



**EUROCHEM GROUP**

**INTERNATIONAL ACCOUNTING STANDARD No. 34**

**CONSOLIDATED CONDENSED INTERIM (NINE MONTHS)  
FINANCIAL INFORMATION AND REVIEW REPORT**

**30 SEPTEMBER 2012**

## Contents

### Auditor's Report on the Review of the Consolidated Condensed Interim Financial Information for the Nine months ended 30 September 2012

Consolidated Condensed Statement of Financial Position as at 30 September 2012 .....	1
Consolidated Condensed Statement of Comprehensive Income for the Nine months ended 30 September 2012 .....	2
Consolidated Condensed Statement of Cash Flows for the Nine months ended 30 September 2012 .....	3
Consolidated Condensed Statement of Changes in Equity for the Nine months ended 30 September 2012 .....	4

### Notes to the Consolidated Condensed Interim Financial Information

1	The EuroChem Group and its operations .....	5
2	Basis of presentation .....	5
3	Accounting policies and critical accounting judgements and estimates .....	5
4	Adoption of new or revised standards and interpretations .....	6
5	Segment information .....	7
6	Property, plant and equipment .....	9
7	Mineral rights .....	11
8	Goodwill .....	11
9	Intangible assets .....	11
10	Available-for-sale investments, including shares pledged as collateral .....	11
11	Inventories .....	13
12	Trade receivables, prepayments, other receivables and other current assets .....	13
13	Prepayments for treasury shares .....	13
14	Originated loans .....	13
15	Cash and cash equivalents and fixed-term deposits .....	14
16	Bank borrowings .....	14
17	Bonds issued .....	16
18	Derivative financial assets and liabilities .....	16
19	Other non-current liabilities and deferred credits .....	19
20	Sales .....	19
21	Cost of sales .....	20
22	Distribution costs .....	20
23	General and administrative expenses .....	20
24	Other operating income and expenses .....	21
25	Other financial gain/(loss) .....	21
26	Income tax .....	21
27	Earnings per share .....	22
28	Balances and transactions with related parties .....	22
29	Business combinations .....	23
30	Acquisition of non-controlling interest in oil and gas subsidiary .....	26
31	Contingencies, commitments and operating risks .....	26
32	Subsequent events .....	29



## ***Auditor's Report on the Review of the Consolidated Condensed Interim Financial Information for the Nine months ended 30 September 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 30 September 2012 and the related consolidated condensed statements of comprehensive income for the three and nine month period then ended, cash flows and changes in equity for the nine 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*

14 November 2012  
Moscow, Russian Federation



Note 30 September 2012 31 December 2011

**ASSETS**

**Non-current assets:**

Property, plant and equipment	6	120,664,779	100,752,901
Mineral rights	7	15,365,357	14,271,178
Goodwill	8	11,302,861	295,275
Intangible assets	9	7,503,976	610,463
Restricted cash	15	43,715	7,980
Available-for-sale investments	10	2,172,004	11,044,815
Available-for-sale investments pledged as collateral	10	896,272	11,423,184
Derivative financial assets	18	690,845	124,353
Deferred income tax assets		4,133,457	1,806,374
Other non-current assets		148,138	167,920
<b>Total non-current assets</b>		<b>162,921,404</b>	<b>140,504,443</b>

**Current assets:**

Inventories	11	20,162,521	14,957,399
Trade receivables	12	11,806,092	3,435,913
Prepayments, other receivables and other current assets	12	9,625,299	10,190,762
Prepayments for treasury shares	13	4,260,184	-
Originated loans	14	-	6,301,867
Derivative financial assets	18	35,426	-
Restricted cash	15	324,297	77,238
Fixed-term deposits	15	6,427,572	20,865,910
Cash and cash equivalents	15	18,862,119	8,506,949
<b>Total current assets</b>		<b>71,503,510</b>	<b>64,336,038</b>
Assets classified as held for sale		938,668	-
<b>TOTAL ASSETS</b>		<b>235,363,582</b>	<b>204,840,481</b>

**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		130,856,712	106,265,011
		<b>107,977,285</b>	<b>83,385,584</b>
Non-controlling interests		179,022	6,985,154
<b>Total equity</b>		<b>108,156,307</b>	<b>90,370,738</b>

**Non-current liabilities:**

Bank borrowings	16	70,849,906	73,228,199
Bonds issued	17	9,968,601	9,964,656
Derivative financial liabilities	18	161,575	493,739
Deferred income tax liabilities		5,821,441	4,681,605
Other non-current liabilities and deferred credits	19	7,163,135	894,977
<b>Total non-current liabilities</b>		<b>93,964,658</b>	<b>89,263,176</b>

**Current liabilities:**

Bank borrowings	16	12,761,546	4,167,140
Bonds issued	17	-	9,332,241
Derivative financial liabilities	18	842	167,050
Trade payables		11,563,084	3,061,104
Other accounts payable and accrued expenses		6,455,542	6,378,011
Income tax payable		1,439,512	1,436,216
Other taxes payable		1,022,091	664,805
<b>Total current liabilities</b>		<b>33,242,617</b>	<b>25,206,567</b>
<b>Total liabilities</b>		<b>127,207,275</b>	<b>114,469,743</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>235,363,582</b>	<b>204,840,481</b>

Approved on behalf of the Board of Directors  
 14 November 2012

Dmitry Strezhnev  
 Chief Executive Officer

Andrey Ilyin  
 Chief Financial Officer



	Note	Three months ended		Nine months ended	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
Sales	20	47,101,519	36,184,623	124,778,901	98,269,877
Cost of sales	21	(29,557,937)	(16,854,024)	(71,819,283)	(47,545,276)
<b>Gross profit</b>		<b>17,543,582</b>	<b>19,330,599</b>	<b>52,959,618</b>	<b>50,724,601</b>
Distribution costs	22	(6,237,215)	(5,923,991)	(17,086,328)	(13,791,655)
General and administrative expenses	23	(1,317,098)	(1,245,368)	(3,843,838)	(3,450,793)
Other operating income/(expenses) – net	24	(679,020)	275,935	378,062	(455,226)
<b>Operating profit</b>		<b>9,310,249</b>	<b>12,437,175</b>	<b>32,407,514</b>	<b>33,026,927</b>
Write-off of portion of assets at the Gremyachinskoe potash deposit	6	(3,116,000)	-	(3,611,387)	-
Dividend income	10	-	-	101,676	613,927
Gain on disposal of available-for-sale investments	10	-	-	568,382	914,434
Financial foreign exchange gain/(loss) – net		3,449,204	(5,970,051)	3,100,404	(3,382,505)
Interest income		96,066	48,519	565,556	101,617
Interest expense		(1,042,279)	(844,760)	(3,168,159)	(2,018,663)
Other financial gain/(loss) – net	25	1,409,277	(792,417)	999,821	937,914
<b>Profit before taxation</b>		<b>10,106,517</b>	<b>4,878,466</b>	<b>30,963,807</b>	<b>30,193,651</b>
Income tax expense	26	(2,200,286)	(1,488,227)	(6,370,215)	(5,920,480)
<b>Net profit for the period</b>		<b>7,906,231</b>	<b>3,390,239</b>	<b>24,593,592</b>	<b>24,273,171</b>
<b>Other comprehensive income/(loss)</b>					
Currency translation differences, net of tax		(1,519,694)	1,120,746	(513,739)	1,135,708
Revaluation of available-for-sale investments	10	84,936	(6,528,445)	956,311	(8,635,847)
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	10	-	-	(568,382)	(914,434)
<b>Total other comprehensive loss for the period</b>		<b>(1,434,758)</b>	<b>(5,407,699)</b>	<b>(125,810)</b>	<b>(8,414,573)</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>6,471,473</b>	<b>(2,017,460)</b>	<b>24,467,782</b>	<b>15,858,598</b>
<b>Net profit/(loss) for the period attributable to:</b>					
Owners of the parent		7,907,261	3,390,985	24,597,395	24,275,471
Non-controlling interests		(1,030)	(746)	(3,803)	(2,300)
		<b>7,906,231</b>	<b>3,390,239</b>	<b>24,593,592</b>	<b>24,273,171</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the parent		6,484,309	(2,047,589)	24,481,870	15,845,764
Non-controlling interests		(12,836)	30,129	(14,088)	12,834
		<b>6,471,473</b>	<b>(2,017,460)</b>	<b>24,467,782</b>	<b>15,858,598</b>
Earnings per share – basic and diluted (in RR)	27	127.98	51.96	398.13	363.73



	Note	Nine months ended	
		30 September 2012	30 September 2011
<b>Operating profit</b>		<b>32,407,514</b>	<b>33,026,927</b>
Income tax paid		(5,690,619)	(5,054,746)
<b>Operating profit less income tax paid</b>		<b>26,716,895</b>	<b>27,972,181</b>
Depreciation and amortisation	23	5,661,375	3,265,923
Net loss on disposals and write-off of property, plant and equipment		222,079	101,948
Impairment of receivables and change of provision for obsolete and damaged inventories		104,314	53,141
Other non-cash (income)/expenses – net		(591,688)	539,015
<b>Gross cash flow</b>		<b>32,112,975</b>	<b>31,932,208</b>
Changes in operating assets and liabilities:			
Trade receivables		658,630	(855,451)
Advances to suppliers		404,802	121,784
Other receivables		122,526	(909,320)
Inventories		1,072,231	(2,454,034)
Trade payables		1,579,150	1,228,315
Advances from customers		(1,248,302)	(498,028)
Other payables		(737,329)	488,404
Restricted cash, other assets and liabilities		(282,794)	(1,170,933)
<b>Net cash – operating activities</b>		<b>33,681,889</b>	<b>27,882,945</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on property, plant and equipment and intangible assets		(18,940,781)	(16,469,727)
Purchase of mineral rights		(166,053)	-
Prepayment for mineral rights		(48,500)	-
Prepayment for other non-current assets		(42,388)	(88,249)
Loan provided to the acquired subsidiary before acquisition		(116,229)	-
Acquisition of subsidiaries, net of cash acquired	29	(31,806,681)	(145,966)
Acquisition of available-for-sale investments	10, 28	(59,607)	-
Proceeds from sale of property, plant and equipment		83,639	35,622
Proceeds from sale of available-for-sale investments	10, 28	20,415,641	2,706,075
Cash proceeds/(payments) on derivatives – net	18	(63,873)	1,317,410
Dividends received and refunded withholding tax on dividends received	10	144,828	452,004
Net change in fixed-term deposits		13,805,272	-
Originated loans	14, 28	(1,927,340)	(3,097,000)
Repayment of originated loans	14	8,221,872	-
Interest received		942,854	103,023
<b>Net cash – investing activities</b>		<b>(9,557,346)</b>	<b>(15,186,808)</b>
<b>Free cash inflow</b>		<b>24,124,543</b>	<b>12,696,137</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	16	12,166,618	52,442,966
Repayment of bank borrowings	16	(3,295,374)	(31,234,477)
Repayment of bonds	17	(8,513,762)	-
Prepaid and additional transaction costs		(10,972)	(12,739)
Interest paid		(3,012,251)	(1,594,290)
Cash proceeds/(payments) on derivatives - net	18	108,048	-
Acquisition of non-controlling interest in oil and gas subsidiary	30	(6,619,999)	-
Acquisition of additional interest in other subsidiaries		(44)	(38,572)
Purchase of own shares	28	-	(29,671,667)
Prepayments for treasury shares	13, 28	(4,260,184)	-
<b>Net cash – financing activities</b>		<b>(13,437,920)</b>	<b>(10,108,779)</b>
Effect of exchange rate changes on cash and cash equivalents		(331,453)	243,486
<b>Net increase in cash and cash equivalents</b>		<b>10,355,170</b>	<b>2,830,844</b>
<b>Cash and cash equivalents at the beginning of the period</b>	15	<b>8,506,949</b>	<b>8,896,623</b>
<b>Cash and cash equivalents at the end of the period</b>	15	<b>18,862,119</b>	<b>11,727,467</b>

The accompanying notes on pages 5 to 29 are an integral part of this consolidated condensed interim financial information.



	Note	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of available-for-sale investments	Retained earnings			
<b>Balance at 1 January 2011</b>		<b>6,800,000</b>	<b>(7,760)</b>	<b>1,239,879</b>	<b>13,330,264</b>	<b>72,818,239</b>	<b>94,180,622</b>	<b>323,896</b>	<b>94,504,518</b>
<b>Comprehensive income/(loss)</b>									
Profit/(loss) for the period		-	-	-	-	24,275,471	24,275,471	(2,300)	24,273,171
<i>Other comprehensive income/(loss)</i>									
Currency translation differences		-	-	1,120,574	-	-	1,120,574	15,134	1,135,708
Revaluation of available-for-sale investments	10	-	-	-	(8,635,847)	-	(8,635,847)	-	(8,635,847)
Disposal of available-for-sale investments	10	-	-	-	(914,434)	-	(914,434)	-	(914,434)
<i>Total other comprehensive income/(loss)</i>		-	-	1,120,574	(9,550,281)	-	(8,429,707)	15,134	(8,414,573)
<b>Total comprehensive income/(loss)</b>		-	-	<b>1,120,574</b>	<b>(9,550,281)</b>	<b>24,275,471</b>	<b>15,845,764</b>	<b>12,834</b>	<b>15,858,598</b>
<b>Transactions with owners</b>									
Repurchase of own shares		-	(29,671,667)	-	-	-	(29,671,667)	-	(29,671,667)
Acquisition of subsidiaries		-	-	-	-	-	-	33,464	33,464
Acquisition of additional interest in subsidiaries		-	-	-	-	8,503	8,503	(47,075)	(38,572)
<b>Total transactions with owners</b>		-	<b>(29,671,667)</b>	-	-	<b>8,503</b>	<b>(29,663,164)</b>	<b>(13,611)</b>	<b>(29,676,775)</b>
<b>Balance at 30 September 2011</b>		<b>6,800,000</b>	<b>(29,679,427)</b>	<b>2,360,453</b>	<b>3,779,983</b>	<b>97,102,213</b>	<b>80,363,222</b>	<b>323,119</b>	<b>80,686,341</b>
<b>Balance at 1 January 2012</b>		<b>6,800,000</b>	<b>(29,679,427)</b>	<b>1,724,223</b>	<b>(273,427)</b>	<b>104,814,215</b>	<b>83,385,584</b>	<b>6,985,154</b>	<b>90,370,738</b>
<b>Comprehensive income/(loss)</b>									
Profit/(loss) for the period		-	-	-	-	24,597,395	24,597,395	(3,803)	24,593,592
<i>Other comprehensive income/(loss)</i>									
Currency translation differences		-	-	(503,454)	-	-	(503,454)	(10,285)	(513,739)
Revaluation of available-for-sale investments	10	-	-	-	956,311	-	956,311	-	956,311
Disposal of available-for-sale investments	10	-	-	-	(568,382)	-	(568,382)	-	(568,382)
<i>Total other comprehensive income/(loss)</i>		-	-	(503,454)	387,929	-	(115,525)	(10,285)	(125,810)
<b>Total comprehensive income/(loss)</b>		-	-	<b>(503,454)</b>	<b>387,929</b>	<b>24,597,395</b>	<b>24,481,870</b>	<b>(14,088)</b>	<b>24,467,782</b>
<b>Transactions with owners</b>									
Acquisition of non-controlling interests in oil and gas subsidiary	30	-	-	-	-	109,832	109,832	(6,792,001)	(6,682,169)
Acquisition of additional interest in other subsidiaries		-	-	-	-	(1)	(1)	(43)	(44)
<b>Total transactions with owners</b>		-	-	-	-	<b>109,831</b>	<b>109,831</b>	<b>(6,792,044)</b>	<b>(6,682,213)</b>
<b>Balance at 30 September 2012</b>		<b>6,800,000</b>	<b>(29,679,427)</b>	<b>1,220,769</b>	<b>114,502</b>	<b>129,521,441</b>	<b>107,977,285</b>	<b>179,022</b>	<b>108,156,307</b>





## 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 business interests beneficially for 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. 7.8% of EuroChem Group S.E. (31 December 2011: 7.8%) is held indirectly 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 of two entities: Lifosa AB, located in Lithuania and EuroChem Antwerpen NV acquired on 31 March 2012, located in Belgium (Note 29).

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

**Basis of preparation of financial information.** This consolidated condensed interim financial information for the nine months ended 30 September 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.

**Functional currency.** The functional currency for the Group’s subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble (“RR”). The Group has significant subsidiaries located in Lithuania, where the functional currency is the Lithuanian Lita (“LTL”) and companies acquired during 2012 in Europe, where the functional currency is the Euro. Financial information of these subsidiaries has been translated into Russian Roubles, the presentation currency, at the applicable exchange rates as required by IAS 21 “The Effects of Changes in Foreign Exchange Rates” for inclusion in these consolidated condensed interim financial information.

At 30 September 2012 the official exchange rates established by the Central Bank of Russia (“CBR”) were: Euro 1 = RR 39.9786 (31 December 2011: Euro 1 = RR 41.6714), LTL 1 = RR 11.5781 (31 December 2011: LTL 1 = RR 12.0684). Average rates for the nine months ended 30 September 2012 were: Euro 1 = RR 39.8329 (nine months ended 30 September 2011: Euro 1 = RR 40.4739), LTL 1 = RR 11.5367 (nine months ended 30 September 2011: LTL 1 = RR 11.7214).

## 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);
- Amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 September 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;



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

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements;
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards – Government loans (issued in March 2012 and effective for periods beginning on or after 1 January 2013);
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 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;
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014);
- Other revised standards and interpretations: The 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.

#### **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.



## 5 Segment information

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 this also comprises hydrocarbon extraction and production. Starting from 31 March 2012, this segment includes the assets and liabilities, and the financial results of EuroChem Antwerpen NV;
- 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 nine months ended 30 September 2012 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	57,415,228	8,689,753	66,104,981	22,563,485
Phosphates	45,571,861	3,585,806	49,157,667	14,005,659
Potash	-	-	-	(397,888)
Distribution	13,152,610	11,579	13,164,189	723,091
Other	8,639,202	14,227,216	22,866,418	2,161,648
Elimination	-	(26,514,354)	(26,514,354)	(176,632)
<b>Total</b>	<b>124,778,901</b>	<b>-</b>	<b>124,778,901</b>	<b>38,879,363</b>

The segmental results for the nine months ended 30 September 2011 were:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	38,888,195	7,247,374	46,135,569	18,449,194
Phosphates	46,145,043	2,908,282	49,053,325	18,996,566
Potash	-	-	-	(470,347)
Distribution	10,910,815	695	10,911,510	676,213
Other	2,325,824	10,334,082	12,659,906	(269,518)
Elimination	-	(20,490,433)	(20,490,433)	(315,849)
<b>Total</b>	<b>98,269,877</b>	<b>-</b>	<b>98,269,877</b>	<b>37,066,259</b>

A reconciliation of total profit before taxation is provided below:

	Note	Nine months ended	
		30 September 2012	30 September 2011
<b>EBITDA</b>		<b>38,879,363</b>	<b>37,066,259</b>
Depreciation and amortisation	23	(5,661,375)	(3,265,923)
Idle property, plant and equipment write-off	6	(139,439)	(55,565)
Write-off of portion of assets at the Gremyachinskoe potash deposit	6	(3,611,387)	-
Gain on disposal of available-for sale investments	10	568,382	914,434
Financial foreign exchange gain/(loss) – net		3,100,404	(3,382,505)
Interest expense		(3,168,159)	(2,018,663)
Other financial gain/(loss) – net	25	999,821	937,914
Non-controlling interest		(3,803)	(2,300)
<b>Profit before taxation</b>		<b>30,963,807</b>	<b>30,193,651</b>



## 5 Segment information (continued)

The analysis of Group sales by region was:

	Nine months ended	
	30 September 2012	30 September 2011
Russia	26,578,563	23,453,357
CIS	10,806,788	12,871,017
Asia	19,655,272	18,685,409
Europe	30,274,799	15,072,070
Latin America	19,445,821	17,340,131
North America	13,741,849	8,242,836
Africa	3,079,754	2,077,075
Australasia	1,196,055	527,982
<b>Total sales</b>	<b>124,778,901</b>	<b>98,269,877</b>

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 nine months ended 30 September 2012 and 30 September 2011.

The Group had sales in excess of 10% to one customer during the nine months ended 30 September 2012 and 30 September 2011. Revenues from this customer represented 12% of total Group revenues for the nine months ended 30 September 2012 (nine months ended 30 September 2011: 11%) and were allocated to the Nitrogen, Phosphates and Other segments (nine months ended 30 September 2011: Nitrogen and Phosphates segments).

## 6 Property, plant and equipment

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

	Note	2012	2011
<b>Carrying amount at 1 January</b>		<b>100,752,901</b>	<b>73,121,566</b>
<i>Including advances given to construction companies and suppliers of property, plant and equipment</i>		6,156,538	5,312,790
Additions		20,013,817	16,842,469
<i>Including change in advances given</i>		(1,116,486)	824,428
Acquisitions through business combination	29	9,581,491	111,000
Disposals		(166,279)	(82,005)
Depreciation charge for the period		(5,748,280)	(3,426,264)
Write-off of portion of assets at the Gremyachinskoe potash deposit			
Write-off of grouting technology costs incurred on cage shaft construction		(3,116,000)	-
Write-off of advances given to construction company		(495,387)	-
Idle property, plant and equipment write-off	21, 24	(139,439)	(55,565)
Currency translation differences		(18,045)	342,721
<b>Carrying amount at 30 September</b>		<b>120,664,779</b>	<b>86,853,922</b>
<i>Including advances given to construction companies and suppliers of property, plant and equipment</i>		4,544,665	6,137,218

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

	30 September 2012	31 December 2011
Construction in progress	40,898,619	39,622,027
Exploration expenses	183,127	75,891
Advances given to construction companies and suppliers of property, plant and equipment	4,544,665	6,156,538
<b>Total assets under construction</b>	<b>45,626,411</b>	<b>45,854,456</b>



## **6 Property, plant and equipment (continued)**

### *Write-off of a portion of the assets at the Gremyachinskoe potash deposit*

Following an earlier termination of the construction contract, in October 2012 the Group filed a claim against Shaft Sinkers (Pty) Ltd. (Shaft Sinkers), seeking US\$ 800 million compensation for the direct costs and substantial lost profits arising from the delay in commencing potash production. This was a result of the inability of Shaft Sinkers to fulfill its contractual obligations and complete the construction of the Gremyachinskoe cage shaft, primarily due to problems with the grouting technology.

In October 2012 Shaft Sinkers presented an interim claim letter to the Group claiming compensation of US\$ 45 million in costs incurred by them up to and inclusive of 30 September 2012 in connection with the termination of the construction contract. Management believes that this claim is without merit.

The above disputes are subject to arbitration as specified in the contract.

An outstanding advance given to Shaft Sinkers of RR 495,387 thousand was written off during the nine months ended 30 September 2012 (nine months ended 30 September 2011: nil).

Due to the failure of the grouting technology employed in the cage shaft construction, expenses previously capitalised, amounting to RR 3,116,000 thousand, were written-off during the nine months ended 30 September 2012 (nine months ended 30 September 2011: nil).

### *Idle property, plant and equipment write-off*

During the nine months ended 30 September 2012 the Group decided to mothball certain production equipment with a net book value of RR 139,439 thousand (nine months ended 30 September 2011: net book value of RR 55,565 thousand) and recognised a loss of RR 139,439 thousand in this consolidated condensed interim financial information (nine months ended 30 September 2011: RR 55,565 thousand) (Note 21, 24).

### *Evaluation expenses at the Darganovsky and Ravninny potash fields*

At 30 September 2012 the Group has capitalised expenses relating to the evaluation stage of the Darganovsky and Ravninny potash fields of RR 183,127 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. In most cases such expenses are paid in the period when the services are provided.

### *Borrowing costs capitalised*

During the nine months ended 30 September 2012 borrowing costs totalling RR 143,165 thousand (nine months ended 30 September 2011: RR 83,802 thousand) were capitalised in property, plant and equipment at an average interest rate of 4.75% p.a. (nine months ended 30 September 2011: 5.65% p.a.).

### *Payables to suppliers of property, plant and equipment*

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 1,169,300 thousand at 30 September 2012 (31 December 2011: RR 765,158 thousand).



## 7 Mineral rights

	30 September 2012	31 December 2011
Rights for exploration and production:		
Verkhnekamskoe potash deposit	4,087,166	4,087,166
Gremyachinskoe potash deposit	3,017,781	3,017,781
Kok-Jon and Gimmelfarbskoe phosphate deposits	1,118,255	-
Kovdorsky apatite deposits	166,549	166,549
Rights for exploration, evaluation and extraction:		
Yuzhny hydrocarbon deposit	24,495	24,495
Perelyubsko-Rubezhinskiy hydrocarbon deposit	22,116	22,116
Rights for proven and unproven mineral resources:		
Zapadno-Yaroyakhinsky hydrocarbon deposits	6,880,495	6,953,071
Prepayments for licences in Vostochno-Perelyubskiy and Zapadno-Perelyubskiy potash deposits	48,500	-
<b>Total mineral rights</b>	<b>15,365,357</b>	<b>14,271,178</b>

During the nine months ended 30 September 2012 the Group signed a contract with the authorities of the Republic of Kazakhstan for the extraction of phosphate rock at the Kok-Jon and Gimmelfarbskoe deposits in Kazakhstan's Zhambyl region.

## 8 Goodwill

Movements in goodwill arising from the acquisition of subsidiaries are:

	Note	2012	2011
<b>Carrying amount at 1 January</b>		<b>295,275</b>	<b>204,866</b>
Acquisition of subsidiaries	29	10,822,521	90,409
Currency translation differences		185,065	-
<b>Carrying amount at 30 September</b>		<b>11,302,861</b>	<b>295,275</b>

## 9 Intangible assets

Movements in the carrying amount of intangible assets were:

	Note	2012	2011
<b>Carrying amount at 1 January</b>		<b>610,463</b>	<b>814,523</b>
Additions		120,837	354
Acquisitions through business combinations	29	8,208,751	538
Reclassification to assets held for sale	29	(938,668)	-
Amortisation charge for the period		(487,085)	(154,323)
Currency translation differences		(10,322)	2,405
<b>Carrying amount at 30 September</b>		<b>7,503,976</b>	<b>663,497</b>

As at 30 September 2012 an intangible asset, which had been recognised as part of a business combination and amounting to RR 938,668 thousand was reclassified as held for sale following the decision of the Group's management to sell this asset. The transaction is expected to close before the end of 2012.

## 10 Available-for-sale investments, including shares pledged as collateral

At 30 September 2012 available-for-sale investments comprised the shares of K+S Group, a German manufacturer of potassium-based fertilisers and salt.

	30 September 2012	31 December 2011
K+S Group ordinary shares	2,172,004	11,044,815
K+S Group ordinary shares pledged as collateral	896,272	11,423,184
<b>Total available-for-sale investments</b>	<b>3,068,276</b>	<b>22,467,999</b>





## 10 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
<b>Carrying amount at 1 January</b>	<b>22,467,999</b>	<b>37,863,331</b>
Acquisition of available-for-sale investments	59,607	-
Revaluation of available-for-sale investments	956,311	(8,635,847)
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(19,847,259)	(1,791,641)
- reclassification of revaluation to profit and loss	(568,382)	(914,434)
<b>Carrying amount at 30 September</b>	<b>3,068,276</b>	<b>26,521,409</b>

### *K+S Group shares, including shares pledged as collateral*

At 30 September 2012 the Group held 2,005,434 shares, or 1.048% 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 3,068,276 thousand (31 December 2011: RR 22,467,999 thousand) with reference to the share price quoted on the Xetra trading system of Euro 38.27 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 114,502 thousand was recognised in equity at 30 September 2012 (31 December 2011: a negative reserve of RR 273,427 thousand).

During the nine months ended 30 September 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 28) and recognised a gain of RR 568,382 thousand in the profit and loss.

During the second quarter of 2012 the Group acquired 40,455 ordinary shares of K+S Group from a related party for RR 59,607 thousand paid in cash (Note 28).

### *Dividends and withholding tax*

In May 2012 the Group received dividend income from K+S Group of RR 101,676 thousand (nine months ended 30 September 2011: RR 613,927 thousand) before withholding tax of RR 26,817 thousand (nine months ended 30 September 2011: RR 161,923 thousand).

In January 2012 the Group received a refund of withholding tax on dividends paid during 2011. The refund totalled RR 69,969 thousand.

### *K+S Group shares pledged as collateral*

At 30 September 2012 the Group had 585,806 K+S Group shares pledged as collateral for a bank loan with a fair value of RR 896,272 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 16).

At 30 September 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 18).

Therefore, as at 30 September 2012 the total number of K+S Group shares pledged as collateral was 585,806 with a fair value of RR 896,272 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 represented 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.



## 11 Inventories

	30 September 2012	31 December 2011
Materials	6,730,887	5,821,720
Work in progress	1,330,463	1,180,983
Finished goods	9,613,793	6,445,567
Catalysts	2,774,492	1,784,203
Less: provision for obsolete and damaged inventories	(287,114)	(275,074)
<b>Total inventories</b>	<b>20,162,521</b>	<b>14,957,399</b>

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

	30 September 2012	31 December 2011
<b>Trade receivables</b>		
Trade receivables denominated in RR	1,704,393	1,074,277
Trade receivables denominated in US\$	3,576,212	2,306,373
Trade receivables denominated in Euro	6,385,926	119,195
Trade receivables denominated in other currencies	416,309	182,696
Less: impairment provision	(276,748)	(246,628)
<b>Total trade receivables – financial assets</b>	<b>11,806,092</b>	<b>3,435,913</b>
<b>Prepayments, other receivables and other current assets</b>		
Advances to suppliers	3,332,767	3,737,569
VAT recoverable and receivable	5,305,671	5,040,882
Income tax receivable	94,947	198,767
Other taxes receivable	19,023	43,513
Other receivables	970,764	891,306
Less: impairment provision	(152,579)	(161,311)
<b>Subtotal non-financial assets</b>	<b>9,570,593</b>	<b>9,750,726</b>
Interest receivable	54,706	440,036
<b>Subtotal financial assets</b>	<b>54,706</b>	<b>440,036</b>
<b>Total prepayments, other receivables and other current assets</b>	<b>9,625,299</b>	<b>10,190,762</b>
<b>Total trade receivables, prepayments, other receivables and other current assets</b>	<b>21,431,391</b>	<b>13,626,675</b>
including:		
Financial assets	11,860,798	3,875,949
Non-financial assets	9,570,593	9,750,726

## 13 Prepayments for treasury shares

During the third quarter of 2012 the Group paid to EuroChem Group S.E., the parent company of the Group, RR 4,260,184 thousand (Note 28) in order to buy back 718,085 of its own shares, which represented 1.056% of the issued share capital. According to shares sale and purchase agreement the title passed to the Group when the transaction was recorded in the Registrar's account. The transfer of the title of these shares was recorded in October 2012. Additionally, on 25 October 2012 the Group bought back 132,978 of its own shares from EuroChem Group S.E., the parent company of the Group (Note 32).

## 14 Originated loans

	Note	2012	2011
<b>Balance as at 1 January</b>		6,301,867	-
Originated loans to related parties	28	1,927,340	3,097,000
Repayment of loans acquired in a business combination transaction by a third party		(6,301,867)	-
Repayment of originated loans by related parties	28	(1,920,005)	-
Foreign exchange loss		(7,335)	-
<b>Balance as at 30 September</b>		<b>-</b>	<b>3,097,000</b>



## 15 Cash and cash equivalents and fixed-term deposits

	30 September 2012	31 December 2011
Cash on hand and bank balances denominated in RR	1,426,777	1,491,231
Bank balances denominated in US\$	4,261,298	1,849,003
Bank balances denominated in Euro	10,612,234	1,278,936
Balances denominated in other currencies	286,448	250,026
Term deposits denominated in RR	939,092	1,633,327
Term deposits denominated in US\$	497,457	1,320,939
Term deposits denominated in Euro	433,046	445,277
Term deposits denominated in other currencies	405,767	238,210
<b>Total cash and cash equivalents</b>	<b>18,862,119</b>	<b>8,506,949</b>
Fixed-term deposits in RR	946,342	13,550,300
Fixed-term deposits in US\$	5,379,540	7,283,471
Fixed-term deposits in Euro	101,690	32,139
<b>Total fixed-term deposits</b>	<b>6,427,572</b>	<b>20,865,910</b>
Current restricted cash	324,297	77,238
Non-current restricted cash	43,715	7,980
<b>Total restricted cash</b>	<b>368,012</b>	<b>85,218</b>

Term deposits at 30 September 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 30 September 2012 current restricted cash totalling RR 324,297 thousand held at banks consisted of RR 293,825 thousand to meet the next principal and interest payments on bank borrowings and of RR 30,472 thousand (31 December 2011: RR 77,238 thousand) to comply with statutory regulations.

At 30 September 2012 RR 43,715 thousand of non-current restricted cash (31 December 2011: RR 7,980 thousand) was held in bank accounts as security deposits for third parties.

## 16 Bank borrowings

	2012	2011
<b>Balance as at 1 January</b>	<b>77,395,339</b>	<b>24,054,601</b>
Bank loans received, denominated in US\$	12,041,505	47,580,319
Bank loans received, denominated in Euro	125,113	4,862,647
Bank loans repaid, denominated in US\$	-	(31,234,477)
Bank loans repaid, denominated in Euro	(3,295,374)	-
Capitalisation and amortisation of transaction costs - net	177,275	403,186
Foreign exchange (gain)/loss - net	(2,832,406)	2,918,080
<b>Balance as at 30 September</b>	<b>83,611,452</b>	<b>48,584,356</b>

	30 September 2012	31 December 2011
<b>Current bank borrowings</b>		
Short-term bank loans, denominated in Euro	599,679	4,167,140
Short-term bank loans, denominated in US\$	9,120,486	-
Current portion of long-term bank loans in US\$	3,211,534	-
Current portion of long-term bank loans in Euro	71,794	-
Less: short-term portion of transaction costs	(241,947)	-
<b>Total current bank borrowings</b>	<b>12,761,546</b>	<b>4,167,140</b>
<b>Non-current bank borrowings</b>		
Long-term bank loans, denominated in RR	20,000,000	20,000,000
Long-term bank loans, denominated in US\$	50,671,394	53,430,421
Long-term bank loans, denominated in Euro	1,364,086	1,365,495
Less: long-term portion of transaction costs	(1,185,574)	(1,567,717)
<b>Total non-current bank borrowings</b>	<b>70,849,906</b>	<b>73,228,199</b>
<b>Total bank borrowings</b>	<b>83,611,452</b>	<b>77,395,339</b>



## **16 Bank borrowings (continued)**

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 30 September 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 30 September 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. In April 2012 due to the termination of the construction contract the unutilised part of the facility was cancelled and at 30 September 2012 the outstanding amount was US\$ 109.5 million (31 December 2011: US\$ 109.5 million).

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 30 September 2012 the outstanding amount was US\$ 250 million (31 December 2011: US\$ 250 million).

In May 2012 the Group signed a US\$ 100 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor. As at 30 September 2012 the facility is fully utilised.

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. As at 30 September 2012 the facility is fully utilised.

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 30 September 2012 Euro 35.9 million of the facility has been utilised (31 December 2011: Euro 32.8 million).

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 nine months ended 30 September 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 30 September 2012 the outstanding amount was Euro 15 million.

In May 2012 the Group signed a US\$ 75 million framework agreement for a 2-year revolving facility bearing a floating interest rate based on Libor. As at 30 September 2012 the facility is fully utilised.

In September 2012 the Group signed a US\$ 120 million 1-year credit line agreement bearing a floating interest rate based on 3-month Libor. As at 30 September 2012 the facility is fully utilised.



## 16 Bank borrowings (continued)

### Collaterals and pledges

At 30 September 2012 collaterals comprised cash balances of RR 293,825 thousand restricted by banks to secure the next principal and interest payments (31 December 2011: nil) (Note 15).

A bank loan of RR 40,191,969 thousand and RR 41,854,930 thousand at 30 September 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 599,679 thousand at 30 September 2012 (31 December 2011: RR 4,167,140 thousand) was secured by K+S Group shares as collateral represented by 585,806 shares with a fair value of RR 896,272 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 10).

The Group's bank borrowings mature:

	30 September 2012	31 December 2011
- within 1 year	12,761,546	4,167,140
- between 1 and 2 years	18,292,285	7,325,334
- between 2 and 5 years	50,778,861	63,826,082
- more than 5 years	1,778,760	2,076,783
<b>Total bank borrowings</b>	<b>83,611,452</b>	<b>77,395,339</b>

## 17 Bonds issued

	30 September 2012	31 December 2011
<u>Current bonds</u>		
7.875% US\$-denominated bonds due March 2012	-	9,336,869
Less: transaction costs	-	(4,628)
<b>Total current bonds</b>	<b>-</b>	<b>9,332,241</b>
<u>Non-current bonds</u>		
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	(31,399)	(35,344)
<b>Total non-current bonds</b>	<b>9,968,601</b>	<b>9,964,656</b>
<b>Total bonds issued</b>	<b>9,968,601</b>	<b>19,296,897</b>

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.

## 18 Derivative financial assets and liabilities

At 30 September 2012 the non-current derivative financial assets were represented by RR/US\$ non-deliverable forward contracts accounted for at a fair value of RR 690,845 thousand (31 December 2011: RR 124,353 thousand). At 30 September 2012 the current derivative financial assets were represented by EUR/US\$ deliverable forward contracts accounted for at a fair value of RR 35,426 thousand (a nominal amount of US\$ 37,215 thousand).

At 30 September 2012 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 139,411 thousand and RR 22,164 thousand, respectively (31 December 2011: RR 324,493 thousand and RR 169,246 thousand, respectively). At 30 September 2012 the current derivative financial liabilities were represented by EUR/US\$ deliverable forward contracts accounted for at a fair value of RR 842 thousand (a nominal amount of US\$ 1,245 thousand).





## 18 Derivative financial assets and liabilities (continued)

At 31 December 2011 the current derivative financial liabilities were represented by EUR/US\$ non-deliverable forward contracts accounted for at a fair value of 167,044 thousand and European call options over K+S Group ordinary shares accounted for at a fair value of RR 6 thousand.

At 30 September 2012 the derivative financial assets and liabilities were:

	Assets		Liabilities	
	non-current	current	non-current	current
RR/US\$ non-deliverable forward contracts	690,845	-	22,164	-
EUR/US\$ deliverable forward contracts	-	35,426	-	842
Cross currency interest rate swap	-	-	139,411	-
<b>Total</b>	<b>690,845</b>	<b>35,426</b>	<b>161,575</b>	<b>842</b>

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
<b>Total</b>	<b>124,353</b>	<b>-</b>	<b>493,739</b>	<b>167,050</b>

Movements in the carrying amount of derivative financial assets/(liabilities) were:

	1 January 2012	Derivatives acquired as result of business combination	Changes in the fair value	Cash payments/ (proceeds) on derivatives – net	30 September 2012
<i>Operating activities</i>					
Foreign exchange deliverable forward contracts – net	-	(55,546)	30,720	59,410	34,584
<b>Total derivatives in operating activities</b>	<b>-</b>	<b>(55,546)</b>	<b>30,720</b>	<b>59,410</b>	<b>34,584</b>
<i>Investing activities</i>					
Foreign exchange non-deliverable forward contracts – net	(187,265)	-	186,144	63,873	62,752
Option contracts over K+S Group ordinary shares	(6)	-	6	-	-
<b>Total derivatives in investing activities</b>	<b>(187,271)</b>	<b>-</b>	<b>186,150</b>	<b>63,873</b>	<b>62,752</b>
<i>Financing activities</i>					
Cross currency interest rate swap	(324,493)	-	293,130	(108,048)	(139,411)
Foreign exchange non-deliverable forward contracts – net	(24,672)	-	630,601	-	605,929
<b>Total derivatives in financing activities</b>	<b>(349,165)</b>	<b>-</b>	<b>923,731</b>	<b>(108,048)</b>	<b>466,518</b>
<b>Total derivative financial assets and liabilities – net</b>	<b>(536,436)</b>	<b>(55,546)</b>	<b>1,140,601</b>	<b>15,235</b>	<b>563,854</b>

Changes in fair value of derivative financial assets and liabilities in investing and financing activities amounted to RR 1,109,881 thousand and were recognised within other financial gain/(loss) (Note 25). Changes in fair value of other derivatives related to operating activities of the Group amounted to RR 30,720 thousand and were recognised within other operating income and expenses.





*Derivatives in operating activities*

As a result of the acquisition of the EuroChem Agro companies (Note 29) the Group acquired deliverable EUR/US\$, US\$/EUR, and EUR/TRY forward contracts which represented current liabilities and were accounted for at fair value of RR 55,546 thousand (a nominal amount of US\$ 165,066 thousand, EUR 17,130 thousand and TRY 1,615 thousand, respectively).

During the period between the acquisition date and 30 September 2012, part of the deliverable forward contracts for RR 56,401 thousand (a nominal amount of US\$ 126,606 thousand), RR 3,127 thousand (a nominal amount of EUR 17,130 thousand) and RR 118 thousand (a nominal amount of TRY 1,615 thousand) matured.

The purpose of these transactions is to reduce risks arising from foreign currency volatility on operating activity.

*Derivatives in investing and financing activities*

**Cross currency interest rate swap.** As at 30 September 2012 the Group has recognised a net gain of RR 185,082 thousand (Note 25), comprising of a gain from revaluation of the cross currency interest rate swap amounting to RR 293,130 thousand and net interest income of RR 108,048 thousand.

**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 10), which matured in January and February 2012. These call options were not exercised.

At 30 September 2012 the Group did not have outstanding call options over K+S Group ordinary shares (Note 10).

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

During the nine months ended 30 September 2012 the Group had conducted the following transactions in non-deliverable forward contracts:

- entered into EUR/US\$ and RR/EUR non-deliverable forward contracts to buy a nominal amount of Euro 100 million and Euro 709.8 million, respectively;
- entered into two types of RR/US\$ non-deliverable forward contracts to buy a nominal amount of US\$ 100 million and RR 14,100 million;
- 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;
- received proceeds of RR 25,614 thousand for matured RR/EUR non-deliverable forward contracts of Euro 179.5 million.

At 30 September 2012 the Group had RR/US\$ non-deliverable forward contracts for a nominal amount of RR 25,600 million with contractual settlement dates varying from September 2014 to September 2016.



## 19 Other non-current liabilities and deferred credits

	30 September 2012	31 December 2011
Deferred payable related to business combination	5,233,409	-
Deferred payable related to mineral rights acquisition	824,522	-
Provisions for age premium, retirement benefits, pensions and similar obligations	664,008	448,928
Provision for land restoration liability	301,540	283,400
Deferred income – Investment grant received	139,656	162,649
<b>Total other non-current liabilities and deferred credits</b>	<b>7,163,135</b>	<b>894,977</b>

## 20 Sales

The components of external sales were:

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
<b>Nitrogen</b>				
Nitrogen fertilisers	13,668,763	11,139,160	37,744,404	29,620,454
Organic synthesis products	1,669,061	2,104,524	5,496,234	5,677,757
Complex fertilisers group	5,827,346	1,269,866	10,779,948	3,056,166
Hydrocarbons	400,859	-	1,341,903	-
Phosphates	514,579	-	628,082	-
Other goods	330,571	130,535	947,075	346,873
Other services	126,888	63,097	477,582	186,945
	<b>22,538,067</b>	<b>14,707,182</b>	<b>57,415,228</b>	<b>38,888,195</b>
<b>Phosphates</b>				
Phosphates	7,851,814	8,525,487	25,710,732	24,241,331
Iron ore concentrate	3,543,336	6,496,513	13,867,299	16,585,008
Feed phosphates group	986,704	914,402	3,312,596	2,923,483
Apatite concentrate	357,743	310,640	987,401	824,338
Baddeleyite concentrate	205,422	329,486	751,190	790,369
Complex fertilisers group	-	887	738	887
Other goods	237,971	189,522	633,134	427,192
Other services	64,058	83,263	308,771	352,435
	<b>13,247,048</b>	<b>16,850,200</b>	<b>45,571,861</b>	<b>46,145,043</b>
<b>Distribution</b>				
Nitrogen fertilisers	1,529,054	590,233	6,578,078	4,379,170
Phosphates	1,513,648	1,067,363	2,828,605	2,281,374
Complex fertilisers group	1,313,009	1,276,527	2,336,528	2,989,787
Feed phosphates group	77,299	66,057	205,352	141,340
Organic synthesis products	852	2,400	7,397	9,542
Other goods	284,964	284,971	1,194,311	1,104,605
Other services	122	993	2,339	4,997
	<b>4,718,948</b>	<b>3,288,544</b>	<b>13,152,610</b>	<b>10,910,815</b>
<b>Others</b>				
Nitrogen fertilisers	5,816,994	833,980	6,758,836	1,054,240
Organic synthesis products	-	61,509	-	61,509
Phosphates	-	-	45,581	-
Complex fertilisers group	6,358	-	6,358	27,342
Logistic services	161,082	81,085	474,842	182,337
Other goods	439,846	206,194	945,904	638,886
Other services	173,176	155,929	407,681	361,510
	<b>6,597,456</b>	<b>1,338,697</b>	<b>8,639,202</b>	<b>2,325,824</b>
<b>Total sales</b>	<b>47,101,519</b>	<b>36,184,623</b>	<b>124,778,901</b>	<b>98,269,877</b>



## 21 Cost of sales

The components of cost of sales were:

	Note	Three months ended		Nine months ended	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
Materials and components used or resold		20,493,503	10,657,088	45,661,484	29,285,513
Energy		1,732,102	1,461,588	5,053,217	4,925,365
Utilities and fuel		889,283	723,758	3,142,679	2,598,681
Labour, including contributions to social funds		2,289,658	1,806,972	7,112,266	5,780,239
Depreciation and amortisation		1,796,563	932,380	4,556,342	2,681,300
Repairs and maintenance		790,563	301,997	1,532,238	679,144
Production overheads		534,778	554,441	1,635,795	1,260,156
Property tax, rent payments for land and related taxes		417,963	213,551	1,212,043	787,717
Idle property, plant and equipment write-off	6	23,162	37,449	103,314	55,565
Provision/(reversal of provision) for obsolete and damaged inventories	11	20,299	10,261	12,040	(19,046)
Changes in work in progress and finished goods		468,709	86,332	1,469,043	(678,208)
Other costs		101,354	68,207	328,822	188,850
<b>Total cost of sales</b>		<b>29,557,937</b>	<b>16,854,024</b>	<b>71,819,283</b>	<b>47,545,276</b>

## 22 Distribution costs

Distribution costs comprised:

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Transportation	4,773,705	4,950,474	13,691,104	11,583,448
Export duties, other fees and commissions	39,661	122,825	154,706	171,761
Labour, including contributions to social funds	512,708	270,260	1,207,535	795,706
Depreciation and amortisation	322,290	140,238	784,997	324,292
Repairs and maintenance	182,125	173,994	421,881	412,014
Provision/(reversal of provision) for impairment of receivables	(730)	(9,226)	867	(6,835)
Other costs	407,456	275,426	825,238	511,269
<b>Total distribution costs</b>	<b>6,237,215</b>	<b>5,923,991</b>	<b>17,086,328</b>	<b>13,791,655</b>

## 23 General and administrative expenses

General and administrative expenses comprised:

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Labour, including contributions to social funds	574,617	617,580	1,953,429	1,818,418
Depreciation and amortisation	125,116	43,317	320,036	260,331
Audit, consulting and legal services	115,796	89,654	447,116	194,099
Rent	33,380	27,310	93,931	82,497
Bank charges	25,151	27,965	77,616	82,641
Social expenditure	51,073	83,363	96,595	116,326
Repairs and maintenance	19,876	10,507	52,063	56,874
Provision/(reversal of provision) for impairment of receivables	50,648	76,016	(5,168)	79,022
Other expenses	321,441	269,656	808,220	760,585
<b>Total general and administrative expenses</b>	<b>1,317,098</b>	<b>1,245,368</b>	<b>3,843,838</b>	<b>3,450,793</b>



## 23 General and administrative expenses (continued)

The total depreciation and amortisation expenses included in all captions of the consolidated condensed statement of comprehensive income amounted to RR 5,661,375 thousand (nine months ended 30 September 2011: RR 3,265,923 thousand). The total staff costs (including social expenses) amounted to RR 10,273,230 thousand (nine months ended 30 September 2011: RR 8,394,363 thousand).

## 24 Other operating income and expenses

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

	Note	Three months ended		Nine months ended	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
Gain on disposal of property, plant and equipment		(42,785)	(41)	(59,887)	(68,383)
Sponsorship		144,153	103,428	370,233	352,817
Foreign exchange (gain)/loss – net		786,702	(247,850)	64,177	472,741
Idle property, plant and equipment write-off	6	(11,277)	-	36,125	-
Gain on sales and purchases of foreign currencies		(93,637)	(142,886)	(292,615)	(233,763)
Other operating (income)/expense – net		(104,136)	11,414	(496,095)	(68,186)
<b>Total other operating (income)/expenses – net</b>		<b>679,020</b>	<b>(275,935)</b>	<b>(378,062)</b>	<b>455,226</b>

## 25 Other financial gain/(loss)

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

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Changes in the fair value of call options	-	303,092	6	499,979
Changes in the fair value of foreign exchange non-deliverable forward contracts	1,091,563	7,402	816,745	793,003
Changes in the fair value of cross currency interest rate swap	376,584	(1,096,418)	293,130	(336,108)
Unwinding of discount on land restoration obligation and deferred payables	(58,870)	(6,493)	(110,060)	(18,960)
<b>Total other financial gain/(loss) – net</b>	<b>1,409,277</b>	<b>(792,417)</b>	<b>999,821</b>	<b>937,914</b>

## 26 Income tax

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Income tax expense – current	1,686,838	2,139,102	5,583,530	5,812,184
Deferred income tax – (origination)/reversal of temporary differences	513,448	(618,169)	970,617	141,002
Effect of assets transfer between subsidiaries with different tax rates	-	-	(183,932)	-
Effect of the change in the tax rate	-	(32,706)	-	(32,706)
<b>Income tax expense</b>	<b>2,200,286</b>	<b>1,488,227</b>	<b>6,370,215</b>	<b>5,920,480</b>

The most of the Group companies located in the Russian Federation were subject to a tax rate of 20% on taxable profits during the nine months ended 30 September 2012 (nine months ended 30 September 2011: 20%).



## 26 Income tax (continued)

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 in accordance with the regional tax law and an agreement with a regional authority, respectively. As at 30 September 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.

For the subsidiaries located outside the Russian Federation tax rates on taxable profit range from 10% to 37.8%, including two major manufacturing entities Lifosa AB, located in Lithuania, and EuroChem Antwerpen NV, acquired on 31 March 2012 and located in Belgium, which apply tax rates of 15% and 33.99% on taxable profits, respectively (nine months ended 30 September 2011: Lifosa AB is subject to a tax rate of 15% on taxable profit).

During the nine months ended 30 September 2012 the Group offset VAT and other tax receivables against income tax payables of RR 108,361 thousand under the statutory rules (nine months ended 30 September 2011: RR 23,487 thousand).

## 27 Earnings per share

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

	Three months ended		Nine months ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Net profit for the period attributable to owners of the parent	7,907,261	3,390,985	24,597,395	24,275,471
Weighted average number of ordinary shares in issue (expressed in thousands)	61,783	65,257	61,783	66,741
<b>Basic and diluted earnings per share (expressed in RR per share)</b>	<b>127.98</b>	<b>51.96</b>	<b>398.13</b>	<b>363.73</b>

## 28 Balances and transactions with related parties

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

Financial statements caption	Nature of relationship	30 September 2012	31 December 2011
<b>Statement of financial position caption</b>			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	-	153
Trade receivables	Other related parties	16,647	17,518
less: impairment provision on trade receivables	Other related parties*	(16,594)	(17,518)
Prepayments, other receivables and other current assets	Other related parties	834	62,248
less: impairment provision on other receivables	Other related parties*	-	(53,484)
Prepayments for treasury shares (Note 13)	Parent company	4,260,184	-
Bonds issued	Other related parties	-	24,147
Trade payables	Other related parties	2,678	2,463

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



## 28 Balances and transactions with related parties (continued)

Financial statements caption	Nature of relationship	Three months ended		Nine months ended	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
<b>Statement of comprehensive income caption</b>					
Sales	Other related parties	71,330	169	71,918	45,914
Purchases of goods and services	Other related parties	33	(9)	(70)	(2,554)
Distribution costs	Other related parties	(3,232)	(44,189)	(21,807)	(88,726)
Interest income	Other related parties	11,902	9,333	11,902	9,333

Financial statements caption	Nature of relationship	Nine months ended	
		30 September 2012	30 September 2011
<b>Statement of cash flows caption</b>			
(Increase)/decrease in trade receivables	Other related parties	871	(1,554)
(Increase)/decrease in other receivables	Other related parties	61,414	(13,040)
Decrease in trade payables	Other related parties	(15)	(82)
Decrease in advances from customers	Other related parties	-	(1,380)
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(3,798)	(27,768)
Acquisition of available-for-sale investment (Note 10)	Other related parties	(59,607)	-
Originated loans (Note 14)	Other related parties*	(1,927,340)	(3,097,000)
Repayment of originated loans (Note 14)	Other related parties*	1,920,005	-
Repayment of bonds	Other related parties	(22,018)	-
Interest received	Other related parties	12,247	-
Proceeds from sale of available-for-sale investments (Note 10)	Parent company	20,415,641	2,649,247
Prepayment for own shares (Note 13)	Parent company	(4,260,184)	-
Purchase of own shares	Parent company	-	(29,671,667)

\* Related parties represented by the companies under common control with the Group during nine months ended 30 September 2012.

In the first quarter of 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 249,784 thousand and RR 277,034 thousand for the nine months ended 30 September 2012 and 30 September 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.

## 29 Business combinations

### *Acquisition of EuroChem Antwerpen NV*

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. This acquisition supports the Group's strategy of increasing its proximity to customers in its core fertiliser markets. The assets acquired comprise production and related logistics facilities for nitric acid, complex (NPK) and nitrogen (CAN, AN) fertilisers.

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.





## 29 Business combinations (continued)

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

	Cash payments in thousands Euro	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 the initial transaction structure - including: <i>deferred portion payable over 2013-2016</i>	174,640 142,240	6,836,542 5,571,640
Net working capital adjustment, paid in the second quarter 2012	48,500	1,899,779
<b>Total purchase consideration</b>	<b>893,140</b>	<b>34,893,255</b>
Less: adjustment of the deferred portion to present value	(12,640)	(495,118)
<b>Total fair value of purchase consideration</b>	<b>880,500</b>	<b>34,398,137</b>
Cash paid during nine months ended 30 September 2012	750,900	29,400,172
Less: cash and cash equivalents of subsidiary acquired	(289)	(11,314)
<b>Outflow of cash and cash equivalents during nine months ended 30 September 2012</b>	<b>750,611</b>	<b>29,388,858</b>

The provisional purchase price allocation for the acquisition was:

	Attributed fair value in thousands Euro	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
<b>Fair value of net assets of subsidiary</b>	<b>622,545</b>	<b>24,385,519</b>
Goodwill arising from the acquisition	257,955	10,104,281
Currency translation difference recognised in other comprehensive income	-	(91,663)
<b>Total fair value of purchase consideration</b>	<b>880,500</b>	<b>34,398,137</b>

This transaction included a contract with K+S Group 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 in 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 for property, plant and equipment and intangible assets 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	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
<b>Total intangible assets</b>	<b>122,340</b>	<b>4,792,152</b>

The Group has recognised goodwill of Euro 257,955 thousand which is primarily attributable to the beneficial location of the production facilities, the 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.



## 29 Business combinations (continued)

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 132 million for the year ended 31 December 2011 and for the nine months ended 30 September 2012, respectively, and were charged to general and administrative expenses.

For the period from the date of acquisition to 30 September 2012 EuroChem Antwerpen NV contributed to the Group revenue an amount of RR 12,324,968 thousand (including intragroup sales of RR 6,698,511 thousand), EBITDA an amount of RR 1,646,835 thousand and net profit an amount of RR 346,229 thousand. If the acquisition had occurred on 1 January 2012, the Group's consolidated revenue, EBITDA and net profit would not have changed significantly as fertiliser production assets were transferred into this newly incorporated legal entity at the end of March 2012.

### *Acquisition of K+S Nitrogen*

On 2 July 2012 the Group completed the acquisition of 100% of the K+S Nitrogen business after the relevant antitrust authority gave the approval on 25 June 2012. After the acquisition, the business was renamed to Eurochem Agro, operating as a trading company specialising in nitrogen fertilisers in Germany, France, Spain, Italy, Greece, Turkey, Mexico, Singapore and China. The acquisition supports the Group's strategy of increasing its proximity to customers in its core fertiliser markets, while further bolstering the company's product offering.

The total purchase consideration for 100% of the shares of the business acquired amounted to Euro 195,655 thousand paid in cash. Additionally, the Group made a prepayment of Euro 50 thousand for a subsidiary located in China. At the moment this legal entity is in the process of incorporation.

The provisional purchase price allocation for the acquisition was:

	<b>Attributed fair value in thousands Euro</b>	<b>Attributed fair value in thousands RR</b>
Cash and cash equivalents	137,145	5,667,247
Trade receivables	242,271	10,011,363
Inventories	84,428	3,488,838
Property, plant and equipment	3,298	136,270
Intangible assets	82,680	3,416,599
Other receivables and other current assets	14,223	587,744
Trade payables	(301,670)	(12,465,927)
Other accounts payables and accrued expenses	(49,259)	(2,035,547)
Tax payable	(9,470)	(391,308)
Provision for age premium, pensions and similar obligations	(3,776)	(156,055)
Derivative financial assets/(liabilities) – net	(1,344)	(55,546)
Deferred tax assets	1,689	69,810
Deferred tax liability	(21,941)	(906,658)
<b>Fair value of net assets of subsidiaries</b>	<b>178,274</b>	<b>7,366,830</b>
Goodwill arising from the acquisition	17,381	718,240
<b>Total purchase consideration</b>	<b>195,655</b>	<b>8,085,070</b>
Less: Cash and cash equivalents of subsidiaries acquired	137,145	5,667,247
<b>Outflow of cash and cash equivalents on acquisition</b>	<b>58,510</b>	<b>2,417,823</b>

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



## 29 Business combinations (continued)

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

	Fair value in thousands Euro	Fair value in thousands RR
Customer relationships	41,344	1,708,463
Supplier and Manufacturer Relationships	24,597	1,016,435
Technology – patented & unpatented	10,538	435,454
Trademarks	4,538	187,534
Other intangible assets	1,663	68,713
<b>Total intangible assets</b>	<b>82,680</b>	<b>3,416,599</b>

As at 30 September 2012 an intangible asset recognised on supplier and manufacturer relationships was reclassified as an asset held for sale (Note 9).

The Group has recognised goodwill of Euro 17,381 thousand which is primarily attributable to the efficient distribution structure, an experienced work force and other factors which are expected to result in higher profitability of the acquired business than was assumed in determining the fair values of assets and liabilities acquired.

During the nine months ended 30 September 2012 transaction costs for acquisition-related services provided by third parties amounted to approximately RR 77 million and were charged to general and administrative expenses.

EuroChem Agro contributed revenue, EBITDA and net profit to the Group an amount of RR 12,226,091 thousand, RR 257,606 thousand and RR 97,898 thousand, respectively, for the period from the date of acquisition to 30 September 2012. If the acquisition had occurred on 1 January 2012, the Group's consolidated revenue, EBITDA and net profit for nine months ended 30 September 2012 would have increased by approximately RR 26,143 million, RR 1,896 million and RR 1,264 million, respectively.

## 30 Acquisition of non-controlling interest in oil and gas subsidiary

In the fourth quarter of 2011 the Group obtained control of LLC Severneft-Urengoy 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.

## 31 Contingencies, commitments and operating risks

### i Capital expenditure commitments

As at 30 September 2012 the Group had contractual commitments for capital expenditures of RR 14,573,174 thousand (31 December 2011: RR 21,603,857 thousand), including amounts denominated in Euro and US\$ (RR 4,825,591 thousand and RR 614,045 thousand, respectively). Management estimates that, out of these, approximately RR 6.7 billion will represent cash outflows in 2012.



### **31 Contingencies, commitments and operating risks (continued)**

#### **i Capital expenditure commitments (continued)**

RR 5,246,688 thousand and RR 4,331,118 thousand out of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Greymachinskoe 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.

Amended Russian transfer pricing legislation is effective 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. The new legislation provides the possibility for 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 on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions 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 differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

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

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 30 September 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 30 September 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.



### **31 Contingencies, commitments and operating risks (continued)**

#### **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 has voluntarily insured construction risks for the cage and skip mine shafts at the Gremyachinskoe deposit for RR 16.7 billion. The insurance covers a substantial part of the risks related to sinking of the two shafts for the period from June 2011 to 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.

#### **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.

In October 2012 the Group filed a claim against Shaft Sinkers, the contractor involved in the construction of the mining shafts at the Gremyachinskoe potash deposit, due to the inability of that construction company to fulfill its contractual obligations. In October 2012 Shaft Sinkers presented a demand letter to the Group claiming compensation of US\$ 45 million for the termination of the construction contract (Note 6).

#### **vi Operating environment of the Group**

The Group operates in the fertilisers industry primarily in the Russian Federation and European countries. The highly competitive nature of the market makes prices of the key Group products relatively volatile.

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 future economic development is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the 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.



## **31 Contingencies, commitments and operating risks (continued)**

### **vi Operating environment of the Group (continued)**

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.

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.

## **32 Subsequent events**

On 25 October 2012 the Group signed a sale and purchase agreement with EuroChem Group S.E, the parent company of the Group, to buy back 132,978 of its own shares, which represented 0.1956% of the issued share capital, for RR 781,243 thousand (Note 13).