EUROCHEM GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

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

31 MARCH 2011

Contents

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Auditor's Report on the Review of the Consolidated Condensed Interim Financial Information for the Three months ended 31 March 2011

To the Shareholders and Board of Directors of EuroChem Group:

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of Open Joint Stock Company Mineral Chemical Company "EuroChem" and its subsidiaries (together, the "Group") as at 31 March 2011 and the related consolidated condensed statements of comprehensive income, cash flows and changes in equity for the three month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed 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 consolidated condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

24 May 2011
Moscow, Russian Federation

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

	Note	31 March 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	6	75,451,690	73,121,566
Mineral rights		7,318,107	7,318,107
Goodwill		204,866	204,866
Intangible assets		790,621	814,523
Restricted cash	10	178,015	143,898
Available-for-sale investments	7	34,658,864	36,954,062
Available-for-sale investments pledged as collateral	7	426,398	909,269
Derivative financial assets	13	475,080	-
Deferred income tax assets		723,849	969,064
Total non-current assets		**120,227,490**	**120,435,355**
Current assets:			
Inventories	8	10,347,716	9,827,892
Trade receivables	9	3,548,701	2,710,818
Prepayments, other receivables and other current assets	9	7,021,656	7,523,132
Derivative financial assets	13	577,168	36,751
Restricted cash	10	70,838	37,461
Cash and cash equivalents	10	12,252,529	8,896,623
Total current assets		**33,818,608**	**29,032,677**
TOTAL ASSETS		**154,046,098**	**149,468,032**
LIABILITIES AND EQUITY			
Equity attributable to owners of the parent:			
Share capital		6,800,000	6,800,000
Treasury shares		(7,760)	(7,760)
Retained earnings and other reserves		96,152,403	87,388,382
		102,944,643	**94,180,622**
Non-controlling interests		306,357	323,896
Total equity		**103,251,000**	**94,504,518**
Non-current liabilities:			
Bank borrowings	11	8,179,563	11,464,834
Bonds issued	12	9,960,687	18,772,380
Deferred income tax liabilities		2,363,186	1,908,932
Other non-current liabilities and deferred credits		801,860	795,321
Total non-current liabilities		**21,305,296**	**32,941,467**
Current liabilities:			
Bank borrowings	11	11,732,050	12,589,767
Bonds issued	12	8,223,676	-
Derivative financial liabilities	13	52,001	127,981
Trade payables		2,500,957	2,182,951
Other accounts payable and accrued expenses		5,195,674	5,860,875
Income tax payable		982,610	682,050
Other taxes payable		802,834	578,423
Total current liabilities		**29,489,802**	**22,022,047**
Total liabilities		**50,795,098**	**54,963,514**
TOTAL LIABILITIES AND EQUITY		**154,046,098**	**149,468,032**

Approved on behalf of the Board of Directors
24 May 2011

D.S. Strezhnev
Chief Executive Officer

A.A. Ilyin
Chief Financial Officer

The accompanying notes on pages 5 to 20 are an integral part of this consolidated condensed interim financial information.

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

	Note	Three months ended 31 March 2011	Three months ended 31 March 2010
Sales	14	31,219,037	21,609,443
Cost of sales	15	(15,356,157)	(12,726,588)
Gross profit		**15,862,880**	**8,882,855**
Distribution costs	16	(3,627,375)	(3,610,678)
General and administrative expenses	17	(1,171,505)	(931,565)
Other operating income/(expenses)	18	(595,890)	98,755
Operating profit		**10,468,110**	**4,439,367**
Gain on disposal of available-for-sale investments		162,203	71,271
Financial foreign exchange gain/(loss) – net		2,180,497	1,396,356
Interest income		24,176	51,887
Interest expense		(604,932)	(422,574)
Other financial income	19	1,512,344	53,300
Profit before taxation		**13,742,398**	**5,589,607**
Income tax expense	20	(2,394,493)	(1,119,991)
Net profit for the period		**11,347,905**	**4,469,616**
Other comprehensive income/(loss)			
Currency translation differences, net of tax		(111,603)	(879,649)
Revaluation of available-for-sale investments	7	(2,321,291)	953,810
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	7	(162,203)	(71,271)
Total other comprehensive income/(loss) for the period		**(2,595,097)**	**2,890**
Total comprehensive income for the period		**8,752,808**	**4,472,506**
Net profit for the period attributable to:			
Owners of the parent		11,340,035	4,446,814
Non-controlling interests		7,870	22,802
		11,347,905	**4,469,616**
Total comprehensive income/(loss) attributable to:			
Owners of the parent		8,758,847	4,479,470
Non-controlling interests		(6,039)	(6,964)
		8,752,808	**4,472,506**
Earnings per share – basic and diluted (in RR)	21	166.93	65.46

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

	Note	Three months ended 31 March 2011	31 March 2010
Operating profit		**10,468,110**	**4,439,367**
Income tax paid		(1,401,223)	(615,358)
Operating profit less income tax paid		**9,066,887**	**3,824,009**
Depreciation and amortisation	17	1,054,299	781,525
Net loss on disposals and write-off of property, plant and equipment		15,493	39,188
Impairment/(reversal of impairment) of receivables and change of provision for obsolete and damaged inventories		(14,695)	47,277
Other non-cash (income)/expenses		240,331	(393,369)
Gross cash flow		**10,362,315**	**4,298,630**
Changes in operating assets and liabilities:			
Trade receivables		(826,885)	(898,510)
Advances to suppliers		215,652	712,614
Other receivables		294,319	(282)
Inventories		(504,725)	123,489
Trade payables		684,164	166,732
Advances from customers		(239,453)	(299,250)
Other payables		(229,510)	959,091
Other assets and liabilities		(67,494)	(172,184)
Net cash – operating activities		**9,688,383**	**4,890,330**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and other intangible assets		(3,853,532)	(2,994,420)
Proceeds from sale of property, plant and equipment		13,103	6,302
Proceeds from sale of available-for-sale investments	7	456,778	365,846
Proceeds from sale of derivatives		433,673	106,750
Interest received		38,397	42,346
Net cash – investing activities		**(2,911,581)**	**(2,473,176)**
Free cash inflow		**6,776,802**	**2,417,154**
Cash flows from financing activities			
Proceeds from bank borrowings	11	2,260,887	-
Repayment of bank borrowings	11	(4,821,318)	(4,695,321)
Prepaid and additional transaction costs		(3,131)	(755)
Interest paid		(479,561)	(530,980)
Acquisition of interest in subsidiaries		(6,326)	(90,081)
Net cash – financing activities		**(3,049,449)**	**(5,317,137)**
Effect of exchange rate changes on cash and cash equivalents		(371,447)	(371,368)
Net increase/(decrease) in cash and cash equivalents		**3,355,906**	**(3,271,351)**
Cash and cash equivalents at the beginning of the period	**10**	**8,896,623**	**10,676,772**
Cash and cash equivalents at the end of the period	**10**	**12,252,529**	**7,405,421**

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

		Attributable to owners of the parent							
	Note	Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of available-for-sale investments	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2010		**6,800,000**	**(7,760)**	**1,884,761**	**5,095,017**	**58,664,359**	**72,436,377**	**758,683**	**73,195,060**
Comprehensive income									
Profit for the period		-	-	-	-	4,446,814	4,446,814	22,802	4,469,616
Other comprehensive income/(loss)									
Currency translation differences		-	-	(849,883)	-	-	(849,883)	(29,766)	(879,649)
Revaluation of available-for-sale investments	7	-	-	-	953,810	-	953,810	-	953,810
Disposal of available-for-sale investments	7	-	-	-	(71,271)	-	(71,271)	-	(71,271)
Total other comprehensive income/(loss)		-	-	(849,883)	882,539	-	32,656	(29,766)	2,890
Total comprehensive income/(loss)		**-**	**-**	**(849,883)**	**882,539**	**4,446,814**	**4,479,470**	**(6,964)**	**4,472,506**
Transactions with owners									
Acquisitions of additional interest in subsidiaries		-	-	-	-	18,060	18,060	(108,141)	(90,081)
Total transactions with owners		**-**	**-**	**-**	**-**	**18,060**	**18,060**	**(108,141)**	**(90,081)**
Balance at 31 March 2010		**6,800,000**	**(7,760)**	**1,034,878**	**5,977,556**	**63,129,233**	**76,933,907**	**643,578**	**77,577,485**
Balance at 1 January 2011		**6,800,000**	**(7,760)**	**1,239,879**	**13,330,264**	**72,818,239**	**94,180,622**	**323,896**	**94,504,518**
Comprehensive income									
Profit for the period		-	-	-	-	11,340,035	11,340,035	7,870	11,347,905
Other comprehensive loss									
Currency translation differences		-	-	(97,694)	-	-	(97,694)	(13,909)	(111,603)
Revaluation of available-for-sale investments	7	-	-	-	(2,321,291)	-	(2,321,291)	-	(2,321,291)
Disposal of available-for-sale investments	7	-	-	-	(162,203)	-	(162,203)	-	(162,203)
Total other comprehensive loss		-	-	(97,694)	(2,483,494)	-	(2,581,188)	(13,909)	(2,595,097)
Total comprehensive income/(loss)		**-**	**-**	**(97,694)**	**(2,483,494)**	**11,340,035**	**8,758,847**	**(6,039)**	**8,752,808**
Transactions with owners									
Acquisitions of additional interest in subsidiaries		-	-	-	-	5,174	5,174	(11,500)	(6,326)
Total transactions with owners		**-**	**-**	**-**	**-**	**5,174**	**5,174**	**(11,500)**	**(6,326)**
Balance at 31 March 2011		**6,800,000**	**(7,760)**	**1,142,185**	**10,846,770**	**84,163,448**	**102,944,643**	**306,357**	**103,251,000**

1 The EuroChem Group and its operations

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

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

A company that holds the business interests beneficially of Mr. Andrey Melnichenko owns 100% of Linea Limited registered in Bermuda, which in turn owns 95% of EuroChem Group S.E. (formerly MCC Holding Public Company Limited (Cyprus)). The remaining 5% is held by Mr. Dmitry Strezhnev, CEO of the Group. In April 2011 the ownership structure has changed (Note 24). EuroChem Group S.E. owns 99.9% of the Company. In September 2010, MCC Holding Public Company Limited (Cyprus) changed its legal form to S.E. (Societas Europea) and its name to "EuroChem Group S.E.". As of the date of this consolidated condensed interim financial information, the company continued to be registered in Cyprus.

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

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

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

2 Basis of presentation

This consolidated condensed interim financial information for the three months ended 31 March 2011 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 2010 which have been prepared in accordance with International Financial Reporting Standards.

Reclassifications. Certain reclassifications have been made to prior year amounts in the consolidated condensed statement of comprehensive income and related notes to conform to the current period presentation. The reclassifications relate to the expenses of RR 666,574 thousand reclassified to the line "Cost of sales – Materials and components used or resold" from the line "Distribution costs – Transportation".

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 2010, 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 2011 (Note 4).

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

4 Adoption of new or revised standards and interpretations

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

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. This amendment does not have a material effect on the Group's consolidated condensed interim financial information;

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

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is not relevant to the Group;

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

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

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not currently applicable to the Group;
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not relevant to the Group.

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

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its financial information;
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011);
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011);
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted). The Group is currently assessing the impact of the standard on its 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). The Group is currently assessing the impact of the standard on its financial information;
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the standard on its financial information;
- 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 financial information.

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

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

5 Segment information

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

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

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

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

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

The segmental results for the three months ended 31 March 2010 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	10,000,350	2,055,247	12,055,597	3,705,905
Phosphates	8,840,656	384,959	9,225,615	1,723,128
Potash	-	-	-	(61,320)
Distribution	2,472,966	48	2,473,014	167,610
Other	295,471	3,155,416	3,450,887	(174,993)
Elimination	-	(5,595,670)	(5,595,670)	(68,198)
Total	**21,609,443**	**-**	**21,609,443**	**5,292,132**

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

5 Segment information (continued)

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

	Note	Three months ended 31 March 2011	31 March 2010
EBITDA		**11,555,465**	**5,292,132**
Depreciation and amortisation	17	(1,054,299)	(781,525)
Idle property, plant and equipment write-off	6, 15	(16,750)	(42,155)
Gain on disposal of available-for-sale investments	7	162,203	71,271
Financial foreign exchange gain/(loss) – net		2,180,497	1,396,356
Interest expense		(604,932)	(422,574)
Other financial income	19	1,512,344	53,300
Non-controlling interest		7,870	22,802
Profit before taxation		**13,742,398**	**5,589,607**

The analysis of Group sales by geographical area was:

	Three months ended 31 March 2011	31 March 2010
Export	22,747,969	15,643,599
Domestic	8,471,068	5,965,844
Total sales	**31,219,037**	**21,609,443**

The analysis of Group sales by region was:

	Three months ended 31 March 2011	31 March 2010
Russia	8,471,068	5,965,844
CIS	5,130,785	3,207,421
Asia	2,764,733	3,100,325
Europe	6,159,753	4,199,505
Latin America	4,601,115	3,089,793
North America	3,227,048	1,373,650
Africa	739,447	575,828
Australasia	125,088	97,077
Total sales	**31,219,037**	**21,609,443**

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

6 Property, plant and equipment

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

	Note	2011	2010
Carrying amount at 1 January		**73,121,566**	**56,382,417**
Including advances given to construction companies and suppliers of property, plant and equipment		*5,312,790*	*5,443,305*
Additions		3,488,746	2,901,764
Including change in advances given		*94,330*	*(547,581)*
Disposals		(11,846)	(3,333)
Depreciation charge for the period		(1,063,851)	(775,171)
Idle property, plant and equipment write-off	15	(16,750)	(42,155)
Currency translation differences		(66,175)	(302,919)
Carrying amount at 31 March		**75,451,690**	**58,160,603**
Including advances given to construction companies and suppliers of property, plant and equipment		*5,407,120*	*4,895,724*

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

6 Property, plant and equipment (continued)

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

	31 March 2011	31 December 2010
Construction in progress	32,666,031	31,791,727
Advances given to construction companies and suppliers of property, plant and equipment	5,407,120	5,312,790
Total assets under construction	**38,073,151**	**37,104,517**

Trade payables to suppliers of property, plant and equipment amount to RR 456,083 thousand at 31 March 2011 (31 December 2010: RR 694,911 thousand).

During the three months ended 31 March 2011 the Group decided to mothball certain production equipment with a net book value of RR 16,750 thousand (31 March 2010: net book value of RR 42,155 thousand) and recognised a loss of RR 16,750 thousand in this consolidated condensed interim financial information (three months ended 31 March 2010: RR 42,155 thousand) (Note 15).

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

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

	31 March 2011	31 December 2010
K+S Group ordinary shares	34,658,864	36,954,062
K+S Group ordinary shares pledged as collateral	426,398	909,269
Total available-for-sale investments	**35,085,262**	**37,863,331**

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

	2011	2010
Carrying amount at 1 January	**37,863,331**	**33,619,657**
Revaluation of available-for-sale investments	(2,321,291)	953,810
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(294,575)	(294,575)
- reclassification of revaluation to profit and loss	(162,203)	(71,271)
Carrying amount at 31 March	**35,085,262**	**34,207,621**

K+S Group shares, including shares pledged as collateral

At 31 March 2011 the Group held 16,456,595 shares, or 8.598% of the issued share capital (31 December 2010: 16,656,595 shares, or 8.7% of the issued share capital) of K+S Group with a fair value of RR 35,085,262 thousand (31 December 2010: RR 37,863,331 thousand) with reference to the share price quoted on the Xetra trading system of Euro 53.27 per share (31 December 2010: Euro 56.36 per share). The accumulated increase from the historical cost to the fair value of the investment of RR 10,846,770 thousand was recognised in equity at 31 March 2011 (31 December 2010: RR 13,330,264 thousand).

In February 2011 the Group sold 200,000 ordinary shares of K+S Group to EuroChem Group S.E., the parent company of the Group for RR 456,778 thousand and recognised a gain of RR 162,203 thousand in the profit and loss.

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

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

K+S Group shares pledged as collateral

At 31 March 2011 the Group had outstanding European call options giving counterparties the right to buy over 4,390,000 K+S Group ordinary shares secured by these shares as collateral (31 December 2010: European call options over 1,400,000 K+S Group ordinary shares) with a fair value of RR 9,359,427 thousand (31 December 2010: RR 3,182,443 thousand) with reference to the share price quoted on the Xetra trading system (Note 13).

Out of these, 200,000 pledged shares with a fair value of RR 426,398 thousand (31 December 2010: 400,000 shares with fair value of RR 909,269 thousand) 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 the collateral and the Group holds economic exposure in relation to the encumbered shares. If the right of use is exercised, it is obliged to replace the original financial collateral by transferring equivalent financial collateral on or before the due date for the performance of the relevant financial obligations covered by the arrangement.

8 Inventories

	31 March 2011	31 December 2010
Materials	4,117,516	3,872,290
Work in progress	996,128	832,876
Finished goods	3,951,451	3,891,113
Catalysts	1,594,234	1,558,325
Less: provision for obsolete and damaged inventories	(311,613)	(326,712)
Total inventories	**10,347,716**	**9,827,892**

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

	31 March 2011	31 December 2010
Trade receivables		
Trade receivables denominated in RR	1,296,388	1,142,115
Trade receivables denominated in US$	1,955,513	1,519,960
Trade receivables denominated in Euro	205,506	119,862
Trade receivables denominated in other currencies	245,935	94,520
Less: impairment provision	(154,641)	(165,639)
Total trade receivables – financial assets	**3,548,701**	**2,710,818**
Prepayments, other receivables and other current assets		
Advances to suppliers	3,131,505	3,347,157
VAT recoverable and receivable	3,434,842	3,737,607
Income tax receivable	37,749	18,416
Other taxes receivable	30,947	32,076
Other receivables	520,921	511,926
Less: impairment provision	(146,950)	(151,607)
Subtotal non-financial assets	**7,009,014**	**7,495,575**
Interest receivable	12,642	27,557
Subtotal financial assets	**12,642**	**27,557**
Total prepayments, other receivables and other current assets	**7,021,656**	**7,523,132**
Total trade receivables, prepayments, other receivables and other current assets	**10,570,357**	**10,233,950**
including		
Financial assets	3,561,343	2,738,375
Non-financial assets	7,009,014	7,495,575

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

10 Cash and cash equivalents

	31 March 2011	31 December 2010
Cash on hand and bank balances denominated in RR	2,120,626	868,314
Bank balances denominated in US$	3,233,497	1,378,554
Bank balances denominated in Euro	1,138,563	489,559
Balances denominated in other currencies	153,922	88,065
Cash in transit denominated in US$	350,718	-
Term deposits denominated in RR	549,934	2,437,055
Term deposits denominated in US$	3,010,025	3,255,216
Term deposits denominated in Euro	1,046,630	82,760
Term deposits denominated in other currencies	648,614	297,100
Total cash and cash equivalents	**12,252,529**	**8,896,623**
Current restricted cash	70,838	37,461
Non-current restricted cash	178,015	143,898
Total restricted cash	**248,853**	**181,359**

Term deposits at 31 March 2011 and 31 December 2010 have various original maturities but could be withdrawn on request without any restrictions.

Cash in transit represents cash from a forward contract which matured on 31 March 2011 and was received in the Group bank account on 1 April 2011.

At 31 March 2011 RR 70,838 thousand of current restricted cash was held at banks to meet the next principal and interest payments on bank borrowings (31 December 2010: RR 37,461 thousand of current restricted cash was held in compliance with statutory regulation).

At 31 March 2011 non-current restricted cash totalling RR 178,015 thousand (31 December 2010: RR 143,898 thousand) consisted of RR 97,337 thousand (31 December 2010: RR 103,434 thousand) of cash held in an escrow account for the Lifosa AB shares squeeze-out and RR 80,678 thousand (31 December 2010: RR 40,464 thousand) was represented by letters of credit for equipment procurement and a deposit against possible environmental obligations as required under statutory Lithuanian rules.

11 Bank borrowings

	2011	2010
Balance as at 1 January	**24,054,601**	**39,047,758**
Bank loans received, denominated in US$	2,078,188	-
Bank loans received, denominated in Euro	182,699	-
Bank loans repaid, denominated in US$	(4,821,318)	(3,109,965)
Bank loans repaid, denominated in Euro	-	(1,585,356)
Capitalisation and amortisation of transaction costs, net	72,299	48,725
Foreign exchange gain	(1,654,856)	(1,323,211)
Balance as at 31 March	**19,911,613**	**33,077,951**

	31 March 2011	31 December 2010
Current bank borrowings		
Current portion of long-term bank loans in US$	11,900,512	12,757,772
Less: short-term portion of transaction costs	(168,462)	(168,005)
Total current bank borrowings	**11,732,050**	**12,589,767**
Non-current bank borrowings		
Long-term bank loans, denominated in US$	20,866,888	25,259,687
Long-term bank loans, denominated in Euro	519,055	341,543
Less: current portion of long-term bank loans in US$	(11,900,512)	(12,757,772)
Less: long-term portion of transaction costs	(1,305,868)	(1,378,624)
Total non-current bank borrowings	**8,179,563**	**11,464,834**
Total bank borrowings	**19,911,613**	**24,054,601**

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

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

11 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, financial indebtedness and cross-default provisions.

Interest rates and outstanding amounts

A syndicated loan facility, which was obtained in October 2008 for US$ 1.5 billion, bears a floating interest rate of 1 month Libor +1.8%. The outstanding amount at 31 March 2011 totalled US$ 662,791 thousand (31 December 2010: US$ 767,442 thousand).

A loan obtained in September 2009 for Euro 85 million in 2010 was converted into a revolving committed facility with a credit limit of Euro 130 million which expired in March 2011. In February 2011 a new amendment was signed which reduced the credit limit to Euro 100 million, set a floating interest rate based on 1 month Euribor and extended the maturity until March 2012. At 31 March 2011 the facility had not been utilised.

In March 2010 the Group signed a US$ 261 million, 10-year export credit agency-backed loan facility for financing the on-going construction of the cage shaft at the Gremyachinskoe potash deposit by a South African-based company. At 31 March 2011 US$ 71.2 million (31 December 2010: US$ 61.4 million) of the facility had been utilised.

In August 2010 the Group signed a US$ 250 million 5-year credit line agreement with a European commercial bank. In January 2011 US$ 60.0 million of the facility had been utilised and the disbursed amount was fully repaid in February 2011.

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company. At 31 March 2011 Euro 13.0 million (31 December 2010: Euro 8.5 million) of the facility had been utilised.

Collaterals and pledges

At 31 March 2011 collaterals comprised cash balances of RR 70,838 thousand restricted by banks to secure the next principal and interest payments (31 December 2010: nil) (Note 10).

A bank loan of RR 18,842,477 thousand and RR 23,389,249 thousand at 31 March 2011 and 31 December 2010, respectively, was collateralized by future export proceeds of the Group under sales contracts with certain customers.

The Group’s bank borrowings mature as follows:

	31 March 2011	31 December 2010
- within 1 year	11,732,050	12,589,767
- between 1 and 2 years	6,844,084	10,336,604
- between 2 and 5 years	295,374	344,285
- more than 5 years	1,040,105	783,945
Total bank borrowings	**19,911,613**	**24,054,601**

New undrawn loan facilities

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

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

12 Bonds issued

	31 March 2011	31 December 2010
Current bonds		
7.875% US$-denominated bonds due March 2012	8,244,410	-
Less: transaction costs	(20,734)	-
Total current bonds	**8,223,676**	**-**
Non-current bonds		
7.875% US$-denominated bonds due March 2012	8,244,410	8,838,300
Less: current portion of long-term bonds issued in US$	(8,244,410)	-
8.9% RR-denominated bonds due July 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	(39,313)	(65,920)
Total non-current bonds	**9,960,687**	**18,772,380**
Total bonds	**18,184,363**	**18,772,380**

13 Derivative financial assets and liabilities

At 31 March 2011 the derivative financial assets were represented by assets arising on non-deliverable forward contracts accounted for at a fair value of RR 354,388 thousand and a cross currency swap accounted for at a fair value of RR 697,860 thousand, including a non-current portion of RR 475,080 thousand (31 December 2010: RR 35,251 thousand and RR 1,500 thousand, respectively). The derivative financial liabilities were represented by European call options accounted for at a fair value of RR 52,001 thousand (31 December 2010: RR 127,981 thousand).

Call options over K+S Group ordinary shares

At 31 December 2010 the Group had outstanding European call options giving counterparties the right to buy over 1,400,000 K+S Group ordinary shares. Out of these 200,000 call options which matured in March 2011 were not exercised.

During the three months ended 31 March 2011, the Group sold European call options over 3,190,000 K+S Group ordinary shares for a total premium of RR 82,955 thousand.

At 31 March 2011 the Group had outstanding European call options giving counterparties the right to buy over 4,390,000 K+S Group ordinary shares secured by these shares as collateral with a fair value of RR 9,359,427 thousand with reference to the share price quoted on the Xetra trading system (Note 7). The call options have varying strike prices and maturities from 17 June 2011 to 21 October 2011.

US$/RR non-deliverable forward contracts

At 31 December 2010 the Group had US$/RR non-deliverable forward contracts for a nominal amount of US$ 300 million. In March 2011 the forward contract for US$ 150 million matured. As at 31 March 2011 the Group has recognised gain of RR 669,855 thousand from revaluation of the forward contracts in profit and loss (Note 19), including a gain of RR 350,718 thousand from a matured forward contract. The contractual settlement date of the remaining contract is 30 June 2011.

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

14 Sales

The components of external sales were as follows:

		Three months ended	
		31 March 2011	**31 March 2010**
Nitrogen			
	Nitrogen fertilizers	9,332,567	7,361,690
	Organic synthesis products	1,936,845	1,586,539
	Complex fertilizers group	672,015	800,123
	Other goods	97,417	100,791
	Other services	62,267	151,207
		12,101,111	**10,000,350**
Phosphates			
	Phosphates	8,805,483	5,307,224
	Iron ore concentrate	4,310,053	2,394,476
	Feed phosphates group	763,026	563,762
	Apatite concentrate	302,640	182,526
	Baddeleyite concentrate	145,770	122,717
	Complex fertilizers group	-	16,719
	Other goods	117,694	77,244
	Other services	163,041	175,988
		14,607,707	**8,840,656**
Distribution			
	Nitrogen fertilizers	2,402,079	1,517,526
	Phosphates	480,382	189,919
	Complex fertilizers group	841,316	481,352
	Feed phosphates group	41,496	-
	Organic synthesis products	1,322	-
	Other goods	343,290	283,195
	Other services	1,923	974
		4,111,808	**2,472,966**
Others			
	Complex fertilizers group	27,342	-
	Nitrogen fertilizers	-	46,916
	Logistic services	29,077	76,323
	Other goods	242,698	-
	Other services	99,294	172,232
		398,411	**295,471**
Total sales		**31,219,037**	**21,609,443**

15 Cost of sales

The components of cost of sales were as follows:

		Three months ended	
	Note	**31 March 2011**	**31 March 2010**
Materials and components used or resold		9,004,981	6,614,450
Energy		1,862,943	1,448,178
Utilities and fuel		1,040,348	887,039
Labour, including contributions to social funds		1,949,819	2,229,027
Depreciation and amortisation		863,529	638,276
Repairs and maintenance		123,825	68,292
Production overheads		390,697	286,591
Property tax, rent payments for land and related taxes		287,039	236,162
Transportation expenses for logistics services		48,527	68,433
Idle property, plant and equipment written-off	6	16,750	42,155
Provision/(reversal of provision) for obsolete and damaged inventories		(15,099)	37,145
Changes in work in progress and finished goods		(230,194)	137,322
Other costs		12,992	33,518
Total cost of sales		**15,356,157**	**12,726,588**

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

16 Distribution costs

Distribution costs comprised:

	Three months ended	
	31 March 2011	31 March 2010
Transportation	3,034,135	3,083,224
Export duties, other fees and commissions	22,457	20,794
Labour, including contributions to social funds	260,712	251,604
Depreciation and amortisation	89,126	73,726
Repairs and maintenance	103,518	92,740
Reversal of provision for impairment of receivables	(2,462)	(8,355)
Other costs	119,889	96,945
Total distribution costs	**3,627,375**	**3,610,678**

17 General and administrative expenses

General and administrative expenses comprised:

	Three months ended	
	31 March 2011	31 March 2010
Labour, including contributions to social funds	657,051	558,463
Depreciation and amortisation	101,644	69,523
Audit, consulting and legal services	52,838	56,320
Rent	28,324	28,757
Bank charges	29,175	26,825
Social expenditure	15,126	10,876
Repairs and maintenance	21,762	7,164
Provision for impairment of receivables	2,866	18,487
Other expenses	262,719	155,150
Total general and administrative expenses	**1,171,505**	**931,565**

The total depreciation and amortisation expenses included in all captions of the consolidated condensed statement of comprehensive income amounted to RR 1,054,299 thousand (three months ended 31 March 2010: RR 781,525 thousand). The total staff costs (including social expenses) amounted to RR 2,867,582 thousand (three months ended 31 March 2010: RR 3,039,094 thousand).

18 Other operating income and expenses

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

	Three months ended	
	31 March 2011	31 March 2010
Gain on disposal of property, plant and equipment	(31,188)	(7,538)
Sponsorship	153,094	69,964
Foreign exchange (gain)/loss	542,383	(131,350)
Other operating income	(68,399)	(29,831)
Total other operating (income)/expenses	**595,890**	**(98,755)**

19 Other financial income

The components of other financial income were as follows:

	Three months ended	
	31 March 2011	31 March 2010
Changes in the fair value of call options	158,935	53,300
Changes in the fair value of US$/RR non-deliverable forward contracts	669,855	-
Changes in the fair value of cross currency interest rate swap	696,360	-
Unwinding of discount on land restoration obligation	(12,806)	-
Total other financial income	**1,512,344**	**53,300**

20 Income tax

	Three months ended	
	31 March 2011	31 March 2010
Income tax expense – current	1,694,151	854,793
Deferred income tax – reversal of temporary differences	700,342	265,198
Income tax expense	**2,394,493**	**1,119,991**

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

During the three months ended 31 March 2011 the Group offset VAT against income tax of RR 580 thousand (three months ended 31 March 2010: RR 25,916 thousand).

21 Earnings per share

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

	Three months ended	
	31 March 2011	31 March 2010
Net profit	11,340,035	4,446,814
Weighted average number of ordinary shares in issue (expressed in thousands)	67,932	67,932
Basic and diluted earnings per share (expressed in RR per share)	**166.93**	**65.46**

22 Balances and transactions with related parties

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

Financial statements caption	Nature of relationship	31 March 2011	31 December 2010
Statement of financial position caption			
Advances given to construction companies and suppliers of property, plant and equipment	Other related parties	797	13,375
Trade receivables	Other related parties	17,958	15,861
less: impairment provision on trade receivables	Other related parties*	(14,776)	(15,861)
Prepayments, other receivables and other current assets	Other related parties	49,055	52,437
less: impairment provision on other receivables	Other related parties*	(47,226)	(50,628)
Trade payables	Other related parties	19,761	8,128
Other accounts payable and accrued expenses	Other related parties	-	1,380

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

Financial statements caption	Nature of relationship	Three months ended	
		31 March 2011	31 March 2010
Statement of comprehensive income caption			
Sales	Other related parties	43,093	28,042
Purchases of materials and components	Other related parties	(1,299)	(1,106)
Distribution costs	Other related parties	(26,636)	-

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

22 Balances and transactions with related parties (continued)

Financial statements caption	Nature of relationship	Three months ended 31 March 2011	Three months ended 31 March 2010
Statement of cash flows caption			
Increase in trade receivables	Other related parties	(2,096)	(1,737)
Decrease in other receivables	Other related parties	3,382	1,462
(Increase)/decrease in trade payables	Other related parties	10,956	(13,517)
(Increase)/decrease in advances from customers	Other related parties	(1,380)	1,101
Capital expenditure on property, plant and equipment and other intangible assets	Other related parties	(3,313)	-
Proceeds from sale of available-for-sale investments (Note 7)	Parent company	456,778	-

The total key management personnel compensation included in the profit and loss was RR 83,345 thousand and RR 59,912 thousand for the three months ended 31 March 2011 and 31 March 2010, 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.

23 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 31 March 2011 the Group had contractual commitments for capital expenditures of RR 18,783,243 thousand (31 December 2010: RR 18,225,826 thousand), mostly denominated in US$ and Euro (RR 6,162,604 thousand and RR 4,187,880 thousand, respectively). The management estimates that, out of these, approximately RR 9.6 billion will represent cash outflows in 2011.

RR 10,657,498 thousand and RR 4,131,192 thousand out of the total amount relates to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash license areas, respectively (31 December 2010: RR 10,272,954 thousand and RR 4,417,588 thousand, respectively).

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.

Under Russian transfer pricing legislation it is possible for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions if the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

23 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

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

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

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 1,096,829 thousand (31 December 2010: RR 1,081,589 thousand). This exposure primarily relates to management services and other fees charged by the holding company to the Group subsidiaries.

iii Insurance policies

The Group generally carries insurance as mandated by statutory requirements. The Group holds insurance policies covering directors' and officers' liabilities and trade operations, including export shipments. Insurance strategies covering the Group's assets are under review.

iv Environmental matters

The 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.

vi Operating environment of the Group

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

In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

23 Contingencies, commitments and operating risks (continued)

vi Operating environment of the Group (continued)

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

The Group holds, among other licenses, valid licenses for the exploration and development of potash and apatite deposits issued by the relevant government authorities of the Russian Federation. Under the terms of these licenses, 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 Company fails to materially comply with the terms of the license agreements there are circumstances whereby the licenses can be revoked. The management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licenses.

24 Subsequent events

In April 2011 the Group bought back from EuroChem Group S.E. 2,637,131 of its own ordinary shares which represent 3.88% of the issued share capital for US$ 400 million paid in cash. Valuation of EuroChem's shares was performed by a reputable international firm of appraisers.

In April 2011 a company representing the interests of Mr. Dmitry Strezhnev, CEO of the EuroChem Group, has increased its shareholding in EuroChem Group S.E. (formerly MCC Holding Public Company Limited (Cyprus)) from 5.0% to 7.8% by acquiring 2.8% from Linea Limited (Bermuda), whose shareholding in EuroChem Group S.E. decreased from 95.0% to 92.2%. Linea Limited is owned by a company holding beneficially the business interests of Mr. Andrey Melnichenko (Note 1).