

**JOINT STOCK COMPANY
“ACRON”**

**International Accounting Standard No. 34
Consolidated Condensed Interim
Financial Information (first quarter)**

31 March 2012

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Joint Stock Company "Acron"
Consolidated Condensed Interim Statement of Financial Position
at 31 March 2012 (unaudited) and 31 December 2011
(in millions of Russian Roubles)



	Note	31 March 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	35,271	33,472
Exploration and evaluation licences and expenditure	9	24,495	24,345
Leasehold land		473	515
Goodwill		1,267	1,267
Other non-current assets		1,037	975
Available-for-sale investments	10	18,959	19,950
Long-term loans receivable		66	68
Deferred tax assets		570	562
Total non-current assets		82,138	81,154
Current assets			
Inventories	7	8,299	9,179
Short-term loans receivable		921	920
Accounts receivable	6	11,176	10,695
Trading Investments		434	345
Cash and cash equivalents	5	20,096	14,630
Derivative financial asset		209	-
Other current assets		416	387
Total current assets		41,551	36,156
TOTAL ASSETS		123,689	117,310
EQUITY			
Share capital		3,125	3,125
Treasury shares		(79)	(79)
Retained earnings		41,566	36,726
Revaluation reserve		14,599	15,392
Other reserves		(5,588)	(5,588)
Cumulative currency translation difference		505	691
Share capital and reserves attributable to the Company's owners		54,128	50,267
Non-controlling interest		3,008	2,781
TOTAL EQUITY		57,136	53,048
LIABILITIES			
Non-current liabilities			
Long-term borrowings	12	34,621	32,391
Finance lease liability		21	24
Other long-term liabilities		494	498
Derivative financial liability		237	220
Deferred tax liability		4,067	4,659
Total non-current liabilities		39,440	37,792
Current liabilities			
Accounts payable	11	4,758	4,123
Notes payable		462	315
Current income tax payable		233	1,495
Other taxes payable		441	258
Short-term borrowings	12	17,201	16,052
Advances received		3,040	3,524
Finance lease liability		25	18
Derivative financial liability		448	396
Other current liabilities		505	289
Total current liabilities		27,113	26,470
TOTAL LIABILITIES		66,553	64,262
TOTAL LIABILITIES AND EQUITY		123,689	117,310

Approved for issue and signed on behalf of the Board of Directors on 5 June 2012.

V.Y. Kunitskiy
President

A.V. Milenkov
Finance Director

Joint Stock Company "Acron"
Consolidated Condensed Interim Statement of Comprehensive Income
for the three months ended 31 March 2012 and 31 March 2011 (unaudited)
(in millions of Russian Roubles, except for per share amounts)



	Note	Three months ended	
		31 March 2012	31 March 2011
Revenue		18,422	13,866
Cost of sales		(11,001)	(7,087)
Gross profit		7,421	6,779
Transportation expenses		(1,486)	(1,202)
Selling, general and administrative expenses		(1,331)	(1,302)
Gain / (loss) on disposal of property, plant and equipment, net		(10)	(7)
Gain / (loss) on disposal of investment		262	121
Other operating profit / (expenses), net	14	(1,186)	(565)
Operating profit		3,670	3,824
Finance income/(loss), net	13	2,774	1,588
Interest expense		(473)	(477)
Loss on changes in fair value of derivatives, net		140	13
Profit before taxation		6,111	4,948
Income tax expense	16	(988)	(1,134)
Net profit for the period		5,123	3,814
Other comprehensive income:			
Available-for-sale investments:			
- Gains less losses arising during the year		(745)	1,201
- Disposal of available-for-sale investment – reclassification of revaluation profit and loss		(246)	-
- Income tax recorded directly in other comprehensive income		198	(240)
Currency translation differences		(242)	(53)
Other comprehensive income for the period		(1,035)	908
Total comprehensive income for the period		4,088	4,722
Net profit is attributable to:			
Owners of the Company		4,840	3,412
Non-controlling interest		283	402
Net profit for the period		5,123	3,814
Total comprehensive income is attributable to:			
Owners of the Company		3,861	4,454
Non-controlling interest		227	268
Total comprehensive income for the period		4,088	4,722
Earnings per share, basic and diluted (expressed in RUB per share)	15	126.4	79.5

Joint Stock Company "Acron"
Consolidated Condensed Interim Statement of Cash Flows for the three months
ended 31 March 2012 and 31 March 2011 (unaudited)
(in millions of Russian Roubles)



	Note	Three months ended	
		31 March 2012	31 March 2011
Cash flows from operating activities			
Profit before taxation		6,111	4,949
<i>Adjustments for:</i>			
Depreciation and amortization	8	380	359
Provision for impairment of accounts receivable	6	(24)	(6)
Loss/ (gain) on disposal of property, plant and equipment		10	7
Interest expense		473	477
Interest income		(81)	(126)
Dividend income		-	(2)
Gain on disposal of investments		(262)	-
Foreign exchange effect on non-operating balances		(2,230)	(1,608)
Operating cash flows before working capital changes		4,377	4,050
(Increase)/ decrease in gross trade receivables		(539)	(978)
(Increase)/ decrease in advances to suppliers		24	737
(Increase)/ decrease in other receivables		124	1,111
(Increase)/ decrease in inventories		880	(724)
Increase/ (decrease) in trade payables		634	626
Increase/ (decrease) in other payables		947	(183)
Increase/ (decrease) in advances from customers		(484)	159
(Increase)/ decrease in other current assets		(238)	217
Increase/ (decrease) in other current liabilities		268	(183)
Increase in trading investments		-	(212)
Proceeds from sale of trading investments		14	272
Net change in other non-current assets and liabilities		(45)	13
Cash generated from operations		5,962	4,905
Income taxes paid		(2,444)	(874)
Interest paid		(516)	(662)
Net cash generated from operating activities		3,002	3,369
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,721)	(1,777)
Proceeds from sale of property, plant and equipment		2	4
Loans provided		(273)	(20)
Proceeds from loans repaid		269	2
Interest received		13	5
Purchase of available-for-sale investments		-	(2)
Proceeds from sale of available-for-sale investments		248	4
Net cash used in investing activities		(2,462)	(1,784)
Cash flows from financing activities			
Acquisition of non-controlling interest		-	(154)
Acquisition of treasury shares		-	(303)
Proceeds from borrowings	12	9,139	9,893
Repayment of borrowings	12	(3,101)	(8,042)
Net cash provided from financing activities		6,038	1,394
Effect of exchange rate changes on cash and cash equivalents		(1,112)	(310)
Net increase in cash and cash equivalents		5,466	2,669
Cash and cash equivalents at the beginning of the period	5	14,630	7,597
Cash and cash equivalents at the end of the period	5	20,096	10,266

The accompanying notes on pages 5 to 17 are an integral part of this consolidated condensed interim financial information.



Capital and reserves attributable to the Company's owners

	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other reserves	Cumulative currency translation difference	Non-controlling interest	Total equity
Balance at 1 January 2011	3,125	(52)	26,200	16,365	(741)	338	4,887	50,122
Comprehensive income								
Profit for the period	-	-	3,412	-	-	-	402	3,814
<i>Other comprehensive income</i>								
Fair value gains on available-for-sale investments	-	-	-	1,344	-	-	(143)	1,201
Currency translation differences	-	-	-	-	-	(33)	(20)	(53)
Income tax recorded in other comprehensive income	-	-	-	(269)	-	-	29	(240)
Total other comprehensive income	-	-	-	1,075	-	(33)	(134)	908
Total comprehensive income	-	-	3,412	1,075	-	(33)	268	4,722
Acquisition of treasury shares	-	(3)	-	-	(300)	-	(196)	(499)
Balance at 31 March 2011	3,125	(55)	29,612	17,440	(1,041)	305	4,959	54,345
Balance at 1 January 2012	3,125	(79)	36,726	15,392	(5,588)	691	2,781	53,048
Comprehensive income								
Profit for the period	-	-	4,840	-	-	-	283	5,123
<i>Other comprehensive income</i>								
Fair value gains/ (loss) on investments in JSC Sberbank	-	-	-	45	-	-	7	52
Disposal of investments in JSC Sbebank	-	-	-	(241)	-	-	(7)	(248)
Fair value gains/ (loss) on available-for-sale investments	-	-	-	(795)	-	-	-	(795)
Currency translation differences	-	-	-	-	-	(186)	(56)	(242)
Income tax recorded in other comprehensive income	-	-	-	198	-	-	-	198
Total other comprehensive income	-	-	-	(793)	-	(186)	(56)	(1,035)
Total comprehensive income	-	-	4,840	(793)	-	(186)	227	4,088
Balance at 31 March 2012	3,125	(79)	41,566	14,599	(5,588)	505	3,008	57,136

The accompanying notes on pages 5 to 17 are an integral part of this consolidated condensed interim financial information.



1 Acron Group and its Operations

These unaudited consolidated condensed interim financial information has been prepared in accordance with International Financial Reporting Standards for the three months ended 31 March 2012 for Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group").

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2011: Subero Associates Inc). As at 31 March 2012 and 31 December 2011 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

The Company's registered office is at Novgorod-the-Great, 173012, Russian Federation.

2 Basis of Preparation of the Financial Statements

Basis of preparation. These unaudited consolidated condensed interim financial information for the three months ended 31 March 2012 has been prepared in accordance with IAS 34, Interim Financial Reporting. These unaudited consolidated condensed interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2011.

Presentation currency. All amounts in these unaudited consolidated condensed interim financial information are presented in millions of Russian Roubles, unless otherwise stated. The unaudited consolidated condensed interim financial information is based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

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

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

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



3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Investments in associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

3.3 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the statement of comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:



3 Summary of Significant Accounting Policies (continued)

3.3 Trade and other receivables (continued)

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3.4 Value added tax

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

3.5 Inventories

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

3.6 Property, plant and equipment

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

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

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

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.



3 Summary of Significant Accounting Policies (continued)

3.7 Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortised over the lease period of 30 years on a straight-line basis.

3.8 Intangible assets

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. The entire Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

3.9 Borrowings

Borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

3.10 Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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



3 Summary of Significant Accounting Policies (continued)

3.10 Income tax (continued)

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

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3.11 Foreign currency transactions

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RUB"). The functional currency of the Company's subsidiary Shandong Hongri Acron Chemical Joint Stock Company Limited (China) is Renminbi (CNY).

For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 March 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 29.3282, USD 1 = CNY 6.2943, EUR 1 = RUB 39.1707 (31 December 2011: USD 1 = RUB 32.1961, USD 1 = CNY 6.3009, EUR 1 = RUB 41.6714). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 Provisions for liabilities and charges

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

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated income statement.



3 Summary of Significant Accounting Policies (continued)

3.12 Provisions for liabilities and charges (continued)

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pretax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

3.13 Shareholders' equity

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

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Treasury shares are stated at weighted average cost. Any gains/losses arising from the transactions with treasury shares are included in other reserves.

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

3.14 Revenue recognition

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.15 Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the consolidated cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3.16 Employee benefits

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



3 Summary of Significant Accounting Policies (continued)

3.16 Employee benefits (continued)

Social costs. The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognises these contributions as part of labour costs.

3.17 Financial assets and liabilities

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

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

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

Derivative financial instruments. As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.



3 Summary of Significant Accounting Policies (continued)

3.18 Finance lease liabilities

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

3.19 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

3.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately unless they meet all qualitative and quantitative aggregation criteria, in which case they are aggregated in a single reporting segment.

3.21 Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalized costs are directly related to exploration and evaluation activities in the relevant area of interest and include acquisition of rights to explore, including cost related to compliance with license terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, Plant and Equipment, after initial recognition. Exploration assets are not depreciated until the production phase.

Production stripping costs attributable to future production are capitalised as part of property, plant and equipment until the production phase commences and depreciated on a units of production basis to match the economic benefits derived from them.

The Group tests exploration and evaluation assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

3.22 Development expenditure

Development expenditure incurred by or on behalf of the group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in assets under construction category and separately disclosed in Note 14. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a “mining property” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditures until they are reclassified as “mining properties”.

4 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 March 2012 and 31 December 2011 are detailed below.



The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Statement of financial position caption	Note	Relationship	31 March 2012	31 December 2011
Trade receivables, gross	6	Companies under common control	22	22
Prepayments	6	Companies under common control	111	-
Loans issued		Companies under common control	819	874
Trade payables	11	Companies under common control	(11)	(15)

ii Transactions with related parties

Statement of comprehensive income caption	Relationship	Three months ended	
		31 March 2012	31 March 2011
Sales of chemical fertilisers	Companies under common control	12	7
Purchases of raw materials	Companies under common control	(57)	(48)

iii Loans issued

At 31 March 2012 short-term loans to parties under common control totalled RUB 878 (31 December 2011: RUB 874) at interest rates in the range of 8.25% to 8.8%. The loans were unsecured.

For three months ended 31 March 2012 the Group accrued interest income of RUB 19 (for three months ended 31 March 2011: RUB 18).

5 Cash and Cash Equivalents

	31 March 2012	31 December 2011
Cash on hand and bank balances denominated in RUB	3,705	1,904
Bank balances denominated in USD	9,995	10,454
Bank balances denominated in EUR	837	733
Bank balances denominated in CAD	4,081	8
Bank balances denominated in CHF	76	8
Bank balances denominated in CNY	1,402	1,523
Total cash and cash equivalents	20,096	14,630

Cash and cash equivalents include term deposits of RUB 4,634 (2011: 4,036)

Cash on hand and bank balances include restricted cash balance of RUB 1,090 (2011: RUB 1,121) as a guarantee related to credit agreement between HSBC Bank (China), Raiffeisen Bank International AG and one of the subsidiaries of the Group in China.

6 Accounts Receivable

	31 March 2012	31 December 2011
Trade accounts receivable	3,024	2,485
Notes receivable	199	212
Other accounts receivable	746	731
Less: impairment provision	(110)	(101)
Total financial assets	3,859	3,327
Advances to suppliers	2,835	2,859
Value-added tax recoverable	3,890	3,825
Income tax prepayments	557	680
Other taxes receivable	115	117
Less: impairment provision	(80)	(113)
Total accounts receivable	11,176	10,695

The fair value of accounts receivable does not differ significantly from their carrying amount.



7 Inventories

	31 March 2012	31 December 2011
Raw materials and spare parts	4,989	4,861
Work in progress	440	389
Finished products	2,873	3,929
	8,299	9,179

8 Property, Plant and Equipment

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

	2012	2011
Carrying amount at 1 January	33,472	24,091
Acquisitions	2,571	1,777
Disposals	(10)	(7)
Charge for the period	(378)	(358)
Currency translation difference	(384)	(151)
Carrying amount at 31 March	35,271	25,352

At 31 March 2012, buildings, machinery and equipment and construction in progress with a net book value of RUB 1,603 (31 December 2011: RUB 1,868) had been pledged as security for long-term loans (Note 12).

9 Exploration and Evaluation Licences and Expenditure

Exploration and evaluation expenditure comprise of:

	31 March 2012	31 December 2011
Apatite-nepheline deposits	681	681
Potash deposits	22,779	22,779
Permits for exploration	1,035	885
	24,495	24,345

10 Available-for-Sale Investments

	2012	2011
Carrying amount at 1 January	19,950	24,398
Acquisitions	-	-
Profit from fair value revaluation in "other income"	(743)	1,201
Sberbank disposal	(248)	-
Disposals	-	(2)
Carrying amount at 31 March	18,959	25,597

The Group has investments in the following companies:

Name	Activity	Country of registration	31 March 2012	31 December 2011
JSC Uralkaliy	Potash mining	Russia	18,821	19,616
Sberbank	Banking	Russia	-	196
Other			138	138
			18,959	19,950

Fair value of the investments was determined by reference to the current market value at the close of business on 31 March 2012. At 31 March 2012 the share price quoted by RTS and MICEX for JSC Uralkaliy amounted to RUB 222.5 for 1 share (31 December 2011: RUB 231.9 for 1 share).



11 Accounts Payable

	31 March 2012	31 December 2011
Trade accounts payable	3,599	2,965
Dividends payable	11	14
Total financial payables	3,610	2,979
Payables to employees	546	537
Accrued liabilities and other creditors	602	607
Total accounts payable and accrued expenses	4,758	4,123

12 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	31 March 2012	31 December 2011
Bonds issued	10,119	10,935
Credit lines	9,771	6,573
Term loans	31,932	30,935
	51,822	48,443

The Group's borrowings mature as follows:

	31 March 2012	31 December 2011
Borrowings due:		
- within 1 year	17,201	16,052
- between 1 and 5 years	34,597	32,363
- after 5 years	24	28
	51,822	48,443

The Group's borrowings are denominated in currencies as follows:

	31 March 2012	31 December 2011
Borrowings denominated in:		
- RUB	11,995	12,080
- EUR	1,542	1,629
- USD	35,545	31,633
- CNY	2,740	3,101
	51,822	48,443

Bank loans denominated in CNY were collateralised by buildings, machinery and equipment with a net book value of RUB 1,603 (31 December 2011: RUB 1,868) and land use right with a net book value of RUB 256 (31 December 2011: RUB 461). The loans obtained from banks in China are secured by guarantees issued by third parties totalled RUB 1,538 (31 December 2011: RUB 1,886).

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

At 31 March 2012 unused credit lines available under the long-term loan facilities were RUB 5,844 (31 December 2011: RUB 10,501).



12 Short-Term and Long-Term Borrowings (continued)

The details of the significant short-term loan balances are summarised below:

	31 March 2012	31 December 2011
Short-term borrowings		
RUB		
Loans with fixed interest rates of 8.75% to 10.62% per annum	1,035	6
Bonds with coupon payments of 13.85% to 14.05% per annum	-	3,037
EUR		
Loans with floating interest rates of 3M EURIBOR+1.35% per annum	16	14
USD		
Loans with fixed interest rate of 5.2% to 6.75% per annum	7,625	4,025
Loans with floating interest rates of 1M LIBOR+3.75% to 3M LIBOR + 4.25% per annum	5,846	5,945
CNY		
Loans with fixed interest rates of 4.62% to 9.8% per annum	2,656	3,024
Add: current portion of long-term debt	23	1
Total short-term borrowings	17,201	16,052

The details of the significant long-term loan balances are summarised below:

	31 March 2012	31 December 2011
Long-term borrowings		
RUB		
Loans with fixed interest rates of 6.316% to 8.85% per annum	841	1,138
Bonds with coupon payments of 7.95% to 14.05% per annum	10,119	7,898
EUR		
Loans with floating interest rates of 3M EURIBOR+1.35% to +1.75%	1,526	1,615
USD		
Loans with fixed interest rates of 6.2% to 6.75% per annum	8,124	4,508
Loans with floating interest rates of 1M LIBOR+3.75% to +4.15%, 12M LIBOR+5.6%, 3M LIBOR+4.25% per annum	13,950	17,155
CNY		
Loans with fixed interest rates of 6.2% to 7.76% per annum	84	78
Less: current portion of long-term debt	(23)	(1)
Total long-term borrowings	34,621	32,391

The loan agreements for a total of RUB 28,806 (31 December 2011: RUB 31,687) contain certain covenants including those which require the Group to maintain certain net debt/EBITDA ratio, EBITDA/interest expense ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower's failure to fulfil or appropriately fulfil its obligations to the bank.

The loan agreements for a total of around RUB 30,968 (31 December 2011: RUB 25,614) contain a covenant, that requires the borrower to maintain a required level of cash flows through the accounts opened with the lending bank. The loan agreement also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

13 Finance Income / (Expenses), net

	Three months ended	
	31 March 2012	31 March 2011
Interest income from loans provided and term deposits	81	126
Commissions for bank loans	(92)	(289)
Dividend income	-	2
Foreign exchange gain	3,286	1,753
Foreign exchange loss	(501)	(4)
	2,774	1,588



14 Other Operating Income / (Expenses), net

	Three months ended	
	31 March 2012	31 March 2011
Charity expenses	(75)	(20)
Other income / (expenses)	2	(15)
Foreign exchange gain	309	139
Foreign exchange loss	(1,422)	(669)
	(1,186)	(565)

15 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share.

	Three months ended	
	31 March 2012	31 March 2011
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(7,153,600)	(4,765,978)
Weighted average number of shares outstanding	40,534,000	42,921,622
Profit attributable to the equity holders of the Company	5,123	3,412
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	126.4	79.50

16 Income Taxes

	Three months ended	
	31 March 2012	31 March 2011
Income tax expense – current	(1,365)	(1,083)
Deferred tax credit – origination and reversal of temporary differences	377	(52)
Income tax charge	(988)	(1,135)

17 Subsequent events

Subsequent to 31 March 2012 the Group received new bank loans in the amount of RUB 17,965 as well as paid off loans and bonds in amount of RUB 5,662.

On 18 May 2012 as the result of dispute on price of apatite concentrate JSC Apatit discontinued apatite concentrate shipments to JSC Acron and JSC Dorogobuzh. After exhausting its raw material inventories on 29 May, JSC Acron suspended NPK production.

Total amount of shares of JSC Acron reduced from 47 687 600 shares to 40 534 000 shares as the result of the reorganisation through accession of its wholly-owned subsidiary CJSC Granit which owned 15 % of voting shares of JSC Acron.

Board of Directors recommended that the annual general meeting declare dividends for 2011 in the amount of RUB 175 per common share. Taking into account the dividends paid earlier for the first nine months of 2011 in the amount of RUB 129 per share, the Board of Directors recommends paying dividends of RUB 46 per common share.

The Group announced a tender offer for purchase shares in WSE-listed Zakłady Azotowe w Tarnowie-Mościcach S.A. totaling up to 66% of total voting shares. Expected total price of purchase amounted to 430 millions of USD.

In may 2012 the Board of Directors decided to place three bond issues of non-convertible interest bearing bonds with a face value of RUB 15,000.