe potash deposit by a South African-based company. At 31 December 2011 US\$ 109.5 million (31 December 2010: US\$ 61.4 million) of the facility had been utilised.

In August 2010 the Group signed a US\$ 250 million 5-year credit line agreement with a European commercial bank. During the year ended 31 December 2011, the facility was utilised and repaid several times. At the end of the year it was fully utilised and as at 31 December 2011 the outstanding amount was US\$ 250 million (31 December 2010: nil).

15 Bank borrowings *continued*

Interest rates and outstanding amounts *continued*

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company. At 31 December 2011 Euro 32.8 million of the facility had been utilized (31 December 2010: Euro 8.5 million).

In March 2011 the Group signed an agreement for a 12-month revolving uncommitted facility, amounting to US\$ 100 million, which is available in US\$ with a floating interest rate of 1 month Libor +1.5% and in other currencies with an interest rate which will be determined by mutual agreement. In April 2011 the facility was fully utilised and the disbursed amount was fully repaid in July 2011.

Collaterals and pledges

A bank loan of RR 41,854,930 thousand and RR 23,389,249 thousand at 31 December 2011 and 31 December 2010, respectively, was collateralized by future export proceeds of the Group under sales contracts with certain customers. A bank loan of RR 4,167,140 thousand at 31 December 2011 was secured with K+S Group shares as collateral represented by 6,350,094 shares with a fair value of RR 9,240,436 thousand (Note 9) with reference to the share price quoted on the Xetra trading system.

The Group's bank borrowings mature as follows:

	2011	2010
– within 1 year	4,167,140	12,589,767
– between 1 and 2 years	7,325,334	10,336,604
– between 2 and 5 years	63,826,082	344,285
– more than 5 years	2,076,783	783,945
Total bank borrowings	77,395,339	24,054,601

16 Bonds issued

	2011	2010
Current bonds		
7.875% US\$-denominated bonds due March 2012	9,336,869	–
Less: transaction costs	(4,628)	–
Total current bonds	9,332,241	–
Non-current bonds		
7.875% US\$-denominated bonds due March 2012	9,336,869	8,838,300
Less: current portion of long-term bonds issued in US\$	(9,336,869)	–
8.9% RR-denominated bonds due June 2018/callable by investors in July 2015	5,000,000	5,000,000
8.25% RR-denominated bonds due November 2018/callable by investors in November 2015	5,000,000	5,000,000
Less: transaction costs	(35,344)	(65,920)
Total non-current bonds	9,964,656	18,772,380
Total bonds issued	19,296,897	18,772,380

On 21 March 2007 the Group placed through an offering to the public under an open subscription US\$ denominated 7.875% bonds with a face value of US\$ 300 million to be redeemed on 21 March 2012. The outstanding balance of the bonds was US\$ 290 million at 31 December 2011 (31 December 2010: US\$ 290 million), and the fair value was RR 9,418,473 thousand (31 December 2010: RR 9,197,136 thousand) with reference to Irish Stock Exchange quotations.

In July 2010 the Group issued RR-denominated bonds at a nominal value of RR 5 billion bearing a coupon of 8.9% p.a. maturing in June 2018. The bonds give investors the ability to demand from the borrower redemption at par value of the bonds in July 2015. The fair value of the outstanding bonds balance at 31 December 2011 was RR 5.06 billion (31 December 2010: RR 5.15 billion) with reference to MICEX Stock Exchange quotations.

In November 2010 the Group issued RR-denominated bonds at a nominal value of RR 5 billion bearing a coupon of 8.25% p.a. maturing in November 2018. The bonds give investors the ability to demand from the borrower redemption at par value of the bonds in November 2015. The fair value of the outstanding bonds balance at 31 December 2011 was RR 4.756 billion (31 December 2010: RR 5.005 billion) with reference to MICEX Stock Exchange quotations.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

17 Derivative financial assets and liabilities

At 31 December 2011 the Group did not hold any current derivative financial assets (31 December 2010: current financial assets comprised RR/US\$ non-deliverable forward contracts accounted for at a fair value of RR 35,251 thousand and cross currency interest rate swap accounted for at a fair value of RR 1,500 thousand). The non-current derivative financial assets comprised RR/US\$ non-deliverable forward contracts accounted for at a fair value of RR 124,353 thousand.

The non-current derivative financial liabilities were represented by a cross currency interest rate swap and RR/US\$ non-deliverable forward contracts accounted for at a fair value of RR 324,493 thousand and RR 169,246 thousand, respectively.

The current derivative financial liabilities were represented by EUR/US\$ non-deliverable forward contracts and European call options over K+S Group ordinary shares accounted for at a fair value of RR 167,044 thousand and RR 6 thousand, respectively (31 December 2010: European call options over K+S Group ordinary shares accounted for at a fair value of RR 127,981 thousand).

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

	Assets		Liabilities	
	Non-current	Current	Non-current	Current
RR/US\$ non-deliverable forward contracts	124,353	–	169,246	–
EUR/US\$ non-deliverable forward contracts	–	–	–	167,044
Cross currency interest rate swap	–	–	324,493	–
Option contracts over K+S Group ordinary shares	–	–	–	6
Total	124,353	–	493,739	167,050

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

	Assets		Liabilities	
	Non-current	Current	Non-current	Current
RR/US\$ non-deliverable forward contracts	–	35,251	–	–
Cross currency interest rate swap	–	1,500	–	–
Option contracts over K+S Group ordinary shares	–	–	–	127,981
Total	–	36,751	–	127,981

Cross currency interest rate swap

In 2010 the Group transacted a US\$/RR cross currency swap in connection with its issue of a RR-denominated bond due November 2018 and callable by investors in November 2015 (Note 16), as a result of which the Group pays US\$ fixed 3.85% and receives RR fixed 8.25% interest the latter being the coupon rate under the subject rouble bond. The swap will mature on 16 November 2015.

As at 31 December 2011 the Group recognised a net loss of RR 104,002 thousand (Note 25) comprised of a loss from revaluation of the cross currency interest rate swap amounting to RR 325,993 thousand offset by net interest income of RR 221,991 thousand.

Call options over K+S Group ordinary shares

At 31 December 2010 the Group had outstanding European call options giving counterparties the right to buy over 1,400,000 K+S Group ordinary shares, which matured in March and June 2011. These call options were not exercised.

During the year ended 31 December 2011, the Group sold European call options over 16,958,000 K+S Group ordinary shares for a total premium of RR 421,858 thousand. Out of these, 14,100,000 call options over K+S Group ordinary shares matured in the second half of 2011 without being exercised.

At 31 December 2011 the Group had outstanding European call options giving counterparties the right to buy over 2,858,000 K+S Group ordinary shares secured by these shares as collateral with a fair value of RR 4,158,861 thousand with reference to the share price quoted on the Xetra trading system (Note 9). Out of these, 1,108,000 K+S Group ordinary shares call options matured on 20 January 2012 without being exercised and 1,750,000 K+S Group ordinary shares call options expire on 17 February 2012.

Foreign exchange non-deliverable forward contracts

At 31 December 2010 the Group had RR/US\$ non-deliverable forward contracts to sell the nominal amount of US\$ 300 million, which matured in March and June 2011. During the second half of 2011, the Group entered into RR/US\$ non-deliverable forward contracts and EUR/US\$ non-deliverable forward contracts to buy the nominal amount of RR 11,500 million and EUR 400 million, respectively. The contractual settlement dates for EUR/US\$ non-deliverable forward contracts are 28 March 2012 and for RR/US\$ non-deliverable forward contracts vary from 18 December 2014 to 20 September 2016. As at 31 December 2011 the Group recognised a gain of RR 573,664 thousand from the revaluation of forward contracts in profit and loss (Note 25), and proceeds of RR 820,852 thousand from forward contracts which reached their maturity dates.

17 Derivative financial assets and liabilities *continued*

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

	1 January 2011	Changes in the fair value (Note 25)	Cash proceeds from derivatives	31 December 2011
Derivative financial assets/(liabilities)				
Cross currency interest rate swap contract	1,500	(104,002)	(221,991)	(324,493)
Foreign exchange non-deliverable forward contracts – net	35,251	573,664	(820,852)	(211,937)
Option contracts over K+S Group ordinary shares	(127,981)	549,833	(421,858)	(6)
Derivative financial assets and liabilities – net	(91,230)	1,019,495	(1,464,701)	(536,436)

18 Provision for land restoration

In accordance with Russian legislation, the Group has an obligation to restore land disturbed as a result of mining operations after the expiration of the licenses. At 31 December 2011 a provision of RR 283,400 thousand (31 December 2010: RR 222,887 thousand) for future costs of land recultivation was included in other non-current liabilities. The net present value of the future cash outflows was calculated using a 8.9% discount rate determined by reference to the market yields on Russian government bonds.

19 Trade payables, other accounts payable and accrued expenses

	2011	2010
Trade payables		
Trade payables denominated in RR	1,602,671	1,355,864
Trade payables denominated in US\$	1,072,805	327,972
Trade payables denominated in Euro	253,945	358,028
Trade payables denominated in other currencies	131,683	141,087
Total trade payables – financial liabilities	3,061,104	2,182,951
Other accounts payable and accrued expenses		
Advances received	2,182,581	2,202,860
Payroll and social tax	333,653	292,364
Accrued liabilities and other creditors	3,510,193	3,088,472
Subtotal non-financial liabilities	6,026,427	5,583,696
Interest payable	351,584	277,179
Subtotal financial liabilities	351,584	277,179
Total other payables	6,378,011	5,860,875
Total trade payables, other accounts payable and accrued expenses	9,439,115	8,043,826
Including		
Financial liabilities	3,412,688	2,460,130
Non-financial liabilities	6,026,427	5,583,696

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 765,158 thousand (31 December 2010: RR 694,911 thousand).

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

20 Sales

The components of external sales were as follows:

		2011	2010
Nitrogen	Nitrogen fertilizers	40,214,474	29,579,048
	Organic synthesis products	7,770,645	6,425,351
	Complex fertilizers group	4,016,908	3,505,056
	Other goods	822,115	453,919
	Other services	262,498	351,868
		53,086,640	40,315,242
Phosphates	Phosphates	31,430,171	25,071,344
	Iron ore concentrate	21,953,124	15,703,907
	Feed phosphates group	3,785,681	3,018,490
	Apatite concentrate	1,130,327	998,536
	Baddeleyite concentrate	1,027,264	605,341
	Complex fertilizers group	2,673	126,079
	Other goods	523,482	449,539
	Other services	494,932	501,889
		60,347,654	46,475,125
Distribution	Nitrogen fertilizers	6,226,928	3,650,659
	Phosphates	2,758,595	1,341,643
	Complex fertilizers group	3,434,925	2,485,672
	Feed phosphates group	221,119	51,784
	Organic synthesis products	12,423	–
	Other goods	1,279,416	1,000,123
	Other services	30,396	13,085
	13,963,802	8,542,966	
Others	Nitrogen fertilizers	2,243,139	970,324
	Organic synthesis products	–	40,334
	Complex fertilizers group	27,342	70,280
	Logistic services	258,284	354,634
	Other goods	868,140	466,831
	Other services	503,079	551,797
	3,899,984	2,454,200	
Total sales		131,298,080	97,787,533

21 Cost of sales

The components of cost of sales were as follows:

	Note	2011	2010
Materials and components used or resold		40,601,129	28,351,341
Energy		6,694,025	5,625,211
Utilities and fuel		3,617,517	3,001,341
Labour, including contributions to social funds		8,063,718	7,269,164
Depreciation and amortisation		3,656,398	2,837,043
Repairs and maintenance		1,041,923	620,044
Production overheads		1,487,996	1,515,867
Property tax, rent payments for land and related taxes		1,061,219	1,027,339
Transportation expenses for logistics services		188,706	312,733
Idle property, plant and equipment written-off	7	57,025	171,370
Reversal of provision for obsolete and damaged inventories		(51,638)	(53,058)
Changes in work in progress and finished goods		(2,849,658)	(584,576)
Other costs		72,915	111,710
Total cost of sales		63,641,275	50,205,529

22 Distribution costs

Distribution costs comprised:

	Note	2011	2010
Transportation		15,838,489	15,405,937
Export duties, other fees and commissions		267,559	192,903
Labour, including contributions to social funds		1,077,580	800,696
Depreciation and amortisation		471,659	311,999
Repairs and maintenance		614,611	571,727
Provision/(reversal of provision) for impairment of receivables	12	27,893	(12,470)
Other costs		654,697	514,105
Total distribution costs		18,952,488	17,784,897

23 General and administrative expenses

General and administrative expenses comprised:

	Note	2011	2010
Labour, including contributions to social funds		2,435,684	2,093,426
Depreciation and amortisation		355,271	316,921
Audit, consulting and legal services		257,898	194,035
Rent		114,210	117,342
Bank charges		111,978	138,339
Social expenditure		148,430	66,295
Repairs and maintenance		73,059	38,659
Provision for impairment of receivables	12	83,666	32,950
Other expenses		1,072,992	756,482
Total general and administrative expenses		4,653,188	3,754,449

The total depreciation and amortisation expenses included in all captions of the consolidated statement of comprehensive income amounted to RR 4,483,328 thousand (2010: RR 3,465,963 thousand). The total staff costs (including social expenses) amounted to RR 11,576,982 thousand (2010: RR 10,163,286 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2011 amounted to RR 72,367 thousand (2010: RR 65,259 thousand). The auditors also provided the Group with consulting and training services amounting to RR 20,560 thousand (2010: RR 5,773 thousand).

24 Other operating income and expenses

The components of other operating (income) and expenses were as follows:

	2011	2010
Gain on disposal of property, plant and equipment	(90,739)	(38,973)
Sponsorship	447,246	417,697
Foreign exchange (gain)/loss – net	199,896	(208,168)
Other operating income	(365,545)	(153,861)
Total other operating (income)/expenses	190,858	16,695

25 Other financial gain/(loss)

The components of other financial gain/(loss) were as follows:

	2011	2010
Changes in the fair value of call options	549,833	49,372
Changes in the fair value of foreign exchange non-deliverable forward contracts	573,664	83,959
Changes in the fair value of cross currency interest rate swap	(104,002)	1,500
Unwinding of discount on land restoration obligation	(25,632)	–
Total other financial gain/(loss) – net	993,863	134,831

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

26 Income tax

	2011	2010
Income tax expense – current	8,322,851	4,699,114
Prior periods adjustments recognised in the current period for income tax	(471,373)	–
Deferred income tax – (recognition)/reversal of temporary differences	211,392	259,585
Effect of the change in the tax rate	5,899	–
Income tax expense	8,068,769	4,958,699

During the year ended 31 December 2011 the Group offset VAT and other tax receivables against income tax payables of RR 35,861 thousand (2010: RR 187,607 thousand).

The profit before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	2011	2010
Profit before taxation	40,100,162	25,011,176
Theoretical tax charge at statutory rate of 20% (2010: 20%)	(8,020,032)	(5,002,235)
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non deductible expenses	(344,662)	(372,333)
– Effects of tax rates different to 20%	111,949	667,420
– Unrecognised tax loss carry forward for the year	(135,483)	(251,551)
– Effect of the change in the tax rate	(5,899)	–
– Reassessment of deferred tax assets/liabilities	(146,015)	–
Prior periods adjustments recognised in the current period for income tax	471,373	–
Consolidated tax charge	(8,068,769)	(4,958,699)

The majority of the Group companies were subject to a tax rate of 20% on taxable profits in the Russian Federation during the year ended 31 December 2011 (2010: 20%).

The tax rates of two subsidiaries operating in the Russian Federation were reduced:

- effective from 1 January 2011, the tax rate applying to OJSC Novomoskovskiy Azot was reduced to 18.3% (2010: 20%) according to the regional tax law;
- effective from 1 September 2011, the tax rate applying to LLC PG Phosphorit was reduced to 15.5% (2010: 20%) according to an agreement with a regional authority signed in August 2011.

As at 31 December 2011 deferred tax assets and liabilities of these subsidiaries were calculated at the reduced income tax rates which are expected to apply during the period covered by the agreement and any subsequent extension.

At 31 December 2011 the Group had RR 1,871,768 thousand (31 December 2010: RR 820,634 thousand) of accumulated tax losses carried forward and recognised deferred tax assets of RR 1,425,721 thousand (31 December 2010: RR 510,070 thousand). The Group did not recognise deferred tax assets of RR 446,047 thousand (31 December 2010: RR 310,564 thousand) because it is not probable that future taxable profit will be available against which the Group can utilize such benefits.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries of RR 62,961,581 thousand (31 December 2010: RR 57,325,555 thousand). The Group controls the timing of the reversal of these temporary differences and does not expect to reverse them in the foreseeable future.

26 Income tax *continued*

The movement in deferred tax (assets) and liabilities during 2011 and 2010 was as follows:

	1 January 2011	Differences recognition and reversals	Business combinations	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2011
Tax effects of (deductible)/taxable temporary differences:						
Property, plant and equipment and Intangible assets	2,278,677	1,191,339	1,777,537	4,562	(5,216)	5,246,899
Accounts receivable	(32,383)	(122,628)	–	(202)	3,505	(151,708)
Accounts payable	(489,729)	246,665	–	328	9,837	(232,899)
Inventories	(279,619)	(190,826)	–	484	(446)	(470,407)
Other	(27,008)	(62,247)	–	143	(1,821)	(90,933)
Tax losses carried-forward	(820,634)	(986,394)	(63,442)	(1,338)	40	(1,871,768)
Unrecognised deferred tax assets	310,564	135,483	–	–	–	446,047
Net deferred tax liability	939,868	211,392	1,714,095	3,977	5,899	2,875,231
Recognised deferred tax assets	(969,064)	(853,501)	15,945	(618)	864	(1,806,374)
Recognised deferred tax liabilities	1,908,932	1,064,893	1,698,150	4,595	5,035	4,681,605
Net deferred tax liability	939,868	211,392	1,714,095	3,977	5,899	2,875,231

	1 January 2010	Differences recognition and reversals	Business combinations	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2010
Tax effects of (deductible)/taxable temporary differences:						
Property, plant and equipment and Intangible assets	2,201,245	76,042	–	1,390	–	2,278,677
Accounts receivable	(27,059)	(5,570)	–	246	–	(32,383)
Accounts payable	(171,600)	(318,437)	–	308	–	(489,729)
Inventories	(1,243)	(277,569)	–	(807)	–	(279,619)
Other	(133,467)	95,827	–	10,632	–	(27,008)
Tax losses carried-forward	(1,282,955)	437,741	–	24,580	–	(820,634)
Unrecognised deferred tax assets	59,013	251,551	–	–	–	310,564
Net deferred tax liability	643,934	259,585	–	36,349	–	939,868
Recognised deferred tax assets	(1,328,848)	327,711	–	32,073	–	(969,064)
Recognised deferred tax liabilities	1,972,782	(68,126)	–	4,276	–	1,908,932
Net deferred tax liability	643,934	259,585	–	36,349	–	939,868

The amounts shown in the consolidated statement of financial position include the following:

	2011	2010
Deferred tax assets expected to be recovered after more than 12 months	(1,016,349)	(265,180)
Deferred tax liabilities expected to be settled after more than 12 months	4,696,634	1,943,371

The total amount of the deferred tax charge is recognised in profit and loss.

27 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares (Note 14). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2011	2010
Net profit for the period attributable to owners of the parent	32,028,279	19,997,844
Weighted average number of ordinary shares in issue (expressed in thousands)	65,491	67,932
Basic and diluted earnings per share (expressed in RR per share)	489.05	294.38

Notes to the consolidated financial statements *continued*

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28 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The relationships with those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

Financial statements caption	Nature of relationship	2011	2010
Statement of financial position caption			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	153	13,375
Trade receivables	Other related parties	17,518	15,861
less: impairment provision on trade receivables	Other related parties*	(17,518)	(15,861)
Prepayments, other receivables and other current assets	Other related parties	62,248	52,437
less: impairment provision on other receivables	Other related parties*	(53,484)	(50,628)
Bonds issued	Other related parties	24,147	22,858
Trade payables	Other related parties	2,463	8,128
Other accounts payable and accrued expenses	Other related parties	–	1,380

* impaired trade and other receivables from an affiliated Ukraine-based company.

Financial statements caption	Nature of relationship	2011	2010
Statement of comprehensive income caption			
Sales	Other related parties	46,850	200,068
Purchases of materials and components	Other related parties	(2,606)	(61,894)
Distribution costs	Other related parties	(130,495)	(81,621)
Interest income	Other related parties	215,104	–

Financial statements caption	Nature of relationship	2011	2010
Statement of cash flows caption			
(Increase)/decrease in trade receivables	Other related parties	(1,657)	243
Increase in other receivables	Other related parties	(9,811)	(2,196)
Decrease in trade payables	Other related parties	(6,712)	(5,389)
Increase/(decrease) in advances from customers	Other related parties	(1,380)	1,380
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(37,131)	(13,375)
Loan provided to the acquired subsidiary before acquisition (Note 29)	Other related parties	(13,714,173)	–
Interest received	Other related parties	27,799	–
Proceeds from sale of available-for-sale investments (Note 9)	Parent company	2,649,247	–
Dividends paid	Parent company	–	(5,834,000)
Purchase of own shares (Note 14)	Parent company	(29,671,667)	–

The total key management personnel compensation included in the profit and loss was RR 357,534 thousand (2010: RR 325,772 thousand). This compensation is paid to six individuals who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus.

29 Business combinations

Acquisition of LLC Severneft-Urengoy. In the fourth quarter of 2011 the Group obtained control over LLC Severneft-Urengoy oil and gas company. This company which is registered in the Russian Federation has a license for the exploration, evaluation and extraction of crude hydrocarbons at the Zapadno-Yaroyakhinsky hydrocarbon deposits. The main purpose of this acquisition is to provide some control over raw materials such as natural gas to the nitrogen segment of the Group and to hedge the risks of gas price volatility.

The Group obtained control by means of agreements with the owners of the participating interests in LLC Severneft-Urengoy. Under the terms of the agreements, the owners transferred decision-making rights over all significant financial and operational policies of LLC Severneft-Urengoy to the Group until the date when the Group officially acquired its participating interest from the owners. Therefore, the business combination was achieved by contract alone and the Group attributed to the owners of the participating interests the amount of LLC Severneft-Urengoy's net assets recognised in these consolidated financial statements and recorded the participating interests in LLC Severneft-Urengoy as held by parties other than the Group as a non-controlling interest.

According to the conditions of the purchase agreement control was transferred to the Group from the date of the upfront payments, which were made on 28 December 2011 and totalled RR 62,170 thousand; were recognised in Other non-current assets.

The acquisition of LLC Severneft-Urengoy was finalised in January 2012 after the purchase consideration was paid and legal title over 100% of the charter capital was transferred from the previous owners to the Group. The purchase consideration for 100% of the charter capital comprised RR 6,682,169 thousand paid in cash. This transaction will be recorded as an acquisition of a non-controlling interest in LLC Severneft-Urengoy (Note 34).

The fair values of all assets and liabilities recognised on acquisition were provisionally determined by an internationally recognised firm of independent appraisers. The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The assets acquired included mineral reserves comprising proven and unproven petroleum reserves in the Zapadno-Yaroyakhinsky hydrocarbon deposits of RR 3,856,585 thousand and RR 3,096,486 thousand, respectively. These amounts are included in Mineral rights in the consolidated statement of financial position.

In the second half of 2011, prior to the acquisition of LLC Severneft-Urengoy, the Group granted a loan of RR 13,714,173 thousand to this company, which is presented in the consolidated statement of cash flows as a loan provided to the acquired subsidiary before acquisition. This loan was effectively settled upon the acquisition of this company, as it became an intercompany loan and is eliminated in the Group's consolidated financial statements.

Among other assets the Group acquired and recognised RR-denominated unsecured originated loans to a third party of RR 6,301,867 thousand. The fair value of the loans was confirmed by an independent appraiser. The loans were fully repaid to LLC Severneft-Urengoy in January 2012, which has applied the proceeds towards the partial redemption of the intercompany loan mentioned above.

The provisional purchase price allocation for the acquisition was as follows:

	Carrying value	Attributed fair value
Cash and cash equivalents	122,742	122,742
Originated loans	6,301,867	6,301,867
Accounts receivable and other assets	1,275,913	1,275,913
Inventories	20,822	20,822
Property, plant and equipment	6,044,272	7,960,299
Mineral rights	–	6,953,071
Loan payable to the Group	(13,714,173)	(13,714,173)
Trade and other accounts payable	(369,072)	(369,072)
Other non-current liabilities	–	(61,318)
Deferred income tax asset/(liability) – net	63,442	(1,698,150)
Fair value of net assets of subsidiary		6,792,001
Non-controlling interest		6,792,001

Notes to the consolidated financial statements *continued*

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(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

29 Business combinations *continued*

If the acquisition had occurred on 1 January 2011, the Group's consolidated revenue and profit for the year ended 31 December 2011 would not have changed significantly.

In the year 2011 the cash movement relating to the acquisition was as follows:

	2011
Upfront payments for acquisition of subsidiary	(62,170)
Cash and cash equivalents of subsidiary	122,742
Total cash flow relating to the acquisition of the oil and gas subsidiary	60,572

Acquisition of OJSC Montazhnik and CJSC Spetsprommontazh. In June 2011 the Group acquired 76.6% of the share capital of OJSC Montazhnik and 100% of the share capital of CJSC Spetsprommontazh to improve the Group's construction capabilities. These two construction companies are registered in the Russian Federation.

Management considers these entities as a single business combination, since together the two companies comprise an integrated set of activities and assets. The purchase consideration comprised RR 146,321 thousand, paid in cash. The fair value of net assets acquired was RR 89,376 thousand. The Group has recognised goodwill of RR 90,409 thousand, primarily attributable to the anticipated synergies and cost savings expected to arise. Non-controlling interest represents the share in the net assets of the acquired entity attributable to the owners of the non-controlling interest.

If the acquisition had occurred on 1 January 2011, the Group's consolidated revenue and profit for the year ended 31 December 2011 would not have changed significantly. Revenue and net profit included in the consolidated statement of comprehensive income since acquisition are not material.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Carrying value	Attributed fair value
Cash and cash equivalents	355	355
Accounts receivable and other assets	3,286	3,129
Inventories	11,879	11,879
Property, plant and equipment	30,491	111,000
Intangible assets	538	538
Trade and other accounts payable	(21,580)	(21,580)
Deferred income tax liability	–	(15,945)
Fair value of net assets of subsidiary		89,376
Less: non-controlling interests		33,464
Fair value of acquired interest in net assets of subsidiary		55,912
Goodwill arising from the acquisition		90,409
Total purchase consideration		146,321
Less: cash and cash equivalents of subsidiary acquired		355
Outflow of cash and cash equivalents on acquisition		145,966

30 Acquisition of non-controlling interests in subsidiaries

During 2011 Group transactions with non-controlling interests were mainly represented by a squeeze-out in Lifosa AB. As at 31 December 2011 the Group increased its shareholding in Lifosa AB from 99.1% to 100% (2010: from 94.8% to 99.1%). The total purchase consideration for this acquisition during the year ended 31 December 2011 comprised RR 176,715 thousand (2010: RR 448,983 thousand) paid in cash. The balance of the amount of RR 33,814 thousand shown in the statement of cash flows was paid for the acquisition of an additional interest in a construction subsidiary.

31 Contingencies, commitments and operating risks

i Business acquisition commitments

On 26 September 2011, EuroChem International Holding B.V. ("EuroChem Holding"), the Group's wholly-owned subsidiary, signed a sale and purchase agreement (SPA) with BASF Antwerpen NV for the acquisition of 100% of the share capital of a company that was newly incorporated by BASF Antwerpen NV and that will own the fertilizer assets of BASF located in Antwerp, Belgium ("Newco") up to the closing of the SPA. The price for the acquisition of 100% of the share capital of Newco is estimated to be approximately Euro 670 million, which is subject to final adjustments at the closing of the transaction. The closing of the transaction, including payment for the shares by EuroChem Holding and the transfer of the acquired shares to EuroChem Holding is expected to take place in the first quarter of 2012. The transaction is subject to customary terms and conditions, including merger clearance from the relevant anti-trust authorities.

ii Capital expenditure commitments

As at 31 December 2011 the Group had contractual commitments for capital expenditures of RR 21,603,857 thousand (31 December 2010: RR 18,225,826 thousand), mostly denominated in US\$ and Euro (RR 5,913,736 thousand and RR 7,173,654 thousand, respectively). The management estimates that, out of these, approximately RR 12.7 billion will represent cash outflows in 2012.

RR 10,463,842 thousand and RR 4,982,570 thousand out of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash license areas, respectively (31 December 2010: RR 10,272,954 thousand and RR 4,417,588 thousand, respectively).

iii Tax legislation

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

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

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

Russian transfer pricing legislation enacted during the current period is effective for new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also allows the tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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

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

As at 31 December 2011 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2011 and 31 December 2010.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 154,073 thousand (31 December 2010: RR 1,081,589 thousand). This exposure primarily relates to management services and other fees charged by the holding company to the Group subsidiaries.

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2011

(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

31 Contingencies, commitments and operating risks *continued*

iv Insurance policies

The Group exercises risk insurance as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), physical property and business interruption insurance at nitrogen production plants, as well as insurances related to trade operations, including export shipments and credit insurance of trade debtors relating to the European distribution of fertilizers. The Group also carries voluntary life and accident insurance for employees. Additionally, as part of the potash project the Group voluntarily has insured construction risks for the cage and skip mine shafts at the Gremyachinskoe deposit for RR 16.7 billion. The insurance period covers all construction work until June 2013.

v Environmental matters

Environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and an immediate response is formulated as required. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

vi Legal proceedings

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group.

vii Operating environment of the Group

The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and interest rates, as well as periodic volatility in the RR exchange rate.

In 2010 and at the beginning of 2011 the Russian economy experienced a moderate recovery of economic growth.

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

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

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

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. It believes it is taking all necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

32 Financial and capital risk management

32.1 Financial risk management

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

(a) Market risk

(i) Foreign currency risk

The Group's revenues, expenses, capital expenditure, investments and borrowings are denominated in foreign currencies as well as Russian Roubles. The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in foreign exchange rates. Management focuses on assessing the Group's future cash flows in foreign currencies and managing the gaps arising between inflows and outflows.

Translation gains and losses arising from the revaluation of its monetary assets and liabilities are therefore not viewed as an indicator of the total impact of foreign exchange fluctuations on its future cash flows since such gains or losses do not capture the impact on cash flows of foreign exchange-denominated revenues, costs, future capital expenditure, investment and financing activities.

The table below summarises the Group's financial assets and liabilities which are subject to foreign currency risk at the reporting date:

31 December 2011	US\$	Euro	Other foreign currency
ASSETS			
Non-current financial assets:			
Restricted cash	–	1,701	6,278
RR/US\$ non-deliverable forwards	124,353	–	–
Total non-current financial assets	124,353	1,701	6,278
Current financial assets:			
Trade receivables	2,306,374	44,173	48
Interest receivable	50,362	–	–
Fixed-term deposits	7,283,471	32,139	–
Cash and cash equivalents	3,169,942	1,678,260	20,124
Total current financial assets	12,810,149	1,754,572	20,172
Total financial assets	12,934,502	1,756,273	26,450
LIABILITIES			
Non-current liabilities:			
Bank borrowings	53,430,421	1,365,495	–
US\$/RR cross currency swap (gross amount)	5,121,874	–	–
RR/US\$ non-deliverable forwards	169,246	–	–
Total non-current financial liabilities	58,721,541	1,365,495	–
Current liabilities:			
Bank borrowings	–	4,167,140	–
Bonds issued	9,336,869	–	–
Euro/US\$ non-deliverable forwards	–	167,044	–
Trade payables	1,072,806	251,192	38,177
Interest payable	271,445	19,166	–
Total current financial liabilities	10,681,120	4,604,542	38,177
Total financial liabilities	69,402,661	5,970,037	38,177

Notes to the consolidated financial statements *continued*

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(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

32 Financial and capital risk management *continued*32.1 Financial risk management *continued*(a) Market risk *continued*(i) Foreign currency risk *continued*

31 December 2010	US\$	Euro	Other foreign currency
ASSETS			
Non-current financial assets:			
Restricted cash	–	6,092	107,476
Total non-current financial assets	–	6,092	107,476
Current financial assets:			
Trade receivables	1,519,960	49,633	–
RR/US\$ non-deliverable forward contracts	35,251	–	–
Restricted cash	–	–	92
Cash and cash equivalents	4,633,770	531,135	22,880
Total current financial assets	6,188,981	580,768	22,972
Total financial assets	6,188,981	586,860	130,448
LIABILITIES			
Non-current liabilities:			
Bank borrowings	12,501,915	341,543	–
Bonds issued	8,838,300	–	–
US\$/RR cross currency swap (gross amount)	4,848,377	–	–
Total non-current financial liabilities	26,188,592	341,543	–
Current liabilities:			
Bank borrowings	12,757,772	–	–
Trade payables	327,972	349,335	41,636
Interest payable	233,892	1,486	–
Total current financial liabilities	13,319,636	350,821	41,636
Total financial liabilities	39,508,228	692,364	41,636

The Group believes that it has significant positive foreign exchange exposure towards the US\$/RR exchange rate given that the expected US\$ denominated revenues exceed the planned outflows in US\$, mostly related to servicing of debt and capital expenditure. Hence any depreciation of the RR against the US\$ has a positive effect, while appreciation of the RR against the US\$ has a negative effect on the Group's future cash flows.

The Group's sales for the years ended 31 December 2011 and 31 December 2010 are presented in the table below:

	US\$	Euro	RR	Other foreign currency	Total
2011	84,419,804	6,074,033	31,936,618	8,867,625	131,298,080
	64%	5%	24%	7%	100%
2010	64,686,216	3,898,355	23,936,703	5,266,259	97,787,533
	66%	4%	25%	5%	100%

At 31 December 2011, if the RR exchange rate against the US\$ had been higher/lower by 1%, all other things being equal, after tax profit for the year would have been RR 451,745 thousand (2010: RR 267,134 thousand) lower/higher, purely as a result of foreign exchange gains/losses on translation of US\$-denominated assets and liabilities and with no regard to the impact of this appreciation/depreciation on sales.

The Group is disclosing the impact of such a 1% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit resulting from subsequent future exchange rate changes.

During 2010-2011 the Group entered into foreign exchange non-deliverable forward contracts to partially offset the volatility of its cash flows from any potential appreciation of the RR against the US\$ (Note 17).

32 Financial and capital risk management *continued*

32.1 Financial risk management *continued*

(a) Market risk *continued*

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to risk from floating interest rates due to the fact that it has RR 53,430,421 thousand of US\$ denominated loans outstanding at 31 December 2011 (2010: RR 25,259,687 thousand) bearing floating interest rates varying from 1 month Libor +1.5% to 1 month Libor +3% and 6 month Libor +2.5% (2010: 1 month Libor +1.8% and 6 month Libor +2.5%) and RR 5,532,635 thousand of Euro denominated loans outstanding at 31 December 2011 (2010: RR 341,543 thousand) bearing a floating interest rate of 1 month Euribor +1.75% and 6 month Euribor +1.95% (2010: 6 month Euribor +1.95%). The Group's profit after tax for the year ended 31 December 2011 would have been RR 24,358 thousand, or 0.08% lower/higher (2010: RR 25,706 thousand, or 0.13% lower/higher) if the US\$ Libor interest rate was 10 bps higher/lower than its actual level during the year. The Group's profit after tax for the year ended 31 December 2011 would have been RR 3,076 thousand, or 0.01% lower/higher (2010: RR 770 thousand or 0.004% lower/higher) if the Euribor interest rate was 10 bps higher/lower than its actual level during the year. During 2011 and 2010 the Group did not hedge this exposure using financial instruments.

The Group does not have a formal policy of determining how much exposure the Group should have to fixed or variable rates for as long as the impact of changes in interest rates on the Group's cash flows remains immaterial. However, the Group performs a periodic analysis of the current interest rate environment and depending on this analysis at the time of raising new debt management makes decisions on whether obtaining finance on a fixed-rate or a variable-rate basis would be more beneficial to the Group over the expected period until maturity.

(iii) Financial investments risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. At 31 December 2011 the Group held 15,440,170 shares, or 8.067% of the issued share capital (2010: 16,656,595 shares, or 8.7% of the issued share capital) of K+S Group with a fair value of RR 22,467,999 thousand (2010: RR 37,863,331 thousand) (Note 9). The fair value of the shares is determined based on the closing price of Euro 34.92 as of the reporting date in the Xetra trading system. The Group's other comprehensive income/loss for 2011 would have been RR 643,414 thousand (2010: RR 671,812 thousand) if the share price were 1 Euro higher/lower than its actual level as at the reporting date. At 10 February 2012 the share price was Euro 39.42. During 2011 the Group did not hedge this exposure using financial instruments.

The Group is principally exposed to market price risks in relation to the investment in the shares of K+S Group. Management reviews reports on the performance of K+S Group on a quarterly basis and provides recommendations to the Board of Directors on the advisability of further investments or divestments.

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

(b) Credit risk

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

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2011 amounted to RR 39,805,161 thousand (2010: RR 11,816,357 thousand). The Group has no other significant concentrations of credit risk.

Cash and cash equivalents and fixed-term deposits. Cash and short-term deposits are mainly placed in major multinational and Russian banks with independent credit ratings. No bank balances and term deposits are past due or impaired. See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 13.

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

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of delivery and payment. The Group gives preference to customers with an independent credit rating. New customers without an independent credit rating are evaluated on a sample basis by an appointed rating agency. The credit quality of other customers is assessed taking into account their financial position, past experience and other factors. Customers that do not meet the credit quality requirements are supplied on a prepayment basis only.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 12).

Notes to the consolidated financial statements *continued*

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32 Financial and capital risk management *continued*32.1 Financial risk management *continued*(b) Credit risk *continued*

The major part of trade receivables that are neither past due nor impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

Wholesale customers	Credit agency	Credit rating/Other	2011	2010
Wholesale customers and steel producers	–	Letter of credit	1,049,627	687,516
Wholesale customers and steel producers	Standard & Poor's	2011: BBB- to BB	1,021,819	973,928
	Moody's Investor's Service	2010: Ba3 to Baa3		
Wholesale customers	Credit Reform*	Good	554,357	167,763
Wholesale customers	Dun & Bradstreet Credibility Corp.*	Good	168,408	231,137
Wholesale customers	–	Credit Insurance	30,669	–
Total			2,824,880	2,060,344

* Independent credit agencies used by the Group for evaluation of customers' credit quality.

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every individual customer is monitored.

(c) Liquidity risk

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

In order to take advantage of financing opportunities in the international capital markets the Group has obtained credit ratings from Fitch and Standard & Poor's. As of 31 December 2011 these institutions have rated the Group as BB with stable outlook (2010: BB with stable outlook).

Cash flow forecasting is performed throughout the Group. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 15) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As of 31 December 2011					
Trade payables	3,061,104	–	–	–	3,061,104
Gross-settled swap:**					
– inflows	(411,370)	(411,370)	(5,822,740)	–	(6,645,480)
– outflows	199,383	199,383	5,520,640	–	5,919,406
Derivative financial liabilities	167,050	–	169,246	–	336,296
Bank borrowings*	7,264,550	10,413,316	69,212,987	2,314,327	89,205,180
Bonds issued*	10,355,464	1,077,100	11,488,500	–	22,921,064
As of 31 December 2010					
Trade payables	2,182,951	–	–	–	2,182,951
Gross-settled swap:**					
– inflows	(398,938)	(411,370)	(6,234,110)	–	(7,044,418)
– outflows	183,033	188,737	5,414,587	–	5,786,357
Derivative financial liabilities	127,981	–	–	–	127,981
Bank borrowings*	13,564,674	10,873,071	999,495	1,490,726	26,927,966
Bonds issued*	1,551,231	9,867,505	12,565,600	–	23,984,336

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2011 and 31 December 2010, respectively.

** Payments in respect of the gross settled swap will be accompanied by related cash inflows.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group adopted in alignment with economic realities on 29 April 2009 by the Board of Directors. Such cash balances are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS.

The Group assesses liquidity on a weekly basis using a twelve-month cash flow rolling forecast.

32 Financial and capital risk management *continued*

32.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio. Additionally, the Group monitors the adequacy of its debt levels using the net debt to EBITDA ratio.

Gearing ratio

The gearing ratio is determined as net debt to net debt plus shareholders' equity.

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

	2011	2010
Total debt	96,692,236	42,826,981
Less: cash and cash equivalents and fixed-terms deposits	29,450,097	8,934,084
Net debt	67,242,139	33,892,897
Equity attributable to the holders of the Company	83,385,584	94,180,622
Net debt and shareholders' equity	150,627,723	128,073,519
Gearing ratio, %	45%	26%

Net debt/EBITDA

The Group has established a policy that the ratio of the Group's net debt to its 12 months' rolling EBITDA should not exceed two and a half times. For this purpose net debt is determined as the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents.

The ratio of net debt to EBITDA as of 31 December 2011 and 31 December 2010 is shown in the table below:

	Note	2011	2010
EBITDA	6	49,655,961	29,937,053
Net debt		67,242,139	33,892,897
Net debt/EBITDA		1.35	1.13

Since EBITDA is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

33 Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated statement of financial position at their fair value.

Effective from 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by three levels, depending on fair value measurements. Fair values of trading and available-for-sale investments were determined based on quoted market prices and were included in level 1. Fair values of derivatives financial assets and liabilities were determined based on derived of quoted market prices and were included in level 2.

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

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(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)

33 Fair value of financial instruments *continued*

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. At 31 December 2011 and 31 December 2010 the fair value of the current and non-current borrowings is not materially different from their carrying amounts. The fair value of the issued bonds is disclosed in Note 16.

34 Subsequent events

On 20 January 2012 the Group finalised the acquisition of LLC Severneft-Urengoy (Note 29).

Main production subsidiaries

Name	Address	Shareholder/participant (over 2%)	Stake in authorized capital*
Kovdorskiy Mining-and-Processing Integrated Works, OJSC (Kovdorskiy GOK, OJSC)	5 Sukhachyova St. Kovdor Murmansk Region Russia 184140	EuroChem MCC, OJSC	100% of common stock 100% of preferred stock
Nevinnomysskiy Azot, OJSC	1 Nizyaeva St Nevinnomyssk-7 Stavropolsky Krai Russia 357107	EuroChem MCC, OJSC	100%
Novomoskovskiy Azot, OJSC	10 Svyazi St. Novomoskovsk Tula Region Russia 301660	EuroChem MCC, OJSC	100%
EuroChem – Belorechenskiy Minudobrenia, LLC (EuroChem-BMU, LLC)	Bleorechensk Krasnodar Krai Russia 352636	EuroChem MCC, OJSC	100%
Phosphorit Industrial Group, LLC	Phosphorit Industrial Zone Kingisepp District Leningrad Region Russia 188452	EuroChem MCC, OJSC	100%
Lifosa AB	50 Yuodkishke St. Kadainiai Lithuania LT-5030	EuroChem MCC, OJSC EuroChem A.M. Limited	96% 4%
EuroChem-VolgaKaliy, LLC	7 Lenina St. Kotelnikovo Volgograd Region Russia 404350	EuroChem MCC, OJSC	100%
EuroChem-Usolskiy potash complex	138, Svobody St. Usolye Usolskiy district Perm Region Russia 618460	EuroChem MCC, OJSC Kovdorsky GOK, OJSC	49% 51%

* As at 31 December 2011.



A full list of subsidiaries is available online
www.eurochem.ru

Key financial and non-financial data

(RUBm)	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues	33,028	36,185	30,866	31,219
Nitrogen (including sales to other segments)	16,972	16,602	14,343	15,191
Phosphates (including sales to other segments)	14,871	18,039	15,678	15,336
Other (including sales to other segments)	8,765	8,170	7,520	7,881
Reconciliation	(7,580)	(6,626)	(6,675)	(7,189)
Including: revenues from exports to non-CIS markets	22,325	25,326	19,002	17,617
Including: revenues from exports to CIS markets	3,065	4,091	3,649	5,131
Cost of sales	(16,096)	(16,854)	(15,335)	(15,356)
Including gas and energy	(5,211)	(4,643)	(5,000)	(5,459)
Including other materials and components	(7,873)	(7,475)	(6,224)	(5,409)
Including labour costs	(2,283)	(1,807)	(2,023)	(1,950)
Including changes in work in progress and finished goods	2,171	(86)	534	230
Gross profit	16,932	19,331	15,531	15,863
<i>Gross profit margin, %</i>	<i>51%</i>	<i>53%</i>	<i>50%</i>	<i>51%</i>
Distribution costs	(5,161)	(5,924)	(4,240)	(3,627)
G&A expenses	(1,202)	(1,245)	(1,034)	(1,172)
Other operating income/expense, net	264	276	(135)	(596)
Operating profit	10,833	12,437	10,122	10,468
<i>Operating profit margin, %</i>	<i>33%</i>	<i>34%</i>	<i>33%</i>	<i>34%</i>
Financial foreign exchange gains/(losses)	(421)	(5,970)	407	2,180
Financial income and expense, net	(505)	(1,589)	1,044	1,094
Pre-tax profit	9,907	4,878	11,573	13,742
Taxation	(2,148)	(1,488)	(2,038)	(2,394)
Net profit after tax	7,758	3,390	9,535	11,348
<i>Net profit margin, %</i>	<i>23%</i>	<i>9%</i>	<i>31%</i>	<i>36%</i>
Operating profit before depreciation and amortisation	12,051	13,553	11,217	11,522
EBITDA	12,590	13,640	11,871	11,555
<i>EBITDA margin, %</i>	<i>38%</i>	<i>38%</i>	<i>38%</i>	<i>37%</i>
Dividends declared in the period	–	–	–	–
Total equity	90,371	80,686	101,176	103,251
Non-current assets	140,535	123,462	123,955	120,227
Capital expenditure on PP&E and intangible assets	7,336	6,616	6,000	3,854
Net debt (borrowings less cash)	67,273	54,899	33,950	25,773
Net working capital	17,044	12,882	14,596	11,436
Finished goods, days	37	27	29	27
Trade accounts receivable, days	10	10	15	12
Accounts payable, days	19	20	16	17
Gross cash flow	9,836	12,115	9,455	10,362
Other cash from operations	(1,688)	238	(3,613)	(674)
Cash flows from operating activities	8,148	12,353	5,842	9,688
Cash flows from investing activities	(38,516)	(9,619)	(2,656)	(2,912)
Free cash flow	(30,368)	2,734	3,185	6,777
Cash flows from financing activities	26,949	(174)	(6,885)	(3,049)
Effect of exchange rates	199	628	(13)	(371)
Net decrease/increase in cash and cash equivalents	(3,221)	3,188	(3,713)	3,356
Sales volumes, including sales to other segments (thousand tonnes)				
Nitrogen				
Ammonia	44	67	70	61
Urea	462	423	517	518
AN	473	421	380	458
UAN	163	177	196	183
Complex fertilizers	76	110	119	96
CAN	29	33	50	78
Organic synthesis products	128	112	87	115
Phosphates				
MAP, DAP	368	518	442	539
Complex fertilizers	0	0	0	0
NP	38	26	28	24
Feed phosphates	42	58	84	56
Apatite	41	43	31	51
Mineral raw materials				
Iron ore	1,270	1,449	1,434	1,315
Baddeleyite	3	4	4	2
Permanent employees	20,801	20,653	20,487	20,349
Production	9,670	9,626	9,624	9,606
Service	7,926	7,736	7,613	7,536
Logistics	1,300	1,272	1,256	1,239
Sales, admin and other	1,905	2,019	1,994	1,968
Average RUB/USD exchange rate for the period	31.23	29.05	27.99	29.27
End of period RUB/USD exchange rate	32.20	31.88	28.08	28.43

Q4 2010	Q3 2010	Q2 2010	Q1 2010	2011	2010	2009
28,137	24,261	23,780	21,609	131,298	97,788	73,577
14,315	9,882	10,969	12,056	63,108	47,222	39,577
12,782	13,871	12,623	9,226	63,925	48,502	31,124
8,562	7,437	6,576	5,924	32,336	28,499	20,484
(7,523)	(6,929)	(6,388)	(5,596)	(28,071)	(26,435)	(17,608)
19,113	15,482	15,161	12,436	84,270	62,193	49,948
2,655	3,394	3,311	3,207	15,936	12,567	9,032
(13,266)	(12,413)	(11,800)	(12,727)	(63,641)	(50,206)	(42,884)
(4,621)	(4,308)	(4,198)	(4,505)	(20,313)	(17,631)	(13,870)
(4,821)	(4,091)	(3,875)	(3,558)	(26,982)	(16,345)	(12,639)
(1,724)	(1,672)	(1,644)	(2,229)	(8,064)	(7,269)	(6,362)
761	(134)	95	(137)	2,850	585	(2,065)
14,871	11,849	11,980	8,883	67,657	47,582	30,693
53%	49%	50%	41%	52%	49%	42%
(4,641)	(4,740)	(4,792)	(3,611)	(18,952)	(17,785)	(16,944)
(971)	(926)	(926)	(932)	(4,653)	(3,754)	(3,261)
250	(779)	413	99	(191)	(17)	225
9,509	5,403	6,675	4,439	43,860	26,026	10,712
34%	22%	28%	21%	33%	27%	15%
(239)	984	(2,531)	1,396	(3,804)	(390)	749
865	(517)	(727)	(246)	44	(625)	2,243
10,135	5,870	3,417	5,590	40,100	25,011	13,705
(1,811)	(1,099)	(929)	(1,120)	(8,069)	(8,959)	(2,629)
8,324	4,771	2,488	4,470	32,031	20,052	11,075
30%	20%	10%	21%	24%	21%	15%
10,479	6,281	7,511	5,221	48,344	29,492	13,689
10,581	6,347	7,717	5,292	49,656	29,937	16,516
38%	26%	32%	24%	38%	31%	22%
4,236	1,598	–	–	–	5,834	–
94,505	84,014	73,013	77,577	90,371	94,505	73,195
120,435	110,931	98,264	101,675	140,535	120,435	99,662
6,877	6,323	4,269	2,994	23,805	20,464	18,702
33,893	35,895	34,677	33,406	67,273	33,893	36,545
10,758	11,474	12,328	11,781	17,044	10,758	12,481
28	25	25	26	37	28	28
10	15	16	15	10	10	11
16	14	13	12	19	16	12
8,980	5,227	6,441	4,299	41,768	24,947	12,916
58	795	(197)	592	(5,737)	1,247	4,623
9,038	6,022	6,244	4,890	36,031	26,194	17,539
(1,266)	(6,381)	(4,121)	(2,563)	(53,703)	(14,331)	(27,045)
7,772	(359)	2,123	2,327	(17,672)	11,863	(9,507)
(4,961)	(98)	(3,056)	(5,227)	16,840	(13,342)	(7,876)
(36)	79	28	(371)	442	(300)	1,834
2,775	(377)	(906)	(3,271)	(390)	(1,780)	(15,549)
85	133	135	168	242	521	643
525	354	411	418	1,920	1,709	1,512
457	375	382	496	1,732	1,710	1,830
217	117	147	199	719	680	665
107	99	129	121	401	456	341
61	28	28	23	191	140	16
107	103	128	117	442	455	369
379	534	463	474	1,866	1,849	1,668
2	15	4	2	0	23	18
9	24	41	13	115	87	52
64	65	57	50	240	236	163
52	51	73	44	166	219	215
1,579	1,549	1,603	1,385	5,468	6,116	5,579
3	1	2	2	12	8	5
19,614	19,469	19,214	19,224	20,801	19,614	20,034
9,348	9,288	9,171	9,255	9,670	9,348	10,926
7,349	7,187	7,087	7,018	7,926	7,349	5,803
1,008	1,093	1,070	1,050	1,300	1,008	1,093
1,909	1,901	1,886	1,901	1,905	1,909	2,212
30.71	30.62	30.24	29.89	29.39	30.37	31.72
30.48	30.40	31.20	29.36	32.20	30.48	30.24

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Statements referring to EuroChem's competitive position are based on the company's belief and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and EuroChem's internal assessments of market share based on publicly available information about the financial results and performance of market participants.



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