EUROCHEM GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONSOLIDATED CONDENSED INTERIM (THREE MONTHS) FINANCIAL INFORMATION AND REVIEW REPORT

31 MARCH 2012

Contents

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Auditor's Report on the Review of the Consolidated Condensed Interim Financial Information for the Three months ended 31 March 2012

To the Shareholders and Board of Directors of EuroChem Group:

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of Open Joint Stock Company Mineral Chemical Company "EuroChem" and its subsidiaries (together, the "Group") as at 31 March 2012 and the related consolidated condensed statements of comprehensive income, cash flows and changes in equity for the three month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information (hereinafter, the "interim financial information") in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

22 May 2012
Moscow, Russian Federation

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

	Note	31 March 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	6	113,785,404	100,752,901
Mineral rights		14,247,760	14,271,178
Goodwill	25	10,399,556	295,275
Intangible assets	7	5,466,728	610,463
Restricted cash	11	5,977	7,980
Available-for-sale investments	8	1,625,718	11,044,815
Available-for-sale investments pledged as collateral	8	1,393,800	11,423,184
Derivative financial assets	14	1,132,208	124,353
Deferred income tax assets		4,199,406	1,806,374
Other non-current assets		105,750	167,920
Total non-current assets		**152,362,307**	**140,504,443**
Current assets:			
Inventories	9	16,185,129	14,957,399
Trade receivables	10	10,445,539	3,435,913
Prepayments, other receivables and other current assets	10	8,589,502	10,190,762
Originated loans		-	6,301,867
Derivative financial assets	14	32,752	-
Restricted cash	11	46,224	77,238
Fixed-term deposits	11	983,864	20,865,910
Cash and cash equivalents	11	15,442,577	8,506,949
Total current assets		**51,725,587**	**64,336,038**
TOTAL ASSETS		**204,087,894**	**204,840,481**
LIABILITIES AND EQUITY			
Equity attributable to owners of the parent:			
Share capital		6,800,000	6,800,000
Treasury shares		(29,679,427)	(29,679,427)
Retained earnings and other reserves		119,605,663	106,265,011
		96,726,236	**83,385,584**
Non-controlling interests		175,540	6,985,154
Total equity		**96,901,776**	**90,370,738**
Non-current liabilities:			
Bank borrowings	12	71,000,227	73,228,199
Bonds issued	13	9,965,966	9,964,656
Derivative financial liabilities	14	-	493,739
Deferred income tax liabilities		4,881,400	4,681,605
Other non-current liabilities and deferred credits	15	5,978,932	894,977
Total non-current liabilities		**91,826,525**	**89,263,176**
Current liabilities:			
Bank borrowings	12	587,561	4,167,140
Bonds issued	13	-	9,332,241
Derivative financial liabilities	14	-	167,050
Trade payables		4,235,223	3,061,104
Other accounts payable and accrued expenses		8,420,640	6,378,011
Income tax payable		1,048,435	1,436,216
Other taxes payable		1,067,734	664,805
Total current liabilities		**15,359,593**	**25,206,567**
Total liabilities		**107,186,118**	**114,469,743**
TOTAL LIABILITIES AND EQUITY		**204,087,894**	**204,840,481**

Approved on behalf of the Board of Directors
22 May 2012

Dmitry Strezhnev
Chief Executive Officer

Andrey Ilyin
Chief Financial Officer

The accompanying notes on pages 5 to 22 are an integral part of this consolidated condensed interim financial information.

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

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
Sales	16	35,781,346	31,219,037
Cost of sales	17	(19,520,552)	(15,356,157)
Gross profit		**16,260,794**	**15,862,880**
Distribution costs	18	(5,273,615)	(3,627,375)
General and administrative expenses	19	(1,186,139)	(1,171,505)
Other operating income/(expenses) - net	20	(881,599)	(595,890)
Operating profit		**8,919,441**	**10,468,110**
Gain on disposal of available-for-sale investments	8	568,382	162,203
Financial foreign exchange gain/(loss) – net		5,429,851	2,180,497
Interest income		352,840	24,176
Interest expense		(1,126,175)	(604,932)
Other financial gain/(loss) – net	21	1,605,985	1,512,344
Profit before taxation		**15,750,324**	**13,742,398**
Income tax expense	22	(2,013,182)	(2,394,493)
Net profit for the period		**13,737,142**	**11,347,905**
Other comprehensive income/(loss)			
Currency translation differences, net of tax		(922,669)	(111,603)
Revaluation of available-for-sale investments	8	967,160	(2,321,291)
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	8	(568,382)	(162,203)
Total other comprehensive loss for the period		**(523,891)**	**(2,595,097)**
Total comprehensive income for the period		**13,213,251**	**8,752,808**
Net profit/(loss) for the period attributable to:			
Owners of the parent		13,738,478	11,340,035
Non-controlling interests		(1,336)	7,870
		13,737,142	**11,347,905**
Total comprehensive income/(loss) attributable to:			
Owners of the parent		13,230,821	8,758,847
Non-controlling interests		(17,570)	(6,039)
		13,213,251	**8,752,808**
Earnings per share – basic and diluted (in RR)	23	222.37	166.93

The accompanying notes on pages 5 to 22 are an integral part of this consolidated condensed interim financial information.

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

		Three months ended	
	Note	31 March 2012	31 March 2011
Operating profit		**8,919,441**	**10,468,110**
Income tax paid		(1,780,606)	(1,401,223)
Operating profit less income tax paid		**7,138,835**	**9,066,887**
Depreciation and amortisation	19	1,453,355	1,054,299
Net loss on disposals and write-off of property, plant and equipment		59,142	15,493
Reversal of impairment of receivables and change of provision for obsolete and damaged inventories		(35,989)	(14,695)
Other non-cash (income)/expenses - net		203,708	240,331
Gross cash flow		**8,819,051**	**10,362,315**
Changes in operating assets and liabilities:			
Trade receivables		(1,063,904)	(826,885)
Advances to suppliers		693,499	215,652
Other receivables		406,408	294,319
Inventories		1,579,447	(504,725)
Trade payables		210,082	684,164
Advances from customers		63,951	(239,453)
Other payables		259,447	(229,510)
Restricted cash, other assets and liabilities		33,017	(67,494)
Net cash – operating activities		**11,000,998**	**9,688,383**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and intangible assets		(5,956,445)	(3,853,532)
Loan provided to the acquired subsidiary before acquisition		(116,229)	-
Acquisition of subsidiary, net of cash acquired	25	(27,410,522)	-
Proceeds from sale of property, plant and equipment		13,076	13,103
Proceeds from sale of available-for-sale investments	8, 24	20,415,641	456,778
Cash proceeds/(payments) on derivatives - net	14	(89,487)	433,673
Refunded withholding tax on dividends received	8	69,969	-
Net change in fixed-term deposits		19,274,956	-
Repayment of originated loans		6,301,867	-
Interest received		781,718	38,397
Net cash – investing activities		**13,284,544**	**(2,911,581)**
Free cash inflow		**24,285,542**	**6,776,802**
Cash flows from financing activities			
Proceeds from bank borrowings	12	2,538,162	2,260,887
Repayment of bank borrowings	12	(3,295,374)	(4,821,318)
Repayment of bonds		(8,513,762)	-
Prepaid and additional transaction costs		(3,111)	(3,131)
Interest paid		(1,053,723)	(479,561)
Acquisition of non-controlling interest in oil and gas subsidiary	26	(6,619,999)	-
Acquisition of additional interest in other subsidiaries		(44)	(6,326)
Net cash – financing activities		**(16,947,851)**	**(3,049,449)**
Effect of exchange rate changes on cash and cash equivalents		(402,063)	(371,447)
Net increase in cash and cash equivalents		**6,935,628**	**3,355,906**
Cash and cash equivalents at the beginning of the period	11	**8,506,949**	**8,896,623**
Cash and cash equivalents at the end of the period	11	**15,442,577**	**12,252,529**

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

	Note	Attributable to owners of the parent Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of available-for-sale investments	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2011		**6,800,000**	**(7,760)**	**1,239,879**	**13,330,264**	**72,818,239**	**94,180,622**	**323,896**	**94,504,518**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	11,340,035	11,340,035	7,870	11,347,905
Other comprehensive income/(loss)									
Currency translation differences		-	-	(97,694)	-	-	(97,694)	(13,909)	(111,603)
Revaluation of available-for-sale investments	8	-	-	-	(2,321,291)	-	(2,321,291)	-	(2,321,291)
Disposal of available-for-sale investments	8	-	-	-	(162,203)	-	(162,203)	-	(162,203)
Total other comprehensive income/(loss)		-	-	(97,694)	(2,483,494)	-	(2,581,188)	(13,909)	(2,595,097)
Total comprehensive income/(loss)		**-**	**-**	**(97,694)**	**(2,483,494)**	**11,340,035**	**8,758,847**	**(6,039)**	**8,752,808**
Transactions with owners									
Acquisition of additional interest in subsidiaries		-	-	-	-	5,174	5,174	(11,500)	(6,326)
Total transactions with owners		**-**	**-**	**-**	**-**	**5,174**	**5,174**	**(11,500)**	**(6,326)**
Balance at 31 March 2011		**6,800,000**	**(7,760)**	**1,142,185**	**10,846,770**	**84,163,448**	**102,944,643**	**306,357**	**103,251,000**
Balance at 1 January 2012		**6,800,000**	**(29,679,427)**	**1,724,223**	**(273,427)**	**104,814,215**	**83,385,584**	**6,985,154**	**90,370,738**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	13,738,478	13,738,478	(1,336)	13,737,142
Other comprehensive income/(loss)									
Currency translation differences		-	-	(906,435)	-	-	(906,435)	(16,234)	(922,669)
Revaluation of available-for-sale investments	8	-	-	-	967,160	-	967,160	-	967,160
Disposal of available-for-sale investments	8	-	-	-	(568,382)	-	(568,382)	-	(568,382)
Total other comprehensive income/(loss)		-	-	(906,435)	398,778	-	(507,657)	(16,234)	(523,891)
Total comprehensive income/(loss)		**-**	**-**	**(906,435)**	**398,778**	**13,738,478**	**13,230,821**	**(17,570)**	**13,213,251**
Transactions with owners									
Acquisition of non-controlling interests in oil and gas subsidiary	26	-	-	-	-	109,832	109,832	(6,792,001)	(6,682,169)
Acquisition of additional interest in other subsidiaries		-	-	-	-	(1)	(1)	(43)	(44)
Total transactions with owners		**-**	**-**	**-**	**-**	**109,831**	**109,831**	**(6,792,044)**	**(6,682,213)**
Balance at 31 March 2012		**6,800,000**	**(29,679,427)**	**817,788**	**125,351**	**118,662,524**	**96,726,236**	**175,540**	**96,901,776**

1 The EuroChem Group and its operations

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

The Group's principal activities include mineral extraction (iron-ore, apatite, baddeleyite and hydrocarbons), fertiliser production and distribution. The Group manufactures a large number of products, the most significant of which is a wide range of mineral fertilisers (nitrogen and phosphate groups).

A company that holds the business interests beneficially of Mr. Andrey Melnichenko owns 100% of Linea Limited registered in Bermuda, which in turn owns 92.2% (31 December 2011: 92.2%) of EuroChem Group S.E. and 7.8% (31 December 2011: 7.8 %) is held by Mr. Dmitry Strezhnev, CEO of the Group. EuroChem Group S.E. owns 90.86% of the Company (31 December 2011: 90.86%). The remaining 9.14% is held by EuroChem Capital Management Ltd, the Group's wholly-owned subsidiary, and presented as treasury shares in the consolidated statement of financial position.

The Group's manufacturing facilities are primarily based in the Russian Federation with the exception for two entities: Lifosa AB, located in Lithuania and EuroChem Antwerpen NV acquired on 31 March 2012, located in Belgium (Note 25).

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

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

2 Basis of presentation

This consolidated condensed interim financial information for the three months ended 31 March 2012 has been prepared in accordance with IAS 34, "Interim Financial Reporting". It should be read in conjunction with the consolidated financial statements for the year ended 31 December 2011 which have been prepared in accordance with International Financial Reporting Standards.

3 Accounting policies and critical accounting judgements and estimates

The accounting policies and significant judgements and estimates applied are consistent with those of the consolidated financial statements for the year ended 31 December 2011, except for the policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2012 (Note 4).

Income taxes. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2012:

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 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).

4 Adoption of new or revised standards and interpretations (continued)

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 March 2012, and have not been early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial information;
- 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 information;
- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted);
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted);
- IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial information;
- 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 information;
- Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial information;
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amended standard on its consolidated financial information;
- 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 information;
- Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on this consolidated condensed interim financial information. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. The Group is currently assessing the impact of the interpretation on its consolidated financial information.

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to significantly affect the Group’s consolidated condensed interim financial information.

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

5 Segment information

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

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

- Nitrogen – the production and sale of nitrogen mineral fertilisers and organic synthesis products; starting from 2012 it also comprises hydrocarbon extraction and production;
- Phosphates – the production and sale of phosphate mineral fertilisers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the development of several deposits of potassium salts ("potash") under the licences acquired by the Group with a view to starting production and marketing of potassium fertilisers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilisers (including those not produced by the Group), seeds, crop protection items etc. via a number of retailers located within Russia and the CIS;
- All other – certain logistics and service activities, central management, investment income and other items.

The segmental results for the three months ended 31 March 2012 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	13,950,628	3,117,743	17,068,371	6,116,163
Phosphates	16,990,820	766,706	17,757,526	4,197,558
Potash	-	-	-	(134,133)
Distribution	4,375,501	7,409	4,382,910	256,122
Other	464,397	3,421,454	3,885,851	666,247
Elimination	-	(7,313,312)	(7,313,312)	224,049
Total	**35,781,346**	**-**	**35,781,346**	**11,326,006**

The segmental results for the three months ended 31 March 2011 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	12,101,111	3,089,511	15,190,622	5,958,689
Phosphates	14,607,707	728,300	15,336,007	5,670,729
Potash	-	-	-	(221,434)
Distribution	4,111,808	37	4,111,845	280,285
Other	398,411	3,370,683	3,769,094	(203,143)
Elimination	-	(7,188,531)	(7,188,531)	70,339
Total	**31,219,037**	**-**	**31,219,037**	**11,555,465**

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

5 Segment information (continued)

A reconciliation of total profit before taxation is provided below:

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
EBITDA		**11,326,006**	**11,555,465**
Depreciation and amortisation	19	(1,453,355)	(1,054,299)
Idle property, plant and equipment write-off	6, 17, 20	(50,317)	(16,750)
Write-off of advances given to construction company	6, 20	(548,717)	-
Gain on disposal of available-for sale investments	8	568,382	162,203
Financial foreign exchange gain/(loss) – net		5,429,851	2,180,497
Interest expense		(1,126,175)	(604,932)
Other financial gain/(loss) – net	21	1,605,985	1,512,344
Non-controlling interest		(1,336)	7,870
Profit before taxation		**15,750,324**	**13,742,398**

The analysis of Group sales by region was:

	Three months ended 31 March 2012	Three months ended 31 March 2011
Russia	9,550,749	8,471,068
CIS	3,401,108	5,130,785
Asia	5,411,011	2,764,733
Europe	8,368,543	6,159,753
Latin America	4,000,238	4,601,115
North America	4,018,787	3,227,048
Africa	767,883	739,447
Australasia	263,027	125,088
Total sales	**35,781,346**	**31,219,037**

The sales are allocated by regions based on the destination country. There were no sales in excess of 10% to any one country, except for Russia, during the three months ended 31 March 2012 and 31 March 2011.

The Group had sales in excess of 10% to one customer during the three months ended 31 March 2012 (three months ended 31 March 2011: the Group had no such customers). Revenues from this customer represented 17% of total Group revenues for the three months ended 31 March 2012 and were allocated to the Nitrogen and Phosphates segments.

6 Property, plant and equipment

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

	Note	2012	2011
Carrying amount at 1 January		**100,752,901**	**73,121,566**
Including advances given to construction companies and suppliers of property, plant and equipment		*6,156,538*	*5,312,790*
Additions		6,063,242	3,488,746
Including change in advances given		*9,464*	*94,330*
Acquisitions through business combination	25	9,445,221	-
Disposals		(20,484)	(11,846)
Depreciation charge for the period		(1,513,790)	(1,063,851)
Write-off of advances given to construction company	20	(548,717)	-
Idle property, plant and equipment write-off	17, 20	(50,317)	(16,750)
Currency translation differences		(342,652)	(66,175)
Carrying amount at 31 March		**113,785,404**	**75,451,690**
Including advances given to construction companies and suppliers of property, plant and equipment		*5,617,285*	*5,407,120*

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

6 Property, plant and equipment (continued)

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

	31 March 2012	31 December 2011
Construction in progress	42,851,578	39,622,027
Exploration expenses	113,846	75,891
Advances given to construction companies and suppliers of property, plant and equipment	5,617,285	6,156,538
Total assets under construction	**48,582,709**	**45,854,456**

During the three months ended 31 March 2012 the Group wrote-off a portion of the advance given to a company which was involved in construction activities at the Gremyachinskoe potash deposit due to the uncertainty regarding its future recoverability: this amounted to RR 548,717 thousand (three months ended 31 March 2011: nil). The total amount of the write-off is subject to change depending on finalisation of the terms of termination of the contract with the company.

During the three months ended 31 March 2012 the Group decided to mothball certain production equipment with a net book value of RR 50,317 thousand (three months ended 31 March 2011: net book value of RR 16,750 thousand) and recognised a loss of RR 50,317 thousand in this consolidated condensed interim financial information (three months ended 31 March 2011: RR 16,750 thousand) (Note 17, 20).

At 31 March 2012 the Group has capitalised expenses relating to the evaluation stage of the Darganovsky and Ravninny potash fields of RR 113,846 thousand which were recognised in assets under construction (31 December 2011: RR 75,891 thousand). The capitalisation of these expenses started from 1 March 2011 when the Group received official confirmation of the estimated resources covered by the licences for the exploration and evaluation of the Darganovsky and Ravninny potash fields. Generally, such expenses are paid in the period when the services are provided.

As at 31 March 2012 borrowing costs totalling RR 46,271 thousand (31 December 2011: RR 129,809 thousand) were capitalised in property, plant and equipment at an average interest rate of 4.9% p.a. (31 December 2011: 5.43% p.a.).

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 811,523 thousand at 31 March 2012 (31 December 2011: RR 765,158 thousand).

7 Intangible assets

Movements in the carrying amount of intangible assets were:

	Note	2012	2011
Carrying amount at 1 January		**610,463**	**814,523**
Additions		110,929	-
Acquisitions through business combination	25	4,792,152	-
Amortisation charge for the period		(41,237)	(21,486)
Currency translation differences		(5,579)	(2,416)
Carrying amount at 31 March		**5,466,728**	**790,621**

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

At 31 March 2012 available-for-sale investments comprised the shares of K+S Group, a German manufacturer and vendor of potassium-based fertilisers.

	31 March 2012	31 December 2011
K+S Group ordinary shares	1,625,718	11,044,815
K+S Group ordinary shares pledged as collateral	1,393,800	11,423,184
Total available-for-sale investments	**3,019,518**	**22,467,999**

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

8 Available-for-sale investments, including shares pledged as collateral (continued)

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

	2012	2011
Carrying amount at 1 January	**22,467,999**	**37,863,331**
Revaluation of available-for-sale investments	967,160	(2,321,291)
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(19,847,259)	(294,575)
- reclassification of revaluation to profit and loss	(568,382)	(162,203)
Carrying amount at 31 March	**3,019,518**	**35,085,262**

K+S Group shares, including shares pledged as collateral

At 31 March 2012 the Group held 1,964,979 shares, or 1.027% of the issued share capital (31 December 2011: 15,440,170 shares, or 8.067% of the issued share capital) of K+S Group with a fair value of RR 3,019,518 thousand (31 December 2011: RR 22,467,999 thousand) with reference to the share price quoted on the Xetra trading system of Euro 39.23 per share (31 December 2011: Euro 34.92 per share). The accumulated increase from the historical cost to the fair value of the investment of RR 125,351 thousand was recognised in equity at 31 March 2012 (31 December 2011: a negative reserve of RR 273,427 thousand).

During the three months ended 31 March 2012 the Group sold 13,475,191 ordinary shares of K+S Group to EuroChem Group S.E., the parent company of the Group, for RR 20,415,641 thousand (Note 24) and recognised a gain of RR 568,382 thousand in the profit and loss.

In January 2012 the Group received a refund of withholding tax on dividends in 2011 amounting to RR 69,969 thousand.

K+S Group shares pledged as collateral

At 31 March 2012 the Group had 907,028 K+S Group shares pledged as collateral for a bank loan with a fair value of RR 1,393,800 thousand (31 December 2011: 6,350,094 K+S Group shares with a fair value of RR 9,240,436 thousand) with reference to the share price quoted on the Xetra trading system (Note 12).

At 31 March 2012 the Group did not have any outstanding derivative contracts secured by K+S Group ordinary shares as collateral (31 December 2011: 2,858,000 K+S Group ordinary shares with a fair value of RR 4,158,861 thousand were pledged as collateral to secure outstanding European call options) (Note 14).

Therefore, as at 31 March 2012 the total number of K+S Group shares pledged as collateral was 907,028 with a fair value of RR 1,393,800 thousand (31 December 2011: 7,850,094 shares with a fair value of RR 11,423,184 thousand, as agreed with the lender, 1,358,000 shares with a fair value of RR 1,976,113 thousand simultaneously represent collateral for a bank loan and collateral under the call options). Pledged shares have been reclassified to a separate line named “Available-for-sale investments pledged as collateral” in the consolidated condensed statement of financial position, as the mortgagee has the right to use and dispose of these shares. The Group holds economic exposure in relation to the encumbered and/or used shares. The mortgagee is obliged to replace the original financial collateral by transferring equivalent securities upon the performance of the obligations of the mortgagor.

9 Inventories

	31 March 2012	31 December 2011
Materials	6,408,073	5,821,720
Work in progress	1,161,417	1,180,983
Finished goods	6,402,861	6,445,567
Catalysts	2,481,230	1,784,203
Less: provision for obsolete and damaged inventories	(268,452)	(275,074)
Total inventories	**16,185,129**	**14,957,399**

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

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

	31 March 2012	31 December 2011
Trade receivables		
Trade receivables denominated in RR	1,282,693	1,074,277
Trade receivables denominated in US$	2,858,177	2,306,373
Trade receivables denominated in Euro	6,272,189	119,195
Trade receivables denominated in other currencies	245,863	182,696
Less: impairment provision	(213,383)	(246,628)
Total trade receivables – financial assets	**10,445,539**	**3,435,913**
Prepayments, other receivables and other current assets		
Advances to suppliers	3,044,070	3,737,569
VAT recoverable and receivable	4,543,101	5,040,882
Income tax receivable	138,964	198,767
Other taxes receivable	23,350	43,513
Other receivables	982,554	891,306
Less: impairment provision	(152,910)	(161,311)
Subtotal non-financial assets	**8,579,129**	**9,750,726**
Interest receivable	10,373	440,036
Subtotal financial assets	**10,373**	**440,036**
Total prepayments, other receivables and other current assets	**8,589,502**	**10,190,762**
Total trade receivables, prepayments, other receivables and other current assets	**19,035,041**	**13,626,675**
including		
Financial assets	10,455,912	3,875,949
Non-financial assets	8,579,129	9,750,726

11 Cash and cash equivalents and fixed-term deposits

	31 March 2012	31 December 2011
Cash on hand and bank balances denominated in RR	2,367,516	1,491,231
Bank balances denominated in US$	3,703,292	1,849,003
Bank balances denominated in Euro	672,330	1,278,936
Balances denominated in other currencies	675,484	250,026
Term deposits denominated in RR	4,546,429	1,633,327
Term deposits denominated in US$	2,813,533	1,320,939
Term deposits denominated in Euro	277,417	445,277
Term deposits denominated in other currencies	386,576	238,210
Total cash and cash equivalents	**15,442,577**	**8,506,949**
Fixed-term deposits in RR	814,630	13,550,300
Fixed-term deposits in US$	-	7,283,471
Fixed-term deposits in Euro	169,234	32,139
Total fixed-term deposits	**983,864**	**20,865,910**
Current restricted cash	46,224	77,238
Non-current restricted cash	5,977	7,980
Total restricted cash	**52,201**	**85,218**

Term deposits at 31 March 2012 and 31 December 2011 are held to meet short term cash needs and have various original maturities but can be withdrawn on request without any restrictions.

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

At 31 March 2012 current restricted cash of RR 46,224 thousand was held in bank accounts in compliance with statutory regulations (31 December 2011: RR 77,238 thousand).

At 31 March 2012 RR 5,977 thousand of non-current restricted cash (31 December 2011: RR 7,980 thousand) was held in bank accounts as security deposits for third parties.

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

12 Bank borrowings

	2012	2011
Balance as at 1 January	**77,395,339**	**24,054,601**
Bank loans received, denominated in US$	2,413,048	2,078,188
Bank loans received, denominated in Euro	125,114	182,699
Bank loans repaid, denominated in US$	-	(4,821,318)
Bank loans repaid, denominated in Euro	(3,295,374)	-
Capitalisation and amortisation of transaction costs - net	56,678	72,299
Foreign exchange gain	(5,107,017)	(1,654,856)
Balance as at 31 March	**71,587,788**	**19,911,613**

	31 March 2012	31 December 2011
Current bank borrowings		
Short-term bank loans, denominated in Euro	587,561	4,167,140
Total current bank borrowings	**587,561**	**4,167,140**
Non-current bank borrowings		
Long-term bank loans, denominated in RR	20,000,000	20,000,000
Long-term bank loans, denominated in US$	51,114,092	53,430,421
Long-term bank loans, denominated in Euro	1,406,865	1,365,495
Less: long-term portion of transaction costs	(1,520,730)	(1,567,717)
Total non-current bank borrowings	**71,000,227**	**73,228,199**
Total bank borrowings	**71,587,788**	**77,395,339**

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

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

Interest rates and outstanding amounts

A 5-year club loan facility which was obtained in August 2011 for US$ 1.3 billion, bears a floating interest rate of 1-month Libor +1.8%. At 31 March 2012 the outstanding amount totalled US$ 1.3 billion (31 December 2011: US$ 1.3 billion).

In September 2011 the Group signed a RR 20 billion 5-year non-revolving fixed-interest rate loan facility with a leading Russian bank. As at 31 March 2012 the outstanding amount was RR 20 billion (31 December 2011: RR 20 billion).

In March 2010 the Group signed a US$ 261 million, 10-year export credit agency-backed loan facility with a floating interest rate based on 6-month Libor for financing the construction of the cage shaft at the Gremyachinskoe potash deposit. At 31 March 2012 the outstanding amount was US$ 109.5 million (31 December 2011: US$ 109.5 million). In April 2012 due to the termination of the construction contract the unutilised part of the facility was cancelled.

In August 2010 the Group signed a US$ 250 million 5-year credit line agreement bearing a floating interest rate based on 1-month Libor with a European commercial bank. At 31 March 2012 the outstanding amount was US$ 250 million (31 December 2011: US$ 250 million).

In March 2012 the Group signed a US$ 83.3 million credit line agreement with a European commercial bank, bearing a floating interest rate based on 1-month Libor and maturity in August 2015. In March 2012 the facility was fully utilised and as at 31 March 2012 the outstanding amount was US$ 83.3 million.

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility with a floating interest rate based on 6-month Euribor for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company. At 31 March 2012 Euro 35.9 million of the facility was utilised (31 December 2011: Euro 32.8 million).

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

12 Bank borrowings (continued)

Interest rates and outstanding amounts (continued)

In September 2009 the Group signed a loan agreement for Euro 85 million at a floating interest rate based on 1-month Euribor, which was converted into a revolving committed facility in 2010. In 2011 the credit limit was increased to Euro 140 million and by 31 December 2011 Euro 100 million of the facility was utilised. During the three months ended 31 March 2012 Euro 85 million of the facility was repaid and the credit limit reduced to Euro 30 million with an extended maturity of March 2013. At 31 March 2012 the outstanding amount was Euro 15 million.

Collaterals and pledges

A bank loan of RR 38,126,660 thousand and RR 41,854,930 thousand at 31 March 2012 and 31 December 2011, respectively, was collateralised by future export proceeds of the Group under sales contracts with certain customers. A bank loan of RR 587,561 thousand at 31 March 2012 (31 December 2011: RR 4,167,140 thousand) was secured by K+S Group shares as collateral represented by 907,028 shares with a fair value of RR 1,393,800 thousand (31 December 2011: 6,350,094 shares with a fair value of RR 9,240,436 thousand). Fair value was determined by reference to the share price quoted on the Xetra trading system (Note 8),

The Group's bank borrowings mature:

	31 March 2012	31 December 2011
- within 1 year	587,561	4,167,140
- between 1 and 2 years	11,398,406	7,325,334
- between 2 and 5 years	57,681,780	63,826,082
- more than 5 years	1,920,041	2,076,783
Total bank borrowings	**71,587,788**	**77,395,339**

13 Bonds issued

	31 March 2012	31 December 2011
Current bonds		
7.875% US$-denominated bonds due March 2012	-	9,336,869
Less: transaction costs	-	(4,628)
Total current bonds	**-**	**9,332,241**
Non-current bonds		
7.875% US$-denominated bonds due March 2012	-	9,336,869
Less: current portion of long-term bonds issued in US$	-	(9,336,869)
8.9% RR-denominated bonds due June 2018 / callable by investors in July 2015	5,000,000	5,000,000
8.25% RR-denominated bonds due November 2018 / callable by investors in November 2015	5,000,000	5,000,000
Less: transaction costs	(34,034)	(35,344)
Total non-current bonds	**9,965,966**	**9,964,656**
Total bonds issued	**9,965,966**	**19,296,897**

In March 2012 the US$ denominated bonds with a face value of US$ 290 million were redeemed and the Group paid a settlement amount of RR 8,513,762 thousand.

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

14 Derivative financial assets and liabilities

At 31 March 2012 the non-current derivative financial assets were represented by RR/US$ non-deliverable forward contracts and a cross currency interest rate swap accounted for at a fair value of RR 876,133 thousand and RR 256,075 thousand, respectively (31 December 2011: RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 124,353 thousand). The current derivative financial assets comprised RR/EUR non-deliverable forward contracts accounted for at a fair value of RR 32,752 thousand (31 December 2011: nil).

At 31 March 2012 the Group did not have derivative financial liabilities. At 31 December 2011 the non-current derivative financial liabilities were represented by a cross currency interest rate swap and RR/US$ non-deliverable forward contracts accounted for at a fair value of RR 324,493 thousand and RR 169,246 thousand, respectively. The current derivative financial liabilities were represented by EUR/US$ non-deliverable forward contracts and European call options over K+S Group ordinary shares accounted for at a fair value of RR 167,044 thousand and RR 6 thousand, respectively.

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

	Assets		Liabilities	
	non-current	current	non-current	current
RR/US$ non-deliverable forward contracts	876,133	-	-	-
RR/EUR non-deliverable forward contracts	-	32,752	-	-
Cross currency interest rate swap	256,075	-	-	-
Total	**1,132,208**	**32,752**	**-**	**-**

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

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

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

	1 January 2012	Changes in the fair value (Note 21)	Cash payments/ (proceeds) on derivatives – net	31 March 2012
<u>*Derivative financial assets/(liabilities)*</u>				
Cross currency interest rate swap contract	(324,493)	580,568	-	256,075
Foreign exchange non-deliverable forward contracts – net	(211,937)	1,031,335	89,487	908,885
Option contracts over K+S Group ordinary shares	(6)	6	-	-
Derivative financial assets and liabilities – net	**(536,436)**	**1,611,909**	**89,487**	**1,164,960**

Call options over K+S Group ordinary shares

At 31 December 2011 the Group had outstanding European call options giving counterparties the right to buy 2,858,000 K+S Group ordinary shares with a fair value of RR 4,158,861 thousand (Note 8), which matured in January and February 2012. These call options were not exercised.

At 31 March 2012 the Group did not have outstanding call options over K+S Group ordinary shares (Note 8).

Foreign exchange non-deliverable forward contracts

At 31 December 2011 the Group had RR/US$ and EUR/US$ non-deliverable forward contracts to buy the nominal amount of RR 11,500 million and Euro 400 million, respectively.

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

14 Derivative financial assets and liabilities (continued)

During the three months ended 31 March 2012 the Group had conducted certain transactions in non-deliverable forward contracts; it:

- entered into RR/US$, EUR/US$ and RR/EUR non-deliverable forward contracts to buy the nominal amount of US$ 100 million, Euro 100 million and Euro 709.8 million, respectively;
- settled EUR/US$ non-deliverable forward contracts for Euro 500 million against opposite non-deliverable forward contracts and received proceeds of RR 113,082 thousand;
- paid a settlement amount of RR 202,569 thousand for matured RR/US$ and RR/EUR non-deliverable forward contracts of US$ 100 million and Euro 530.3 million, respectively.

At 31 March 2012 the Group had RR/EUR non-deliverable forward contracts for a nominal amount of Euro 179.5 million which were subsequently settled in April 2012 and RR/US$ non-deliverable forward contracts for a nominal amount of RR 11,500 million with contractual settlement dates varying from 18 December 2014 to 20 September 2016.

15 Other non-current liabilities and deferred credits

	Note	31 March 2012	31 December 2011
Deferred payable related to business combination	25	5,076,523	-
Provisions for age premium and retirement benefits		466,166	448,928
Provision for land restoration liability		289,324	283,400
Deferred income – Investment grant received		146,919	162,649
Total other non-current liabilities and deferred credits		**5,978,932**	**894,977**

16 Sales

The components of external sales were:

	Three months ended 31 March 2012	Three months ended 31 March 2011
Nitrogen		
Nitrogen fertilisers	9,945,425	9,332,567
Organic synthesis products	1,908,117	1,936,845
Complex fertilisers group	1,344,155	672,015
Hydrocarbons	468,627	-
Other goods	201,447	97,417
Other services	82,857	62,267
	13,950,628	**12,101,111**
Phosphates		
Phosphates	9,943,799	8,805,483
Iron ore concentrate	5,041,474	4,310,053
Feed phosphates group	1,119,587	763,026
Apatite concentrate	355,903	302,640
Baddeleyite concentrate	203,820	145,770
Other goods	165,530	117,694
Other services	160,707	163,041
	16,990,820	**14,607,707**
Distribution		
Nitrogen fertilisers	2,925,571	2,402,079
Phosphates	515,566	480,382
Complex fertilisers group	453,382	841,316
Feed phosphates group	62,588	41,496
Organic synthesis products	1,863	1,322
Other goods	415,122	343,290
Other services	1,409	1,923
	4,375,501	**4,111,808**
Others		
Phosphates	22,199	-
Complex fertilisers group	-	27,342
Logistic services	112,242	29,077
Other goods	216,073	242,698
Other services	113,883	99,294
	464,397	**398,411**
Total sales	**35,781,346**	**31,219,037**

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

17 Cost of sales

The components of cost of sales were:

	Note	Three months ended 31 March 2012	31 March 2011
Materials and components used or resold		10,435,662	9,004,981
Energy		1,723,183	1,862,943
Utilities and fuel		1,223,664	1,040,348
Labour, including contributions to social funds		2,348,237	1,949,819
Depreciation and amortisation		1,165,704	863,529
Repairs and maintenance		323,297	123,825
Production overheads		444,316	390,697
Property tax, rent payments for land and related taxes		379,607	287,039
Transportation expenses for logistics services		79,139	48,527
Idle property, plant and equipment write-off	6	2,915	16,750
Reversal of provision for obsolete and damaged inventories		(6,622)	(15,099)
Changes in work in progress and finished goods		1,398,457	(230,194)
Other costs		2,993	12,992
Total cost of sales		**19,520,552**	**15,356,157**

18 Distribution costs

Distribution costs comprised:

	Three months ended 31 March 2012	31 March 2011
Transportation	4,454,578	3,034,135
Export duties, other fees and commissions	81,377	22,457
Labour, including contributions to social funds	298,088	260,712
Depreciation and amortisation	207,056	89,126
Repairs and maintenance	69,150	103,518
Provision/(reversal of provision) for impairment of receivables	11,978	(2,462)
Other costs	151,388	119,889
Total distribution costs	**5,273,615**	**3,627,375**

19 General and administrative expenses

General and administrative expenses comprised:

	Three months ended 31 March 2012	31 March 2011
Labour, including contributions to social funds	698,904	657,051
Depreciation and amortisation	80,595	101,644
Audit, consulting and legal services	136,364	52,838
Rent	29,682	28,324
Bank charges	29,049	29,175
Social expenditure	26,893	15,126
Repairs and maintenance	12,618	21,762
Provision/(reversal of provision) for impairment of receivables	(41,345)	2,866
Other expenses	213,379	262,719
Total general and administrative expenses	**1,186,139**	**1,171,505**

The total depreciation and amortisation expenses included in all captions of the consolidated condensed statement of comprehensive income amounted to RR 1,453,355 thousand (three months ended 31 March 2011: RR 1,054,299 thousand). The total staff costs (including social expenses) amounted to RR 3,432,840 thousand (three months ended 31 March 2011: RR 2,867,582 thousand).

20 Other operating income and expenses

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

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
Gain/(loss) on disposal of property, plant and equipment		22,582	(31,188)
Sponsorship		139,665	153,094
Foreign exchange (gain)/loss – net		250,854	542,383
Write-off of advances given to construction company	6	548,717	-
Idle property, plant and equipment write-off	6	47,402	-
Other operating (income)/expense – net		(127,621)	(68,399)
Total other operating (income)/expenses – net		**881,599**	**595,890**

21 Other financial gain/(loss)

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

	Three months ended 31 March 2012	Three months ended 31 March 2011
Changes in the fair value of call options	6	158,935
Changes in the fair value of foreign exchange non-deliverable forward contracts	1,031,335	669,855
Changes in the fair value of cross currency interest rate swap	580,568	696,360
Unwinding of discount on land restoration obligation	(5,924)	(12,806)
Total other financial gain/(loss) – net	**1,605,985**	**1,512,344**

22 Income tax

	Three months ended 31 March 2012	Three months ended 31 March 2011
Income tax expense – current	1,475,333	1,694,151
Deferred income tax – reversal of temporary differences	537,849	700,342
Income tax expense	**2,013,182**	**2,394,493**

The majority of the Group companies were subject to a tax rate of 20% on taxable profits in the Russian Federation during the three months ended 31 March 2012 (three months ended 31 March 2011: 20%).

In 2011 the income tax rates of two subsidiaries operating in the Russian Federation were reduced to 18.3% for OJSC Novomoskovskiy Azot and to 15.5% for LLC PG Phosphorit according to the regional tax law and an agreement with a regional authority, respectively. As at 31 March 2012 and 31 December 2011 deferred tax assets and liabilities of these subsidiaries were calculated at the reduced income tax rates which are expected to apply during the period covered by the agreement and any subsequent extension.

The Group's subsidiary Lifosa AB, located in Lithuania applies a tax rate of 15% on taxable profits (three months ended 31 March 2011: 15%).

During the three months ended 31 March 2012 the Group offset VAT and other tax receivables against income tax payables of RR 19,759 thousand under the statutory rules (three months ended 31 March 2011: RR 580 thousand).

23 Earnings per share

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

	Three months ended 31 March 2012	Three months ended 31 March 2011
Net profit for the period attributable to owners of the parent	13,738,478	11,340,035
Weighted average number of ordinary shares in issue (expressed in thousands)	61,783	67,932
Basic and diluted earnings per share (expressed in RR per share)	**222.37**	**166.93**

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

24 Balances and transactions with related parties

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

Financial statements caption	Nature of relationship	31 March 2012	31 December 2011
Statement of financial position caption			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	1,038	153
Trade receivables	Other related parties	15,970	17,518
less: impairment provision on trade receivables	Other related parties*	(15,970)	(17,518)
Prepayments, other receivables and other current assets	Other related parties	48,907	62,248
less: impairment provision on other receivables	Other related parties*	(48,720)	(53,484)
Bonds issued	Other related parties	-	24,147
Trade payables	Other related parties	9,646	2,463

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

Financial statements caption	Nature of relationship	Three months ended 31 March 2012	Three months ended 31 March 2011
Statement of comprehensive income caption			
Sales	Other related parties	-	43,093
Purchases of materials and components	Other related parties	-	(1,299)
Distribution costs	Other related parties	(17,477)	(26,636)

Financial statements caption	Nature of relationship	Three months ended 31 March 2012	Three months ended 31 March 2011
Statement of cash flows caption			
(Increase)/decrease in trade receivables	Other related parties	1,548	(2,096)
Decrease in other receivables	Other related parties	13,341	3,382
Increase in trade payables	Other related parties	6,601	10,956
Decrease in advances from customers	Other related parties	-	(1,380)
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(2,331)	(3,313)
Repayment of bonds	Other related parties	(22,018)	-
Proceeds from sale of available-for-sale investments (Note 8)	Parent company	20,415,641	456,778

During the three months ended 31 March 2012 the Group exchanged US$ 246,920 thousand for Euro 185,000 thousand with a related party at the Euro / US$ exchange rate prevailing in the market at the date of the transaction.

The total key management personnel compensation included in the profit and loss was RR 83,172 thousand and RR 83,345 thousand for the three months ended 31 March 2012 and 31 March 2011, respectively. This compensation is paid to six individuals who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

25 Business combinations

On 31 March 2012 the Group completed the acquisition of a company (now named EuroChem Antwerpen NV) owning BASF fertiliser production and logistics assets located in Antwerp, Belgium, which had been agreed on 26 September 2011. This acquisition supports the Group's strategy of increasing the proximity to customers in its core fertiliser markets. The assets acquired comprise production facilities for complex (NPK) and nitrogen (CAN, AN) fertilisers.

25 Business combination (continued)

The total final purchase consideration for 100% of the charter capital of the company acquired comprised Euro 893,140 thousand to be paid in cash, including a deferred payment of Euro 142,240 thousand payable over the period from 2013 to 2016. The fair value of the deferred payment amounts to Euro 129,600 thousand. Therefore, the fair value of the total purchase consideration amounted to Euro 880,500 thousand.

The details of the purchase price consideration for the acquisition are:

	Cash payments in thousands Euro	Denominated amounts in thousands RR
Price for the acquisition agreed on 26 September 2011 and paid on 30 March 2012	670,000	26,156,934
Other compensation for potential benefits, arising from the change to initial transaction structure	174,640	6,836,542
- including: deferred portion payable over 2013-2016	*142,240*	*5,571,640*
Net working capital adjustment, to be paid in the second quarter 2012	48,500	1,899,779
Total purchase consideration	**893,140**	**34,893,255**
Less: adjustment of the deferred portion to present value	(12,640)	(495,118)
Total fair value of purchase consideration	**880,500**	**34,398,137**

Cash paid during three months ended 31 March 2012	702,400	27,421,836
Less: cash and cash equivalents of subsidiary acquired	(289)	(11,314)
Outflow of cash and cash equivalents during three months ended 31 March 2012	**702,111**	**27,410,522**

The provisional purchase price allocation for the acquisition was:

	Attributed fair value in thousands Euro	Denominated attributed fair value in thousands RR
Cash and cash equivalents	289	11,314
Trade and other receivables	150,945	5,912,626
Inventories	71,496	2,800,555
Property, plant and equipment	241,130	9,445,221
Intangible assets	122,340	4,792,152
Trade payables	(23,428)	(917,672)
Other accounts payable and accrued expenses	(6,826)	(267,409)
Loan payable to the Group	(3,000)	(117,512)
Deferred income tax assets	69,599	2,726,244
Fair value of net assets of subsidiary	**622,545**	**24,385,519**
Goodwill arising from the acquisition	257,955	10,104,281
Currency translation difference recognised in other comprehensive income	-	(91,663)
Total fair value of purchase consideration	**880,500**	**34,398,137**

This transaction included a contract with K+S to supply K+S Nitrogen with complex and nitrogen fertilisers and a related profit and loss sharing agreement (PLSA) which was negotiated separately but is viewed as an integral part of this business combination. Therefore, the amount paid for the PLSA was included into the total purchase consideration. The rights acquired under the PLSA were considered along with the provisions of the agreement between K+S Nitrogen and BASF and were not recognised as a separate intangible asset.

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

Based on the appraisal report the following intangible assets with definite useful lives were recognised:

	Fair value in thousands Euro	Denominated fair value in thousands RR
Core process technology	69,701	2,730,237
Distribution agreement for other BASF fertiliser products	22,284	872,880
Software	18,020	705,856
Land use rights	12,191	477,530
Other	144	5,649
Total intangible assets	**122,340**	**4,792,152**

25 Business combination (continued)

The Group has recognised goodwill of Euro 257,955 thousand which is primarily attributable to the beneficial location of the production facilities, a unique production expertise, an experienced work force and other factors which are expected to result in higher profitability of the acquired assets than was assumed in determining the fair values of assets and liabilities acquired.

Part of the goodwill recognised amounting to Euro 109,518 thousand is expected to be deductible for income tax purposes.

Transaction costs for acquisition related services provided by third parties amounted to approximately RR 44 million and RR 76 million for the year ended 31 December 2011 and for the three months ended 31 March 2012, respectively, and were charged to general and administrative expenses.

26 Acquisition of non-controlling interest in oil and gas subsidiary

In the fourth quarter of 2011 the Group obtained control over LLC Severneft-Urengoi by means of agreements under the terms of which the former owners of the participating interests in LLC Severneft-Urengoy transferred decision-making rights over all significant financial and operational policies of LLC Severneft-Urengoy to the Group. As at 31 December 2011 the Group recorded the participating interests in this company as a non-controlling interest.

In January 2012 the Group acquired 100% of the charter capital of LLC Severneft-Urengoy for a consideration of RR 6,682,169 thousand paid in cash. The payments were made in December 2011 and January 2012 amounting to RR 62,170 thousand and RR 6,619,999 thousand, respectively. The Group derecognised the non-controlling interest of RR 6,792,001 thousand and recorded an increase in equity attributable to the owners of the Group of RR 109,832 thousand.

27 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 31 March 2012 the Group had contractual commitments for capital expenditures of RR 17,452,822 thousand (31 December 2011: RR 21,603,857 thousand), including amounts denominated in Euro and US$ (RR 7,523,436 thousand and RR 662,212 thousand, respectively). Management estimates that, out of these, approximately RR 12.2 billion will represent cash outflows in 2012.

RR 7,260,328 thousand and RR 4,520,559 thousand out of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash licence areas, respectively (31 December 2011: RR 10,463,842 thousand and RR 4,982,570 thousand, respectively).

ii Tax legislation

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

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

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

27 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

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

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

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

As at 31 March 2012 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 March 2012 and 31 December 2011.

At 31 December 2011 in addition to the above matters, management estimated that the Group had other possible obligations from exposure to other than remote tax risks of RR 154,073 thousand primarily relating to management services and other fees charged by the holding company to the Group subsidiaries.

iii Insurance policies

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

iv Environmental matters

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

27 Contingencies, commitments and operating risks (continued)

v Legal proceedings

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

vi Operating environment of the Group

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

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Deteriorating economic conditions for customers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

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

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

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

28 Subsequent events

On 27 April 2012, the Group has signed an agreement with K+S Aktiengesellschaft for the acquisition of K+S Nitrogen, a distributor of nitrogenous fertilisers. The transaction with an enterprise value of circa Euro 140 million, subject to subsequent adjustments, is expected to be closed in the second quarter of 2012. The effective date of the transfer economic results of this business is 31 March 2012. The transaction is subject to customary terms and conditions, including approval by the EU antitrust authority.