URALKALI GROUP

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2012 and Independent Auditor's Report

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Uralkali:

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company Uralkali (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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

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

4 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.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

10 April 2013
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

(in thousands of US dollars, unless otherwise stated)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	9	3,385,128	3,169,736
Prepayments for acquisition of property, plant and equipment		78,998	27,282
Letters of credit for acquisition of property, plant and equipment		-	10,429
Goodwill	10	1,939,538	1,829,694
Intangible assets	11	5,854,916	5,592,039
Investments in associates	13	12,887	12,563
Deferred income tax asset	33	23,465	39,289
Other non-current financial assets		7,220	5,273
Derivative financial assets	23	27,590	-
Restricted cash	17	3,576	-
Total non-current assets		**11,333,318**	**10,686,305**
Current assets:			
Inventories	14	242,167	243,603
Trade and other receivables	15	560,857	467,999
Current income tax prepayments		347,528	33,279
Loans issued to related parties	7	-	316
Derivative financial assets	23	1,181	-
Other financial assets at fair value through profit or loss	16	133,941	189,730
Restricted cash	17	142,332	8,169
Cash and cash equivalents	17	1,523,244	1,009,450
		2,951,250	**1,952,546**
Non-current assets held for sale	9	6,469	28,416
Total current assets		**2,957,719**	**1,980,962**
TOTAL ASSETS		**14,291,037**	**12,667,267**
EQUITY			
Share capital	18	35,762	37,638
Treasury shares	18	(58)	(746)
Share premium		6,884,228	6,879,880
Revaluation reserve		5,302	5,302
Currency translation reserve		(680,145)	(1,144,287)
Retained earnings		2,511,233	2,269,362
Equity attributable to the company's equity holders		**8,756,322**	**8,047,149**
Non-controlling interests		**8,265**	**12,461**
TOTAL EQUITY		**8,764,587**	**8,059,610**
LIABILITIES			
Non-current liabilities:			
Borrowings	21	2,820,271	3,017,155
Post employment benefits obligations	34	37,809	23,450
Deferred income tax liability	33	1,079,886	716,234
Provisions	19	84,670	51,755
Derivative financial liabilities	23	13,906	75,981
Total non-current liabilities		**4,036,542**	**3,884,575**
Current liabilities:			
Borrowings	21	1,122,075	282,095
Trade and other payables	24	266,447	292,895
Provisions	5, 19	14,684	66,283
Derivative financial liabilities	23	17,560	21,501
Mine flooding provisions	5, 20	32,924	31,060
Current income tax payable		1,602	2,865
Other taxes payable		34,616	26,383
Total current liabilities		**1,489,908**	**723,082**
TOTAL LIABILITIES		**5,526,450**	**4,607,657**
TOTAL LIABILITIES AND EQUITY		**14,291,037**	**12,667,267**

Approved for issue and signed on behalf of the Board of Directors 10 April 2013

Vladislav Baumgertner
Chief Executive Officer

Viktor Belyakov
Chief Financial Officer

(in thousands of US dollars, unless otherwise stated)

	Note	2012	2011
Revenues	25	3,949,793	3,495,889
Cost of sales	26	(990,799)	(888,198)
Gross profit		**2,958,994**	**2,607,691**
Distribution costs	27	(770,664)	(631,006)
General and administrative expenses	28	(231,375)	(219,487)
Taxes other than income tax		(39,032)	(28,584)
Other operating income and expenses	30	(66,074)	(37,940)
Operating profit		**1,851,849**	**1,690,674**
Mine flooding costs	32	(3,534)	(26,444)
Finance income	31	166,880	48,768
Finance expense	31	(78,788)	(375,653)
Profit before income tax		**1,936,407**	**1,337,345**
Income tax expense	33	(339,796)	(152,260)
Net profit for the year		**1,596,611**	**1,185,085**
Profit attributable to:			
Owners of the Company		1,600,807	1,184,032
Non-controlling interests		(4,196)	1,053
Net profit for the year		**1,596,611**	**1,185,085**
Earnings per share – basic and diluted (in US cents)	35	**54.01**	**43.89**

(in thousands of US dollars, unless otherwise stated)

	2012	2011
Net profit for the period	**1,596,611**	**1,185,085**
Other comprehensive income/(loss)		
Effect of translation to presentation currency	464,142	(1,042,698)
Total other comprehensive income/(loss) for the year	**464,142**	**(1,042,698)**
Total comprehensive income for the year	**2,060,753**	**142,387**
Total comprehensive income for the year attributable to:		
Owners of the Company	2,064,949	141,334
Non-controlling interests	(4,196)	1,053

(in thousands of US dollars, unless otherwise stated)

	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		1,936,407	1,337,345
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		459,505	377,477
Net loss on disposals and write-off of property, plant and equipment	30	31,934	17,072
Write-down of non-current assets held for sale to fair value less costs to sell and impairment of fixed assets reclassified to non-current assets held for sale	30	50,912	-
Accrual/(reversal) of provision for impairment of receivables and income from assignment of accounts receivable and loans issued	30	2,115	(13,920)
Loss on disposal of subsidiaries	30	-	4,344
Net change in provisions	19	(54,739)	25,751
Finance income and expense, net		(81,726)	152,653
Foreign exchange (gain)/loss, net	31	(16,624)	135,862
Operating cash flows before working capital changes		**2,327,784**	**2,036,584**
Increase in trade and other receivables		(96,325)	(3,021)
Decrease in inventories		15,688	24,415
Increase/(decrease) in accounts payable, accrued expenses and other creditors		29,013	(28,891)
Increase in other taxes payable		11,185	12,890
Cash generated from operations		**2,287,345**	**2,041,977**
Interest paid	21	(215,183)	(97,063)
Income taxes paid		(319,916)	(287,209)
Net cash generated from operating activities		**1,752,246**	**1,657,705**
Cash flows from investing activities			
Acquisition of intangible assets		(4,588)	(1,726)
Acquisition of property, plant and equipment		(399,431)	(365,237)
Proceeds from sales of property, plant and equipment and non-current assets held for sale		19,627	27,204
Purchase of other financial assets at fair value through profit or loss		-	(296,014)
Proceeds from sale of other financial assets at fair value through profit or loss and other investments		54,134	104,804
Acquisition of subsidiaries, net of cash acquired	6	-	(1,113,990)
(Increase)/decrease in restricted cash	17	(137,739)	804
Dividends and interest received		67,993	27,293
Net cash used in investing activities		**(400,004)**	**(1,616,862)**
Cash flows from financing activities			
Repayments of borrowings		(523,100)	(1,443,899)
Proceeds from borrowings	21	1,055,329	3,134,676
Syndication fees and other financial charges paid	21	(13,873)	(39,319)
Proceeds from bonds issued	22	-	1,028,768
Redemption of bonds issued	22	-	(1,028,768)
Payment due to early redemption of bonds	22, 31	-	(31,172)
Cash proceeds from derivatives	23	93,714	35,733
Cash paid for derivatives	23	(18,613)	(43,826)
Purchase of treasury shares		(539,814)	(358,816)
Finance lease payments	31	(1,558)	(1,650)
Dividends paid to the Company's shareholders		(901,468)	(742,731)
Net cash (used in)/generated from financing activities		**(849,383)**	**508,996**
Effect of foreign exchange rate changes on cash and cash equivalents		10,935	(21,901)
Net increase in cash and cash equivalents		**513,794**	**527,938**
Cash and cash equivalents at the beginning of the year	17	**1,009,450**	**481,512**
Cash and cash equivalents at the end of the year	17	**1,523,244**	**1,009,450**

(in thousands of US dollars, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Treasury Shares**	**Share premium/ (discount)**	**Revaluation reserve**	**Retained earnings**	**Currency translation reserve**	**Total attributable to owners of the Company**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011	**20,387**	**(440)**	**(31,618)**	**5,302**	**1,970,950**	**(101,589)**	**1,862,992**	**616**	**1,863,608**
Profit for the period	-	-	-	-	1,184,032	-	1,184,032	1,053	1,185,085
Other comprehensive loss	-	-	-	-	-	(1,042,698)	(1,042,698)	-	(1,042,698)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**1,184,032**	**(1,042,698)**	**141,334**	**1,053**	**142,387**
Transactions with owners									
Dividends declared (Note 18)	-	-	-	-	(885,620)	-	(885,620)	-	(885,620)
Issue of share capital for the acquisition of a subsidiary (Note 6)	17,251	-	7,356,633	-	-	-	7,373,884	-	7,373,884
Treasury shares acquired in a business combination (Note 6)	-	(205)	(86,420)	-	-	-	(86,625)	-	(86,625)
Purchase of treasury shares	-	(101)	(358,715)	-	-	-	(358,816)	-	(358,816)
Total transactions with owners	**17,251**	**(306)**	**6,911,498**	**-**	**(885,620)**	**-**	**6,042,823**	**-**	**6,042,823**
Non-controlling interest acquired in a business combination (Note 6)	-	-	-	-	-	-	-	15,373	15,373
Disposal of non-controlling interest acquired in a business combination (Note 6)	-	-	-	-	-	-	-	(4,581)	(4,581)
Balance at 1 January 2012	**37,638**	**(746)**	**6,879,880**	**5,302**	**2,269,362**	**(1,144,287)**	**8,047,149**	**12,461**	**8,059,610**
Profit/(loss) for the period	-	-	-	-	1,600,807	-	1,600,807	(4,196)	1,596,611
Other comprehensive income	-	-	-	-	-	464,142	464,142	-	464,142
Total comprehensive income/(loss) for the period	-	-	-	-	**1,600,807**	**464,142**	**2,064,949**	**(4,196)**	**2,060,753**
Transactions with owners									
Dividends declared (Note 18)	-	-	-	-	(815,962)	-	(815,962)	-	(815,962)
Purchase of treasury shares	-	(1,188)	(538,626)	-	-		(539,814)	-	(539,814)
Cancellation of treasury shares	(1,876)	1,876	542,974	-	(542,974)	-	-	-	-
Total transactions with owners	**(1,876)**	**688**	**4,348**	**-**	**(1,358,936)**	**-**	**(1,355,776)**	**-**	**(1,355,776)**
Balance at 31 December 2012	**35,762**	**(58)**	**6,884,228**	**5,302**	**2,511,233**	**(680,145)**	**8,756,322**	**8,265**	**8,764,587**

1 The Uralkali Group and its operations

Open Joint Stock Company Uralkali (the “Company”) and its subsidiaries (together the “Group”) produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki and Solikamsk, Russia. They are distributed both on domestic and foreign markets. In May 2011 the Company acquired OJSC Silvinit and related subsidiaries (together the “Silvinit Group”) and as a result, the financial position and the results of operations of Silvinit Group have been included in the Group’s consolidated financial statements since 17 May 2011 (Note 6). The Group manufactures various types of products, the most significant being a wide range of potassium salts. The Group is a major Russia-based potash manufacturer. For the year ended 31 December 2012 approximately 78% of potash fertilizers was exported (for the year ended 31 December 2011: 82%).

The Company holds operating licences, issued by the Perm regional authorities for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. Upon the expiry of the licences they were prolonged till 2018-2021 at nominal cost (Note 39). The Company also owns a licence for the Ust’-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, and for the Polovodovskiy plot of the Verkhnekamskoye field, which expires in 2028.

As of 31 December 2011 and 31 December 2012 the Group had no ultimate controlling party.

The Company was incorporated as an open joint stock company in the Russian Federation on 14 October 1992. The Company has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation. Almost all of the Group’s production capacities and all long-term assets are located in the Russian Federation.

As of 31 December 2012 the Group employed approximately 21.2 thousand employees (31 December 2011: 23.0 thousand).

2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention except for certain financial instruments that are presented at fair value as described in Note 2.13.

Group companies maintain their accounting records in Russian Roubles (“RR”) and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA and Uralkali Trading (Gibraltar) Limited which maintain their accounting records in US dollars (“US$”) and prepare their financial statements in accordance with IFRS. JSC Belarusian Potash Company maintains its accounting records in Belarussian Roubles (“BYR”) and in accordance with Belarussian Laws and Regulations. UKT Chicago, Inc. maintains its accounting records in US$ and in accordance with US GAAP. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

2.2 Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain 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 deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 Basis of preparation and significant accounting policies (continued)

2.2 Consolidated financial statements (continued)

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of all identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2.3 Non-controlling interest

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

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 directly in equity.

2.4 Joint arrangements

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. Joint operation is accounted for using continuing recognition of Group's relevant share of assets, liabilities, revenues and expenses. Unrealised gains and losses on transactions between the Group and its joint operation are eliminated.

2.5 Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

2.6 Property, plant and equipment

Property, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at the amounts determined by an independent valuation as of 1 January 1997 less accumulated depreciation and impairment. Property, plant and equipment acquired or constructed subsequent to 1 January 1997 is recorded at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use.

Property, plant and equipment acquired through business combination is recorded at fair value determined by independent valuation at the date of acquisition, less accumulated depreciation since acquisition date.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within other operating expenses.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.6 Property, plant and equipment (continued)

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 and fair value less costs to sell.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment items 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	10 to 50
Mine development costs	10 to 30
Plant and equipment	2 to 30
Transport	5 to 15
Others	2 to 15
Land	Not depreciated

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

2.7 Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised.

2.8 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight line basis over the lease term to profit or loss.

Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

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.

2 Basis of preparation and significant accounting policies (continued)

2.9 Finance lease liabilities

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

2.10 Goodwill

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 incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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.

2.11 Intangible assets

The Group's intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are initially measured at acquisition cost or production cost, including any directly attributable costs of preparing the asset for its intended use, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortized on a unit of production method.

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.

2.12 Classification of financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit and loss designed as such upon initial recognition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Financial assets at fair value through profit and loss designed as such upon initial recognition represents derivative financial instruments and other financial assets at fair value through profit or loss.

2 Basis of preparation and significant accounting policies (continued)

2.12 Classification of financial assets and liabilities (continued)

Derivative financial instruments, represented by cross-currency interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions is presented in the interest expense line item. The Group does not apply hedge accounting.

Other financial assets at fair value through profit or loss are financial assets, represented by highly liquid corporate bonds and shares, designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if: (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's management.

Changes in fair value of financial assets at fair value through profit and loss designed as such upon initial recognition are recognised in the line item fair value gains/(losses) on financial assets at fair value through profit or loss and other investments. Coupon income from corporate bonds recognized in the interest income line item.

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

Financial liabilities have the following measurement categories: (a) held for trading, which also includes financial derivatives financial instruments and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.13 Initial recognition of financial instruments

Derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between the 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 regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

2.14 Derecognition of financial assets

The Group derecognises 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.

2.15 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in the Russian Federation for entities incorporated in the Russian Federation, in Switzerland for Uralkali Trading SA, in Gibraltar for Uralkali Trading (Gibraltar) Limited, in the USA for UKT Chicago, Inc. and in Belorussia for JSC Belarusian Potash Company. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group's uncertain tax positions are assessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

2 Basis of preparation and significant accounting policies (continued)

2.15 Income taxes (continued)

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 arising 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 or subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

2.16 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. The cost of finished goods includes transport expenses that the Company incurs in distributing goods from its factory to sea ports, vessels and overseas warehouses as these are costs incurred in bringing the inventory to its present location. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.17 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of 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. Restricted balances being exchanged or used to settle liability at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

2.19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, 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 as share premium.

2 Basis of preparation and significant accounting policies (continued)

2.20 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.

2.21 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 consolidated financial statements have been authorised for issue.

2.22 Value added tax

Output value added tax is payable to the 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 an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.23 Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis 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.

The Group capitalises borrowing costs relating to assets that take a substantial period of time to prepare for use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an execution period exceeding one year.

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.

2.24 Provisions

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

The Group recognises provision for filing cavities in respect of the Group's obligation to replace the earth extracted from the mines. The provision is recognized when the Group has a legal or constructive obligation in accordance with the plan of works agreed with the state mine supervisory body.

The estimated future filling cavities costs, discounted to net present value, are added to respective items of property, plant and equipment and corresponding obligations. The additions of property, plant and equipment are amortised on a straight-line basis over the useful life of the corresponding asset. The unwinding of the obligation is recognised in profit or loss as part of other financial gain/loss. Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for filling cavities and asset to which it relates. The Group reassesses its estimation of filling cavities provision as at the end of each reporting period.

2 Basis of preparation and significant accounting policies (continued)

2.25 Trade and other payables

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

2.26 Foreign currency transactions

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is the national currency of the Russian Federation, RR. Presentation currency of the Group is US$ since the Company's management considers presentation of the financial statements in US$ to be more useful for the users of the financial statements.

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies. The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of income and cash flows 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 and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2012, the official rate of exchange, as determined by the Central Bank of the Russian Federation (CBRF), was US$ 1 = RR 30.37 (31 December 2011: US$ 1 = RR 32.20). The official Euro to RR exchange rate at 31 December 2012, as determined by the CBRF, was Euro 1 = RR 40.23 (31 December 2011: Euro 1 = RR 41.67). The average official rate of exchange for the twelve months ended 31 December 2012 was US$ 1 = RR 31.09, was Euro 1 = RR 39.95 (twelve months ended 31 December 2011: US$ 1 = RR 29.39, Euro 1 = RR 40.87).

2.27 Revenue recognition

Revenues are recognised on the date of risks transfer under the appropriate INCOTERMS specified in the sales contracts, as this is the date when the risks and rewards of ownership are transferred to the customers. For "Free On Board" (FOB) transactions, the title to goods transfers as soon as the goods are loaded on the ship. For "Delivery At Frontier" (DAF) transactions, the title to goods transfers only when goods cross the Russian border. For "Free Carrier" (FCA) terms, the title transfers when goods are loaded on the first carrier (railway carriages). For "Cost and Freight" (CFR) terms, the title transfers when goods pass the rail of the ship in the port of shipment.

Sales of services are recognised in the accounting period in which the services are rendered.

Sales of potash of Belaruskali and Silvinit (prior to it's acquisition) are recognized in the line item other operating income and expenses net of all related costs.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

2 Basis of preparation and significant accounting policies (continued)

2.28 Transhipment costs

Transhipment costs incurred by OJSC Baltic Bulker Terminal ("BBT"), a 100% subsidiary whose activity is related to transhipment of fertilisers produced by the Group, are presented within distribution costs. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.29 Employee benefits

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

2.30 Social costs

The Group incurs personnel costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.31 Pension costs

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed as incurred.

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in profit or loss.

2.32 Earnings per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.33 Segment reporting

The Group identifies segments in accordance with the criteria set forth in IFRS 8 "Operating segments", and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as the Board of Directors. It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

2.34 Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

3 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 2012:

- ***"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).*** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. These amendments do not have material effect on the Group's consolidated financial statements.

- ***Other revised standards and interpretations effective for the current period.*** 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, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on the Group's consolidated financial statements.

4 New accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 1 January 2013, 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 considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group;

- ***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 amendments on its consolidated financial statements;

4 New accounting pronouncements (continued)

- ***IAS 28, Investments in Associates and Joint Ventures, (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;

- ***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;

- ***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;

- ***Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013).*** The Group is currently assessing the impact of the amendments on its consolidated financial statements;

- ***Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued in October 2012 and effective for annual periods beginning 1 January 2014).*** The Group is currently assessing the impact of the amendments on its 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 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying 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:

Provisions for mine flooding. On 28 October 2006, the Group ceased production operations in Mine 1 due to natural groundwater inflow that reached a level which could not be properly controlled.

On 1 November 2006, the commission of Rostekhnadzor issued an act on its technical investigation of the cause of flooding in Mine 1. According to the act, the flooding was caused by a "new kind of previously unknown anomaly in the geological structure" and "the development of two sylvinite layers AB (1964-1965) and Kr II (1976-1977)". The combination of circumstances in the run up to the accident, in terms of source, scope and strength was classified as "being extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved".

In November 2008, at the request of Russian Deputy Prime Minister, Igor Sechin, a new commission was established by Rostekhnadzor to carry out a second investigation into the cause of flooding in Mine 1. The second commission's report was published on 29 January 2009, concluding that the flooding was caused by a "combination of geological and technological factors".

In March 2010, the Board of Directors of the Company approved voluntary compensation, as a part of its social responsibility, of additional expenditures in relation to the construction of a 53-kilometer railway bypass in the amount of US$ 32,924 (31 December 2011: US$ 31,060) to OJSC "Russian Railways". To date this provision has not been utilized as the process for making the payment has not been finalised (Note 20).

The procedure for calculating and compensating for mineral deposits lost as a result of mine flooding is not established by Russian law. However, the Company evaluates the risk that such claims could arise as "possible". In the appendices to the report of the second commission of Rostekhnadzor, there is a calculation of the value of lost mineral resources (from US$ 835,619 to US$ 2,785,462) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from US$ 31,739 to US$ 105,852). The Company analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as "remote".

5 Critical accounting estimates, and judgements in applying accounting policies (continued)

Remaining useful life of property, plant and equipment and mining licences. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to the Group (Note 9).

The Group holds operating mining licences prolonged till 2018-2021 upon the expiry on 1 April 2013 (Note 39). Management assesses the remaining useful life of mining licences on the basis of the expected mining reserves.

The estimated remaining useful life of some property, plant and equipment and mineral resources is beyond the expiry date of the relevant operating licences (Note 1). The management believes that in the future the licences will be further renewed in due order. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

Impairment of goodwill. The Group tests goodwill for impairment at least annually (Note 10). The goodwill relates to the acquisition of the Silvinit Group, CJSC Solikamsky Stroitelny Trest and OJSC BBT. The goodwill is primarily attributable to the expected future operational and marketing synergies of the combined group and is allocated to CGU Uralkali Group.

Trade and other receivables. The Group's management analyses overdue trade and other accounts receivable at each reporting date. Overdue accounts receivable are not provided for if management has certain evidence of their recoverability. If management has no reliable information about the recoverability of overdue receivables, a 100% impairment provision is accrued for trade and other receivables overdue by more than 90 days; receivables overdue by more than 45 (but less than 90) days are provided for at 50% of their carrying amount.

Inventory. The Group engages an independent surveyor to verify the physical quantity of finished products at the reporting dates. In accordance with the surveyor's guidance and technical characteristics of the devices used, the possible valuation error is +/-4-6%. At the reporting date the carrying amount of finished products may vary within this range.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 36).

Provision for filling cavities. A provision has been established in the consolidated financial statements for the Group's obligation to replace the earth extracted from the Solikamsk mines (Note 19).

The remeasurment of an existing amount of cavities that result from changes in estimates of mine surveys reflected as an asset and depreciated over its useful life by straight-line method of depreciation. The company makes provision only for the legal liabilities, which are included in licenses agreements. The periodic unwinding of the discount rate and changes in discount rate are recognised in profit or loss in financial income and expense.The amount of expenses incurred due to filling of the cavities for other reason is recognised in current period in the consolidated statement of income.

The major uncertainties that relate to amount and timing of the cash outflows related to the filling cavities works and assumptions made by management in respect of these uncertainties are as follows:

- The extent of the filling cavities works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the earth in the mines is consistent with the cavities filling plan agreed with the State mine supervisory body;

- The future unit cost of replacing one cubic meter of the earth in the mines may vary depending on the technology and the cost of resources used. Management assumes that the unit cost of replacing a cubic meter of earth in future years, during the period for which the current filling cavities plan is in place, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in 2012;

- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the filling cavities works, reflecting the time value of money. In 2012 management applied discount rate of 6.6%;

- Ongoing filling cavities costs incurred out of agreed plan are recognised as expenses when incurred.

(in thousands of US dollars, unless otherwise stated)

5 Critical accounting estimates, and judgements in applying accounting policies (continued)

Restructuring provision. The Group accrued a provision for the closing down of the ore-treatment plant and carnallite plant subdivision at Berezniki 1 (Note 19).

The major uncertainties that relate to amount and timing of the cash outflows related to the restructuring works and assumptions made by management in respect of these uncertainties are as follows:

- Estimates were used to determine the costs of dismantling and restoration works for the liquidation of the ore-treatment plant and the carnallite plant at Berezniki 1;

- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the dismantling works, reflecting the time value of money. The discount rate used is in the range from 6% to 8% depending on the timing of expenses.

6 Business combinations

No business combinations occurred in 2012.

The following business combinations occurred in 2011:

i Acquisition of Silvinit Group

On 17 May 2011, the Company acquired Silvinit Group, creating one of the world's leading potash companies, a leading global fertilizer producer and one of Russia's leading mineral resource companies.

The acquisition was made through the purchase of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for total cash consideration of US$ 1.4 billion, completed on 28 February 2011, and a subsequent statutory merger of the Company and OJSC Silvinit, through the issuance of Uralkali ordinary shares for the remaining ordinary and preferred share capital of OJSC Silvinit, completed on 17 May 2011. Upon completion of the merger, OJSC Silvinit ceased to exist and OJSC Silvinit shareholders received 133.4 Uralkali ordinary shares for each 1 ordinary share in Silvinit and 51.8 Uralkali ordinary shares for each 1 preferred share in Silvinit.

The financial position and the results of operations of Silvinit Group were included in the Group's consolidated financial statements from 17 May 2011.

The table below sets forth the fair values of Silvinit Group consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	Note	Attributed fair value
Assets		
Property, plant and equipment	9	1,850,768
Intangible assets	11	6,460,432
Investments in associates	13	25,875
Other non-current financial assets		11,190
Deferred income tax asset	33	118,108
Trade and other receivables		177,861
Inventories		150,464
Loans issued		3,633
Irrevocable bank deposits		6,987
Cash and cash equivalents		350,577
Total assets		**9,155,895**
Liabilities		
Borrowings	21	1,323,507
Deferred income tax liability	33	970,914
Post employment benefits obligations	34	12,486
Provision for filling cavities, long-term	19	52,215
Trade and other payables		52,948
Current income tax payable		5,583
Legal provision	19	60,528
Provision for filling cavities, short-term	19	6,597
Total liabilities		**2,484,778**
Total identifiable net assets at fair value		**6,671,117**

(in thousands of US dollars, unless otherwise stated)

6 Business combinations (continued)

i Acquisition of Silvinit Group (continued)

The Group finalized purchase price allocation in its consolidated financial statements for the year ended 31 December 2011.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 177,861 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables due was US$ 232,671.

The acquisition-date fair value of the total purchase consideration and its components were as follows:

	US$ thousands
Cash consideration paid	1,432,093
Fair value of newly issued shares of the acquirer	7,373,884
Effect of translation to presentation currency	19,637
Total purchase consideration	**8,825,614**

Cash consideration of US$ 1.4 billion paid by the Group was recorded as consideration paid on the acquisition of subsidiary in the consolidated statement of cash flows. The remaining approximately 80% ownership interest was transferred to the Group in exchange for the newly issued shares of OJSC Uralkali. The fair value of these newly issued shares of the acquirer was determined on the basis of closing market price of the ordinary shares on the date of acquisition.

Acquisition related transaction costs of US$ 4,141 were expensed as general and administrative expenses.

The excess of the total consideration paid by the Group over the fair values of assets and liabilities, net of treasury shares acquired, represents the goodwill in the total amount of US$ 2,067,872.

	Note	US$ thousands
Total identifiable net assets at fair value		6,671,117
Treasury shares acquired		86,625
Goodwill	10	2,067,872
Total purchase consideration		**8,825,614**

The goodwill is primarily attributable to the expected future operational and marketing synergies. The goodwill will not be deductable for tax purposes in future periods.

If the acquisition had occurred on 1 January 2011, Group results for year ended 31 December 2011 would have been:

- Gross revenue – US$ 4,202,656;
- Net profit – US$ 1,527,189;
- Freight, railway tariff, transshipment – US$ 632,245;
- Depreciation and amortization, financial income and expenses, income tax expense – US$ 906,216;
- Volume sold – 10,648 thousands tonnes.

ii Acquisition of CJSC Solikamsky Stroitelny Trest (SST)

On 7 October 2011, the Company obtained control over its associate SST, the local leader of the construction market in the city of Solikamsk. The acquisition was made through the purchase of SST ordinary shares, representing approximately 47.64% of its ordinary share capital, for total cash consideration of US$ 35,375.

The financial position and the results of operations of SST were included in the Group's consolidated financial statements from 7 October 2011.

(in thousands of US dollars, unless otherwise stated)

6 Business combinations (continued)

ii Acquisition of CJSC Solikamsky Stroitelny Trest (SST) (continued)

The table below sets forth the fair values of SST consolidated identifiable assets and liabilities at the date of acquisition:

	Note	Attributed fair value
Assets		
Property, plant and equipment	9	42,145
Intangible assets	11	224
Trade and other receivables		3,569
Inventories		25,047
Cash and cash equivalents		2,901
Total assets		**73,886**
Liabilities		
Borrowings	21	5,087
Deferred income tax liability	33	4,483
Trade and other payables		15,461
Total liabilities		**25,031**
Total identifiable net assets at fair value		**48,855**

The excess of the total consideration paid by the Group over the fair values of assets and liabilities represents the goodwill.

	Note	US$ thousands
Total identifiable net assets at fair value		48,855
Fair value of the non controlling interest		(15,373)
Fair value of existing interest in acquiree	13	(11,926)
Goodwill	10	13,819
Total purchase consideration		**35,375**

The goodwill is attributable to the expected future optimization of the construction and repair works for the Group. The goodwill will not be deductable for tax purposes in future periods.

The Group finalized the purchase price allocation in the consolidated financial statements for the year ended 31 December 2011.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 3,569 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables did not differ from their fair value at acquisition date.

The acquired Company contributed revenue of US$ 5,282 and loss of US$ 6,493 to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group revenue for 2011 would have been US$ 3,511,941 and profit for 2011 would have been US$ 1,180,701.

LLC Solikamskavto and LLC Stroimarket, subsidiaries of SST, were disposed shortly after acquisition of SST for total consideration of US$ 1,810. The loss on disposal of subsidiaries in the amount of US$ 4,344 was recognized in the other operating income and expenses (Note 30).

7 Related parties

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

(in thousands of US dollars, unless otherwise stated)

7 Related parties (continued)

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

Statement of financial position caption	Nature of relationship	31 December 2012	31 December 2011
Balances			
Prepayments for acquisition of property, plant and equipment	Associate	4,799	1,531
Prepayments for acquisition of property, plant and equipment	Other related parties	4,022	2,294
Trade and other receivables	Associate	64	26
Trade and other receivables	Other related parties	6	2,752
Trade and other payables	Associate	616	2,414
Trade and other payables	Other related parties	-	423
Loans issued to related parties	Associate	-	316

		2012	2011
Transactions			
Acquisition of property, plant and equipment	Associate	24,095	32,028
Acquisition of property, plant and equipment	Other related parties	4,704	3,257
Acquisition of inventories	Associate	7,572	6,648
Acquisition of inventories	Other related parties	-	62

Statement of income caption	Nature of relationship	2012	2011
Other domestic revenue	Associate	202	86
Other domestic revenue	Other related parties	9,228	10,198
Transportation and other revenues	Associate	7	57
Transportation and other revenues	Other related parties	1	2,906
Repairs and maintenance	Associate	3,657	3,571
Repairs and maintenance	Other related parties	915	228
Other expenses	Associate	842	2,112
Other expenses	Other related parties	2,509	167
Interest income	Former key management personnel	-	211
Interest income	Other related parties	33	114
Monitoring costs	Associate	2,519	855

Cross shareholding

As of 31 December 2011, CJSC JV Kama, CJSC IK Silvinit-Resource and Enterpro Services Ltd. owned 0.81%, 0.37% and 1.60% of the ordinary shares of the Company, correspondingly.

In July 2012 the Group finalized its internal legal restructuring. As a result treasury shares owned by CJSC IK Silvinit-Resource, CJSC JV Kama, Enterpro Services Ltd. were cancelled with decrease of authorized share capital (Note 18).

As of 31 December 2012 Enterpro Services Ltd., a 100% owned subsidiary of the Group, owned 0.13% of the ordinary shares of the Company.

Management's compensation

Compensation of key management personnel consists of remuneration paid to executive directors and other directors for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

The Board of Directors has approved the main principles of the long-term incentive strategy of Uralkali's top management. The remuneration will depend on total shareholder return relative to the Company's peers and will be adjusted to the volatility of the Russian stock market versus the US market. The absolute risk adjusted stock performance will also influence the amount of remuneration. The program is effective from the third quarter of 2011 and the Group liability as of 31 December 2012 was estimated to be nil (31 December 2011: nil).

Total key management compensation represented by short-term employee benefits and included in general and administrative and distribution expenses in the consolidated statement of income were US$ 15,968 and US$ 21,027 for the years ended 31 December 2012 and 31 December 2011, respectively.

(in thousands of US dollars, unless otherwise stated)

8 Segment reporting

The Group identifies segments in accordance with the criteria set forth in IFRS 8, and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as the Board of Directors. It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilizers.

The financial information reported on operating segments is based on the management accounts which are based on IFRS.

a) Segment information for the reportable segment is set out below:

	Note	2012	2011
Revenues	25	3,949,793	3,495,889
Segment result (Net profit)		**1,596,611**	**1,185,085**
Depreciation and amortisation		(459,505)	(377,477)
Mine flooding costs	32	(3,534)	(26,444)
Finance income	31	166,880	48,768
Finance expense	31	(78,788)	(375,653)
Income tax expense	33	(339,796)	(152,260)

b) Geographical information

The analysis of Group sales by region was:

	2012	2011
Russia	649,377	414,162
Latin America, China, India, South East Asia	2,597,574	2,221,114
USA, Europe	676,510	853,708
Other countries	26,332	6,905
Total revenue	**3,949,793**	**3,495,889**

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the year ended 31 December 2012. In 2011 the Group had sales in excess of 10% to one customer, revenue from this customer represented 15% of total Group revenue for the year ended 31 December 2011.

(in thousands of US dollars, unless otherwise stated)

8 Segment reporting (continued)

d) In addition to the above segment disclosures management is preparing additional information that splits the result of the Potash segment activity between export potash sales, domestic potash sales and other sales. Direct cost of sales and distribution expenses are allocated proportionally based on revenues. Indirect expenses, such as general and administrative expenses, other operating income and expenses and taxes other than income tax are allocated between categories proportionally based on cost of sales. Some costs are considered as unallocated (loss on disposal of fixed assets, impairment of assets reclassified to non-current assets held for sale, write-down of non-current assets held for sale to fair value less costs to sell, reversal and additions of provisions, net results on sale of Belaruskali and Silvinit goods, mine flooding costs, finance income and expense, income tax expense).

This split for the year ended 31 December 2012 was as follows:

	Export potash sales	**Domestic potash sales**	**Total potash sales**	**Other sales**	**Unallo-cated**	**Total**
Tonnes (thousands)	**7,281**	**2,081**	**9,362**	**-**	**-**	**9,362**
Revenues	3,300,416	528,494	3,828,910	120,883	-	3,949,793
Cost of sales	(714,888)	(204,355)	(919,243)	(71,556)	-	(990,799)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(1,001,222)	(69,051)	(1,070,273)	(36,683)	(189)	(1,107,145)
Operating profit/(loss)	**1,584,306**	**255,088**	**1,839,394**	**12,644**	**(189)**	**1,851,849**
Mine flooding costs					(3,534)	(3,534)
Finance income and expense, net					88,092	88,092
Profit before income tax						**1,936,407**
Income tax expense					(339,796)	(339,796)
Segment result/Net profit						**1,596,611**

This split for the year ended 31 December 2011 was as follows:

	Export potash sales	**Domestic potash sales**	**Total potash sales**	**Other sales**	**Unallo-cated**	**Total**
Tonnes (thousands)	**7,040**	**1,579**	**8,619**	**-**	**-**	**8,619**
Revenues	3,081,727	322,851	3,404,578	91,311	-	3,495,889
Cost of sales	(687,015)	(154,148)	(841,163)	(47,035)	-	(888,198)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(839,190)	(47,591)	(886,781)	(23,141)	(7,095)	(917,017)
Operating profit/(loss)	**1,555,522**	**121,112**	**1,676,634**	**21,135**	**(7,095)**	**1,690,674**
Mine flooding costs					(26,444)	(26,444)
Finance income and expense, net					(326,885)	(326,885)
Profit before income tax						**1,337,345**
Income tax expense					(152,260)	(152,260)
Segment result/Net profit						**1,185,085**

(in thousands of US dollars, unless otherwise stated)

9 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of 31 December 2011	793,300	608,486	1,479,088	285,675	864,357	54,765	35,566	4,121,237
Additions	-	-	-	13,838	373,565	-	-	387,403
Changes in estimates adjusted against property, plant and equipment (Note 19)	-	35,736	-	-	-	-	-	35,736
Transfers	80,724	75,432	192,451	-	(356,204)	4,669	2,928	-
Disposals	(6,997)	(7,739)	(39,823)	(5,391)	(8,213)	(7,826)	(329)	(76,318)
Impairment of fixed assets reclassified to assets held for sale (Note 30)	(5,664)	-	-	-	-	-	(25,277)	(30,941)
Reclassification to non-current assets held for sale	(2,004)	-	-	-	-	-	(6,319)	(8,323)
Write-off of fixed assets (Note 30)	(9,112)	(1,302)	(4,568)	-	-	-	-	(14,982)
Effect of translation to presentation currency	48,977	38,952	92,308	17,351	52,106	3,218	1,448	254,360
Balance as of 31 December 2012	**899,224**	**749,565**	**1,719,456**	**311,473**	**925,611**	**54,826**	**8,017**	**4,668,172**
Accumulated Depreciation								
Balance as of 31 December 2011	143,668	179,767	532,546	83,258	-	12,262	-	951,501
Depreciation charge	25,878	42,533	213,797	22,517	-	3,166	-	307,891
Disposals	(1,230)	(934)	(26,162)	(2,591)	-	(3,231)	-	(34,148)
Reclassification to non-current assets held for sale	(95)	-	-	-	-	-	-	(95)
Write-off of fixed assets (Note 30)	(3,020)	(689)	(1,882)	-	-	-	-	(5,591)
Effect of translation to presentation currency	9,137	11,767	36,383	5,470	-	729	-	63,486
Balance as of 31 December 2012	**174,338**	**232,444**	**754,682**	**108,654**	**-**	**12,926**	**-**	**1,283,044**
Net Book Value								
Balance as of 31 December 2011	**649,632**	**428,719**	**946,542**	**202,417**	**864,357**	**42,503**	**35,566**	**3,169,736**
Balance as of 31 December 2012	**724,886**	**517,121**	**964,774**	**202,819**	**925,611**	**41,900**	**8,017**	**3,385,128**

(in thousands of US dollars, unless otherwise stated)

9 Property, plant and equipment (continued)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of 31 December 2010	352,726	219,510	827,807	159,695	758,575	30,646	6,267	2,355,226
Additions	-	-	-	16,264	384,021	-	-	400,285
Transfers	37,064	30,048	282,477	-	(353,587)	2,832	1,166	-
Disposals	(12,956)	(903)	(32,894)	(15,231)	(6,243)	(5,604)	(21)	(73,852)
Acquisitions of subsidiaries (Note 6)	518,450	430,538	579,482	156,001	142,062	33,538	32,842	1,892,913
Disposal of subsidiaries (Note 6)	(8,148)	-	(2,024)	(2,569)	-	-	(142)	(12,883)
Reclassification to non-current assets held for sale	(2,730)	-	(26,712)	(403)	-	(1,400)	-	(31,245)
Write-off of fixed assets (Note 30)	(9,174)	(1,966)	(12,823)	(3)	-	(19)	-	(23,985)
Effect of translation to presentation currency	(81,932)	(68,741)	(136,225)	(28,079)	(60,471)	(5,228)	(4,546)	(385,222)
Balance as of 31 December 2011	**793,300**	**608,486**	**1,479,088**	**285,675**	**864,357**	**54,765**	**35,566**	**4,121,237**
Accumulated Depreciation								
Balance as of 31 December 2010	140,073	165,502	417,201	72,941	-	12,633	-	808,350
Depreciation charge	20,663	26,747	183,108	19,069	-	2,826	-	252,413
Disposals	(3,007)	(548)	(20,668)	(3,386)	-	(2,282)	-	(29,891)
Reclassification to non-current assets held for sale	(92)	-	(2,547)	(44)	-	(146)	-	(2,829)
Write-off of fixed assets (Note 30)	(5,496)	(761)	(8,884)	(3)	-	(19)	-	(15,163)
Effect of translation to presentation currency	(8,473)	(11,173)	(35,664)	(5,319)	-	(750)	-	(61,379)
Balance as of 31 December 2011	**143,668**	**179,767**	**532,546**	**83,258**	**-**	**12,262**	**-**	**951,501**
Net Book Value								
Balance as of 31 December 2010	**212,653**	**54,008**	**410,606**	**86,754**	**758,575**	**18,013**	**6,267**	**1,546,876**
Balance as of 31 December 2011	**649,632**	**428,719**	**946,542**	**202,417**	**864,357**	**42,503**	**35,566**	**3,169,736**

(in thousands of US dollars, unless otherwise stated)

9 Property, plant and equipment (continued)

Fully depreciated assets still in use

As of 31 December 2012 and 31 December 2011 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 407,516 and US$ 298,977, respectively.

Assets pledged under loan agreements

As of 31 December 2012 and 31 December 2011 the carrying value of property, plant and equipment pledged under bank loans was US$ 183,528 and US$ 87,314 (Note 21), respectively.

Property, plant and equipment write-off

During the year ended 31 December 2012 the Group wrote off fixed assets with a gross book value and accumulated depreciation of US$ 14,982 and US$ 5,591, respectively, due to the abandonment of an ore-treatment plant and carnallite plant at Berezniki 1 (Note 19), and recognised a loss of US$ 9,391 (Note 30) in the consolidated financial statements.

During the year ended 31 December 2011 the Group wrote off fixed assets with a gross book value and accumulated depreciation of US$ 23,985 and US$ 15,163, respectively, due to the abandonment of an ore-treatment plant and carnallite plant at Berezniki 1 (Note 19), and recognised a loss of US$ 8,822 (Note 30) in the consolidated financial statements.

Reclassification to assets held for sale

In the year ended 31 December 2012 and 31 December 2011 the Group reclassified a number of fixed assets acquired in the course of the Silvinit Group acquisition (Note 6) as non-current assets held for sale as part of its strategy to divest non-core assets.

In the year ended 31 December 2012 the Group reclassified plots of land and premises with a gross book value and accumulated depreciation of US$ 8,323 and US$ 95, respectively. Impairment in the amount of US$ 30,941 (Note 30) was recognized prior to reclassification to non-current assets held for sale for the year ended 31 December 2012 (for the year ended 31 December 2011: nil).

In the year ended 31 December 2011 the Group reclassified a titanium sponge complex with a gross book value and accumulated depreciation of US$ 31,245 and US$ 2,829, respectively. In the year ended 31 December 2012 the Group wrote-down the titanium sponge complex held for sale to fair value less costs to sell (Note 30) and then disposed the assets for the amount of US$ 8,445.

10 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2012	2011
Gross book value at 1 January		1,829,694	12,009
Accumulated impairment losses at 1 January		-	-
Carrying amount 1 January		**1,829,694**	**12,009**
Acquisition of subsidiaries	6	-	2,081,691
Effect of translation to presentation currency		109,844	(264,006)
Carrying amount at 31 December		**1,939,538**	**1,829,694**
Gross book value at 31 December		1,939,538	1,829,694
Accumulated impairment losses at 31 December		-	-
Carrying amount at 31 December		**1,939,538**	**1,829,694**

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the acquisition of subsidiaries, which are attributable to the combined business as a whole and not to individual assets of subsidiaries. Allocation of goodwill to cash generated unit (CGU):

(in thousands of US dollars, unless otherwise stated)

10 Goodwill (continued)

CGU allocated	**Acquisition**	**31 December 2012**	**31 December 2011**
Uralkali Group	Silvinit Group (Note 6)	1,912,705	1,804,376
Uralkali Group	CJSC SST (Note 6)	14,783	13,950
Uralkali Group	OJSC BBT	12,050	11,368
Total carrying amount of goodwill		**1,939,538**	**1,829,694**

The recoverable amount of CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rates do not exceed the long-term average growth rate for the industry in which the Group operates.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2012	**2011**
RR/US$ exchange rate	32	30
Growth rate beyond five years	3% p.a.	3% p.a.
Pre-tax discount rate	10.6% p.a.	13.4% p.a.
Long-term inflation rate	3% p.a.	3% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2012 and 31 December 2011.

11 Intangible assets

	Note	**Mining licences**	**Software**	**Other**	**Total**
Cost as of 1 January 2011		**783**	**17,620**	**473**	**18,876**
Accumulated amortisation		**(75)**	**(14,142)**	**-**	**(14,217)**
Balance as of 1 January 2011		**708**	**3,478**	**473**	**4,659**
Additions		-	1,674	-	1,674
Capitalised borrowing costs		67,403	-	-	67,403
Acquisition of subsidiaries	6	6,458,905	1,751	-	6,460,656
Amortisation charge	26, 28	(128,178)	(1,860)	-	(130,038)
Effect of translation to presentation currency		(811,946)	(343)	(26)	(812,315)
Cost as of 31 December 2011		**5,703,894**	**19,774**	**447**	**5,724,115**
Accumulated amortisation		**(117,002)**	**(15,074)**	**-**	**(132,076)**
Balance as of 31 December 2011		**5,586,892**	**4,700**	**447**	**5,592,039**
Additions		-	5,316	-	5,316
Capitalised borrowing costs		78,838	-		78,838
Disposals		(84)	(703)	-	(787)
Amortisation charge	26, 28	(151,252)	(3,674)		(154,926)
Disposals of accumulated depreciation		84	356	-	440
Effect of translation to presentation currency		333,688	294	14	333,996
Cost as of 31 December 2012		**6,127,042**	**25,681**	**461**	**6,153,184**
Accumulated amortisation		**(278,876)**	**(19,392)**	**-**	**(298,268)**
Balance as of 31 December 2012		**5,848,166**	**6,289**	**461**	**5,854,916**

(in thousands of US dollars, unless otherwise stated)

11 Intangible assets (continued)

The table below summarises descriptions and carrying amounts of individually material mining licences:

Licenced plot	31 December 2012	31 December 2011
Solikamskiy plot (north part)	2,211,460	2,192,880
Solikamskiy plot (south part)	2,088,882	1,997,453
Novo-Solikamskiy plot	210,551	211,150
Polovodovskiy plot	1,336,595	1,184,723
Total	**5,847,488**	**5,586,206**

12 Joint arrangement

The Company has a 50% interest in JSC Belarusian Potash Company ("BPC") – the remaining 50% is divided between Belaruskali (which owns 45%) and Belarusian Railways (which owns 5%). According to BPC's charter, all decisions on shareholders meeting could be taken only with a majority of 75%. Therefore, BPC operations are under the joint control of Belaruskali and the Company (the "Participants"). BPC's principal activity is the marketing and exporting, as an agent, potash fertilizers produced by the participants.

BPC's charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants' goods and the related cost of sale and distribution costs. Administrative expenses incurred by BPC are currently shared as follows: not more than 78% (year ended 31 December 2011: 69%) allocated to Belaruskali operations, and not less than 22% (year ended 31 December 2011: 31%) allocated to Group operations. The actual proportion depends on the volume of goods sold by each participant through BPC.

The distribution of net income to each participant is made on the basis of their relevant results after deducting administrative costs, unless both participants decide not to distribute. Group's operations through BPC, assets and the Group's liabilities located in BPC are included in these consolidated financial statements. The consolidated statement of income reflects the revenue from sales by BPC of Uralkali's products, together with the related costs of sales, distribution and administrative costs.

13 Investments in associates

The Group has the following investments in associates, primarily acquired in the course of acquisition of Silvinit Group (Note 6):

	Country of incorporation	31 December 2012	31 December 2011
OJSC Galurgiya	Russia	46%	46%
LLC Mashinostroitelnoe predpriyatie Kurs	Russia	-	30%

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2012	2011
Carrying amount at 1 January		**12,563**	**242**
Share of profit of associates		354	2,871
Share of net assets of associates		**12,917**	**3,113**
Fair value of net assets of associates acquired	6	-	25,875
Associate reclassified to subsidiary	6	-	(11,926)
Revaluation loss at the date of acquisition		-	(913)
Loss from disposals of associate		(129)	-
Fair value of disposed associate		(642)	-
Effect of translation to presentation currency		741	(3,586)
Carrying amount at 31 December		**12,887**	**12,563**

(in thousands of US dollars, unless otherwise stated)

14 Inventories

Inventories consist of the following:

	31 December 2012	31 December 2011
Raw materials and spare parts	115,713	106,247
Finished products	115,236	120,245
Work in progress	2,204	1,105
Other inventories	9,014	16,006
Total inventories	**242,167**	**243,603**

As of 31 December 2012 inventories of US$ 4,339 were pledged as security for bank loans (31 December 2011: US$ 2,353) (Note 21).

Other inventories mainly represent the residential buildings, which are constructed by SST (Note 6).

15 Trade and other receivables

	31 December 2012	31 December 2011
Trade receivables	420,995	299,729
Other accounts receivable	16,214	39,281
Less: provision for impairment of trade and other receivables	(9,576)	(8,389)
Total financial receivables	**427,633**	**330,621**
VAT recoverable	42,011	93,064
Other taxes receivable	60,166	16,532
Advances to suppliers	25,033	27,465
Insurance expenses prepaid	626	317
Other prepayments	5,388	-
Total trade and other receivables	**560,857**	**467,999**

As of 31 December 2012 trade receivables of US$ 349,509 (31 December 2011: US$ 268,640), net of provision for impairment, were denominated in foreign currencies. 93% of this balance was denominated in US$ (31 December 2011: 85%) and 7% was denominated in Euro (31 December 2011: 15%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

Movements of the provision for impairment of trade and other receivables were as follows:

	2012		2011	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January	**(6,121)**	**(2,268)**	**(3,741)**	**(3,117)**
Provision accrued	(1,833)	(2,927)	(3,351)	(1,877)
Provision reversed	1,126	2,927	471	2,600
Provision written-off	-	-	52	1
Effect of translation to presentation currency	(347)	(133)	448	125
As of 31 December	**(7,175)**	**(2,401)**	**(6,121)**	**(2,268)**

The accrual and reversal of the provision for impairment of receivables have been included in other operating expenses in the consolidated statement of income (Note 30). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(in thousands of US dollars, unless otherwise stated)

15 Trade and other receivables (continued)

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

	31 December 2012		31 December 2011	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Current and not impaired				
Customers from developed (IMF) countries	42,077	165	89,181	-
Customers from developing (IMF) countries	226,190	-	106,119	-
Domestic customers	3,918	7,606	56,757	25,994
Total current and not impaired	**272,185**	**7,771**	**252,057**	**25,994**
Past due but not impaired				
less than 45 days overdue	123,675	4,952	34,885	10,539
45 to 90 days overdue	16,857	33	5,307	-
over 90 days overdue	-	955	-	281
Total past due but not impaired	**140,532**	**5,940**	**40,192**	**10,820**
Determined to be impaired (gross)				
45 to 90 days overdue	2,206	198	2,719	397
over 90 days overdue	6,072	2,305	4,761	2,070
Total gross amount of impaired accounts receivable	**8,278**	**2,503**	**7,480**	**2,467**
Total financial receivables (gross)	**420,995**	**16,214**	**299,729**	**39,281**
Less impairment provision	(7,175)	(2,401)	(6,121)	(2,268)
Total financial receivables	**413,820**	**13,813**	**293,608**	**37,013**

As of 31 December 2012 and 31 December 2011 no trade and other receivables were pledged as collateral.

16 Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit and loss are represented by highly liquid US$ denominated corporate bonds neither past due nor impaired at 31 December 2012 and 31 December 2011.

Analysis by credit quality of other financial assets at fair value through profit and loss held at 31 December 2012 is as follows:

Rating agency	Rating	31 December 2012	31 December 2011
Fitch Ratings	BBB-	18,526	21,455
Fitch Ratings	BBB	14,535	13,643
Fitch Ratings	BB	-	6,205
Moody's/Fitch Ratings	Baa1/BBB	83,286	97,086
Moody's	Ba2	-	28,109
Moody's/Standard & Poor's	Baa3/BBB-	17,594	18,005
Moody's	Ba3	-	5,227
Total other financial assets at fair value through profit or loss		**133,941**	**189,730**

Coupon income from corporate bonds in the amount of US$ 12,227 is included in interest income for the year ended 31 December 2012 (for the year ended 31 December 2011: US$ 14,521) (Note 31).

17 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Interest rates	31 December 2012	31 December 2011
Cash on hand and bank balances			
RR denominated cash on hand and bank balances	nil (2011: nil)	251,479	58,626
US$ denominated bank balances		235,693	367,045
EUR denominated bank balances		7,688	13,706
Other currencies denominated balances		890	1,498
Term deposits			
US$ term deposits	from 0.15% to 4.5 % p.a. (2011: 0.35% p.a.)	816,165	21,978
EUR term deposits	0.20% (2011: nil)	14,322	-
RR term deposits	from 5.6% p.a. to 10.2% p.a. (2011: from 4.95% p.a. to 7.97% p.a.)	60,007	140,995
Dual currency deposits	from 3.1% to 3.54% p.a. (2011: from 3.8% to 6% p.a.)	137,000	405,602
Total cash and cash equivalents		**1,523,244**	**1,009,450**
Restricted cash			
Cash restricted as collateral in accordance with interest rate swap agreement	0.09% p.a. (2011: nil)	3,576	-
Irrevocable bank deposits with maturity from four to five months (2011: from four to five months)	from 7.8% to 8.5% p.a. (2011: from 6% to 7.67% p.a.)	142,332	8,169
Total restricted cash		**145,908**	**8,169**
Total cash and cash equivalents and restricted cash		**1,669,152**	**1,017,619**

As at 31 December 2012 and 31 December 2011, term deposits, except those included in restricted cash, have various original maturities but may upon request be withdrawn without any restrictions.

At 31 December 2012, non-current restricted cash in the amount of US$ 3,576 consists of cash kept on bank accounts as collateral in accordance with interest rate swap agreement expired at 22 November 2014 (at 31 December 2011: nill).

18 Shareholders' equity

	Number of ordinary shares (in millions)	Ordinary shares	Treasury shares	Total
At 1 January 2011	**2,124**	**20,387**	**(440)**	**19,947**
Issue of new shares	970	17,251	-	17,251
Treasury shares purchased	-	-	(306)	(306)
At 1 January 2012	**3,094**	**37,638**	**(746)**	**36,892**
Cancellation of treasury shares	(158)	(1,876)	1,876	-
Treasury shares purchased	-	-	(1,188)	(1,188)
At 31 December 2012	**2,936**	**35,762**	**(58)**	**35,704**

In May 2011 the Company issued new shares in conjunction with the statutory merger with OJSC Silvinit (Note 6) in the total amount of 970,247,905 ordinary shares with a nominal value per share of 1.778 US cents (0.5 RR).

The number of unissued authorised ordinary shares is 1,730 million (31 December 2011: 1,730 million) with a nominal value per share of 1.646 US cents (0.5 RR (31 December 2011: 1.553 US cents (0.5 RR))). All shares stated in the table above have been issued and fully paid.

In July 2012 the Group finalized its internal legal restructuring. The Company's authorized share capital decreased from 3,094,637,905 to 2,936,015,891 ordinary shares resulting from the cancellation of treasury shares owned by CJSC IK Silvinit-Resource, CJSC JV Kama, Enterpro Services Ltd. and the Company.

Treasury shares. Treasury shares as of 31 December 2012 comprise 3,671,000 ordinary shares of the Company were owned by Enterpro Services Ltd., a wholly owned subsidiary of the Group.

(in thousands of US dollars, unless otherwise stated)

18 Shareholders' equity (continued)

Treasury shares as of 31 December 2011 comprising 24,919,729 ordinary shares of the Company owned by CJSC JV Kama, a wholly owned subsidiary of the Group, 49,521,048 ordinary shares of the Company owned by Enterpro Services Ltd., a wholly owned subsidiary of the Group, 11,453,502 ordinary shares of the Company owned by CJSC IK Silvinit-Resource, a wholly owned subsidiary of the Group.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves. The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian law identifies net profit as the basis of distribution. For the year ended 31 December 2012, the current period net statutory profit for the Company, as reported in the published annual statutory reporting forms, was US$ 1,578,486 (for the year ended 31 December 2011: US$ 1,448,567) and the closing balance of the accumulated profit including the current period net statutory profit totalled US$ 1,767,316 (31 December 2011: US$ 2,466,993). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes, at present, that it would not be appropriate to disclose the amount of the distributable reserves in these consolidated financial statements.

In 2011 the Board of Directors approved a new dividend policy which allows the Company to distribute, as dividends, not less than 50% of net profit, as determined in the IFRS consolidated financial statements, at least twice a year.

Dividends. In December 2012 the General Meeting of Shareholders of the Company approved interim dividends amounting to US$ 449,703 (15 US cents per share).

In June 2012 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2011) amounting to US$ 377,523 (12 US cents per share).

In December 2011 the General Meeting of Shareholders of the Company approved interim dividends amounting to US$ 397,335 (13 US cents per share).

In June 2011 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2010) amounting to US$ 498,670 (16 US cents per share).

The total amount of dividends attributable to treasury shares has been eliminated. All dividends are declared and paid in RR.

19 Provisions

	Note	Legal provision	Provision for filling cavities	Restructuring provision	Total
Carrying amount at 1 January 2011		**-**	**-**	**-**	**-**
Additions through acquisition of subsidiaries	6	60,528	58,812	-	119,340
Additions charged to profit or loss		-	5,417	20,334	25,751
Utilisation of provision		-	(10,016)	-	(10,016)
Effect of translation to presentation currency		(7,659)	(7,606)	(1,772)	(17,037)
Current liabilities		**52,869**	**8,639**	**4,775**	**66,283**
Non-current liabilities		**-**	**37,968**	**13,787**	**51,755**
Carrying amount at 31 December 2011		**52,869**	**46,607**	**18,562**	**118,038**
Carrying amount at 1 January 2012		**52,869**	**46,607**	**18,562**	**118,038**
Changes in estimates adjusted against property, plant and equipment	9	-	35,736	-	35,736
Reversal of provision	30	(54,739)	-	-	(54,739)
Utilisation of provision		-	(12,442)	(4,856)	(17,298)
Unwinding of the present value discount and effect of changes in discount rates	31	-	8,941	2,187	11,128
Effect of translation to presentation currency		1,870	3,568	1,051	6,489
Current liabilities		**-**	**9,680**	**5,004**	**14,684**
Non-current liabilities		**-**	**72,730**	**11,940**	**84,670**
Carrying amount at 31 December 2012		**-**	**82,410**	**16,944**	**99,354**

(in thousands of US dollars, unless otherwise stated)

19 Provisions (continued)

Legal provision. In January 2011 A.G. Lomakin filed a claim in the Perm Territory Arbitrage (Commercial) Court against OJSC Silvinit and CJSC Komputersher Registrator (a company that kept the share register of OJSC Silvinit) seeking compensation of damages in the amount of US$ 60,528. A.G. Lomakin claimed that shares of OJSC Silvinit belonging to him were unlawfully transferred from his account in the register without his consent. After the merger the Company became OJSC Silvinit's legal successor. The Perm Territory Arbitrage (Commercial) Court sustained the claim of A.G. Lomakin and recovered the damages jointly from the Company and CJSC Komputersher Registrator in the amount of US$ 60,528. The court of appellate and cassation instances upheld the decision of the Perm Territory Arbitrage (Commercial) Court. In April 2012 the claimed amount was paid to A.G. Lomakin by CJSC Komputersher Registrator. The provision was reversed in the consolidated financial statements for the year ended 31 December 2012.

Provision for filling cavities. A provision for filling cavities is recorded in respect of the Group's obligation to replace the earth extracted from the mines.

A technical program for mining operations was agreed with the local State mine supervisory body in 1997-1998. Based on this framework program, the Group prepares annual mining plans and agrees them with the local state mine supervisory body.

The balance of the provision at the reporting date equals the total of expected future discounted cash outflows associated with replacing the earth extracted from the mine in accordance with the plan of filling cavities work agreed with the state mine supervisory body. The relevant cash flows are discounted at a rate reflecting the time value of money.

During the year ended 31 December 2012 the Group reassessed the estimate of provision for filling cavities due to changes in volume of cavities to be filled. Therefore, the amount of provision for filling cavities was recalculated and the appropriate changes were disclosed as a change in estimates.

Restructuring provision. In 2011 the Board of Directors decided to abandon the ore-treatment plant and carnallite plant at Berezniki 1. The decision to abandon the plants was driven by the lack of the raw materials base due to the flooding of Mine 1. This allowed the Company to reduce operational costs. The Company ceased production at the plants at the end of 2011 and commenced dismantling them. The dismantling is expected to be completed in 2018.

20 Mine flooding

	Note	2012	2011
Balance at 1 January	5	**31,060**	**32,811**
Accrual of provision for compensation	32	-	16,979
Utilisation of provision		-	(17,551)
Effect of translation to presentation currency		1,864	(1,179)
Balance at 31 December	**5**	**32,924**	**31,060**

21 Borrowings

	2012	2011
Bank loans	3,925,691	3,282,071
Long-term company loans	-	1,449
Finance lease payable	16,655	15,730
Total borrowings	**3,942,346**	**3,299,250**

As of 31 December 2012 and 31 December 2011 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

(in thousands of US dollars, unless otherwise stated)

21 Borrowings (continued)

The Group does not apply hedge accounting. The Group entered into cross-currency interest rate swap agreements in order to decrease interest rate payments (Note 23).

	Note	2012	2011
Balance at 1 January		**3,282,071**	**369,230**
Bank loans received, denominated in US$		560,000	1,425,000
Bank loans received, denominated in RR		495,329	1,709,676
Bank loans repaid, denominated in US$		(143,138)	(1,438,272)
Bank loans repaid, denominated in RR		(378,461)	(5,627)
Interest accrued		218,564	104,919
Interest paid		(215,183)	(97,063)
Acquisition of subsidiaries	6	-	1,328,594
Recognition of syndication fees and other financial charges		(13,873)	(39,319)
Amortisation of syndication fees and other financial charges	31	21,179	4,619
Capitalisation of syndication fees		-	16,703
Foreign exchange gain/(loss), net		(120,235)	237,798
Effect of translation to presentation currency		219,438	(334,187)
Balance at 31 December		**3,925,691**	**3,282,071**

The table below shows interest rates as of 31 December 2012 and 31 December 2011 and the split of the bank loans into short-term and long-term.

Short-term borrowings	**Interest rates**	**31 December 2012**	**31 December 2011**
Bank loans in US$: floating interest	From 1 month Libor +1.8 to 1 month Libor +2.95% (31 December 2011: from 1 month Libor +1.8% to 1 month Libor +3.5%)	457,741	92,838
Bank loans in US$: fixed interest	From 1.45% to 1.5% (31 December 2011: nil)	130,104	-
Bank loans in RR: floating interest	From MosPrime Rate 3M+1.5% to MosPrime Rate 3M+1.9% (31 December 2011: from MosPrime 3M+1.5% to MosPrime 3M+1.9%)	123,562	178,619
Bank loans in RR: fixed interest	From 8.05% to 11.5% (31 December 2011: from 7.3% to 10.0%)	410,668	10,638
Total short-term bank loans		**1,122,075**	**282,095**

Long-term borrowings	**Interest rates**	**31 December 2012**	**31 December 2011**
Bank loans in US$: floating interest	From 1 month Libor +1.8% to 1 month Libor +3.1% (31 December 2011: from 1 month Libor +1.8% to 1 month Libor +3.5%)	1,505,877	1,584,113
Bank loans in RR: floating interest	MosPrime 3M +1.5% (31 December 2011: from MosPrime 3M +1.5% to MosPrime 3M +1.9%)	270,928	370,177
Bank loans in RR: fixed interest	9.05% (31 December 2011: from 7.3% to 10.0%)	1,026,811	1,045,686
Total long-term bank loans		**2,803,616**	**2,999,976**

As of 31 December 2012 and 31 December 2011, loans (including short-term borrowings) were guaranteed by collateral of property, plant and equipment (Note 9) and other inventories (Note 14).

Bank loans of US$ 2,674,981 (31 December 2011: US$ 1,676,950) were collateralised by future sales proceeds of the Group, under export contracts with certain customers acceptable to the banks.

The Group's bank borrowings mature as follows:

	2012	2011
- within 1 year	1,122,075	282,095
- between 2 and 5 years	2,803,616	2,999,976
Total bank loans	**3,925,691**	**3,282,071**

In December 2009, OJSC BBT entered into a new financial lease agreement with Federal State Unitary Enterprise Rosmorport ("FSUE Rosmorport") for 49 years. Under this agreement, BBT has leased berth No. 106 and renegotiated the lease terms for berth No. 107. As of 31 December 2012, the leased berths were included in property, plant and equipment with a net book value of US$ 14,651 (31 December 2011: US$ 17,307).

(in thousands of US dollars, unless otherwise stated)

21 Borrowings (continued)

Minimum lease payments under finance leases and their present values are as follows:

	2012	**2011**
- within 1 year	1,613	1,522
- between 2 and 5 years	6,453	6,090
- after 5 years	66,178	63,945
Minimum lease payments at the end of the year	**74,244**	**71,557**
Less future finance charges	(57,589)	(55,827)
Present value of minimum lease payments	**16,655**	**15,730**

22 Bonds issued

In February 2011, the Group issued US$ 1.03 billion 3-year RR-denominated bonds (approx. RR 30 billion) with an annual coupon of 8.25% for the purpose of financing the acquisition of the 20% stake in Silvinit Group (Note 6). Simultaneously with the exchange-traded bond placement, the Company entered into a cross-currency interest rate swap transaction, converting its RR-denominated bond obligations into US$ (Note 23).

On 22 August 2011, the Company bought back all previously issued bonds for US$ 1.06 billion (approx. RR 30.9 billion), which equaled 103% of their nominal value.

Following the bond buyback, the cross-currency interest rate swap transaction was also terminated (Note 23).

23 Derivative financial assets and liabilities

At 31 December 2012, the derivative financial assets and liabilities were represented by the cross-currency interest rate swaps, entered in conjunction with RR-denominated loans in notional amount US$ 2,209,451 (31 December 2011: US$ 1,605,120):

	31 December 2012	**31 December 2011**
Assets		
Current	1,181	-
Non-current	27,590	-
Liabilities		
Current	17,560	21,501
Non-current	13,906	75,981
Net derivative liabilities	**2,695**	**97,482**

The Group pays US$ at fixed rates varying from 2.85% to 4.00% (for the year ended 31 December 2011: 2.20% to 5.07%) and recieves RR at rates varying from 8.05% to 9.31% (for the year ended 31 December 2011: 7.30% to 9.12%). Maturity of the swaps is linked to loans redemption.

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

	Note	**2012**	**2011**
Opening balance as at 1 January		**97,482**	**-**
Cash proceeds from derivatives	31	93,714	35,733
Cash paid for derivatives		(18,613)	(43,826)
Changes in the fair value	31	(173,067)	114,338
Effect of translation to presentation currency		3,179	(8,763)
Closing balance as at 31 December		**2,695**	**97,482**

(in thousands of US dollars, unless otherwise stated)

24 Trade and other payables

	31 December 2012	31 December 2011
Trade payables	66,984	66,622
Accrued liabilities	15,069	10,046
Dividends payable	84,056	135,153
Other payables	18,751	18,007
Total financial payables	**184,860**	**229,828**
Accrued liabilities	35,805	22,648
Advances received	13,513	11,530
Deferred consideration for acquisition of subsidiary	4,576	4,317
Other payables	27,693	24,572
Total trade and other payables	**266,447**	**292,895**

25 Revenues

	2012	2011
Export		
Potassium chloride	2,210,088	2,186,959
Potassium chloride (granular)	1,090,328	894,768
Domestic		
Potassium chloride	528,494	322,851
Other	60,972	37,640
ortation and other revenues	59,911	53,671
Total revenues	**3,949,793**	**3,495,889**

26 Cost of sales

	Note	2012	2011
Depreciation		263,700	219,083
Labour costs	29	219,454	180,508
Amortisation of licences	11	151,252	128,178
Materials and components used		144,732	115,610
Fuel and energy		130,701	126,177
Repairs and maintenance		59,906	65,098
Transportation between mines by railway		10,462	11,493
Change in work in progress, finished goods and goods in transit		4,918	(24,327)
Utilities		822	808
Cost of finished goods acquired in a business combination	6	-	67,515
Change in provision for filling cavities		-	(5,417)
Other costs		4,852	3,472
Total cost of sales		**990,799**	**888,198**

Costs of finished goods acquired in business combination represent the fair value finished goods received in a business combination (Note 6) and sold during the year ended 31 December 2011.

27 Distribution costs

	Note	2012	2011
Railway tariff		330,849	298,908
Freight		241,014	196,950
Transport repairs and maintenance		54,320	35,806
Transshipment		34,552	31,841
Commissions		23,898	7,626
Depreciation		16,688	12,740
Labour costs	29	16,324	9,267
Customs fees		1,738	3,977
Travel expenses		1,351	841
Other costs		49,930	33,050
Total distribution costs		**770,664**	**631,006**

(in thousands of US dollars, unless otherwise stated)

28 General and administrative expenses

	Note	2012	2011
Labour costs	29	112,266	107,223
Consulting, audit and legal services		18,721	28,146
Security		10,954	8,407
Materials and fuel		9,520	6,899
Depreciation		9,164	10,660
Mine-rescue crew		8,106	6,646
Insurance		5,264	6,373
Repairs and maintenance		4,937	7,790
Amortisation of intangible assets	11	3,674	1,860
Communication and information system services		3,610	2,478
Travel expenses		3,591	3,866
Bank charges		1,949	1,864
Other expenses		39,619	27,275
Total general and administrative expenses		**231,375**	**219,487**

29 Labour costs

	Note	2012	2011
Labour costs – Cost of sales	26	**219,454**	**180,508**
Wages, salaries, bonuses and other compensations		164,242	134,113
Contribution to social funds		42,721	40,165
Post employment benefits	34	12,491	6,230
Labour costs – Distribution costs	27	**16,324**	**9,267**
Wages, salaries, bonuses, other compensations and contribution to social funds		16,324	9,267
Labour costs – General and administrative expenses	28	**112,266**	**107,223**
Wages, salaries, bonuses and other compensations		87,524	94,145
Contribution to social funds		21,719	11,067
Post employment benefits	34	3,023	2,011
Total labour costs		**348,044**	**296,998**

30 Other operating income and expenses

	Note	2012	2011
Impairment of fixed assets reclassified to non-current assets held for sale	9	30,941	-
Net loss on disposals of property, plant and equipment		22,543	8,250
Social cost and charity		20,234	16,943
Write-down of non-current assets held for sale to fair value less costs to sell	9	19,971	-
Litigation settlements	36	12,750	-
Property, plant and equipment write-off	9	9,391	8,822
Accrual of provision for impairment of receivables	15	2,115	2,157
Loss/(gain) on sale of other goods and services		189	(499)
Reversal of legal provision	19	(54,739)	-
Restructuring provision	19	-	20,334
Loss on disposal of subsidiaries	6	-	4,344
Gain on sale of Silvinit goods		-	(656)
Income from assignment of accounts receivable and loans issued		-	(16,077)
Other expenses/(income), net		2,679	(5,678)
Total other operating income and expenses		**66,074**	**37,940**

The Group entered into a sales agreement with BPC to process the sales of Belaruskali goods through Uralkali Trading SA in 2012 and 2011 to overcome certain drawbacks of Belarussian export legislation. Gain in the amount of US$ 243 was recognized for the year ended 31 December 2012 (for the year ended 31 December 2011: gain in the amount of US$ 499).

(in thousands of US dollars, unless otherwise stated)

30 Other operating income and expenses (continued)

The Group entered into a sales agreement with Silvinit Group to process the sales through BPC in 2011 prior to the acquisition of Silvinit Group. Gain in amount of US$ 656 was recognized for for the year ended 31 December 2011.

Income from assignment of accounts receivable and loans issued represents income from the sale of accounts receivable and loans issued which were acquired in the course of acquisition of Silvinit Group (Note 6).

31 Finance income and expenses

The components of finance income and expenses were as follows:

	Note	2012	2011
Fair value gain on derivative financial assets and liabilities	23	79,353	-
Interest income		70,244	32,042
Foreign exchange income		16,624	-
Dividend income		659	295
Fair value gain on investments		-	11,961
Other financial income		-	4,470
Finance income		**166,880**	**48,768**

		2012	2011
Interest expense		26,240	49,671
Syndication fee and other financial charges	21	21,179	4,619
Unwinding of the present value discount and effect of changes in discount rates	19	11,128	-
Letters of credit fees		9,622	2,608
Fair value losses on investments		9,061	-
Finance lease expense		1,558	1,650
Foreign exchange loss		-	135,862
Fair value loss on derivative financial assets and liabilities	23	-	150,071
Loss on early redemption of bonds	22	-	31,172
Finance expenses		**78,788**	**375,653**

The interest expense was reduced by the income received from currency-interest rate swap transactions in the total amount of US$ 93,714 (for the year ended 31 December 2011: US$ 35,733) (Note 23).

Coupon income from corporate bonds classified as other financial assets at fair value through profit or loss in the amount of US$ 12,227 is included in interest income (for the year ended 31 December 2011: US$ 14,521).

Interest expense in the total amount of US$ 98,612 was capitalised in the cost of property, plant and equipment and intangible assets for the year ended 31 December 2012 (for the year ended 31 December 2011: US$ 77,458). The capitalisation rate was 6.20% (for the year ended 31 December 2011: 5.93%).

Foreign exchange income includes the loss on conversion of dual currency deposits in amount of US$ 21,100 (for the year ended 31 December 2011: US$ 979).

32 Mine flooding costs

Mine flooding costs relate to flooding at Mine 1 (Note 5, 20):

	Note	2012	2011
Monitoring costs		3,534	2,582
Filling of sinkhole		-	6,883
Change in provision for compensations	20	-	16,979
Total mine flooding costs		**3,534**	**26,444**

(in thousands of US dollars, unless otherwise stated)

33 Income tax expense

	2012	2011
Current income tax expense	8,806	299,591
Adjustments recognised in the period for current income tax of prior periods	-	(54,323)
Deferred income tax	330,990	(93,008)
Income tax expense	**339,796**	**152,260**

In 2011 the Group deducted mine flooding costs recognized in 2008 financial statements as adjustments recognised in the period for prior year current income tax in amount of US$ 54,323.

In 2012 the Group utilized deferred tax assets in respect of tax losses carried forward in the amount of US$ 299,394. The amount mainly related to the mining licence for Polovodovskiy plot acquired in the course of Silvinit Group business combination. The tax losses were recognized at OJSC Kamskaya Gornaya Kompania ("KGK"), wholly owned subsidiary of the Group till July 2012, and were utilized by the Company after internal legal restructuring.

Income before taxation and non-controlling interests for financial reporting purposes is reconciled to tax expense as follows:

	2012	2011
Profit before income tax	**1,936,407**	**1,337,345**
Theoretical tax charge at statutory rate of 15.5% (2011: 15.5%)	300,143	207,288
Tax effect of items which are not deductible or assessable for taxation purposes	29,912	7,504
Effect of different tax rates in countries in which the Group operates	2,870	(27,244)
Adjustments recognised in the period for current income tax of prior periods	-	(54,323)
Deferred tax recognized on prior period adjustments to current income tax	-	15,033
Other	6,871	4,002
Consolidated tax charge	**339,796**	**152,260**

In 2012 and 2011 most companies of the Group were registered in the Russian Federation, Perm region and were taxed at the rate of 15.5% on taxable profits. In 2012 and 2011, foreign operations were taxed applying respective national income tax rates.

The tax effect of the movements in the temporary differences for the year ended 31 December 2012 is following:

	31 December 2011	(Charged)/ credited to profit or loss	Effect on translation to presentation currency	31 December 2012
Tax effects of taxable and deductable temporary differences:				
Property, plant and equipment	(188,413)	3,642	(11,223)	(195,994)
Intangible assets	(866,028)	10,318	(51,746)	(907,456)
Inventories	26,388	(16,026)	1,205	11,567
Borrowings	(1,319)	1,526	(42)	165
Accounts receivable	14,487	(12,791)	570	2,266
Derivative financial assets and liabilities	15,110	(15,487)	536	159
Accounts payable	6,689	(2,160)	350	4,879
Tax loss carry forward	304,317	(299,394)	11,169	16,092
Provision for filling cavities	9,535	2,604	634	12,773
Other	2,289	(3,222)	61	(872)
Net deferred tax liability	**(676,945)**	**(330,990)**	**(48,486)**	**(1,056,421)**
Reflected in the consolidated statement of financial position as follows:				
Deferred income tax asset	39,289			23,465
Deferred income tax liability	(716,234)			(1,079,886)
Deferred income tax liability, net	**(676,945)**			**(1,056,421)**

(in thousands of US dollars, unless otherwise stated)

33 Income tax expense (continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2011 is following:

	31 December 2010	Business combination (Note 6)	(Charged)/ credited to profit or loss	Effect on translation to presentation currency	31 December 2011
Tax effects of taxable and deductable temporary differences:					
Property, plant and equipment	(18,211)	(179,068)	(16,212)	25,078	(188,413)
Intangible assets	-	(1,000,962)	9,062	125,872	(866,028)
Inventories	(1,805)	(7,356)	38,984	(3,435)	26,388
Borrowings	2,625	-	(4,895)	951	(1,319)
Accounts receivable	230	2,909	13,814	(2,466)	14,487
Derivative financial assets and liabilities	-	-	16,554	(1,444)	15,110
Accounts payable	1,673	1,626	2,963	427	6,689
Tax loss carry forward	2,789	314,810	29,262	(42,544)	304,317
Provision for filling cavities	-	9,383	1,467	(1,315)	9,535
Other	(65)	1,369	2,009	(1,024)	2,289
Net deferred tax liability	**(12,764)**	**(857,289)**	**93,008**	**100,100**	**(676,945)**
Reflected in the consolidated statement of financial position as follows:					
Deferred income tax asset	8,465				39,289
Deferred income tax liability	(21,229)				(716,234)
Deferred income tax liability, net	**(12,764)**				**(676,945)**

The tax effects on intangible assets mainly relates to the fair value of the licenses acquired in the course of Sivinit Group acquisition (Note 6), which are amortized on a unit of production method (Note 11).

The Group has not recognised a deferred income tax assets and liability in respect of temporary differences associated with investments in subsidiaries in the amount of US$ 439,562 (31 December 2011: US$ 240,425). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

34 Post employment benefits obligations

In addition to statutory pension benefits, the Group also has several post-employment benefit plans, which cover most of its employees.

The Company provides financial support of a defined benefit nature to its pensioners. The plans provide for the payment of retirement benefits starting from the statutory retirement age, which is currently 55 for women and 60 for men. The amount of the benefit depends on a number of parameters, including the length of service in the Company at retirement. The benefits do not vest until, and are subject to, the employee retiring from the Company on or after the above ages. This plan was introduced in the Collective Bargaining Agreement concluded in 2007. The Company further provides other long-term employee benefits such as lump-sum payments upon death of its current employees and pensioners and a lump-sum payment upon retirement of a defined benefit nature.

As of 31 December 2012 and 31 December 2011 the net liabilities of the defined benefit plan and other post-employment benefit plans comprised the following:

	2012	2011
Present value of defined benefit obligations	**38,107**	**23,944**
Present value of obligations	38,107	23,944
Unrecognised past service cost	(298)	(494)
Post employment benefits obligations, unfunded	**37,809**	**23,450**

(in thousands of US dollars, unless otherwise stated)

34 Post employment benefits obligations (continued)

The amount of net expense for the defined benefit pension plans recognised in the consolidated statement of income (Note 29) was as follows:

	2012	2011
Current service cost	2,706	1,630
Interest cost	1,749	863
Net actuarial losses recognised during the year	4,925	5,369
Amortisation of past service cost	220	379
Immediate of vested period service cost	5,914	-
Post employment benefits	**15,514**	**8,241**

The movements in the liability for post-employment benefit plans were as follows:

	Note	2012	2011
Present value of defined benefit obligations as of 1 January		**23,944**	**11,583**
Service cost		2,706	1,630
Interest cost		1,749	863
Actuarial loss		4,925	5,369
Liabilities assumed in a business combination	6	-	12,486
Past service cost		5,914	(1,506)
Benefits paid		(2,863)	(4,085)
Effect of translation to presentation currency		1,732	(2,396)
Present value of defined benefit obligations as of 31 December		**38,107**	**23,944**

As of 31 December 2012 and 2011, respectively, the principal actuarial assumptions for the post-employment benefit plans were as follows:

	2012	2011
Discount rate	7.10%	8.30%
Salary increase	6.00%	7.71%
Inflation	5.60%	5.60%
Benefits increase (fixed-amount)	5.60%	5.60%
Mortality tables	Russia (1986-87)	Russia (1986-87)

Net deficit on the post-employment benefit plans and the number of experience adjustments were as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations (DBO)	38,107	23,944	11,583	10,812	12,287
Deficit in plan	**38,107**	**23,944**	**11,583**	**10,812**	**12,287**
Losses arising of experience adjustments on plan liabilities	4,672	7,071	856	(1,554)	(749)

35 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 year, excluding treasury shares (Note 18). The Company has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.

	2012	2011
Net profit attributable to owners of the Company	1,600,807	1,184,032
Weighted average number of ordinary shares in issue (millions)	2,964	2,698
Earnings per share (expressed in US cents per share)	**54.01**	**43.89**

36 Contingencies, commitments and operating risks

i Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been accrued or disclosed in these consolidated financial statements.

Between September and November 2008, a number of purported class action lawsuits were filed in US federal district courts in Minnesota and Illinois. Class actions are civil lawsuits typically filed by a plaintiff seeking monetary damages on behalf of the named plaintiff and all others who are similarly situated. The plaintiffs in the suits filed in Minnesota and Illinois are various corporations and individuals who have filed the suits purportedly on behalf of all direct and indirect purchasers of potash from one of the defendants in the United States. The complaint alleges price fixing violations of the US Sherman Act since 1 July 2003. The Company and BPC (Note 12) were listed among the defendants, as well as certain other potash producers. The plaintiffs in the suits have not claimed any specific amount in damages, and it is premature at this time to assess the Group's potential exposure to the plaintiffs' claims.

On 20 September 2012 the Company signed settlement agreements to exit the US antitrust case. The agreements were signed with direct and indirect plaintiffs for US$ 10,000 and US$ 2,750 respectively and shall come into effect after final approval of the US federal district court for the Northern District of Illinois. Under the settlement agreements, the Company would be released from any liability in connection with the plaintiffs' claims. BPC as a defendant would be also released as well as another Company's trader – Uralkali Trading SA. The Company did not admit any liability in the settlement agreements. The Company believe that these settlements are in the best interest of the Company to avoid the burdens, costs and distraction of protracted litigation.

In February 2011 OJSC Acron and several other Silvinit's minority shareholders filed a claim against the Company and Silvinit in the Perm Territory Arbitrage (Commercial) Court seeking to invalidate decisions of the Board of Directors and Extraordinary General Shareholders Meeting of Silvinit held on 4 February 2011, and the merger agreement entered into by the Company and Silvinit. The Group successfully defended its position in the Perm Territory Arbitrage (Commercial) Court, the courts of appellate and cassation instances and the Higher Arbitrage Court. Based on this management believes that the claim has no merit.

Therefore, the existing court decisions regarding OJSC Acron and several other minority shareholders' claims confirmed that Uralkali and Silvinit merger was completed without violation of shareholders' rights, and that such claims have no merit.

ii Tax legislation

Russian tax, currency and customs law are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such laws as applied to the Group's transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. However, if challenged, it may be significant to the financial position and/or the overall operations of the Group.

The Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2012 and 31 December 2011, no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.

(in thousands of US dollars, unless otherwise stated)

36 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of US$ 4,445 (31 December 2011: US$ 4,193). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

iii Insurance policies

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 5.

iv Environmental matters

The enforcement of 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. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 5. The Company's mining activities and the recent mine flooding may cause subsidence that may affect the Company's facilities, and those of the cities of Berezniki and Solikamsk, state organisations and others.

v Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period (Note 10). The future economic and regulatory situation may differ from management's current expectations.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

vi Capital expenditure commitments

As of 31 December 2012 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 379,576 (31 December 2011: US$ 88,195). As of 31 December 2012, the Group had contractual commitments for the purchase of property, plant and equipment from related parties for US$ 47,711 (31 December 2011: US$ 18,815).

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

vii Operating lease commitments

As of 31 December 2012 the Group leased property, plant and equipment. The future minimum lease payments under non-cancellable operating leases are as follows:

	2012	**2011**
Not later than 1 year	3,698	2,058
Later than 1 year and not later than 5 years	18,490	10,289
Later than 5 years	65,494	5,144
Total operating lease commitments	**87,682**	**17,491**

37 Financial risk management

37.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports approximately 78% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are primarily denominated in US$ or Euro. The Group maintains a balance between US$ and Euro sales in order to mitigate the risk of US$/Euro exchange rate fluctuations. The Company is exposed to the risk of RR/US$ and RR/Euro exchange rates fluctuations. The Group benefits from the weak exchange rate of the RR against the US$ and Euro, since all the Group major expenses are denominated in RR.

As of 31 December 2012, if the RR had weakened/strengthened by 10% against the US$ and Euro with all other variables held constant, the post-tax profit for the year would have been US$ 230,426 lower/higher (31 December 2011: US$ 173,096 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits, foreign exchange losses/gains on the translation of US$ denominated borrowings and changes of fair value of derivative financial assets and liabilities.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Note 21). The Group has interest-bearing assets which are at fixed interest rates (Note 16).

The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rate level. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

For the year ended 31 December 2012, if LIBOR rates on US$ and MosPrime rates on RR denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$ 14,968 (year ended 31 December 2011: US$ 7,216) and US$ 4,184 (year ended 31 December 2011: US$ 1,717) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings and changes of fair value of derivative financial assets and liabilities with floating rates terms.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist primarily of trade receivables, other financial assets at fair value through profit or loss, derivative financial assets, cash and bank deposits. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets – US$ 2,266,717 (31 December 2011: US$ 1,543,559).

(in thousands of US dollars, unless otherwise stated)

37. Financial risk managemen (continued)

37.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group is exposed to concentrations of credit risk. As of 31 December 2012 the Group had twenty seven counterparties (31 December 2011: eighteen counterparties) with aggregated receivables balances above US$ 3,292. The total aggregate amount of these balances was US$ 427,712 (31 December 2011: US$ 294,675) or 98% of the gross amount of financial trade and other receivables (31 December 2011: 87%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group has no other significant concentrations of credit risk.

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 while at the same time maintaining risk at an acceptable level.

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. The management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 15). Most customers from developing countries are supplied on secured payment terms. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers. Only customers from developed countries with a high reputation are supplied on a credit basis.

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 15).

The table below shows the credit quality of cash, cash equivalents and letters of credit balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies (for the cash balances held on accounts in Russia the locally tailored ratings are used) as of 31 December 2012 and 2011, if otherwise not stated in table below:

Rating	31 December 2012	31 December 2011
Moody's		
A2	16,983	287,141
Aaa.ru	522,289	216,397
Aa3	248,243	171,466
Baa2.ru	146,956	40,192
A3	48,547	22,516
A1	2,744	12,026
Aa1	-	1,389
Baa3.ru	227,098	-
B2	175,000	-
Standard&Poor's		
B+	-	236,006
C	-	3,152
A	678	-
ruAAA	10,554	-
BBB-	95,515	-
Fitch		
B-	7,952	-
B	100,000	-
Unrated*	66,593	37,763
Total cash not past due nor impaired	**1,669,152**	**1,028,048**

* Unrated balance contains cash on hand and other cash equivalents.

(c) Liquidity risk

In accordance with prudent liquidity risk management, the management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

(in thousands of US dollars, unless otherwise stated)

37 Financial risk managemen (continued)

37.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

	Note	Less than 1 year	Between 2 and 5 years	Over 5 years
As of 31 December 2012				
Trade and other payables	24	184,860	-	-
Borrowings		1,300,440	2,957,323	-
Provisions		15,310	63,218	75,898
Finance leasing	21	1,613	6,453	66,178
Derivative financial liabilities		101,394	65,873	-
As of 31 December 2011				
Trade and other payables	24	229,828	-	-
Borrowings		455,509	3,321,634	-
Provisions		66,190	52,227	24,904
Finance leasing	21	1,522	6,090	63,945
Derivative financial liabilities		52,095	24,290	-

37.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital to be total equity as shown in the consolidated statement of financial position.

Starting from 2011, the Group monitors capital using capital employed ratio calculated as the sum of long- and short-term bank borrowings divided by the sum of long- and short-term bank borrowings and total equity.

The capital employed ratios as of 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Total bank borrowings (Note 21)	3,925,691	3,282,071
Total equity and bank borrowings	12,690,278	11,341,681
Capital employed ratio	**31%**	**29%**

As of 31 December 2012 and 31 December 2011 management has set a level of 30% capital employed ratio as a long-term strategic goal.

38 Fair value of financial instruments

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

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

38 Fair value of financial instruments (continued)

Financial assets and liabilities carried at fair value. Derivatives and other financial assets at fair value through profit or loss are carried on the consolidated statement of financial position at their fair value.

Fair value of corporate bonds and shares was determined based on prices quoted in an active market. Fair values of derivative financial assets and liabilities were determined using valuation technique with inputs observable in markets.

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. 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. Estimated fair values of borrowings are presented in Note 21.

39 Events after reporting date

The Company prolonged operating licences which expired on 1 April 2013 for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. These licences have been prolonged till 2018-2021 at nominal cost.

Subsequent to the year end, the Group has set up a wholly foreign-owned limited liability company Uralkali Traiding Beijing Co., Ltd. in Beijing, China with share capital amounted to US$ 12,000 as of 4 February 2013. The purpose of new subsidiary will be promoting Uralkali's Group business in China by buying potash from Chinese importers and further directly distributing it to end customers.