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About the Corporate Social Reporting of MCC EuroChem

The Open Joint Stock Company "Mineral and Chemical Company "EuroChem" continues the practice of regular reporting on corporate social responsibility for the purpose of perfecting the management of sustainable development and informing stakeholders regarding the results which have been achieved in this area.

The third corporate social report serves as a practical demonstration of the company's serious intentions for continuing systematic work for increasing the level of corporate social responsibility. Today the principles of sustainable development and social responsibility have become key components of EuroChem’s business processes.

The previous corporate social report "Key to Success" for 2006 was an important step for the company, because it was done in accordance with the international standard GRI version G3 and underwent independent verification. The Company successfully completed a full cycle of social reporting.

As part of developing the practice of corporate social reporting, EuroChem now publishes a third corporate social report which takes in 2007. In comparison with the previous ones, this report provides more complete information on the business, production, ecological and social components of EuroChem’s activity. During the preparation of this report great attention was paid to increasing the level of disclosure of information and the completeness of the data presented. Substantial and significant facts have been included in the report relating to changes in corporate governance, progress in the area of developing systems of social investment, the characterization of risks and data on the ecological parameters of the company’s work. The content of the report aims to reflect the company's priority areas of attention to the fullest extent possible and clearly, those which influence long-term sustainable growth.

The conscious goal of the activity of EuroChem is the attainment of corporate sustainability which provides for the creation of long-term shareholder value based upon economic, ecological and social conditions.

As international practice and the experience of the national business community shows, reaching this goal is possible through the implementation and realization of systems for corporate social reporting.

In 2007 the following main tasks were defined in the area of corporate social responsibility:

- the development of a comprehensive system of qualitative and quantitative indicators for sustainable company development: social, economic and ecological;
- continued formation of corporate culture based upon the integrated management systems under the following standards: ISO9001, ISO14001, OHSAS 18001;
- the development of corporate training systems for all employee categories, providing opportunities for self-realization and career growth within the company;
- reducing possible discharges into the environment to a level corresponding to European legislative norms for similar technologies (on the basis of the principles stated in the Directive of the European Parliament 2001/42/EC on strategic ecological evaluation);
- creating a plan of events for 2008 based upon work in each company division to identify and evaluate risks;
- in interaction with local communities, determining a strategy and developing criteria for evaluating the effectiveness of social investment costs;
- continuation of the practice of preparing annual social reports;
- improving the systems for the involvement of stakeholders in the process of social reporting;
- providing for an internal audit of social reporting using leading specialists and external experts.

The process of solving these tasks taking into account the wishes of stakeholders is presented in the social report for 2007.

In particular, in 2007:

- in the area of the development of comprehensive qualitative and quantitative company sustainability indicators, the policy of broadening the range of enterprises using Russian and international standard management and reporting systems has been continued. EuroChem continues to realize the project "Building an Integrated Corporate Management System in Accordance with the Requirements of International Standards ISO 9001, ISO 14001, and OHSAS 18001". More on this in detail in the section "Organizational risk management" of this report;
- in the area of developing corporate training systems for all categories of employees, the formation of a staff reserve continued, and a program of corporate training was also carried out; a detailed description of these is stated in the section "Implementation of HR Management Policy";
- in the area of compliance with European standards for discharges into the environment, the implementation of projects under the Kyoto protocol continued, as well as conducting a variety of environmental protection and resource-conserving measures; the results of these are described in the section "Ecological risk management". EuroChem continued work on identifying, describing, evaluating and managing risks. The approaches for the comprehensive evaluation of risks have been integrated into the Strategy for Company Development up through 2012. The risk management system is described in detail in the third chapter of this report;
- when making financing decisions in the area of social;
- responsibility, universal criteria for the effectiveness of social investments are being implemented with the participation of local communities and experts, for example, in the social programs in the city of Nevinnomyssk;
- the practice of preparing social reports at EuroChem has become more technologically advanced and is carried out with the participation of a large number of divisions and enterprises of the company;
The corporate social report has been prepared through interaction with stakeholders in various company locations. During the 2007 social reporting process significant progress was made in involving stakeholders, which was described broadly in Chapter 2. In order to prepare key indicators and other information, a whole variety of methods for measuring data and calculations were used. The information and indicators for the production and financial and social activity of the company were collected in accordance with the procedures for corporate governance which have been developed at the company, and also based upon the standards and requirements for business reporting adopted in Russia and in international practice.

As part of the collection and aggregation of qualitative and quantitative information and indicators, the Russian and international framework documents, standards and recommendations which have been developed were fully taken into consideration, among which one must particularly note the “G3 Sustainability Reporting Guidelines”, “GRI Application Levels”, “Engagement with Stakeholders. Edition 2: Practical Guidelines for Organizing Engagement with Stakeholders”, "Short Dictionary of Special Terms, Words and Expressions Used in Translating the G3 Sustainability Reporting Guidelines 2002 Version and for Preparation of a Translation of the Draft Guidelines 2006 Version (G3)”, “Global Compact UN”, “GRI Indicator Protocols", as well as the AA1000 set of documents. In addition, the principles of the Social Charter of Russian Business were taken into account.

The corporate social responsibility policy implemented by the company in 2007 is open for all interested parties and has been presented for discussion. We need engaged evaluations and recommendations, since we are convinced that this will aid in the effective realization of EuroChem’s business strategy and that this will correspond to the expectation of employees and the public.

The content of EuroChem’s social report is limited to the business activity of the company and its subsidiaries.

The corporate social report of EuroChem for 2007 has been produced in accordance with the international standard GRI (version 3.0). Following the recommendations for preparing the social report, EuroChem declares that the level for applying the GRI Reporting Systems corresponds to the grade B+, since external assurance was used for the report. The external assurance mechanisms involved parties who were outside the company, competent in the subject matter and in the practice of assurance. The fixed procedures were documented and can be explained. The report gives a balanced and justified picture of effectiveness, while taking into account both the veracity of the data and the general choice and the general selection of content. The external assurance of the corporate social report was conducted by Bureau Veritas Certification.
Health and complete nutrition form the basis for the quality of life of any person. Today agriculture has become a modern high-technology industry, full of complex equipment, biotechnology, and scientific solutions. Fertilizers serve as an important component in the rational pursuit of agriculture, and the Mineral and Chemical Company EuroChem is a producer of these. As the leader in the production of fertilizers in Russia, EuroChem is aware of its responsibility to national agriculture, and for this reason it is systematically increasing the supply of product to the domestic market and is developing an agro-consulting system. At the same time, foreign markets are being pursued actively, which contributes to increasing the competitiveness of the Russian chemical industry globally.

We are happy to note that in 2007 EuroChem achieved exceptional economic and production results. Consideration of the social component became one of the key factors for the successful activity of the company during the course of the year. We understand that long-term sustainable development is impossible without an attentive attitude towards the social environment. As the result of well-coordinated work by all the enterprises and a systematic approach to corporate management, revenue grew by 38% and came to RUR 73.8 billion, and the net profit more than doubled in comparison to 2006 and came to RUR 16.2 billion. All last year, the company practiced great financial transparency.

The publication of this document provides all stakeholders with the result of EuroChem’s third cycle of non-financial reporting. In preparing this report, we have striven to show the tight bond between the production and economic indicators of the company’s work and its contribution to the sustainable development of the territory and of Russia as a whole. The company actively participates in the socio-economic development of the regions where its enterprises are located, making large-scale social investments. In 2007 the total investments in external social policy came to more than RUR 470 million.

In carrying out systematic investments in the expansion of the production and extraction base, resource-conserving technologies, and the development of human potential, EuroChem is realizing the obligations which it has undertaken to increase economic and social sustainability.

We consider social responsibility to be a strategically important component of the production and economic activity of the company. During the past few years we have been systematically realizing policy in the area of corporate social responsibility, oriented at the targeted support of sports and exercise, a healthy lifestyle, science and education. The company has undertaken comprehensive programs for social support and investments, which are carried out in close cooperation with the regions and with the participation of public charities.

In characterizing the dialog with all stakeholders, we should note that it is one of the key principles of corporate social responsibility and reporting of the company. In 2007 we interacted meaningfully with groups of stakeholders, placing special emphasis on work with labor collectives and trade union organizations, consumers and distributors, local communities and non-governmental organizations. This allowed us to understand the expectations of our stakeholders and to correct the practice social responsibility at EuroChem.

Human potential is a fundamental resource at EuroChem, and for this reason the company invariably pays great attention to work with personnel. Besides serious programs for training and professional development for company employees, much attention is paid to the social environment of labor collectives. For these purposes, the company carries out infrastructure projects at its locations, including the development of
medical services, schools, and the creation of opportunities for full-fledged recreation for the families of EuroChem employees. The company places a priority on forming a general corporate culture which unites the labor collectives of all the enterprises into one friendly team.

The network of chemical enterprises potentially influences the environment of the regions. Understanding this objective circumstance, our company constantly works to introduce ecologically safe technologies into operation and to raise the level of occupational safety for employees. We consider preserving the ecological balance in the regions where EuroChem conducts industrial activity to be a significant issue of responsibility towards future generations.

We consider social responsibility to be a strategically important component of the production and economic activity of the company.

One of the chapters of the social report is dedicated to a systematic description of the risks which the company may potentially encounter, and a description of the methods for managing these risks. Our attention to the theme of economic and non-financial risks is not accidental – the global economy is experiencing another difficult period related to substantial transformations in international politics, the international financial system, demographics, regional development and consumption. In this situation, together with the traditional risks, the risks whose source lies in the social structure of the global system and in specific regional systems acquire significant meaning for any large organization. Recognition, analysis, control and management of these risks becomes an important separate task for the corporate and strategic management of the company in the context of socially responsible sustainable development.

On the whole, the social report of EuroChem for 2007 reflects the ongoing progress of the company in observing both the practical realization of the principles of corporate social responsibility and sustainable development.

Chairman of the Board of Directors of MCC EuroChem
A. I. Melnichenko

General Director of MCC EuroChem
D. S. Strezhnev
## Our Achievements

### EuroChem Production in 2007: Numbers and Facts

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>Average annual productivity growth</td>
</tr>
<tr>
<td>7.7</td>
<td>RUR billion – annual growth in capital investments in Russian production and service divisions</td>
</tr>
<tr>
<td>845</td>
<td>RUR million – invested in developing the Gremyachinskoye deposit</td>
</tr>
<tr>
<td>1.0</td>
<td>Million tons – fertilizer supplied by EuroChem to the Russian market for the year</td>
</tr>
<tr>
<td>6.1</td>
<td>Million tons – the annual fertilizer production volume</td>
</tr>
<tr>
<td>29%</td>
<td>Annual growth in ammonophos output, which led to a significant growth in sales in Argentina, Brazil, Ukraine and Russia</td>
</tr>
<tr>
<td>14%</td>
<td>Increase in the annual consolidated output of phosphoric fertilizers</td>
</tr>
<tr>
<td>2nd</td>
<td>2nd place worldwide by volume of production capacity in the market for agricultural ammonium nitrate</td>
</tr>
<tr>
<td>25%</td>
<td>Growth in the production of apatite concentrate at Kovdorsky GOK</td>
</tr>
</tbody>
</table>
# Chapter 1

**EuroChem: Corporate Unity**

<table>
<thead>
<tr>
<th>The Corporation</th>
<th>Production</th>
<th>Economy</th>
<th>Marketing and Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>organizational structure, management system, business geography</td>
<td>production effectiveness, phosphoric group, nitrogen group, potash group</td>
<td>financial effectiveness, investment activity, expert evaluation</td>
<td>agronetwork development, transportation system</td>
</tr>
</tbody>
</table>
About EuroChem

The Open Joint Stock Company “Mineral and Chemical Company “EuroChem” [EuroChem] was created in 2001 as the result of the merger of Russia’s leading producers of mineral fertilizers and chemical products. Today EuroChem is a large, vertically integrated conglomerate and includes enterprises for the mining of raw materials and the production of mineral fertilizers, organic synthesis production, feed phosphates, transportation and service divisions and a broad sales network inside the country and abroad. The controlling shareholder is MCC Holdings Limited. The managing company MCC EuroChem is located in Moscow. The average headcount of the conglomerate in 2007 was 22,656 employees. The gross production volume at EuroChem enterprises in 2007 came to 24 million tons. The total volume of mineral fertilizer production came to 6.1 million tons. The sales revenue in 2007 came to RUR 73.8 billion.

EuroChem’s powerful production base is strengthened by a far-reaching distribution system which reliably provides for the supply of raw materials to the company’s enterprises and delivers finished products to customers.

In the product line of EuroChem enterprises, there are over 100 separate types of products which are certified in accordance with international quality standards. The production of nitrogen and phosphoric fertilizers is the company’s main activity, providing more than 70% of revenue.

Around 80% of the company’s production is exported, which allows EuroChem to hold a significant share of the world fertilizer market. EuroChem production is exported to more than 60 countries. The sales markets are the countries of Western and Eastern Europe, the USA, Asia, and Latin America.

EuroChem is actively developing a new enterprise – “EuroChem-VolgaKaliy” LLC. The launch of the mining and enrichment factory of this enterprise on the base of the Gremyachinskoye potassium salt deposit in the Volgograd Region will allow the company to become the largest company in Russia, and the fourth in the world, producing the entire range of mineral fertilizers: nitrogen, phosphorus, and potassium.

Mission of EuroChem

“To be a leading European producer of agrochemical products with a broad range of services and guaranteed quality, constantly perfecting technology and improving quality of life” (Code of Ethics approved by the Company Board of Directors).

Historical facts about EuroChem

1933 – First production output at the Stalnogorsky Chemical Plant (now Azot, part of EuroChem)
1960–1970 – Construction of the largest production enterprises which are now part of EuroChem
2001 – Creation of MCC EuroChem
2002–2004 – Consolidation of production assets, restoration of production potential
2006 – Development and start of implementation of long-term development strategy, start of project for producing potassium fertilizers
2007 – Expansion of the Russian and international transportation and distributor networks and agro-consulting centers, improvement of company structures
2008 – Receipt of a license for developing the Palasherskoye and Balakhontsevskoye sections of the Verkhnekamskoye field of potassium salts

Subsidiary regional distributor companies work directly with consumers in Europe and the USA. EuroChem became the first company in the world to develop a distributor network in Russia and the CIS countries which provides not only fertilizer but also products for the plants protection, seeds, herbicides, and comprehensive agrochemical services. Deliveries to the RF domestic market are increasing: in 2007 more than 1 million tons of fertilizer were delivered to domestic consumers.

EuroChem continues to pursue a policy oriented at long-term sustainable development in accordance with the Corporate Development Strategy up to 2012. The main goals of the strategy are increasing work effectiveness and achieving high production and financial results. This will be achieved through developing the competitiveness of production, lowering costs, increasing the quality of products produced, and through productivity growth. The long-term investment programs are directed at the modernization of the existing production capacities and the creation of new ones, as well as the implementation of new technologies. An integrated system of quality, ecology and industrial safety management which meets ISO international standards is being systematically implemented. EuroChem has now become a unified organizational system whose stability relies on an integrated management system, a common corporate culture and effective communications between all divisions of the group.

Mission of EuroChem

“To be a leading European producer of agrochemical products with a broad range of services and guaranteed quality, constantly perfecting technology and improving quality of life” (Code of Ethics approved by the Company Board of Directors).

MANAGING COMPANY
OJSC “MCC “EuroChem”

SALES BUSINESS UNITS
6 SALES COMPANIES
- EuroChem Trading USA Corp. (Tampa, USA)
- EuroChem Trading GmbH (Zug, Switzerland)
- “AgroCenter EuroChem-Ust-Labinsk” (Ust-Labinsk)
- “AgroCenter EuroChem-Volgograd” (Volgograd)
- “AgroCenter EuroChem-Krasnodar” (Krasnodar)
- “AgroCenter EuroChem-Ukraine” (Kiev, Ukraine)

6 BRANCHES IN RUSSIA
- Belorechensk branch
- Nevinnomyssk branch
- Kingisepp branch
- Kovdor branch
- Novomoskovsk branch
- Novorossiysk branch

INVESTMENT COMPANY
EuroChem Asset Management (Cyprus)

MANUFACTURING UNITS
7 MANUFACTURING COMPANIES
5 manufacturers of finished products:
- OJSC “Azot” (Novomoskovsk)
- OJSC “Nevinnomyssky Azot” (Nevinnomyssk)
- “EuroChem-BMU” LLC (Belorechensk)
- “PG Phosphorite” LLC (Kingisepp)
- Lifosa AB (Kedainiai, Lithuania)
Including 2 Mining Plants:
- OJSC “Kovdorsky GOK” (Kovdor)
- “EuroChem-VolgaKaliy” LLC (Kotelnikovo)

6 SERVICE COMPANIES
- “Kingisepp RemStroiService” LLC (Kingisepp)
- “Novomoskovsk RemStroiService” LLC (Novomoskovsk)
- “Nevinnomyssk RemStroiService” LLC (Nevinnomyssk)
- “Depot-EuroChem” LLC (Nevinnomyssk)
- “EuroChem-Energo” LLC (Novomoskovsk)
- “EuroChem-Novoselskoye” LLC (Novoselskoye)

LOGISTICS BUSINESS UNITS
LOGISTICS COMPANY
Harvester Shipmanagement Ltd. (Limassol, Cyprus)

3 TRANSSHIPPING COMPANIES (TO AND FROM PORTS IN RUSSIA AND ABROAD)
- OJSC Murmansk Alumina Terminal (Murmansk)
- “Tuapse Bulk Terminal” LLC (Tuapse)
- JSC TankChem (Tallinn, Estonia)

SCIENTIFIC CENTER FOR DESIGN & DEVELOPMENT
- OJSC “Tulagiprokhim” (Tula)

Main EuroChem Product Types

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen group</td>
<td>Ammonia, Urea, Ammonium nitrate, Urea-Ammonium Nitrate (UAN) Solution, Nitric acid</td>
</tr>
<tr>
<td>Phosphoric group</td>
<td>Phosphoric fertilizers: Monoammonium phosphate (MAP), Diammonium phosphate (DAP), Monoammonium phosphate sulphate (NP)</td>
</tr>
<tr>
<td></td>
<td>Compound fertilizers: NPK, NK</td>
</tr>
<tr>
<td></td>
<td>Feed phosphates: Defluorinated phosphate (DFF), monocalcium phosphate (MCF)</td>
</tr>
<tr>
<td></td>
<td>Acids: Sulfuric acid, Phosphoric acid (EPA – extracted phosphoric acid)</td>
</tr>
<tr>
<td>Organic synthesis products</td>
<td>Methanol, Acetic acid</td>
</tr>
<tr>
<td>Mineral raw materials</td>
<td>Iron ore concentrate (IOC), Baddelite concentrate (BC), Apatite concentrate (APC)</td>
</tr>
</tbody>
</table>
Corporate Governance

For EuroChem, a conglomerate, quality corporate governance mechanisms are especially important, since they allow for effectively managing the production enterprises and significantly aid the sustainable development of the company.

At the heart of work for perfecting corporate governance are systematic and consistent steps taken by the company’s governance bodies – the General Shareholders Meeting, the Board of Directors, the Management Board and the General Director.

A clear distribution of authorities, accountability and control together with a drive to increase the value of the business ensure harmonious interaction between the governing bodies.

The Board of Directors subjects the condition of the corporate governance systems to regular evaluation and checks how they measure up to the Company’s strategic goals. The Charter and the documents which regulate the activity of the governing bodies, the Regulations on dividends, the financial and information policy and the corporate ethics code are not stale formal documents, but reflect the development of the Company and the perfecting of the principles of corporate governance.

One can find the text of the documents on the Company’s website at www.eurochem.ru in the section “Investors and Shareholders”.

The corporate governance system at EuroChem is based upon the European model of corporate governance, which is oriented at a clear division between the functions and membership of the Board of Directors and the executive bodies.

In 2007 work was focused on two areas. First of all, the authorities of the company’s governance bodies was re-distributed in order to preserve the supervisory function for the Board of Directors, to delegate operational questions to management and to provide broader authorities to the production companies. Secondly, together with management, the Board evaluated how much the existing corporate structure and operational model of interaction between the companies currently meets the strategic goals. This allowed them to determine the trajectories for change in subsequent periods.

Internationally recognized instruments such as the ISO and OHSAS standard integrated management systems are used in the management system. The implementation of the Oracle enterprise resource planning system continues – the structured nature of work and its transparency are the guarantee of effectiveness.

In creating the Company on the basis of high-quality methods of management and governance, EuroChem strives to make a contribution to their widespread use in the business community, and to become a mature corporate citizen of its country.

In 2007 the Company held the Annual General Shareholders Meeting and five extraordinary shareholders meetings. Of these, three were at the initiative of the controlling shareholder MCC Holding Ltd. Despite the fact that EuroChem is a private company with a small number of shareholders, the Company observes the rules and procedures used at public companies. Shareholders receive information on the company’s work not only through meetings, but also at specially organized presentations and meetings.
The corporate secretary effectively aids the coordinated action of governance bodies, acting as the conductor of decisions in the Company.

The Company Secretary is the person who receives shareholder recommendations for improving work and who provides feedback.

Since 2005 independent directors have been members of the Board of Directors and they comprise more than 50% the Board.

Strict independence criteria have been set in the Regulations on the Board of Directors.

Despite the comparatively small number of members, as a whole the Board possesses the required competencies for effective work. In 2007, directors with industry knowledge and experience in global business issues and special knowledge in the area of financial reporting have been broadly presented. More than half of the members of the Board are well acquainted with the work of public companies in practice and are well versed in the practical aspects of corporate governance.

Within the Board of Directors, three committees work intensively: the Audit Committee, the Strategy Committee and the Committee for Corporate Governance and Personnel. Only non-executive directors work in the committees, and only independent directors are represented in the Audit Committee and the Corporate Governance and Personnel Committee. One can become more familiar with the work of the committees in the Annual Report of MCC EuroChem.

The Board of Director’s attention is focused on issues of strategic development and investments, control over the realization of large projects, innovation programs and promising technologies. Analysis of how production influences the environment, problems of industrial safety and occupational safety are an integral component of the Board’s decisions. The directors continue to familiarize themselves with the enterprises: they visited the Company plants in Nevinnomyssk and Kovdor, and trips to other enterprises are also planned.

Recognizing the importance of succession pool for the realization of EuroChem’s plans, in 2007 the Company completed the development of a strategy for managing factory personnel which is harmonized with the business strategy and which takes into account the particularities of each of the enterprises and the economic and demographic situation in the regions.

Membership of the Board of Directors elected at the end of 2007

Andrei Igorevich Melnichenko
Chairman of the Board of Directors

Charles Adriaenssen
member of the Committee for Corporate Governance and Human Resources, independent director

Keith Jackson
member of the Audit Committee of the Board of Directors and the Board of Directors Committee on Strategy, independent director

George Cardona
member of the Board of Directors Committee on Strategy

Vladimir Viktorovich Stolin
Chairman of the Committee for Corporate Governance and Human Resources, independent director

Dmitry Stepanovich Strezhnev
General Director of MCC EuroChem

Richard Sheath
Chairman of the Audit Committee of the Board of Directors, member of the Committee for Corporate Governance and Human Resources, independent director

In our pursuit of international corporate governance standards, we try to avoid mindless copying and to find the solutions which are the most useful for the company, taking into account its particularities, the current state and development plans. In forming its strategic vision for the development of the group, the Board of Directors recognizes that it is full and well-coordinated principles of corporate governance which are perceived by each Company enterprise as a philosophy of business that are the guarantee of quality governance. Such a balanced approach makes it possible to combine the growth of the long-term economic value of the company for shareholders with a respectful relationship to the interests of various stakeholders and society as a whole.
One of the priorities in the reporting year was the improvement of the management motivation system, and first of all for the upper executive management, including significant executives throughout all companies. The financial and non-financial goals of management were correlated to the development strategy, the results of Company activity, including social and ecological indicators, the methods of corporate social responsibility adopted in the GRI standard.

Members of the Management Board do not receive additional compensation for work on the Management Board. The amount of compensation is connected to performing the function of a top-manager of the Company. Information on compensation is contained in the MCC EuroChem Annual Report for 2007.

The rule of the financial market is inviolable – a company is successful when it is trusted. EuroChem maintains a substantive dialogue with a broad audience. Accuracy, sufficiency, timeliness and being targeted – these are the main principles for information about the state of affairs at the Company.

The obligations for the voluntary disclosure of significant information were the foundation of the new Information Policy supported by the Board of Directors and the Management Board.
Production and Business Activity

Production

EuroChem main production indicators grew steadily in 2007. Planned production volumes were achieved. The company continued to work to strengthen its production potential and to create a unified technological chain which encompasses the entire production cycle – from mining to sales and servicing agricultural producers.

The following group of industrial enterprises form EuroChem’s production core:

❖ “EuroChem-BMU” LLC (Belorechensk, Krasnodar Territory) – producer of phosphate fertilizers. Thanks to investments from MCC EuroChem, the enterprise was able to launch the industrial output of a new, more profitable product – monoammonium phosphate sulfate 20:20;
❖ OJSC “Azot” (Novomoskovsk, Tula Region) is one of the largest and oldest chemical industry enterprises in Russia and in Europe. At the current time, Azot is a highly mechanized and automated enterprise with modern production based upon leading technologies and equipment;
❖ OJSC “Kovdorsky GOK” (Kovdor, Murmansk Region) is the second largest producer of apatite concentrate in Russia and the only producer of baddelite concentrate in the world. In 2007 the production of apatite concentrate grew by 25% compared to 2006 and reached 2.5 million tons;
❖ OJSC “Nevinnomyssky Azot” (Nevinnomyssk, Stavropol Territory) – is the largest producer of nitrogen fertilizers in Russia and the leading chemical enterprise of the Southern Federal District;
❖ “PG Phosphorite” LLC (Kingspepp, Leningrad Region) is one of the main producers of phosphate fertilizers and feed phosphates in the Northwest of Russia. Phosphorite’s share in the Russian production of phosphate fertilizers is more than 10%;
❖ Lifosa AB (Kedainiai, Lithuania) – the largest producer of phosphate mineral fertilizers in the Baltic countries and one of the leaders in the European Union;
❖ “EuroChem Volga-Kaliy” LLC (Kaletnikovo, Volgograd Region) – an enterprise created to develop the Gremyachinskoye potassium salt deposit.

Planned work for modernizing production was performed at all of EuroChem’s industrial enterprises. Capital investments grew by 23% in 2007. This allowed for substantially strengthening the company’s production base and for increasing productivity by 51% to RUR 3.31 million/person.

PHOSPHATE GROUP

In 2007 the company continued to realize the plans laid in the Strategy for the Development of EuroChem’s Phosphate Business up to 2012. These plans are furthered by a favorable global business climate – throughout 2007 there was a substantial rise in phosphate group product prices and a lack of supply in the world market.

During the year, EuroChem substantially strengthened its position in this segment: the consolidated output of phosphate fertilizers increased 5.1% in 2007 and came to 1.8 million tons. Thanks to the start of operations of a complex for enriching baddelite-apatite sands, the production of apatite concentrate – a raw material for the production of phosphate fertilizers – came to 2.5 million tons, which was 25% higher than in 2006. The output of sulfuric acid came to 2.3 million tons (monohydrate), or 102% of the 2006 level. The production of phosphoric acid (100% P2O5) increased by 8.4% to 955 thousand tons. The production of one of the main phosphate fertilizers, monoammonium phosphate, came to 129% of the 2006 level and reached 863 thousand tons. Output of diammonium phosphate grew to 842 thousand tons (102% of the 2006 level). Such production growth requires significant investments in the production base and the modernization of the
existing production capacity.

The company does not plan to be satisfied with what has already been achieved: in the upcoming years, EuroChem plans to concentrate sales of phosphate products to the most attractive markets, and to achieve the removal of the import duties of the EU countries and Turkey (2010-2012).

Among the most important production initiatives: increasing the output of sulfuric acid to 1 million tons a year at PG Phosphorit and to 720 thousand tons a year at “EuroChem-BMU”, the construction of a new workshop for feed phosphates with a capacity of 150 thousand tons at Lfosa AB, and a production facility for complex NPK-fertilizers will be opened at “EuroChem-BMU”. In order to generate in-house energy to lower the cost of production, it is proposed that a turbine with a capacity of 12 mWt be installed at “PG Phosphorit” and a 6 mWt turbine be installed at “EuroChem-BMU”.

IN 2007 “KOVDORSKY GOK” HAD PRODUCT SALES OF RUR 10.3 BILLION. The Kovdorsky mining and enrichment plant is the second largest producer of apatite concentrate in Russia and the only producer in the world of baddelite concentrate, a unique raw material which contains zirconium which is used in the production of abrasives, firebrick, and ceramic pigments. Today the “Kovdorsky GOK” is a reliably working enterprise, steadily increasing its production volumes, equipped with modern technology and equipment, with a professional team of executives, specialists and workers. The proven reserves of phosphate-containing raw materials comprise more than 500 million tons, the forecast reserves exceed 2 billion tons. The plant’s production meets the requirements of international standards. In 2007 “Kovdorsky GOK’s” product sales came to RUR 10.31 billion. In 2007 the production volume of iron ore concentrate decreased by 7% in comparison to the indicator for 2006 and came to 5 million 241 thousand tons. EuroChem made a conscious decision regarding this insignificant decrease – in 2007 a new enrichment factory was launched, and the joint processing of ore and wastes after ore processing (“apatite tails”) was increased. Moreover, in order to satisfy growing demand on the world market, the delivery of concentrate rose to 5.4 million tons, which exceeded the figure for 2006 by 9%, which is related to the delivery of warehouse stocks. The launch of the new enrichment factory was aimed at increased the apatite concentrate production volume. Thus, in 2007 production grew to 2.5 million tons, which was 25% more than in 2006. In 2007 the indicator for the delivery of apatite grew in a similar fashion in comparison to 2006. These measures enabled EuroChem to decrease the purchase of outside (Moroccan) raw materials for EuroChem’s phosphate enterprises. Baddelite concentrate deliveries to customers were 8.2 thousand tons, which was a 1% increase in deliveries compared to 2006.

Today EuroChem has a substantial competitive advantages on the phosphate production market:
❖ a company-owned raw materials base for mining high quality apatite concentrate;
❖ production and transportation capacities located in relative geographic proximity to markets with a high growth potential;
❖ the professional competencies required for quick expansion to promising markets.

This year was a year of substantial revaluing, both of the cost of phosphate fertilizers on the world market, and accordingly, the cost of phosphate assets. One can observe the following tendency in the world today: a shortage of phosphate raw materials. This year EuroChem already announced the possibility of using Moroccan raw materials. However, one need not expect a more or less noticeable expansion of foreign capital in this sub-industry in the near future. I consider the outlook for the development of large Russian producers of phosphate fertilizer to be favorable provided there is access to a high quality raw materials base.

Yuri Volov, Bank of Moscow analyst

The growth of all production indicators was achieved by realizing EuroChem’s large-scale investment programs, including the purchase of mining equipment, high-tech transport, and improving the technology for mining and enriching ore.
NITROGEN GROUP

One of the factors which determines the average height of a harvest is the degree to which crops are provided with nitrogen. Nitrogen is including in the composition of proteins, which are a key component of cytoplasm and cell nuclei, as well as in the composition of nucleic acids, chlorophyll, enzymes, phosphatides, the majority of vitamins and other organic nitric compounds, which play an important role in plant metabolism. For this reason, nitrogen fertilizers are an important and valuable nutrition source for plants.

EuroChem is traditionally one of the leading domestic producers of nitrogen fertilizers, maintaining stable production volumes. The growth of production volumes of the main types of nitrogen fertilizers – urea, ammonium nitrate, ammonium and urea-ammonium mixes, came to 4.04 million tons in 2007 (calculated with conversion to 100% nitrogen content). A noticeable growth in production to 1.6 million tons was achieved. The production of urea (finished product) came to 1.3 million tons. Output of UAN Solution came to 1.1 million tons.

Throughout 2007 there was a favorable consumption trend on world and regional nitrogen fertilizer markets: the stimulator for the growth of the fertilizer market was the growth of grain prices, since almost half of the fertilizer used in agriculture is to grow them. Positive tendencies in the Russian market also continued: during the last two years, sales of ammonium nitrate on the domestic market rose steadily by more than 15%.

The development of specialized investment areas of the nitrogen group continued in 2007. Among the investment projects adopted are the output of low density ammonium nitrates (LDAN) at "Azot", preparations for the construction of a facility for producing melamine at "Nevinnomyssky Azot", and the reconstruction of a workshop for the production of methanol at "Azot". In 2007, a new large-tonnage European-level production facility with a capacity of 420 thousand tons of blast-resistant calcium-ammonium nitrate (CAN). EuroChem remains highly competitive in the nitrogen segment of the mineral fertilizer market due to a whole series of advantages: first of all, geographic proximity to the markets with a high growth potential; second, proximity to the market for the sale of acetic acid; third the potential for further optimization of production.

"AZOT": NEW LIFE FOR THE PATRIARCH OF THE RUSSIAN CHEMICAL INDUSTRY. New horizons appeared for one of the oldest enterprises in the country’s chemical industry – “Azot” – when it became part of EuroChem. During the past few years, the enterprise underwent a serious technological restructuring and now it is a highly mechanized and automated production facility with modern cycles based on leading technologies and equipment. Every tenth ton of ammonium and nitrogen fertilizer in Russia is manufactured here. Despite conducting capital repairs in the ammonium-2 plant during the summer, and also losses in the work of the ammonium synthesis towers (partial carry-over from the tower) in the ammonium-4 plant, the production of ammonium came to 1.52 million tons in 2007, which corresponds to the level of output in 2005-2006. The output of urea was slightly decreased (by 2.8%) in comparison to the previous year, which was related principally to the deterioration of the main technological equipment of the Urea-3 facility. The total output of urea came to 824.69 thousand tons in 2007. At the same time the production of ammonium nitrate was significantly increased. Production reached 1.194.45 thousand tons during the period (114% in comparison with the results for 2006). Certain facilities of the chloride product group demonstrated steady growth.

Thus, the output of sodium hypochlorite came to 22.53 thousand tons (112%); granulated calcium chloride – 5.83 thousand tons (growth of 111%). During the year, the output of argon and carbon dioxide also increased substantially, it came to 10.75 thousand tons (105.7% compared to 2006 output) and 6.47 thousand tons (195% compared to 2006) accordingly. The total output of methanol in 2007 increased by 13.1% and came to 370.72 thousand tons. The decrease in output is connected to the shutdown of the methanol and dimethyl ether facility due to unprofitability. “Azot” occupies a worthy place in the EuroChem family of enterprises.
POTASSIUM GROUP

The production of potassium fertilizer is one of the most important areas for EuroChem production and sales development. This is related to a whole range of factors.

First of all, there was significant growth in the world potassium fertilizer industry in 2007: the overall potassium fertilizer volume grew by 15% in comparison to 2006.

Secondly, income growth in developing countries and demand for high quality foodstuffs aided in the growth in the consumption of potassium in China, Brazil and India.

Thirdly, EuroChem continued to develop the unique Gremyachinskoye potassium salt deposit in the Volgograd Region. In 2007 the first stage of geological survey work was completed, the feasibility study for permanent quality requirements was developed, and a reserve estimate report was prepared. The report was approved by the State Reserves Commission of the Natural Resources Ministry of Russia, and the reserves have been protected. In the planned preparatory period from 2008-2012 the entire range of geological survey, organizational and construction work has been scheduled; this will allow for a production launch in 2013 with a gradual expansion to full capacity in 2016, when the total production volume will comprise 4.6 million tons of potassium chloride. The launch of mining capacity at the Gremyachinskoye deposit will enable the production of a full range of complex NPK, NK and PK fertilizers. EuroChem’s competitive advantages in the potassium market are: a high quality ore base with a high (89%) ore preparability, a low level of admixtures (to 1.5%), a convenient location in the South of Russia, and proximity to the export terminal at Tuapse.

Evgeny Efremov, deputy director of the D. N. Pryanishnikov Russian Research Agrochemistry Institute

The Russian potassium industry is on the rise and is developing dynamically. In 2007, for the first time in many years, the process of developing a new field of potassium ore was begun – the Gremyachinskoye potassium salt deposit in the Volgograd Region. I consider the development of a complete chain for bringing the product to the end consumer to be one of the most promising areas for Russian potassium fertilizer producers. As for developing the Gremyachinskoye or other potassium ore deposits, I think that the launch of development itself may be considered to be interesting and rather brave.

EuroChem Production: Key Events in 2007

❖ the company reached all the main benchmarks of the 2007 production program: 100% for ammonium, urea and acetic acid, 109% for ammonium nitrate, 100.2% for phosphoric acid, and 106% for phosphate fertilizer;
❖ an agreement was concluded with the Administration of the Volgograd Region for the amount of RUR 50 billion for the construction of a Mining and Enrichment Complex (GOK) on the base of the Gremyachinskoye deposit with more than a billion tons of reserves of potassium salts.
❖ “EuroChem-VolgaKaliy” celebrated its first anniversary;
❖ at “EuroChem-BMU”, a new diammonium phosphate production line was introduced, in-house local purification structures were built, new methods for warehousing phosphogypsum – ameliorant were mastered;
❖ at “Kovdorsky GOK” a complex for processing the sands of the manmade [tailings] field and fine-grained apatite-francolite ores. The construction of a factory casting more than RUR 1 billion created additional possibilities for the production of fertilizers containing phosphorus;
❖ at “Azot”, the modernization of the ammonia production plant was begun as well as a project for the reconstruction of the Urea-3 facility, and the decision was made to construct a new Urea-4 facility;
❖ “Nevinnomyskii Azot” is the only producer of all types of polyvinyl spirit – a unique product for Russia, – and output several test shipments of polyvinyl spirit for GOZNAK (the State Currency Printing Enterprise);
❖ the reconstruction of the sulfuric acid production facility has begun at “PG Phosphorite”, bringing capacity to 1 million tons of monohydrate a year.
MAIN PRODUCTION INDICATORS

More than a hundred types of finished products are produced at EuroChem enterprises, including different types of mineral fertilizers, organic synthesis products and mineral raw materials.

<table>
<thead>
<tr>
<th>Company 2007</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azot</td>
<td>5.5</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td>5.4</td>
</tr>
<tr>
<td>Kovdorsky GOK</td>
<td>7.7</td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td>1.1</td>
</tr>
<tr>
<td>PG Phosphorite</td>
<td>1.8</td>
</tr>
<tr>
<td>Lifosa</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24.0</strong></td>
</tr>
</tbody>
</table>

The extraction method at the Gremyachinskoye deposit

Two methods for the extraction of potassium ore may be used given the conditions of the Gremyachinskoye deposit: mine shafts and underground dissolution through deep wells. Each method of extraction corresponds to certain mineral raw materials processing and enrichment methods. There are two known, generally-recognized methods for enriching ore extracted using a mine shaft: flotation (mechanical) and halurgic (chemical).

The mineshaft method of extracting potassium salts is dominant in the world today. This is explained both by the geological conditions of deposits of fields being developed and the fact that this method of extraction is the most studied in practice, as well as its predictability and manageability compared to the underground dissolution method. For the operation of the Gremyachinsky field, the most effective and ecologically safe method is the mineshaft extraction method.

In developing the Gremyachinskoye deposit, the rational use of natural resource reserves, conservation of the subsoil and protection of the environment are absolutely necessary. Under the project, our potassium enterprise will meet the highest standards, from the standpoint of both technical progress and the rational use of mineral raw materials. The Gremyachinskoye deposit is distinguished by complex mining and geological conditions – the deposit depth is 1,000-1,300 meters, however the design solutions for the mine envision the application of more progressive technologies for mining the productive layers of the strata and completely backfilling the mined space with enrichment tailings conveyed from the surface after the ore has been processed. It goes without saying that it is planned for the construction and operation of the facilities of the Gremyachinskoye deposit to be accomplished using and entire range of preventative and protective measures to prevent accidents, which have negative consequences for people, the mine itself and for the environment.

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## Structure of EuroChem production

<table>
<thead>
<tr>
<th>Product</th>
<th>Enterprise</th>
<th>2007, thousand tons</th>
<th>2006, thousand tons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen Fertilizers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ammonia</td>
<td>Total, including:</td>
<td>2,602</td>
<td>2,591</td>
<td>100.4%</td>
</tr>
<tr>
<td>Azot</td>
<td></td>
<td>1,516</td>
<td>1,526</td>
<td>99.4%</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td></td>
<td>1,086</td>
<td>1,065</td>
<td>101.9%</td>
</tr>
<tr>
<td>Ammonium nitrate</td>
<td>Total, including:</td>
<td>2,316</td>
<td>2,120</td>
<td>109.2%</td>
</tr>
<tr>
<td>Azot</td>
<td></td>
<td>1,195</td>
<td>1,072</td>
<td>111.5%</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td></td>
<td>1,121</td>
<td>1,048</td>
<td>107.0%</td>
</tr>
<tr>
<td>Urea</td>
<td>Total, including:</td>
<td>1,665</td>
<td>1,664</td>
<td>100.0%</td>
</tr>
<tr>
<td>Azot</td>
<td></td>
<td>825</td>
<td>849</td>
<td>97.2%</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td></td>
<td>840</td>
<td>815</td>
<td>103%</td>
</tr>
<tr>
<td>Urea-Ammonia Mix</td>
<td>Total, including:</td>
<td>1,063</td>
<td>1,075</td>
<td>98.9%</td>
</tr>
<tr>
<td>Azot</td>
<td></td>
<td>309</td>
<td>326</td>
<td>94.6%</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td></td>
<td>754</td>
<td>748</td>
<td>100.8%</td>
</tr>
<tr>
<td>Phosphoric fertilizers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diammonium phosphate</td>
<td>Total, including:</td>
<td>842</td>
<td>829</td>
<td>101.5%</td>
</tr>
<tr>
<td>Lifosa AB</td>
<td></td>
<td>842</td>
<td>786</td>
<td>107.2%</td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td></td>
<td>0</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>Monoammonium phosphate</td>
<td>Total, including:</td>
<td>863</td>
<td>671</td>
<td>128.6%</td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td></td>
<td>315</td>
<td>227</td>
<td>138.6%</td>
</tr>
<tr>
<td>PG Phosphorite</td>
<td></td>
<td>548</td>
<td>444</td>
<td>123.5%</td>
</tr>
<tr>
<td>NP 14:34</td>
<td>PG Phosphorite</td>
<td>0</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>NP 20:20</td>
<td>EuroChem-BMU</td>
<td>72</td>
<td>85</td>
<td>84.4%</td>
</tr>
<tr>
<td>Superphosphate</td>
<td>PG Phosphorite</td>
<td>6</td>
<td>10</td>
<td>62.3%</td>
</tr>
<tr>
<td>Feed phosphates</td>
<td>Total, including:</td>
<td>258</td>
<td>264</td>
<td>97.7%</td>
</tr>
<tr>
<td>Defluorinated phosphate</td>
<td>PG Phosphorite</td>
<td>193</td>
<td>1196</td>
<td>98.7%</td>
</tr>
<tr>
<td>Monocalcium phosphate</td>
<td>Lifosa AB</td>
<td>65</td>
<td>56</td>
<td>115.8%</td>
</tr>
<tr>
<td>Dicalcium phosphate</td>
<td>Lifosa AB</td>
<td>0</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Monodicalcium phosphate</td>
<td>Lifosa AB</td>
<td>0</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Complex fertilizers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal monoammonium phosphate</td>
<td>PG Phosphorit</td>
<td>11</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>NPK 8:4:24</td>
<td>Nevinnomyssky Azot</td>
<td>16</td>
<td>13</td>
<td>112.0%</td>
</tr>
<tr>
<td>NPK 17:0, 1:28</td>
<td>Nevinnomyssky Azot</td>
<td>76</td>
<td>98</td>
<td>77.9%</td>
</tr>
<tr>
<td>NPK 16:16:16</td>
<td>Nevinnomyssky Azot</td>
<td>87</td>
<td>62</td>
<td>140.5%</td>
</tr>
<tr>
<td>NPK 11:10:11</td>
<td>Azot</td>
<td>0</td>
<td>43</td>
<td>-</td>
</tr>
<tr>
<td>NPK 21:0, 1:21</td>
<td>Nevinnomyssky Azot</td>
<td>111</td>
<td>187</td>
<td>59.4%</td>
</tr>
</tbody>
</table>
Economics, Finances and Investments

The guarantee of the company’s long-term sustainability is stable financial results. Throughout 2007, EuroChem significantly improved the financial indicators of its activity and continued to carry out targeted investments in promising projects. The consolidated revenue of the company grew by 38% and came to RUR 73.8 billion for 2007 (in 2006 – RUR 53.4 billion). The changes in revenue occurred due to the growth in prices in connection with the favorable situation which has developed in the Russian and international mineral fertilizer markets.

MCC EuroChem Eurobond Issue

At the end of March 2007 MCC EuroChem launched a Eurobond issued as part of an LPN structure for the sum of 300 million USD for a term of 5 years at the rate of 7.875%. As the bid book filled up, the yield price range was reduced from 8%. The number of bids exceeded demand by more than 4 times. The Eurobonds were placed under Reg.S by closed subscription among 135 institutional investors from 20 countries from Europe, Asia, and the USA. 69% of the investors were management companies and financial institutions (including banks), 20% hedge-funds, 11% – clients of private banks. The lead managers of the Eurobond issue was Citigroup Global Markets Limited, ING Bank NV, London Branch and UBS Limited. Road shows preceded the transaction, and they took place from 26 February through 7 March 2007 in London, Hong Kong, Singapore, Frankfurt, Munich and Zurich. The Eurobond issue was made to refinance the short-term debt of MCC EuroChem. The company management was satisfied with the results of the transaction.

In 2007 operating expenses include sales, administrative and operational expenses as well as income from financial operations grew by 31% to RUR 23,726 million in comparison with RUR 18,048 million in 2006.

In 2007 operating expenses include sales, administrative and operational expenses as well as income from financial operations grew by 31% to RUR 213 million (9%), as well as other types of administrative and operational expenses. The decrease in income from financial operations came to RUR325 million (37%) compared to the figure for 2006 (RUR883 million). Operating profit came to RUR 19,649 million in 2007, which exceeded the figure for 2006 (RUR 8,849 million) by 100%.

In expanding its production and sales, the company expands its tax base, making an additional contribution to the social and economic development of company locations and the country as a whole. Profit tax rose by 65% and came to RUR 4,059 million in comparison with RUR 2,453 million in 2006. the EBITDA increased to 89% and came to RUR 22,510 million for 2007 (in 2006 – RUR 11,888 million). The company did not receive financial assistance from the state and did not enjoy tax privileges in 2007.

Effective Financial Management – Contribution to the Sustainable Development of EuroChem

In 2007 we continued the optimization of management of the company’s financial reporting, which enabled us to make this group of business processes the most transparent. The financial sphere became an essential element in the strategic management of the company. One didn’t have to wait long for the results of the work which has been done to appear. Issuance of Eurobonds, successful borrowing on capital markets and the preparation for a transition to a new company budgeting system made it possible for the level of financial management to approach contemporary international standards.

On the whole, 2007 was successful for MCC EuroChem. Both internal factors of company development and global economic trends made this possible: the growth of prices for mineral fertilizers assisted the growth of capitalization of companies in this industry. EuroChem intends to expand its presence in the markets of Europe, the USA, and Latin America. For us, the domestic market serves as the pillar of sustainable development. It has exclusively high potential and increasing our presence on it is one of the priority tasks of the company.

I am happy that international experts evaluate the work of our company highly. For example, the Standard & Poor’s rating agency assigned MCC EuroChem a corporate management rating of 6+ (on a ten-point scale). In other words, the management of MCC EuroChem is evaluated as higher than average by world standards. This evaluation makes it possible for us to look at the future with optimism.

Nikolai Pilipenko, Director for Finances and Economics of MCC EuroChem

In 2007 the cost of sales of the products sold, goods for resale and services rendered in the reporting year came to RUR 20.4 billion, which was 15% more than the figure of RUR 26.5 billion in 2006. The consolidated gross profit came to RUR 43.4 billion in 2007, which was RUR 16.5 billion (61%) more than the figure for 2006 (RUR 26.8 billion). The net profit of MCC EuroChem in 2007 grew to RUR 16.2 billion, or more than double (in 2006 the net profit came to RUR 7 billion).

2007 operating expenses include sales, administrative and operating expenses as well as income from financial operations grew by 31% to RUR 23,726 million in comparison with RUR 18,048 million in 2006.

The main reason for the growth is the growth of transport expenses and other delivery services to RUR 4,335 million (24%), expenses for personnel to RUR 213 million (9%), as well as other types of administrative and operational expenses. The decrease in income from financial operations came to RUR325 million (37%) compared to the figure for 2006 (RUR 883 million). Operating profit came to RUR 19,649 million in 2007, which exceeded the figure for 2006 (RUR 8,849 million) by 100%.

In expanding its production and sales, the company expands its tax base, making an additional contribution to the social and economic development of company locations and the country as a whole. Profit tax rose by 65% and came to RUR 4,059 million in comparison with RUR 2,453 million in 2006. the EBITDA increased to 89% and came to RUR 22,510 million for 2007 (in 2006 – RUR 11,888 million). The company did not receive financial assistance from the state and did not enjoy tax privileges in 2007.

Effective Financial Management – Contribution to the Sustainable Development of EuroChem

In 2007 we continued the optimization of management of the company’s financial reporting, which enabled us to make this group of business processes the most transparent. The financial sphere became an essential element in the strategic management of the company. One didn’t have to wait long for the results of the work which has been done to appear. Issuance of Eurobonds, successful borrowing on capital markets and the preparation for a transition to a new company budgeting system made it possible for the level of financial management to approach contemporary international standards.

On the whole, 2007 was successful for MCC EuroChem. Both internal factors of company development and global economic trends made this possible: the growth of prices for mineral fertilizers assisted the growth of capitalization of companies in this industry. EuroChem intends to expand its presence in the markets of Europe, the USA, and Latin America. For us, the domestic market serves as the pillar of sustainable development. It has exclusively high potential and increasing our presence on it is one of the priority tasks of the company.

I am happy that international experts evaluate the work of our company highly. For example, the Standard & Poor’s rating agency assigned MCC EuroChem a corporate management rating of 6+ (on a ten-point scale). In other words, the management of MCC EuroChem is evaluated as higher than average by world standards. This evaluation makes it possible for us to look at the future with optimism.

Nikolai Pilipenko, Director for Finances and Economics of MCC EuroChem

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2007 operating expenses include sales, administrative and operating expenses as well as income from financial operations grew by 31% to RUR 23,726 million in comparison with RUR 18,048 million in 2006.
EuroChem’s strong positions among comparable international and Russian companies are based upon revenue growth and the company’s profitability level set against a low-cost production base and favorable market trends for mineral fertilizer.

Marketing and Distribution

For EuroChem, distribution is not simply the undisrupted supply of products to end customers, but the formation of an entire range of agro-chemical services, including consulting, which aid in the effective use of fertilizer. A well-developed distribution system enables EuroChem to strengthen its position as a fully integrated production and service company. The creation of representative offices and agro-centers in the countries of the CIS and abroad continues.

Special attention is paid to the development of the trade and service infrastructure in Russia, since EuroChem views the domestic market to be strategically important and the most important for sales. In planning its marketing and distributor activity within the country, the company takes into account the significance of the rebirth of national agriculture for the sustainable development of Russia.

In connection with this, the company is realizing a long-term program for the development of regional sales and distribution for 2008-2012. The program provides for the introduction of various mechanisms aimed at increasing the sales volumes of fertilizer in Russia, including cooperation with regional authorities. The company strives to satisfy the growing demand of agricultural producers in the central and southern regions of Russian for all types of mineral fertilizers – nitrogen, phosphoric, and complex, moreover without lowering its share on world fertilizer markets.

The development of a system of agro-centers has been assigned a special role in EuroChem’s marketing strategy. Already today EuroChem has its own trading companies and representative offices in Europe, the USA, Ukraine and the Republic of Belarus.


In 2007 fertilizer sales growth in Russia and the CIS came to 1.29 million tons, which was 10% more than the previous reporting period. In 2007, up to 91% of the sales of fertilizer in Russia was made through the company’s own distributor network. For now, the main portion of EuroChem’s production is delivered for export – from 75% to 100% of the volumes depending on the product. The company’s goal for Russia is the supply of the entire range of mineral fertilizers.


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Key financial indicators of MCC EuroChem

<table>
<thead>
<tr>
<th>Figure</th>
<th>2007</th>
<th>2006</th>
<th>Change %</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, RUR million</td>
<td>73,822</td>
<td>53,403</td>
<td>20,418</td>
<td>38</td>
</tr>
<tr>
<td>Cost of sales, RUR million</td>
<td>(30,447)</td>
<td>(26,506)</td>
<td>(3,941)</td>
<td>15</td>
</tr>
<tr>
<td>Gross profit, RUR million</td>
<td>43,375</td>
<td>26,897</td>
<td>16,478</td>
<td>61</td>
</tr>
<tr>
<td>Share of gross profit in revenue, %</td>
<td>59</td>
<td>50</td>
<td>9</td>
<td>–</td>
</tr>
<tr>
<td>Operating expenses, RUR million</td>
<td>(23,726)</td>
<td>(18,048)</td>
<td>(5,678)</td>
<td>31</td>
</tr>
<tr>
<td>Operating profit, RUR million</td>
<td>19,649</td>
<td>8,849</td>
<td>10,800</td>
<td>&gt; 100</td>
</tr>
<tr>
<td>Share of operating profit in revenue, %</td>
<td>27</td>
<td>17</td>
<td>20</td>
<td>–</td>
</tr>
<tr>
<td>Profit before income tax, RUR million</td>
<td>20,234</td>
<td>9,439</td>
<td>10,795</td>
<td>&gt; 100</td>
</tr>
<tr>
<td>Profit tax</td>
<td>(4,059)</td>
<td>(2,453)</td>
<td>(1,606)</td>
<td>65</td>
</tr>
<tr>
<td>Effective profit tax rate, %</td>
<td>20</td>
<td>26</td>
<td>6</td>
<td>–</td>
</tr>
<tr>
<td>EBITDA, RUR million</td>
<td>22,510</td>
<td>11,888</td>
<td>10,622</td>
<td>89</td>
</tr>
<tr>
<td>Share of EBITDA in revenue, %</td>
<td>31</td>
<td>22</td>
<td>9</td>
<td>–</td>
</tr>
<tr>
<td>Net profit, RUR million</td>
<td>16,174</td>
<td>6,986</td>
<td>9,188</td>
<td>&gt; 100</td>
</tr>
<tr>
<td>Share of net profit in revenue, %</td>
<td>22</td>
<td>13</td>
<td>9</td>
<td>–</td>
</tr>
</tbody>
</table>

MCC EuroChem Declares Impressive Results for 2007

The results of MCC EuroChem’s work for 2007 turned out to be very impressive. The company’s annual revenue increased almost 1.5 times, the dollar equivalent of EBITDA and net profit increased more than twice. Such substantial growth of both indicators was possible thanks to a significant increase in the price for mineral fertilizers on the world market, a growth in production (first of all in the phosphoric segment), and also impressive control over production costs. We evaluate EuroChem’s reports for 2007 positively, which however will hardly have a noticeable effect on the trends for the shares of the company’s subsidiaries that have developed on the market in the last few months. Furthermore, given the favorable price trends on the mineral fertilizer markets, we expect a further sharp increase in the company’s main financial indicators in 2008.
The lengthening of the value chain to the end consumer continues both in the system of export deliveries (an increase in the share of CFR/CIF base deliveries), and on the domestic market — through the expansion of the distributor network. On the whole, in 2007 EuroChem maintained a stable position on the strategic international markets. Further growth in sales is planned in Europe, Latin America and the USA.

MCC EuroChem REPRESENTATIVE OFFICE IN THE REPUBLIC OF BELARUS. The official opening of the representative office of MCC EuroChem took place in Minsk at the end of November 2007. The representative office was created to work with the Ministry of Agriculture and the large enterprises of the Republic of Belarus — the current and potential partners of the group. The opening of the Belorussian representative office is the realization of the strategic plans of the company for the creation and further development of the mineral fertilizer sales network on the promising Belarus market, where there is a high volume of mineral fertilizer use.

The weighted consumption of mineral fertilizers is 7 times higher in Belarus than in the RF (125 kg/ha vs. 35 kg/ha). The share of fertilized ploughed area in the republic is up to 50%. EuroChem is already well represented in the Republic of Belarus — in 2006-2007 the company supplied ammonium nitrate, monoammonium phosphate, monoammonium phosphate sulfate, and superphosphate to the Belarus market.

The conclusion of several contracts with Belarus partners was timed to coincide with the previous event:
- with Belarus Potassium Company for the supply of potassium chloride to the Ukrainian subsidiary of MCC EuroChem — “Agro-Center EuroChem” — Ukraine for expanding the product line and also for the production of fertilizer mixtures. The planned delivery volume for 2008 is 50 thousand tons;
- with Gomelsky Chemical Factory — for the delivery of their products to EuroChem subsidiaries in Ukraine and the RF with a volume of 100 thousand tons for sales through the company’s distributor network and for the delivery of raw materials to EuroChem in 2008.

The head of the Representative Office of MCC EuroChem in the Republic of Belarus, Georgi Pivovarchuk is of the opinion that: “Our company has already earned authority in the Republic. It is considered to have weight. The entire product line produced at EuroChem enterprises should be represented in the Belarus market. I think that in 2008 the delivery of EuroChem phosphoric and nitrogen fertilizers will at least double.

The General Director of the Belarus Potassium Company, Vladimir Nikolaenko noted the following in connection with this event: ‘We presume that our relationship with EuroChem will be extended — this big Russian Company has already earned a great reputation in the world’.

Valery Rogalsky, sales and marketing director of MCC EuroChem
The Geography of EuroChem Production Facilities, Branches and Agro-Networks
Logistics and Transport

Transport is the circulatory system of such a large vertically integrated conglomerate like MCC EuroChem. In developing its concept of a fully vertically integrated company, including product delivery and after-sales service, EuroChem pays serious attention to the formation of a reliably working transportation and logistics infrastructure.

The uninterrupted delivery of raw materials to the enterprises, as well as the finished products to consumers is accomplished by the company’s own fleet of specialized railway car and locomotives. At the end of 2007 the fleet consisted of 44 locomotives and 6,204 railway cars of various types. Over the year, the fleet grew by 3 locomotives and 817 cars and cisterns. In May 2007 the subsidiary “Depot-EuroChem” was created in Nevinnomyssk, it should provide for up to 5 thousand scheduled repairs a year. The creation of its own railway car repair base reduces transportation risks for EuroChem. The reconstruction of the railway tracks in the cities of Novomoskovsk, Belocherensk and Kingisepp is also taking place.

A significant portion of EuroChem’s production is exported, including to remote parts of the world, for which sea and ocean class cargo vessels are used. Therefore the presence of port terminals has a great significance for the stable functioning of the company’s production and sales system. In 2007 EuroChem’s largest working transshipment complex was the Tankchem terminal (Estonia), which carried out the transshipment of the liquid chemical cargo products of EuroChem and other producers at the port of Sillamäe on the Baltic Sea. Terminal capacity is up to 1 million tons a year.

Starting in May 2007, in accordance with the decisions adopted by the Government of the RF on the development of transportation services based upon Russian ports, there was a serious decrease in the volume of transit products of the company’s enterprises through the Tankchem terminal of the port of Sillamäe. For this reason, EuroChem send a portion of its products to land borders by rail in volumes which the carrier could provided cars for, and through the port of Hamina (Finland). In order to reduce logistics risks, in August 2007 a 100% share in Murmansk Alumina Terminal was acquired. The terminal will be used for the export of iron ore concentrate.

An important part of EuroChem’s transportation infrastructure is the company-owned Harvester Shipmanagement Ltd., which includes the following transportation coordination centers:

❖ the representative office of the Harvester Shipmanagement Ltd. Company in Moscow – the logistics coordination center for all EuroChem cargo and railway freight forwarding within the RF;
❖ the representative office of Harvester Shipmanagement Ltd. in the city of Novorossiysk – freight forwarding in the port of Novorossiysk and coordination of EuroChem cargo movement during export through the port of Novorossiysk and other ports of the RF on the Black Sea;
❖ the representative office of the Harvester Shipmanagement Ltd. Company in Greece – the full range of work for organizing the delivery of cargo by sea to the end consumers in the destination countries based upon sea vessel charter contracts for one voyage or several consecutive voyages;
❖ the company Harvester Ukraine in the city of Odessa – control, accounting, entering information in databases and the coordination of the movement of EuroChem cargo during the export of cargo through the ports of Ukraine located on the Black Sea;
❖ the coordination center in Lithuania – the organization and control of the movement of EuroChem cargo through the ports of Finland, Estonia, Latvia and Lithuania located on the Baltic sea;
❖ the head office of Harvester Shipmanagement Ltd. in Limassol (Cyprus) – work with payments to contractors and handling vessel time charters.

2007 Results: further strengthening of EuroChem’s transportation infrastructure

During the entire year, the transportation system worked as a single fine-tuned mechanism, providing for all the required sales and production functions of EuroChem enterprises. We continued to develop our own transportation fleet: new locomotives and railway cars of various types were bought. This enabled us to react in a satisfactory fashion to EuroChem’s growing volumes of product delivery to domestic and international markets.

The priority tasks for last year were the development of a logistics system, first of all port terminals, which make it possible to organize the uninterrupted sale of products worldwide. Of course we had several difficulties here, which were the results of external circumstances: we had to reduce the transshipment of liquid chemical cargo through our terminal in the port of Sillamäe. However, this did not effect the work of our transportation and logistics system, since we were able to compensate for the losses which occurred. Now the construction of the Tuapse bulk terminal, which is our gate to southern Russia and will enable the steady growth of EuroChem as a whole.
The Tuapse Bulk Terminal – EuroChem’s Southern Gateway

EuroChem started the construction of its own specialized terminal for the transshipment of mineral fertilizers from railway cars to sea vessels at the Tuapse Commercial Sea Port. The goal of the project is lowering transportation costs for the delivery of mineral fertilizers to the consumer and obtaining independence in the Black Sea basin stevedore services market. The planned annual cargo volume of the terminal is 2.3 million tons. The capacity of the warehouse for accumulating sea vessel shipments of fertilizer is up to 105 thousand tons. Offloading/loading speed is up to 1,700 tons an hour. The maximal deadweight of the vessels to be processed – 52,000 tons. The supplier of the main technological equipment is the firm Thyssenkrupp Foerdertechnik (Germany). The planned cost of the construction of the terminal is RUR 2.4 billion. The launch of operations is planned for the first quarter of 2009.

EuroChem has assigned the highest priority to the ecological safety of the new terminal. In particular, each transshipment unit will be equipped with a system for purifying the air from dust with a high degree of efficiency (99.9%), i.e. almost no dust will get into the atmosphere. Air filtration is carried out with the aid of felt elements which are water-resistant, alkaline-resistant and anti-corrosive. Regeneration of the filters takes place without turning off the systems or technical conveyor stoppages. The railway car offloading station has a pneumatic system for purifying wheel pairs. The entrance and exit gates of the station are covered by elastic curtains. The grates above the bins are equipped with “flex-flap” flaps to prevent the exit of dust from the bins.

The technical outfitting of the terminal is the most modern in Russia and is at the level of the best model facilities worldwide. EuroChem provides open and accurate information on the construction of the Tuapse bulk terminal and its influence on the socio-economic development of Tuapse.

On the one hand, we must have jobs in the city, were it is possible to work and earn a salary, to live, to support a family. On the other hand, an industrial enterprise creates an ecological burden on those who live here. Their work must comply with all modern technical procedures and requirements for environmental protection. And, as events have shown, this is what is being done in the city; in any case, the necessary actions have been taken in this direction.

It is necessary to rely on the opinion and experience of specialists. We acquire it through the study of examples from other regions. For example, the construction of the Tuapse bulk terminal relies upon the experience of a similar project in Saint Petersburg, which has not caused any complaints from the ecological perspective from either specialists or residents.

Sergei Sergin, professor of the Tuapse Branch of the Rostov Hydrological and Meteorological University
<table>
<thead>
<tr>
<th><strong>44</strong></th>
<th><strong>17%</strong></th>
<th><strong>220</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>there are locomotives and 6,204 wagons on various types in railway stock of EuroChem</td>
<td>annual growth of transshipment scope in sea ports of the Baltic Sea, Barents Sea, and Black Sea</td>
<td>mln. rubles EuroChem has invested in reconstruction of existing railways and construction of new ones</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>600</strong></th>
<th><strong>4,83</strong></th>
<th><strong>272</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>of mineral wagons and 20 covered wagons, 197 tanks and three diesel locomotives were acquired in 2007</td>
<td>mln. tons of cargos were shipped by sea for enterprises of EuroChem</td>
<td>vessels have been chartered for the needs of EuroChem by the company Harvester Shipmanagement Ltd.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>252</strong></th>
<th><strong>16</strong></th>
<th><strong>209</strong></th>
</tr>
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<tbody>
<tr>
<td>thousand tons of alumina were transloaded in 2007 comparing with 185 thousand tons in 2006</td>
<td>vessels with tonnage of 575 thousand tons have been time chartered</td>
<td>mln. tons or 83% of total volume of export-import cargoes have been shipped on the vessels chartered by Harvester Shipmanagement Ltd.</td>
</tr>
</tbody>
</table>
Our Achievements
Corporate Social Responsibility in 2007: Numbers and Facts

185,5 mln. rubles invested to support sports and a healthy lifestyle

470 mln. rubles invested – total investments of a social nature

7,7 bln. rubles – costs for personnel

26,7% growth of the average salary of employees

1200 students completed internships at the company’s enterprises, 130 graduates of institutions of higher learning were hired to work at the company

35% of the average number of personnel underwent programs for professional re-training

33,8 mln. rubles invested in the recreation and rehabilitation of employees

380 best employees recognized with corporate awards from MCC EuroChem

209 persons – the number of persons in the EuroChem succession pool
Chapter 2

**EuroChem and Society: Responsibility in Partnership**

**Social Responsibility**
structure and principles
social responsibility, Corporate ethics code, public recognition

**Stakeholders**
identification, characterization, dialogue

**Social Investments**
agreements with the regions, social project contests, sponsorship and charity

**Development of human potential**
HR policy, motivation and social guarantees, training and development
EuroChem corporate social responsibility principles

EuroChem views its corporate social responsibility as a voluntary contribution to economic, ecological and social activity which provides for the sustainable development of the company itself, the areas where it is located and society as a whole.

The policy of social responsibility does not contradict the company’s commercial interests and takes into account the current and future needs of the main stakeholders. EuroChem’s corporate social responsibility consists of three blocks – corporate social policy, corporate social activity and corporate social reporting.

The structure of MCC EuroChem corporate social responsibility

Corporate social policy
Corporate social activity
Corporate social reporting

EuroChem’s corporate social policy is a pattern of conduct formulated on a general corporate level which is carried out by the enterprises in the regions of their economic and production interests; it means performing legislative norms and voluntary obligations and is also directed at ensuring a balance between business profitability, the opportunities for long-term development and the socio-economic development of the regions.

EuroChem’s social policy is strategic in nature, fixed in a series of documents and integrated into the company’s corporate culture.

The framework document which determines the fundamental principles of EuroChem’s social policy is the Strategy for the Development of the Joint-Stock Company for the Period up to 2012. The following are declared in the Strategy:

❖ the optimal balance between the growing effectiveness of the main business of the company and steady, voluntary participation in the socio-economic development of Russia;
❖ the open and public character, continuity and prolonged institutional effect of the company’s social activity;
❖ the increased effectiveness of the company’s social investments through the creation of a system of “partner” projects and innovational management technology in the area of social responsibility;
❖ ensuring regular investment in the development of labor resources taking into account the enterprises’ future needs for qualified personnel.

It is also stressed that the choice EuroChem’s social engagement areas relies upon targeted and systematic approaches, and corresponds to Russian initiatives and international standards in this area.

Corporate social activity consists of the practical measures for bringing about corporate social responsibility. Corporate social reporting is the process of informing stakeholders of the progress and results in the area of social responsibility.

The goal of the company’s activity in the area of social responsibility is achieving sustainable development based upon economic, ecological and social conditions.

Corporate social responsibility EuroChem is called upon to provide for:

❖ the growth in the level and quality of life of company personnel and the public involved;
❖ the steady socio-economic development of the regions where the company is located;
❖ the development of specialized industries (the chemical industry, agriculture, power utilities, etc.);
❖ preserving social and ecological sustainability in the regions where the company’s activity takes place.

EuroChem corporate social responsibility principles

Corporate social policy
Corporate social activity
Corporate social reporting

The company actively participates in the socio-economic development of the regions where its enterprises are located, making large-scale social investments. Altogether in 2007 investments of a social nature came to more than RUR 470 million. From this total, RUR 185.5 million were for the support of sports and a healthy lifestyle, RUR 22 million for investments for education, and RUR 64.6 million for urgent regional needs.

A special focus of activity in the area of corporate social responsibility is the implementation of a reporting process which corresponds to the principles and procedures of international standards and Russian initiatives in this area. By the end of 2007 EuroChem had published two social reports: for the 2002-2005 period and for 2006. The corporate social report of EuroChem for 2006 was independently verified by Bureau Veritas Certification for compliance with the GRI version G3 social reporting standard.

The publication of the social report enabled the following in 2007:
❖ to disclose a significant volume of information on the company’s activity in the area of corporate social responsibility;
❖ to increase the quality of management of investments in sustainable social development.

Measures to prepare for 2007 social reporting were also carried out.

On the whole, in 2007 EuroChem conducted its economic, production and commercial activity relying upon the principles of corporate social responsibility and reporting.

Corporate social responsibility: as we optimize it, we improvise it

The company is publishing its third corporate social report. This is a sign that social reporting has become a regular practice at EuroChem. Furthermore, the fact of the compilation and publication of a social report itself is not a goal in itself for us – the company’s priority was actual deeds in the area of social responsibility and sustainable development. The process of social reporting using an internationally recognized methodology helps us to see and evaluate not only the results we have achieved, but also the shortcomings which should be eliminated in the future. It is important to stress that the company takes on realistic obligations in the area of social responsibility, and consistently fulfills them. I am sure that this will also be so in the future. During 2005-2007, together with a series of Russian and foreign foundations, we realized a complex project in the area of social investment at a site in Nevinnomyssk. This project combined intense dialogue with local communities, a competition among projects and a procedure for evaluating their effectiveness. You can familiarize yourselves with this project in more detail in this report. The company continued to work actively to improve the opportunities for employee’s professional and personal growth: the level of salary rises consistently, systematic measures are taken to improve working conditions and to hire young specialists. We also work on developing a positive corporate culture at EuroChem. It is very important that the company’s employees form the corporate culture themselves and introduce new traditions. In issuing this social report, we consider that accurate information on the company is one of the cornerstones of social policy. It is of the utmost importance for both those who wish to throw in their lot with EuroChem and for the company’s business partners. Overall, one should note that the company has things to be proud of in the area of social policy and social responsibility, but there’s much more which remains to be done. The main thing is that every year we improve something in a real way.

Igor Schelkunov, Administrative director of MCC EuroChem

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Corporate ethics code

Corporate conduct influences the economic indicators of the company’s activity and its ability to raise the capital which is necessary for sustainable development.

EuroChem upholds the principles of business ethics and voluntary corporate conduct.

The Corporate Ethics Code was adopted in 2006 in order to establish and support corporate standards of ethics, and a new edition was approved in November 2007. The Code of Ethics established the standards for corporate conduct for all EuroChem employees, its branches, affiliates, representative offices and subsidiaries.

The values shared by the joint-stock company, the subsidiaries, employees and managers at all levels are the basis of ethical conduct:

❖ respect for the personal rights and interests of employees, clients, suppliers, customers, partners and the terms for cooperation with them and with society overall;
❖ openness in relationships, the creation of the terms for the free discussion of any questions surrounding the company’s activity, encouragement of innovation and open communications within the company;
❖ honesty in relationships, provision of various rights for professional growth, protection against discrimination, social protection, a fair evaluation of work which corresponds to professionalism and the level of responsibility;
❖ trust as the basis for delegating authority for making decisions and responsibility for their conscientious performance with competent management and production in strict accordance with the approved technical procedures, the safety requirements and quality standards.

MCC EuroChem is guided by the following principles for conducting its business:

❖ to show a pro-active approach and competency in strict compliance with the legislation regulating anti-monopoly policy and competition in all markets where the company is represented;
❖ to take upon itself only those obligations that the company will undoubtedly fulfill;
❖ not to intentionally misguide anyone, not to assist corruption and not to participate in any sort of unacceptable actions;
❖ not to allow violence and not to inflict intentional harm on whoever it might be;
❖ to conduct its activity on the basis of respect for the culture and local traditions of all regions and territories;
❖ to achieve effectiveness through continuous improvement and betterment of its activity and the quality of its products.

In developing the ideas of civil rights and freedoms, the company creates the conditions for the realization of the rights of each employee setting up the relationship between the employees and the company on the basis of a friendly, open corporate culture.

Long-term, stable relations with clients, creditors, suppliers and other partners which are based on trust and mutual benefit play a key role in achieving success. Taking this into account, EuroChem strives to:

❖ build relationships with state and local authorities in accordance with the laws and other current regulations, not making any attempts to influence the decisions of these bodies in an unlawful fashion. The company pays taxes on time and in full;
❖ be client-oriented and guarantees the high quality of its products and services, it values its reputation and strictly follows the norms of business ethics and law;
❖ give preference to business partners and suppliers with an impeccable reputation. EuroChem strictly observes the legislation on counteracting the legalization of illegally received funds. The company does not take part in unlawful payments in any form and does not use unethical or unjust means of influence on its partners or competitors.

In the regions where it is active, it orients itself primarily towards the local population when hiring company personnel.

Candidates for vacant positions are asked to meet requirements which correspond to the job duties, job qualification requirements and the requirements of job technical safety instructions. The hiring procedure is stated in the Internal Labor Rules.

The share of executives hired from among the local population, %

<table>
<thead>
<tr>
<th>Region</th>
<th>The share of executives hired from among the local population, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krasnodar Region</td>
<td>56,25</td>
</tr>
<tr>
<td>Leningrad Region</td>
<td>80,00</td>
</tr>
<tr>
<td>Murmansk Region</td>
<td>85,71</td>
</tr>
<tr>
<td>Stavropol Territory</td>
<td>84,62</td>
</tr>
<tr>
<td>Tula Region</td>
<td>41,67</td>
</tr>
</tbody>
</table>

The company does not make financial or in-kind contributions to political parties, politicians or organizations connected with them.

In 2007 EuroChem was not involved in court proceedings in connection with restricting competition, no court cases were considered regarding practical approaches for disallowing monopolistic practices.

Fines and non-financial sanctions related to the failure to comply with environmental protection legislation in the amount of RUR 255 thousand were imposed on the company during the reporting period. There were no instances disclosed of company employee involvement in corruption. There were no cases of discrimination recorded at MCC EuroChem enterprises during the reporting period. The following are not used at the company: child labor, forced or mandatory labor. All employees of the security service are given training regarding compliance with legal norms in the area of observing personal rights.

In their activity, EuroChem employees uphold Russian legislation and the Code of Corporate Conduct. At the same time, in 2007 EuroChem did not conduct special training on the company’s anti-corruption policies and procedures.
The company’s achievements in various areas was greeted with the appropriate public recognition.

Public Recognition and Awards in 2007

**MCC EuroChem RECEIVED THE AWARD OF THE “RUSSIAN FIELD-2007” EXHIBITION**

**MCC EuroChem AWARDED THE CERTIFICATE “100 BEST INVENTIONS OF RUSSIA”**
- The Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) has given an award to EuroChem for developing the invention “Methods for Obtaining Nitrogen-Phosphorus Fertilizers” (Russian Federation Patent No. 2263652).

**EUROCHEM-BMU RECOGNIZED AS BEST CORPORATE GIVER**
- The administration of the Krasnodar Territory recognized EuroChem-BMU as the “Best Corporate Giver 2007”.

**EUROCHEM-BMU – WINNER OF THE COMPETITION “100 BEST PRODUCTS OF RUSSIA”**
- At the All-Russian Competition Program “100 Best Products of Russia 2007”, EuroChem-BMU was recognized for the high quality of its product – orthophosphorus extraction acid.

**KOVDORSKY GOK AWARDED A CERTIFICATE AS A RUSSIAN ORGANIZATION WITH A HIGH LEVEL OF SOCIAL EFFECTIVENESS**
- Kovdorsky GOK has been awarded a certificate from Government of the Russian Federation for its participation in the All-Russian Competition “Russian Organization with a High Level of Social Effectiveness”.

**NEVINNOMYSSKY AZOT AWARDED WITH PRIZE REWARD FOR THE REVIEW-COMPETITION AMONG THE CITY’S ORGANIZATIONS FOR THE BEST WORK CONDITIONS AND OCCUPATIONAL SAFETY IN 2007**

**NEVINNOMYSSKY AZOT RECEIVED AWARDS FROM THE GOVERNMENT OF THE STAVROPOL TERRITORY**
- The Government of the Stavropol Territory awarded Nevinnomyssky Azot for the production of high quality competitive products among the organizations of Stavropol with the following awards – grand-prize “Great Silk Path”, the title of laureate of the Program “100 Best Products of Russia”, the designation “Golden Standard”.

**PG PHOSPHORIT RECOGNIZED WITH THE DESIGNATION “EUROPEAN QUALITY”**
- Upon the recommendation of the Center for Market Research, The European Business Assembly awarded PG Phosphorit with the designation EUROPEAN QUALITY.

**PG PHOSPHORIT AWARDED WITH THE GOLDEN SCROLL OF A PATRON**
- The International Patron’s Academy awarded PG Phosphorit with the “Golden Scroll of a Patron” for its contribution to the realization of national projects and the reawakening of traditions of charity and mutual understanding in society.

**PG PHOSPHORIT RECEIVES AN AWARD CERTIFICATE FROM THE TRADE AND INDUSTRY CHAMBER OF RUSSIA**
- The trade and industry chamber of the Russian Federation awarded PG Phosphorit for its success in creating highly profitable production in the output of mineral fertilizers and feed additives.

**THE LEGAL DIVISION OF MCC EuroChem WAS THE WINNER OF THE COMPETITION “BEST LEGAL DEPARTMENT IN RUSSIA”**
- At the annual conference “Best Legal Department of Russia”, for the second time the winner in the nomination “Chemical and Petro-Chemical Industry” was the Legal Division of EuroChem.

**THE NEWSPAPER “EUROCHEM” RECEIVED AN AWARD CERTIFICATE FOR THE HIGH LEVEL OF SOLUTIONS TO CORPORATE TASKS**
- At the “Silver Threads” national competition of corporate mass media, the newspaper “EuroChem” received an award certificate in the nomination “High Level of Solutions to Corporate Tasks”.

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EuroChem Stakeholders

EuroChem’s social policy involves stakeholders in the dialog regarding the socio-economic development tasks at the places where the company is located. During the preparation of the regular social report in 2007, meetings were held with representatives of external and internal stakeholders, as well as surveys and roundtables.

In particular, research was conducted into corporate culture and corporate communications; 2.7 thousand workers from all EuroChem enterprises took part in the research. Community meetings with the participation of city residents also took place as part of the social investment program in the city of Nevinnomyssk. Altogether 3.5 thousand persons participated in various forms of communication on issues regarding company activity.

This allowed for correcting the current social activity in accordance with the real needs and requirements of employees, partners, and residents of the cities where the joint stock company’s enterprises are located. Altogether no less than 300 persons representing all regions where EuroChem conducts production activity took part in various forms of dialogue with the company on the theme of social policy.

The company is conducting an open dialog with industry-wide and local trade union organizations, which allowed for concluding collective bargaining agreements which satisfy all sides. Thus, in its interactions with employees, the company puts the principle of social partnership into practice: based upon constructive negotiations at all subsidiaries, in 2007 the process of perfecting collective bargaining agreements was continued, taking into account the expansion of social benefits and guarantees.

The basis for discovering and selecting stakeholders for the purpose of further interaction with them are the very important internal and external ties which ensure long-term competitiveness; they are potentially risky and have a substantial influence the company’s activity. On the whole the company adhered to the list of stakeholders which had been adopted earlier (reflected in the previous social reports) for further development and deepening of productive relationships with them.

Stakeholder characterization

SHAREHOLDERS. The principles of constructive dialog are the foundation of relations with the shareholders of MCC EuroChem; this is based upon the presentation of full, objective and reliable information on the economic indicators of company activity, ecological policy and social responsibility.

The most important decisions of the General Shareholders Meeting in 2007:
❖ approval of the annual report and financial reports for 2006;
❖ distribution of profits for 2006 and approval of the size of the dividend for 2006 and for 9 months of 2007;
❖ selection of the Company Auditor;
❖ formation of the Board of Directors and regulation of the compensation of the Board of Directors;
❖ selection of the Revision Commission and the issues related to compensating its members;
❖ approval of an interested-party transaction on the issue of insuring the liability of the executives of MCC EuroChem.
The Shareholders approved the changes in the Charter and the internal documents which regulate the activity of the management bodies. The Meeting adopted a decision for MCC EuroChem to participate in the “Russian Association of Fertilizer Producers”. Despite the limited number of shareholders, the company unswervingly observes the rules and procedures used in public companies. The procedures for calling, preparing and conducting the general meetings are regulated by the Company’s Charter. Information connected with the shareholders meeting, and materials for the assembly are available on the web-site of the Company, www.eurochem.com thirty days before the meeting. Outside the shareholders meetings, the Board of Directors regularly informs shareholders regarding its decisions on the most important company issues, achievements and plans and provides detailed presentations on results.

**Organization of communications with EuroChem employees**

The main information channel for interaction with employees is the corporate newspaper “EuroChem”. The newspaper, which comes out twice a month, is available to all the employees of the enterprises: the circulation of the newspaper reaches 10 thousand copies. The newspaper informs employees in detail concerning news and events occurring at all EuroChem enterprises, as well as in the industry as a whole. Company employees have the opportunity to familiarize themselves with the opinion of company executives and top-managers on the current issues of the group’s work. At the same time, the newspaper devotes significant space to the opinion of company employees who are occupied in various production areas, from facility workers to specialists and managers. The development of internal radio broadcasting continued in 2007, which was organized at four enterprises of the group: at “Kovdorsky GOK”, “Nevinnomyssky Azot”, “PG Phosphorit”, and “EuroChem-BMU”. Today the corporate radio broadcast has broad audience coverage, there is reception through more than 1,000 radio outlets, this makes it possible to inform employees about news and important events occurring at MCC EuroChem quickly and in a lively format. Additionally, the improvement of the work of the television station at “Kovdorsky GOK” continued during the reporting year. The development of the corporate intranet portal became a separate important area of internal corporate communications; this made it possible to create electronic archives in real time and to communicate between all divisions of the company, opening up a new information age for MCC EuroChem. On average, more than 50 thousand visits a month to the internet site were recorded in 2007. Employees are able to express vital problems, wishes, and questions for the executives of MCC EuroChem by using a special service – the “Post of Trust”. At each enterprise there are special boxes where one can send one’s written messages. These messages are processed and concrete measures and taken based upon them, and the employees are informed of the results through the corporate media outlets. During 2007, around 150 answers were published through messages sent through the “Post of Trust”.

**Emploees.** The very positive results which were achieved by the company in 2007 were mainly the result of the honest and professional work of the employees of the group’s enterprises. One of EuroChem’s strategic tasks continues to be realized – the integration of the principles of social partnership into the life of the group, the strengthening of corporate spirit, and the development of the motivation system.

The company pays great attention to the development and training of personnel. A project for creating a succession pool was proposed in 2007 for the purpose of improving and ensuring continuity in the company’s management systems.

During 2007, work on the development of the Human Resources Strategy up to 2012 took place. During the course of modernizing production, preference is given to technological solutions which lower the effect of harmful production factors on workers. In order to organize continuous and open dialogue with personnel, the development of corporate communications systems continued during 2007: the publication of the EuroChem corporate newspaper and the work of the intranet portal.

**Collective bargaining agreements are a most important form of interaction with labor collectives.** Collective bargaining agreements are in place at all the company’s enterprises.

**Within the context of interaction with such a very important stakeholder as the enterprises’ labor collectives, collective bargaining agreements act as an instrument for:**

- open dialog with labor collectives At the conferences on collective agreements, the questions and wishes of workers are directly discussed;
- the vertical coordination of the regulation of labor relations with the participation of the representatives of the Russian Chemical Workers Union. The group executive management participates in this process to represent overall corporate policy.

Thus, the company has a system of regular interaction with personnel as a significant stakeholder. In accordance with information exchange procedures, the minimal period for notifying employees regarding significant changes in the company’s activity is two months.

**Consumers.** Interaction with the consumers of MCC EuroChem products is based upon the principles of transparency, justice and responsibility. The company informs wholesale and retail consumers of mineral fertilizers and other chemical products in a timely fashion not only regarding product quality, but also regarding their environmental impact. All products are marked. Products have the necessary documentation and certificates, including a hygienic certificate and a safety sheet.

In accordance with the Development Strategy, MCC EuroChem is carrying out a large program for providing consultative support to agro-chemical fertilizer consumers. In addition, MCC EuroChem uses its own distribution system to offer consumers the products of outside producers which are necessary for effective agricultural production.

Increasing the quality of mineral fertilizers not only increases the company’s competitiveness, but also strengthens relations with consumers and expands markets.
EuroChem continuously invests in the reconstruction of production facilities and in scientific development aimed at increasing the quality of the products made.

EuroChem marks its products and provides instructions which describe the requirements for their usage. Product marking corresponds to the regulatory requirements accepted in the industry. The company has no information that there were any cases of a failure to comply with the regulatory requirements and voluntary codes related to the information and marking of the properties of its products and services.

The “Agrochemical Bulletin” is also posted on the corporate site www.eurochem.ru. Here one finds a description of the particularities of using EuroChem’s main agricultural products with an accent on the stage of the plant life cycle during which fertilizer is most effective and safe. The company does not have any information for the reporting period on cases of a failure to comply with the regulatory requirements and voluntary codes related to the effect of products and services on health and safety.

For the same period there were also no complaints related to the violation of the inviolability of the private life of consumers and the loss of data regarding consumers. Fines were also not imposed upon the company for a failure to comply with legislation and the regulatory requirements related to the provision and use of products and services.

In accordance with the company policy for quality being implemented in accordance with the requirements of the international standard ISO 9000, the consumer is the main focus for the activity of MCC EuroChem.

FEDERAL STATE ADMINISTRATIVE BODIES. Federal authorities have a substantial effect on the functioning of the agro-chemical industry as a whole and MCC EuroChem in particular.

EuroChem received a high evaluation at the exhibition “Russian Field 2007”, which was visited by the President of Russia. EuroChem also acted as a strategic partner for the Second Tula Economic Forum and was a silver sponsor of the International Investment Forum Sochi 2007.

The company acts as an industry expert when preparing legislative acts, resolutions and other regulatory documents which effect the interests of chemical industry producers. Discussions take place in the State Duma, at the Government of the RF and in the ministries involved in the industry. As required by legislation, the company also provides all information at the request of regulatory bodies.

The enterprises of the group are regulated by more than 20 state bodies, including ministries, federal services and agencies.

REGIONAL EXECUTIVE AUTHORITIES AND LOCAL SELF-GOVERNMENT BODIES. The participation of state bodies in the development of the industry aids in the formation of a beneficial investment climate and the strengthening of the position of Russian business on world markets.

MCC EuroChem provides for the steadily increasing replenishment of state budgets at all levels through its production and commercial activity. As part of its interaction with state authorities, EuroChem prepares materials on key chemical industry development problems: development strategy, international cooperation, organizational and economic mechanisms for administration and their consideration with the extensive participation of enterprises, institutes and corporate structures.

For several years, EuroChem has actively developed the practice of concluding agreements on cooperation with local and regional authorities. The content of the Agreements is the result of dialogue with stakeholders and reflects the most pressing issues for the socio-economic development of the region.

The obligations of the company related to unwavering compliance with the legislation of the RF regarding the payment of taxes and non-tax payments are defined in these agreements, the actual volumes of tax funds transferred to regional and local budgets are indicated and the volume of social investments is established.

Standard forms of agreements on socio-economic cooperation with the regions were developed for 2007, which made it possible to optimize the administration of regional social investments. The principle of parity of the obligations of the administration and the company has been realized in the Agreements.

Overall, in 2007 successful engagement with with the authorities was continued as part of carrying out social investments.
PARTNERS AND SUPPLIERS. Engagement with product suppliers and business partners includes planning and organization of purchases, the acceptance, storage and offloading of material and technical resources for production. This process is regulated by the standards approved by MCC EuroChem, and also by ISO international standards.

In order to reduce risks during purchasing and the selection of contractors who perform work and provide services, competitions and tenders are conducted, including electronic ones. The equipment supplied must have the relevant safety certificates and usage permits. Interaction with suppliers and contractors is organized in strict compliance with legislation. Furthermore, at the current time the company has no information regarding the share of significant suppliers and contractors who have undergone human rights evaluation. Hereinafter, such information will be collected, if possible. The requirements of MCC EuroChem in the area of industrial and occupational safety apply to contractor organizations and their personnel also.

In November 2007, as part of the agricultural exhibition SouthAgro EuroChem organized a scientific-practical conference on the problems of increasing soil fertility in the Krasnodar territory. Topical questions for the agriculture of the Kuban region were discussed, and these became reflected in the Territory’s targeted program. Among these were the necessity of conducting regular agro-chemical soil monitoring, application of gypsum phosphate to sodium-saturated soil and soil which has a tendency towards degradation, application of mineral fertilizer based upon real plant needs. Representatives from the Federal State Institution the Centre of agrochemical service “Krasnodar”, the territorial directorate of the Russian Agricultural Inspectorate, and EuroChem made presentations at the event. Issues regarding the safe application of herbicides in agriculture were also examined at the conference, as well as the effectiveness of mineral fertilizer application, etc.

TRADE UNION ORGANIZATIONS. Trade union organizations exists at all the group’s enterprises and trade union committees are active; the right to represent the interests of the workforce has been delegated to them.

Trade union committees decide the following issues together with the administration of enterprises:
❖ concluding a collective bargaining agreement,
❖ compliance with labor legislation and internal local regulatory acts which regulate the labor relations between employers and employees;
❖ increasing the real level of salary and its competitiveness; development of a system of social benefits and guarantees;
❖ improving work and recreation conditions for workers;
❖ observing occupational safety requirements;
❖ medical care; organization of recreation and rehabilitation for workers and their family members;
❖ providing material aid to enterprise workers and retired pensioners.

According to the results of 2007, on 27 February 2008 as part of the dialog with stakeholders, a roundtable took place with the participation of the Central Committee of the Russian Chemical Workers Union and its regional organizations, representatives of the Russian Union of Chemists [an association unifying corporations, trade unions and other industry professionals], the administration of EuroChem and the facility-floor trade union organizations at the company’s five main production enterprises.
MASS MEDIA. At the end of 2007 a new edition of the Information Policy of EuroChem was adopted which defined the principles for interaction with the mass media and other target audiences which is directed at the fullest realization of the rights of shareholders, investors and other stakeholders to receive the information necessary for them to take considered investment and management decisions.

In the area of interaction with the mass media and marketing communications, EuroChem upholds legislative norms and the norms of professional ethics; the company is a member of the Russian Association for Public Relations (RASO). In 2007 there were no cases of a failure to comply with regulatory requirements and the voluntary codes related to marketing communications, including advertisement, product promotion and sponsorship.

The Public Relations and Communications Division has representative offices at all EuroChem enterprises, and forms a unified communications space for interaction with the mass media on the themes relating to the company’s activity. The forms of interaction are press releases, interviews with company representatives, press conferences, briefings, roundtables, news mailings, etc.;

The Public Relations and Communications Division reacts quickly to requests for information on the part of external stakeholders: 2,785 letters were received at the Division’s e-mail address in 2007 from various public organizations, the mass media, analysts, and experts.

The main principles for disclosing information are the regularity and speed with which it is provided, accessibility for shareholders, investors and other interested parties, the accuracy and fullness of its content, equal rights of all persons interested in receiving information without providing advantages to one group of information recipients over others, except for the limitations established by current legislation.

THE PUBLIC. The MCC EuroChem enterprises are the main taxpayers and employers in all the cities where they are located. The quality of life of the public and the company’s development are inseparably connected. The company is directly included in the life of local communities: during surveys, meetings and consultations with the local population, the most significant problems of the cities and districts are identified.

The local population receives not only direct financial support for socially unprotected groups, but also indirectly in the form of financing for the development of city infrastructure, material and technical aid to educational and medical institutions, the development of sports, etc. In 2007 EuroChem began the implementation of an innovative project for engaging the public in the planning and realization of social projects – applications from the residents of the city of Nevinnomyssk on the theme of the social development of the area were selected on a competitive basis using experts from authoritative foundations. The applications chosen received financing and the practical realization of the projects was begun. Subsequently EuroChem continued to involve the public in regular process of dialogue on the theme of corporate social responsibility.

THE INVESTMENT AND FINANCIAL COMMUNITY. EuroChem’s attainment of informational openness, the development of voluntary business practices, the further development and improvement of corporate governance systems, provision of a high level of social responsibility, all this is directed at strengthening the company’s authority in the investment community as a whole. Such policies on the part of MCC EuroChem strengthen not only the position of the Company, but also the agrochemical industry as a whole, they beneficially affect the development of the Russian economy and raise the rating of the company and industry in the eyes of the investment community.

As part of the continuation of the process of social reporting, in the first quarter of 2007 a meeting took place with representatives of the investment and financial community, which was informed about the place of social responsibility in the sustainable development of EuroChem. In 2007 the MCC EuroChem Annual Report was prepared and published; it covered the previous year-long period, which substantially increased the quality of interaction between the company and stakeholders from the financial and investment communities. In preparing MCC EuroChem’s corporate social report for 2006, a series of meetings were held with representatives of the investment and financial community, where, among other things, issues of the sustainable development of the company during 2007 were discussed.

PROFESSIONAL COMMUNITY. The company is strengthening ties with professional and industry communities. EuroChem has organized cooperation with the industry unions (The Russian Association of Fertilizer Producers – RAPU, Union of Russian Chemists), the consumers of chemical and petrochemical products, and most of all for joint solutions of urgent problems and issues regarding the access of Russian products to the markets of foreign countries.
Engagement with stakeholders

EuroChem strives to reach a high level of openness and transparency in its activity. The company has a requirement to report to stakeholders on issues of corporate social responsibility. Engagement with stakeholders is a significant element in the information policy of the company.

The company applies the following forms of communication for engagement with stakeholders:

- unilateral communications – messages and information provided by the company to all stakeholders by distribution through open communications channels. Among these types of communications are press-releases, materials in the company press, annual and social reports, news messages, etc.;
- two-way communications presume form of dialogue engagement with stakeholders at the company’s initiative. Among these are briefings, press-conferences, roundtables, online interviews, labor collective conferences, etc.;
- interactive communications presume a mutual exchange of opinions and information between stakeholders and the company at the initiative of both parties and using all possible communications channels.

EuroChem carries out engagement with stakeholders relying upon the following basic principles:

- TRANSPARENCY – reporting to stakeholders on key company contributions to sustainable social development;
- READINESS TO REACT – the ability to respond to problems which concern stakeholders;
- COMPLIANCE WITH REQUIREMENTS – compliance with legal requirements, standards, codes, principles, strategies and other voluntary obligations during the process of stakeholder engagement.

Stakeholder engagement is carried out in stages: at first conceptualization and planning take place, then preparation and engagement, and at the final stage reaction and measurement, which consist of a series of elements (steps) which ensure the consistent process of planning and the realization of quality stakeholder engagement. The frequency and form of engagement with EuroChem stakeholders is determined proceeding from the corporate priorities in the area of information policy, the particularities of the stakeholders, the technical and organizational possibilities, as well as the goals of the EuroChem social reporting process.

Knowledge and information obtained during stakeholder engagement are applied for making strategic and operational decisions which meet the concept of sustainable development.
ROUNDTABLE WITH TRADE UNION ORGANIZATIONS

As part of the process of evaluating the results of the stakeholder engagement process for 2007, on 27 February 2008, a roundtable was held by EuroChem executives with the representatives of industry trade unions, the facility-floor trade union organizations of the company’s enterprises and the Russian Union of Chemists [an association which unites corporations, unions, and other industry professionals]. This meeting, which was organized in accordance with the requirements of social reporting standards, became an element in the continuous process of involving the public in the discussion of EuroChem’s social activity and its adherence to the principles of social partnership.

The roundtable opened with a statement by the administrative director of EuroChem, Igor Schelkunov, who familiarized the participants with EuroChem’s practice of social project planning. The head of the HR Policy Division Sergei Scherbakov focused on the key tasks which the company faces this year in the area of HR management and familiarized the audience with the main provisions of the Strategy for HR Management.

The roundtable participants were quite interested in the program of social investments in the form of grants which has been rolled out in Nevinnomyssk. Vladimir Lvov, the head of the department of industrial safety of MCC EuroChem spoke in detail on issues of improving the evaluation of risks and occupational safety, informing the participants of the project on providing enterprise workers with protective clothing and individual protective equipment of improved quality. Anatoly Bistrov, the representative of the “Kovdorsky GOK”, told those gathered about how the work for attracting workers to engage in sports has been improved. 42% of the workers of “Kovdorsky GOK” regularly engage in sports. Sergei Samofalov, the chairman of the trade union committee of “Nevinnomyssky Azot”, told about the practice of concluding collective bargaining agreements at his enterprise. Mutual aid funds have been organized as part of the collective bargaining agreement, and the members of the trade union organization “Nevinnomyssky Azot” have the opportunity to receive a sizable no-interest loan for a period of up to one year. The ongoing work of the trade union committee of “Nevinnomyssky Azot” makes it possible to solve the urgent problems of the workforce. In 2008 the trade union committee plans to expand the range of legal assistance provided to enterprise workers and to continue work with the city legislative body – the city Duma, as well as with affiliated enterprises.

The trade union leaders who took part in the roundtable supported signing collective bargaining agreements in accordance with the law – no later than within three months after a restructurization.

A document was adopted based upon the results of the meeting which was published in the corporate newspaper of EuroChem and in the “Informational Bulletin of the Russian Chemical Workers Union”, the publication of the Central Committee of the Russian Chemical Workers Union.

Achieving social agreement through direct dialogue

I would like to thank EuroChem for management’s openness in discussing difficult issues of social responsibility and labor relations. The readiness to be flexible during the negotiation process with labor collectives when concluding collective bargaining agreements is impressive, along with the readiness to seek compromises. This is important for maintaining social harmony at the enterprises. I’d also like to note the readiness for a self-critical evaluation on the part of company management in the area of labor relations – an orientation towards honest dialogue with employees are not just empty words here, but practice, embodied in concrete actions.

I am well acquainted with the position of affairs in the area of labor relations at EuroChem, and I can confirm that the company is a unified organism – this means the workforce and the leaders of trade union organizations and the top-managers. Of course there are problems, but all parties have a constructive approach to solving them together. EuroChem pays attention to all areas of labor of the enterprises’ workers. Besides salary growth, providing safe working conditions, steady employment and social support, first of all one thinks of such priorities as ensuring the occupational safety and health of our trade union’s workers.

From the viewpoint of the strategic development of the national chemical industry, I consider that the future belongs to such large powerful companies as “EuroChem” – only such companies can successfully compete on the external market.

Alexander Sitnov, Chairman of the Russian Chemical Trade Union
The main participants of the roundtable “The Corporate Socially Responsible Business of EuroChem”, 27.02.2008, Moscow

Yu. S. Abzakov – Chairman of the Yaroslavl Regional Organization of the Russian Chemical Workers Union

R. N. Abramov - Head of the Corporate Consulting Center CC “Business League”

V. B. Balukov – Chairman of the facility-floor trade union organization of OJSC “Apatit”

A. N. Bulan – Head of the motivation and labor compensation department of MCC EuroChem

A. V. Bystrov – Chairman of the facility-floor trade union organization of “Kavdorsky GOK”

L. N. Donchenko – Chairman of the facility-floor trade union organization of “EuroChem-BMU”

Yu. S. Demin – Chairman of the Novgorod Regional Organization of the Russian Chemical Workers Union

T. G. Derunov – Chairman of the Moscow Chemical Workers Union

E. M. Zaitsev – Chairman of the Moscow Regional Organization of the Russian Chemical Workers Union

G. M. Kitaigorodskaya – Chief Specialist of the Administration of the Central Committee of the Russian Chemical Workers Union

A. B. Klein – Chairman of the Perm Territorial Organization of the Russian Chemical Workers Union

N. Ya. Kulygina – Chairman of the Volgograd Regional Organization of the Russian Chemical Workers Union

V. V. Lvov – Head of the Department of Industrial Safety and Occupational Safety and Ecology of MCC EuroChem

A. P. Malafeev – Chairman of the Samara Regional Organization of the Russian Chemical Workers Union

P. M. Nabiev – Chairman of the Bashkortostan Republican Organization of the Russian Chemical Workers Union

V. V. Okunev – Chairman of the facility-floor trade union organization of “PG Phosphorite”

I. G. Petrushin – Chairman of the Tula Regional Organization of the Russian Chemical Workers Union

S. A. Samofalov – Chairman of the facility-floor trade union organization of “Nevinnomyssky Azot”

V. V. Semenov – Vice-President of the Russian Union of Chemists

A. V. Simitov – Chairman of the Russian Chemical Workers Union

A. I. Strugovets – Chairman of the control and Revision commission of the Russian Chemical Workers Union

V. A. Turin – Head of the Public Relations and Communications Division of MCC EuroChem

G. S. Schandarin – Deputy Chairman of the Russian Chemical Workers Union

I. V. Schelkunov – Administrative Director of MCC EuroChem

S. E. Scherbakov – Head of the HR Policy Division of EuroChem

S. V. Yan – Chairman of the Novgorod Regional Organization of the Russian Chemical Workers Union

Recommendation of the participants of the roundtable “The Corporate Socially Responsible Business of EuroChem”, (main points)

- that MCC EuroChem to continue to work to increase the quality of life of members of the labor force of the company’s enterprises;
- to conduct periodic working meetings with the participation EuroChem executives, the Chairman of the Russian Chemical Trade Union and the chairman of the facility-floor trade union organizations;
- to prepare initiatives on questions of the improvement of Russian legislation and Regulations on social and labor relations and other related areas;
- to develop a mechanism for overcoming the parties’ disagreements on the issue of adherence to the Industry Tariff Agreement;
- for the Russian Union of Chemists to include employer representatives in the development of a new text of the Industry Tariff Agreement, to include representatives from MCC EuroChem as members in the relevant working group;
- for EuroChem to continue to develop a catalog of modern individual protection equipment (IPE) for the purpose of increasing worker safety, and also to involve authorized occupational safety representative of the Russian Chemical Workers Union to test the IPE and the implementation of “Norms for the free distribution of certified protective clothing, shoes and IPE for workers of the enterprises which are part of MCC EuroChem”;
- to expand the positive experience working with young specialists at EuroChem enterprises;
- to introduce the practice of rewarding and providing material recognition to trade union workers who have excelled by bestowing awards on industry holidays: Chemist’s Day, Metal Worker’s Day, as well as the corporate Company Day;
- to organize and conduct annual competitions of professional mastery companywide in the main worker specialties;
- to participate in the annual all-Russian competition “Russian Company with High Social Effectiveness” organized by the Government of the RF;
- to perfect the process of ensuring company transparency and the disclosure of information related to the results of its activity in the area of social responsibility;
- for the Council of the Russian Union of Chemists and the Presidium of the Central Committee of the Trade Union to take measures for disseminating EuroChem’s experience in the conduct of corporate socially responsible business to the enterprises and organization of the chemical industry.
Interaction between the employer and the workforce takes place in several stages. Representatives of various stakeholders take part in it. Representatives of the trade union organization of the enterprise, the workforce, representatives of the enterprise management and the company MCC EuroChem are involved in work on the collective bargaining agreement. Such a multilateral dialog makes it possible to develop a version of the collective bargaining agreement which has the maximum amount of compromises which satisfy all participants in the process. The dialog takes place in the form of roundtables and workforce assemblies.

At “EuroChem-BMU”, like at other company enterprises, special attention is paid to the performance of the collective bargaining agreement: twice a year inspections are conducted regarding the performance of the provisions of the collective bargaining agreement by all parties. On the whole the process of concluding a collective agreement at the enterprises of MCC EuroChem serves as an indicator of the freedom of association of workers and the lowering of risks during engagement between the administration and trade union organizations.

Finding out the wishes and opinions of enterprise workers concerning salary and working conditions is a separate area of work in concluding a collective bargaining agreement. All messages received are generalized, discussed separately and are taken into account as much as possible in the collective bargaining agreement.

For example, among those areas regarding which the workers of “EuroChem-BMU” expressed wishes during negotiation of the collective bargaining agreement, one can distinguish the following:

❖ to increase the supply of sanatorium-resort treatments for enterprise workers;
❖ to increase the level of one-off payments to employees upon retirement;
❖ to expand the list of professions and job titles of managers, specialists and workers who have the right to receive free milk due to hazardous work conditions;
❖ to improve the sanitary conditions and conveniences at certain enterprise workplaces;
❖ to modernize the loudspeakers and facility communications;
❖ to increase the tariff rates taking into account the growth of consumer prices for goods and services in accordance with real living conditions.

Conclusion of a collective bargaining agreement – a space for open dialogue

In essence, the collective bargaining agreement is the document which established the framework for relations between the workforce and the administration. When concluding a collective bargaining agreement, the preparatory stage is especially important – when in the midst of a difficult, sometimes sharp dialogue, the circle of problems becomes clear and the search for paths to their solution is carried out. As for the administration, we are always open for such a lively discussion, since it also helps us to understand weak spots and to increase management effectiveness. We consider that in the end, taking the opinion of all stakeholders into account is the guarantee of sustainable development and productive joint work.

Anton Zakharutin, Administrative Director “EuroChem-BMU”
Social investments and charity

In 2007, when carrying out its external social policy, EuroChem continued the transition from one-off contributions to charity and social support:

- to regular planned social support of regions as part of agreements on social and economic cooperation;
- to social investments on the basis of programs and institutional approaches.

The company consistently increases the amount of funds invested and the social and economic effectiveness of social investments.

The external corporate social policy is based on the following principles:

- compliance with the adopted investment priorities [support of sport and a healthy lifestyle, education and science, the sustainable development and social needs of territories where the company is active];
- targeting social investments at lessening the company’s social risks,
- increasing the effectiveness of social support and social investment, achieving real effects of the development of the territory and the strengthening of corporate reputation;
- the development and implementation of effective technologies and models of social investment.

The management aspects of company social policy within the framework of risk management are also stated in Chapter 3 of this Report.

The principle of regular planning of social support and the rejection of spontaneous social payments is consistently employed during the realization of social policy. This principle is realized in the practice of annual agreements on socio-economic cooperation concluded between EuroChem and the regional and local authorities. The amounts and specific targets of social support and social investments are established in these agreements.

Taking into account the nature of the company’s production operations, great attention is paid to financing measures for environmental protection and the implementation of resource-saving technology.

In particular, an agreement with the Administration of the Tula Region for 2007 included: the introduction of technology which lowers the negative effect of industrial equipment on the environment (RUR 60 million), reconstruction of the Cultural and Business Center and the Training Center of “Azot” (RUR 34 million), support of sports and a healthy lifestyle (RUR 6.6 million), the development of science and education (RUR 5 million). In 2007 the sports facilities of one of the schools of the city of Nevinnomyssk were reconstructed, the learning facilities of the Novomoskovsk Institute of the D. I. Mendeleev Russian Chemical and Technical University were re-equipped, funds were allocated to renovate the main hall of the V. M. Kachalin Novomoskovsk Dramatic Theater, and material support was given to war and labor veterans.

An agreement with the administration of the Krasnodar Territory and the municiplity of the Belorechensky district in 2007 included the participation of “EuroChem-BMU” in the construction of a youth sports center (RUR 4.4 million), opening of the third specialized chemistry class-room at middle school No. 18 in the village of Ryazanskaya and providing additional equipment for the existing classrooms in Belorechensk and the village of Pshekhskaya (RUR 1.5 million). “EuroChem-BMU” received the title of “Best Corporate Benefactor of 2007” for its active involvement in charitable activity in 2007 from the Commission for the Development of Charity and Volunteerism of the Council for Assisting the Development of Civil Society Institutions and Human Rights of the Head of the Administration of the Krasnodar Territory and “Volunteer”, the Krasnodar Center for the Support of Citizen Initiatives.

The work done showed that the Program serves as the start for the development of new processes of social development of different sectors, as a site for refining new forms of interaction for socially responsible business and the local community and administration in the city of Nevinnomyssk.

Since the company is one of the leaders of socially responsible business in Russia, there are no trifles in this long-term policy. The “nurturing” of an active social partner who understands both the socio-economic and ecological problems of a territory, who participates in their solution, and who uses modern social technologies is one of the challenges for social programs. And for a company working in the mineral-chemical industry, a priority theme for such cooperation is people’s health and the healthy environment which people can create themselves.

The experience working in other regions in Russia related to the support of the sustainable development of local initiatives shows that in Nevinnomyssk all Program participants have developed an understanding that the involvement of the public, the creation of a constructive dialogue, and the lively interest of all partners in the development of the territory are the main resource for the real improvement of people’s lives.

Elena Bondarchuk, manager of the Sustainable Development Foundation program “Environment and Health of the Population of the City of Nevinnomyssk”

In Kovdor, the Cooperation Agreement between the Regional Administration and MCC EuroChem is being actively implemented. The main funds are invested in the development of the social infrastructure of the Kovdor District and the support of priority social programs of the Murmansk Region. One of the largest and most expensive charity projects is the creation of a modern fitness center using the facilities of the sports and rehabilitation complex of the Children’s and Youth Sports School. Major repairs were made to the swimming pool in the sports complex of the “Kovdorsky GOK”. The future champions who can’t do without skis and snowboards were also not forgotten: RUR 200
was implemented as part of the Program in Nevinnomyssk. Thus, in 2007 a multi-layered communication process with stakeholders, administration, donor organizations and experts were members of it. Instruments for engagement with stakeholders; representatives of the city, the Program Working Group became one of the most important organizations participated in seminars and meetings. Open meetings of local communities was conducted as part of the program.

During 2007 EuroChem continued to make social investments using programs and an institutional approach. A three-year pilot program is taking place in the city of Nevinnomyssk in the Stavropol Territory called “The Environment and the Health of the Population of the City of Nevinnomyssk and Other Regions where EuroChem is Located”. The program was built in partnership with the leading non-profit entities for regional social programs, USAID and the Sustainable Development Foundation. The program is based upon a competitive mechanism for selecting projects. Taken as a whole, the program gives new impetus to the social cooperation of business, the authorities and the public, aiding the sustainable development of the territory. In 2007 a series of meetings as seminars with local communities was conducted as part of the program.

More than 150 representatives from 40 of the city’s leading organizations participated in seminars and meetings. Open meetings of the Program Working Group became one of the most important instruments for engagement with stakeholders; representatives of the city administration, donor organizations and experts were members of it. Thus, in 2007 a multi-layered communication process with stakeholders was implemented as part of the Program in Nevinnomyssk.

In October 2007 projects totaling RUR 2.93 million were approved for financing, including:

- The Project “MediaSphere” for the development of ecological journalism based at the Municipal Institution Nevinnomyssk City Radio Broadcasting Editorial Board of the radio station “Vis-a-Vis” (RUR 400 thousand);
- The Project “EnergySphere” for replacing equipment at the Municipal Emergency Medical Care Station, reinvestment of the resources saved through energy conservation in medical care (RUR 500 thousand);
- The Project “EcoSphere” for the creation of an ecological education center and winter garden based at Municipal Middle School No. 1 (RUR 400 thousand);
- The Project “Comfort, a Smile and Coziness Give Us Tasty Food” for equipping School No. 45 “Harmony” (RUR 499.9 thousand);
- The Project “I’ll Become a Healthy Kid” for equipping the corrective-preventive rehabilitation complex of the Municipal Children’s Educational Institution “Child Development Center – Nursery and Kindergarten No. 22 “Gamma” (RUR 396.7 thousand);
- The Project “Future Stars of Russian Football” for creating the football facilities for the Football Club “Vesta” and the Pre-School Football League on the basis of Municipal School Lyceum No. 6 (RUR 389.9 thousand);
- The Project “Mercy and Compassion” for managing the population of homeless animals at the veterinary hospital “Blue Cross” (RUR 350 thousand).

In partnership with USAID and the Healthy Russia Foundation, in 2007 EuroChem also financed the program “A Healthy Family is a Healthy Country” in Nevinnomyssk, which was focused on forming habits of a responsible relationship to one’s health among the residents of Nevinnomyssk, as well as improving the health of target groups. The Program target groups are families with children, adolescents and healthcare professionals.

The public was provided with information through three information campaigns: on family health, breastfeeding, and a healthy lifestyle for adolescents. Regular planned advanced training for medical professionals was conducted in the form of educational programs on gynecology, pediatrics, reproductive health, breastfeeding, and work with adolescents.

The main achievement of both programs is the real project communication of various stakeholders in the development of initiatives by the residents of the city of Nevinnomyssk. The Program helps to instill a “project culture” in the city – i.e. the that the residents themselves take on many organizational questions for themselves, work in partnership, and thus develop real self-government.

In 2007 EuroChem continued its program for improving the quality of working conditions and recreation as part of its internal social policy. More than RUR 34 million was allocated during the reporting year for tourist vouchers for enterprise workers’ recreation: the company utilized both its own recreation facilities and external sites.

Besides this, the company takes part actively in organizing the celebration of industry, professional and national holidays in the cities where it is located: Chemists’ Day, Metal Workers’ Day, City Day, Victory Day et al.

The internal social projects at EuroChem enterprises in 2007 included the repair of workplace convenience areas in facilities, the
CHRONICAL OF EVENTS OF THE PROGRAM “ENVIRONMENT AND HEALTH OF THE PUBLIC IN THE CITY OF NEVINVOMYSK AND OTHER REGIONS WHERE EUROCHEM IS LOCATED” IN 2007

FEBRUARY. The Public Consultative Committee of the Sustainable Development Foundation with the participation of the Working Group in Nevinnomyssk

MARCH. The Program was presented as a case study at the annual conference “Charity in Russia” with subsequent publication of materials.

APRIL. Monitoring visit from the Sustainable Development Foundation, the Healthy Russia Foundation, the liaison from EuroChem and the representative of USAID with training on project implementation and program reporting.

MAY. Publication of informational materials on the Program and financing of projects from the first competition.

JUNE. Presentation of the Program for business and mass media representatives in Nevinnomyssk.

JULY. Financial training for managing targeted donation funds for the winners of the first competition of projects. Announcement of the second competition in the mass media. Training for writing a concept for competition applications with the requirement to unite projects into “consortiums”. Meeting with representatives of city infrastructure organizations on projects for resource and energy conservation.

AUGUST-SEPTEMBER. Expert evaluation of the application concepts with the participation of all stakeholders and independent experts. Presentation of 22 projects for the Program Working Group in Nevinnomyssk.

OCTOBER. Expert evaluation of the 12 final applications and approval of financing for 7 projects by the Public Consultative Committee of the Sustainable Development Foundation and the Program Working Group.

OCTOBER-NOVEMBER. Publication of materials on the Program in Nevinnomyssk and national publications.

Sports at EuroChem Enterprises in 2007

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Number of sports fostered</th>
<th>Percentage regularly engaging in sport</th>
<th>Percentage participating in competitions</th>
<th>Enterprise expenses for corporate sports in 2007, RUR thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azot</td>
<td>11</td>
<td>3,9</td>
<td>7,3</td>
<td></td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td>12</td>
<td>16,3</td>
<td>36,7</td>
<td></td>
</tr>
<tr>
<td>Kovdorsky GOK</td>
<td>20</td>
<td>41,9</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>P &amp; G Phosphorite</td>
<td>7</td>
<td>14,8</td>
<td>25,8</td>
<td></td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td>10</td>
<td>29,3</td>
<td>17,5</td>
<td></td>
</tr>
<tr>
<td>Lifosa AB</td>
<td>9</td>
<td>15,8</td>
<td>52,3</td>
<td></td>
</tr>
<tr>
<td>TOTAL for EuroChem</td>
<td>27</td>
<td>18,7</td>
<td>44,0</td>
<td>11 430</td>
</tr>
</tbody>
</table>

One of the most important areas of EuroChem’s internal social policy is the support of sport and a healthy lifestyle: 44% of employees took part in corporate sports competitions. A corporate Olympics is conducted annually in six sports: mini-football, table tennis, volleyball, triathlon, billiards and chess. The finals take place in different cities, which fosters the development of corporate culture.

The circle of participants in companywide events for EuroChem Day (25 August) expanded in 2007. The finals of corporate tournaments were held in volleyball (Belorechensk), chess and billiards (Kovdor), mini-football (Novomoskovsk), triathlon (Kedainiai), table tennis (Kingisepp) as well as an arts festival (Nevinnomyssk) and a children’s art competition (Moscow).
Implementation of Human Resources Management Policy

People are the foundation upon which all company activity is built.

When both EuroChem and the whole industry are growing, this is one of the most valuable resources for the company, and it is in short supply. In its striving to succeed, EuroChem tries to find, hire, train, develop and retain talented, versatile, mobile and motivated employees who share the philosophy and values of EuroChem while developing a general unified culture and conduct requirements both in business and in society.

BASIC PRINCIPLES AND METHODS

A promising human resources management program was created and approved by the Board of Directors in 2007, expressed in the form of a HR-Strategy for the industrial enterprises for the period 2008-2012.

The purpose of the Human Resources Strategy of EuroChem is to unite the values and culture of the company with efforts in the area of hiring, retaining, developing, motivating and managing personnel and through this to reach any business goals which are set (which are defined in the company’s business strategy). Furthermore, one must have long-term action plan scenarios and methods for evaluating results.

The HR-strategies are carried out taking into account a series of basic principles which guarantee EuroChem’s long-term sustainable development.

❖ Ensuring a balance between economic and social effectiveness;
❖ The development of a favorable corporate culture and EuroChem’s positive work values;
❖ Unwavering compliance with legal requirements;
❖ An accent on professional and personal growth within the company for promising employees;
❖ Creation of a secure working environment which stimulates excellent results and teamwork;
❖ The creation of a transparent and objective system for the evaluation of the results of each employee’s contribution;
❖ The construction of an understandable, just and transparent system of leadership and management;
❖ An understanding that diversity is a competitive advantage.

Based on the HR-strategy, and adhering to corporate principles, EuroChem achieved significant success in 2007 in the area of human resources management.

PERSONNEL EFFECTIVENESS

As a unified organizational system, EuroChem has been improving the effectiveness of corporate management systems for many years and has been simplifying the management structure, promising new production methods come to replace ineffective production methods, and as a result the qualitative and quantitative structure of employment changes. As a result of improving the effectiveness of business processes and work productivity, the company’s average headcount for 2007 decreased by 9.9%, and the headcount by 9.2% (the average headcount on 01.01.2008 was 22,656 persons).

<table>
<thead>
<tr>
<th>Year</th>
<th>Average headcount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>30,725</td>
</tr>
<tr>
<td>2005</td>
<td>29,753</td>
</tr>
<tr>
<td>2006</td>
<td>26,410</td>
</tr>
<tr>
<td>2007</td>
<td>23,805</td>
</tr>
</tbody>
</table>

Work productivity for product tons output calculated per average headcount employee increased by 13.5% (with a growth in gross output of 5.2%), and the growth of revenue per employee in 2007 was 53.5%. These indicators grow unswervingly from year to year, which reflects a continuous improvement in labor efficiency.

In its efforts to remain both competitive for its employees and an attractive employer, from year to year EuroChem has reasonably increased expenses for personnel, but the weighted annual expenses per worker grow at even greater rates. This allow for significantly increasing the prosperity of its workers from year to year, while remaining an effective company.


<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>152</td>
<td>161</td>
<td>199</td>
<td>256</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>4,057</td>
<td>4,700</td>
<td>5,926</td>
<td>6,767</td>
<td>7,304</td>
</tr>
</tbody>
</table>
Since 2005, managing the effectiveness of key management has been carried out at the company using the “Manage by Goals” Program – the management instrument for establishing goals and evaluating achievements. In 2007, 295 managers of various levels participated in the Program (13.5% more than in 2006); their achievement of their individual goals clearly aided in fulfilling the tasks faced by EuroChem.

RELATIONS WITH PERSONNEL

EuroChem establishes open, honest and productive relations with its employees, based upon the company’s values. This includes the development of staff loyalty and trust through direct, open, understandable communications, the consistent performance of mutual obligations, and establishing equal opportunities in the workplace for the evaluation of the contribution of each worker, based on their value, their merits and their accomplishments. In any case, the practice of such relations is determined and organized at the local level, but at the same time the corporate rules, procedures, and of course the current legislation are complied with unwaveringly.

MCC EuroChem does not use forced, obligatory or child labor, and also does not allow for the violation of the rights of indigenous people and small minorities.

The company maintains open and productive relations between management and line staff, and this process provides for equal attention to workplace problems and when resolving current problems.

EuroChem workers have the opportunity to develop their talents, which allows them to make a contribution to the company’s business success and to be evaluated and adequately compensated for achievements. Taking into account legislative requirements, EuroChem gives equal opportunities when hiring and promoting based upon an evaluation of workers’ effectiveness.

The model for relationships between staff at EuroChem is connected to the company’s goals and is proactive.

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**EuroChem personnel work productivity trend 2004-2007**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, RUR million /person</td>
<td>1,41</td>
<td>1,83</td>
<td>2,02</td>
<td>3,10</td>
</tr>
<tr>
<td>Gross product output, thousand tons /person</td>
<td>0,72</td>
<td>0,85</td>
<td>0,97</td>
<td>1,02</td>
</tr>
</tbody>
</table>
STAFFING LEVELS

Number of EuroChem staff by type of activity and regions, persons

<table>
<thead>
<tr>
<th>Indicator</th>
<th>01.01.2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount, total</td>
<td>22,656</td>
</tr>
<tr>
<td>including:</td>
<td></td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>22,275</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>381</td>
</tr>
<tr>
<td>- full-time</td>
<td>22,640</td>
</tr>
<tr>
<td>- part-time</td>
<td>16</td>
</tr>
<tr>
<td>by significant regions:</td>
<td></td>
</tr>
<tr>
<td>Krasnodar Territory</td>
<td>1,521</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>1,476</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>45</td>
</tr>
<tr>
<td>- full-time</td>
<td>1,521</td>
</tr>
<tr>
<td>- part-time</td>
<td>0</td>
</tr>
<tr>
<td>Stavropol Territory</td>
<td>5,488</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>5,337</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>151</td>
</tr>
<tr>
<td>- full-time</td>
<td>5,484</td>
</tr>
<tr>
<td>- part-time</td>
<td>4</td>
</tr>
<tr>
<td>Leningrad Region</td>
<td>2,439</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>2,389</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>50</td>
</tr>
<tr>
<td>- full-time</td>
<td>2,437</td>
</tr>
<tr>
<td>- part-time</td>
<td>2</td>
</tr>
<tr>
<td>Murmansk Region</td>
<td>4,598</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>4,547</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>51</td>
</tr>
<tr>
<td>- full-time</td>
<td>4,597</td>
</tr>
<tr>
<td>- part-time</td>
<td>1</td>
</tr>
<tr>
<td>Tula Region</td>
<td>6,956</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>6,893</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>63</td>
</tr>
<tr>
<td>- full-time</td>
<td>6,949</td>
</tr>
<tr>
<td>- part-time</td>
<td>7</td>
</tr>
<tr>
<td>Moscow - MCC EuroChem</td>
<td>361</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>347</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>14</td>
</tr>
<tr>
<td>- full-time</td>
<td>360</td>
</tr>
<tr>
<td>- part-time</td>
<td>1</td>
</tr>
<tr>
<td>Lithuania (Lifosa AB)</td>
<td>1,008</td>
</tr>
<tr>
<td>- permanent labor contract</td>
<td>1,005</td>
</tr>
<tr>
<td>- temporary labor contract</td>
<td>3</td>
</tr>
<tr>
<td>- full-time</td>
<td>1,008</td>
</tr>
<tr>
<td>- part-time</td>
<td>0</td>
</tr>
</tbody>
</table>

Provision of staff and organizing hiring is currently carried out in accordance with the practices established at EuroChem, with documented procedures which comply with business ethics, with requirements for safeguarding information and with legislation.

In 2007, 2.7 thousand workers were selected and hired to work at EuroChem enterprises in 2007 to meet business needs. EuroChem traditionally relies upon a policy of hiring workers who live in the region where the enterprise is located, and moreover it looks to the future with confidence. Permanent labor agreements have been concluded with the absolute majority of workers (more than 98%).

The company uses the following main methods for the effective hiring and release of staff:

- informational support for employment offers to the external labor market (advertising, work with Employment Centers, individual recruiting);
- openness and access to information regarding the company externally;
- popularization of the profession of chemist in schools;
- hiring young specialists;
- training and employment of citizens who have completed service in the Armed Forces of the RF;
- targeted regulation of employee retirement (one-off payments upon fulfillment of agreements);
- re-training of staff released for the professions needed for production;
- work with specialized institutions of higher education. Targeted work with high school and grade school students;
- the organization of on-the-job training and internships for students;
- expanding programs for school graduates to be accepted by institutions of higher education through “Olympics of Higher Education Institutions”. Engaging specialized institutions of higher education to participate in the program.

Targeted efforts in the area of human resources management enabled us to lower the level of active staff turnover at the company’s active production enterprises to 7.3% in 2007 (in 2006 the level was 10.2%).
PERSONNEL MOTIVATION AND SOCIAL GUARANTEES

EuroChem personnel policy motivation is oriented at providing a competitive salary level in accordance with the growth in the productivity and effectiveness of the enterprise’s activity. The structure of the company employee’s income consists of three main portions: salary, compensation based upon annual results and payments of a social nature. Competing for leadership positions in its industry, MCC EuroChem takes the issue of providing a worthy level of income to its workers most seriously. The level of salary differs at company enterprises, but the general approach consist of providing a competitive growth of salary levels from year to year.

EuroChem adheres to the principle of the transparency of plans for increasing the real content of salary for all its employees. Every year the company issues directive documents which fix the intentions for increasing the average salary level at each production enterprise. This provision is reflected in the collective bargaining documents. In 2007, as in previous periods, there was in increase in the real income level of worker salaries provided through a two-stage indexation of the tariff rates and salaries of EuroChem workers (in April and in October). The level of indexation was determined using the results of a comprehensive analysis of the situation and forecast tendencies for the development of regional labor markets and salary levels in the main industrial sectors of the economy. EuroChem upholds the principle of worker salary level differentiation based upon a comprehensive evaluation of their productivity, professionalism, and the level of responsibility given.

The average monthly salary as a whole for all EuroChem enterprises in 2006 was 16% higher than the average monthly industrial salary in the Russian Federation and 55 % higher than the average salary in Russia as a whole. The company’s policy in the area of regulating staff compensation provides for the average annual level of salary at each industrial enterprise to be no less than 10% higher than the indicator for the main sectors of regional industry.

In all recent years, EuroChem has increased the guaranteed portion of the salary. In the future it is planned to increase the constant portion of salary to no less than 70%. By this indicator, EuroChem defines itself as a socially-oriented company.

As for social guarantees, EuroChem has a system of benefits as part of the relevant social programs established in the Collective Bargaining Agreements. Striving to support a high level of competitiveness and social responsibility, EuroChem forms its budgets for payments of a social nature with annual indexation of the average amount of payments of a social nature per employee no less than the inflation level for the year.

The average salary of one average headcount employee came to RUR 20,305 in 2007. The relationship of the average monthly salary of male workers to the salary of female workers was 1.3, including middle managers – 1.3, specialists – 1.4, and production workers and officer workers – 1.3.

Material aid to production veterans

Production veterans, a group which includes all retirees, not just military veterans, received one-off material aid at the end of 2007. The New Year’s holiday social payments were made at all EuroChem production enterprises. This decision by the company’s executive management was aimed at supporting vulnerable segments of the population, first of all pensioners, and is a contribution to the realization of the principles of the company’s social policy. EuroChem veterans are thankful to the company for the aid given. Here are some of their comments.

Ivan Fyodorovich Nosonkov, pensioner, previously worked at the Kovdorsky GOK:
- Receiving material aid was a big help for me. My pension is rather small – just RUR 4.5 thousand. It’s hard to live on such a pension, it’s only enough to pay for the most indispensable groceries and in order to pay for utilities. Now I can buy gifts for my children and grandchildren. Great thanks to the executives of the “Kovdorsky GOK” and EuroChem.

Anna Kondratyeva Shvets, pensioner, veteran of “PG Phosphorit”:
- Of course first of all I wish to relay my great thanks that we veterans are not forgotten. And it’s not so much a matter of the money, which for many are a quite significant part of the family budget. The main thing is the attention on the part of the enterprise, which we gave our hearts and our strength to.

Comparative growth trends of average salary at EuroChem vs. the RF and industrial RF, rubles
The main benefits provided to EuroChem enterprise employees are:

- compensation in the amount of RUR 3,000 to workers with “jubilee birthdays” at 50 and 60 years old, in accordance with the Collective Bargaining Agreement;
- a one-off compensation upon retirement in accordance with the current Collective Bargaining Agreement;
- one-off aid to women when a child is born in accordance with the norms established by legislation;
- monthly aid to workers who have taken childcare leave for a child from 1.5 to 3 years old;
- payment of leave for significant life events;
- payment for transportation to work;
- payment for the cost of a worker and the non-working members of his or her family to a vacation destination and back (for Northerners);
- providing material aid, in accordance with the Collective Bargaining Agreement;
- material aid to Company veterans who do not work;
- aid for the 9th of May for veterans of the Great Patriotic War;
- providing vouchers to preventative healthcare sanatoriums and children’s rehabilitation camps in accordance with the Collective Bargaining Agreement;
- purchase of New Year’s presents.

Realizing a series of large investment projects requires hiring and retaining qualified specialists and executives who have the required competencies from other regions. Programs to provide benefits and guarantees to workers during inter-regional hiring have been in place at EuroChem since 2007. This program provides for payment of a relocation allowance, compensation of moving expenses, moving leave, provision of housing, compensation of mortgage interest.

Non-financial recognition is an important component of human resources policy; it is done in the interests of the company and all its employees. The development of the non-financial recognition system received a new stimulus in 2007 with the introduction of the Corporate Standard on Awards and Corporate Holidays. There was already a well-established tradition of presenting awards to the best Company workers on the corporate holidays “EuroChem Day” and “Chemists’ Day”. In 2007, EuroChem recognized 380 of the best workers with corporate awards.

The following are future tasks in the area of the future development of the motivation system at EuroChem:

- reforming the salary system in order to increase work productivity;
- introduction of system of differentiated salary based upon a system of ranked jobs;
- managing the motivation system on the basis of an evaluation of the individual effectiveness of each worker.

STAFF TRAINING AND DEVELOPMENT

Human capital requires an effective system for replenishment. Work for creating a succession pool was continued in 2007 for improving and ensuring continuity in the company’s management systems. One hundred twenty company managers took part in the evaluation procedure, as the result of which the membership of the EuroChem succession pool rose to 209 persons.

In order to develop the management skills of the succession pool participants, key executives and specialists in the company developed new corporate programs which were launched:

- The MBA Program (National Economy Academy under the Government of the RF and Kingston University, United Kingdom);
- A 4-module program for the development of basic managerial competencies (National Economy Academy under the Government of the RF and Kingston University, United Kingdom). In 2007 instruction was held in two modules: “Management of Execution, Planning” and “Managing People”. The 3rd and 4th modules, “Effective Interaction” and “Organizing Teamwork” were planned for 2008.

Worker training and development is organized using a targeted and individual approach, the principle of continuous education, and the use of effective, high-quality training programs. All workers have equal opportunities for training and development within the organization provided that they observe companywide rules and procedures.

The average number of training hours per company employee came to 64 hours, with 92 hours on average for a worker and 27.5 hours for a manager.

The total number of worker training hours came to 1.2 million. The relative decrease in the absolute size of worker training hours was caused first of all by the decrease in the average headcount at EuroChem, and secondly by the optimization of the training and personnel development system. Moreover, training costs came to RUR 1,754 per employee, which was 8% more than in 2006 (RUR 1,333 per employee).

Close attention was paid to hiring young specialists for the company’s enterprises in 2007 in order to renew EuroChem’s human resources potential. In particular, the first Young Person’s Retreat in company history was organized, in which more than 100 young people from all the production enterprises took place; programs for professional training and personal development of young workers were discussed. A Scientific-Technical Conference was held as part of the retreat, business games were played on optimizing business processes and for teambuilding.

A program for hiring graduates of institutions of higher learning to work at the company was continued as was a program for the development and social support of young specialists. Partnership relations were established with 11 institutions of higher learning. EuroChem participated in Career Day and Job Fairs at specialized institutions of higher learning. More than 1,200 students participated in an internship at the company’s enterprises. The company hired 130 graduates of institutions of higher learning in 2007. Out of 280 young specialists, 70% participated in development programs, 26% achieved career growth.
The targeted investments in the preparation of young specialists with a college and high school education have several socially significant results. First of all, in this way the replenishment of the company’s personnel potential takes place, which allows for preserving positive sustainable development. Secondly, many EuroChem enterprises are the economic backbone of one-company towns, and for this reason bringing youth to the enterprises aids in solving the social problem of employment. Thirdly, in training future employees, EuroChem aids in strengthening the healthy intellectual capital of the country as a whole.

The company did not gather any data in 2007 related to the length of training on the policies and procedures related to human rights issues which are significant for the organization’s activity and the share of employees trained in this area.

IN 2007, 130 YOUNG SPECIALISTS WHO GRADUATED FROM THE COUNTRY’S SPECIALIZED INSTITUTIONS OF HIGHER LEARNING WERE HIRED AT EUROCHEM ENTERPRISES. The Ivanovo Chemical and Technological University is the leader among the learning institutions which supplied EuroChem with new personnel. Twenty-six persons came to EuroChem enterprises in 2007 from its walls. In second place was the Northern-Caucasus State Technical University with 18 graduates who supplemented the ranks of the company’s workers. The top three are rounded out by the Kola Peninsula branch of the Petrozavodsk State University, which prepared 17 young specialists. The Novomoskovsk Institute of the D. I. Mendeleev Russian Chemical and Technical University prepared 13 specialists for EuroChem. Nine persons came from the Southern Russian State Technical University (Novocherkassk Polytechnic Institute). The Petrozavodsk State University send 7 graduates to the company’s enterprises. The top ten leaders of EuroChem’s “talent foundry” are rounded out by the Moscow State Mining Institute (5 persons), the Saint-Petersburg Mining University (4 graduates), the Murmansk Technical University (3 persons) and the Ulyanovsk Agricultural Academy with two graduates. Altogether, graduates of 29 of the country’s institutions of higher learning came to EuroChem in 2007.

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<table>
<thead>
<tr>
<th><strong>Our Achievements</strong></th>
<th>Ecology and Industrial Safety in 2007: Numbers and Facts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>25</strong></td>
<td>million cubic meters decrease in the volume of discharge water</td>
</tr>
<tr>
<td><strong>1 220</strong></td>
<td>thousand Gcal decrease in heating energy consumption</td>
</tr>
<tr>
<td><strong>18</strong></td>
<td>million cubic meters decrease in the consumption of fresh water</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>the decrease in the number of units of dangerous production facilities operated</td>
</tr>
<tr>
<td><strong>607</strong></td>
<td>million rubles — cost of environmental protection measures</td>
</tr>
<tr>
<td><strong>2 150</strong></td>
<td>tons — decrease in discharges of pollutant substances into the atmosphere</td>
</tr>
<tr>
<td><strong>53,4</strong></td>
<td>million rubles was spent on environmental protection measures at “EuroChem-BMU” alone</td>
</tr>
<tr>
<td><strong>12%</strong></td>
<td>reduction in the injury rate</td>
</tr>
<tr>
<td><strong>355</strong></td>
<td>million kWh hours — reduction in the consumption of electrical energy</td>
</tr>
</tbody>
</table>
Chapter 3

EuroChem: Managing sustainable development risks

**Risk management system**
methods and principles
organization of risk management

**Classification and identification of risks**
organizational, production, infrastructure, macroeconomic, social risks

**Ecology**
resource conservation, environmental protection, key indicators

**Industrial Safety**
occupational safety, management system, main indicators
Risk Management – the guarantee of sustainable development

Risk management at EuroChem is directed at preventing and removing internal corporate risks based on a system of corporate management, work with human capital and the development of technology; at forecasting and rapid work with external socio-economic risks on the basis of financial, economic and marketing planning, quality management and ecological policy.

**Risk management is an important component of sustainable development.**

The concept of sustainable development was determined by the UN International Commission on the Environment and Development in 1987 as development where satisfying the needs of this generation occurs without impinging future generations’ opportunities to satisfy their needs. Following this definition, the company’s ongoing activity is focused on creation of the conditions for future growth.

EuroChem undertakes both operational and preventative work for managing risks. In prevention mode, an audit of risks which may arise for the company in the future is carried out, and a package of measures for reducing them is developed. In operational mode, work is conducted for tracking current risks and reacting to them within the relevant structural divisions of the company. An Internal Audit Service exists within EuroChem’s organizational structure, which is responsible for revealing existing risks and developing recommendations for their removal and minimization, as well as work for perfecting the risk management system. The Internal Audit Service regularly informs the Board of Directors Audit Committee of the results of its activity.

The comprehensive calculation of risks from the point of view of strategic management was reflected in the Development Strategy for the Period up to 2012. The long-term goals of the company are designated in the Strategy, and concrete measures for attaining them are provided for. In elaborating the Development Strategy, the company proceeded from the fact that sustainable development is possible only when one observes the following principles of social responsibility: transparency of financial and economic activity, protection of the environment and support of social partnership. The Strategy contains detailed plans by business segments and functional strategies for key areas and continues to be corrected and become more specific based upon changing conditions for the company’s work.

**For sustainable development purposes, EuroChem considers risk management to be a method for achieving a harmonious balance between the company’s external and internal environment.**

Here, social and institutional risks whose source is the social environment attain special significance alongside traditional financial, production and ecological risks. The most important risks in this group are demographic and risks of instability in the global economic system. EuroChem is a dynamically developing company which conducts a wide range of production activity for which qualified workers and professional specialists are needed. Given the growth in business competition for labor resources, the company is interested in preserving a stable workforce, and in hiring young specialists and managers. The Human Resources Management Strategy of the EuroChem companies was developed to provide for long-term sustainability and management of the company’s human resources risk.

**EUROCHEM STRIVES FOR DEEPER CONSISTENCY IN RISK MANAGEMENT.** Strategic vision of risks is a significant factor of stable company development. EuroChem is a successful and dynamically growing company. Every year the company improves earning yield, increases overall production and extends the system of internal Russian distribution and export. The company development is targeted and system based on assessment, evaluation, analysis and management of risks. Risk management is the activity to overcome uncertainty of the company at present and in future. It is clear that the bigger and more complicated company has more significant risks and it is the actual result of the scale effect. Transnational scale of business EuroChem gives risk management the special importance. The audit committee of the Board of Directors focuses on certain risks that have the biggest effect on the long-term company policy. In the course of their activity, the audit committee identifies the most significant risks and offers how to maximize positive consequences of risk events and minimize negative ones. The internal audit service focuses mostly on internal corporate risks. Separate structural subdivisions treat their special risks. Herewith, the establishment of a general management system is one of the most important goals of the company. The company is going to manage non-financial risks, first of all, social, and labor and reputation risks. Not every of the said risks is subject to formalization but in the circumstances when a social environment and image become one of the important factors of stable development alongside with market trends and financial position, assessment and management of such risk group is very significant. Process of social assessment alongside with marketing communications, relationship with target groups and PR communications is an instrument to understand social risks and to manage them. As a whole, the risk management system in the company is built based on the targets of business strength and implementation of strategic plans as well as an anticipation of external risks, assessment of market trends and risks of social and economic changes globally.

Several factors exist as the source of globalization risks. In 2007 there was a rapid growth in demand for food products worldwide, which stimulated the consumption of mineral fertilizers. On the one hand, such a favorable market trend allowed EuroChem to improve its production and financial indicators, but on the other hand, the company pays attention to the objective technical limitations and possibilities for increasing its production volumes. The company took into account the growth potential of the domestic agricultural market, and for this reason it provided for a substantial increase of its presence on the domestic mineral fertilizer market in its strategic plans. 2007 was also a year of instability on the main financial markets, which was reflected in the exchange rates of the world’s leading currencies. EuroChem is an export-oriented enterprise, therefore in managing its assets, monitoring took place and measures were taken to reduce the influence of these risks on the company’s sustainable development.
Organizational risk management

EuroChem is a large geographically distributed company whose production, transportation, mining and distribution units are located in different regions of Russia and abroad. In recent years, enterprises which have their own unique corporate cultures, development histories and workforce have become part of the company. EuroChem’s general corporate culture and identity are in a stage of active formation. The group’s structural complexity is taken into account during the analysis and management of organizational risks.

Organizational risk management takes place in three areas.

The first area is the introduction of the most highly developed international and Russian management and reporting standards. In the area of public reporting, the Annual Report has been published according to IFRS standards for the second year now, as well as the corporate social report according to the international GRI and AA1000 standards. EuroChem is implementing the project “Construction of an Integrated Corporate Management System in Accordance with the Requirements of the International Standards ISO9001, ISO14001, OHSAS 18001”.

These standards are considered to be an instrument for the development of corporate culture, because:

❖ the project encompasses all the company’s main business processes and enterprises;
❖ all three types of standards are being implemented simultaneously, which will have a positive effect on product quality, ecological indicators and occupational safety.

Adopting authoritative management standards will aid in increasing the company’s attractiveness for investors and in the effective management of organizational risks.

The second area is the creation of a modern, clear and effective system of corporate management. Here a group of tasks are decided which are related to optimizing the organizational structures of the company and its enterprises, brining the structures into compliance with the main international standards and unified corporate requirements. Disruptions in the company’s administrative activity are prevented through implementing a unified organizational structure, as well as the risk of transactional costs of interactions between the company’s different subdivisions and enterprises.

Another task which is directly connected with the previous one is the implementation of a unified computerized information system which encompasses all the group’s management bodies. In 2007 work continued on the comprehensive automation of corporate management processes with the aid of the phased implementation of a corporate enterprise resource planning system using the Oracle E-Business Suite. The implementing the system will make it possible to manage the company with a high level of operational efficiency. The full implementation of the Oracle ERP-system is being carried out over three years. Alongside the automation of key business process, documentation systems are being transferred to paperless form. A paperless Lotus Notes system is being created to standardize recordkeeping, as well as the approval and storage of documents. The implementation of information systems and applications aids in increasing the quality of organizational risk management and EuroChem’s gradual movement towards the creation of an integrated information management environment.

Transparent corporate management logic – a stage of sustainable development

When we see that the rules established in a company make it possible to give an employee an answer to any question regarding his or her activity, it means that the corporate management system has been constructed correctly. The management system at all EuroChem enterprises should be built upon the same principles, and follow a single logic. The system of regulation support is charged with clearly formulating these principles and communicating them to all employees. And the more transparent and understandable the regulations, the greater the manageability of the company and the more effective it will be. The regulatory base includes documents which are required in accordance with the law, the requirements of ministries and agencies, as well as national and international standards, including ISO 9001, ISO 14001, OHSAS 18001. We are forming an integrated management system; its components include quality management, environmental protection management, as well as occupational safety and industrial safety management. At the same time, one must not bureaucratize every step. Managers themselves evaluation the risk that activity in their area of responsibility can be performed without regulations. So the necessity for each new regulation is determined according to the results of risk monitoring, legislative changes, government resolutions, and international practice. Risk monitoring is performed by each director and each manager as part of their authorities.

Natalya Sukhonosenko, head of the MCC EuroChem management systems department
Chapter 3. EuroChem: Managing sustainable development risks

The third area is the development and realization of EuroChem’s information policy focused on the creation and support of positive companywide values, culture and employee corporate identity. The work of the corporate mass media, the public relations departments at the group’s enterprises, and the intranet portal are united in a unified corporate communications system which makes it possible not only to create a common informational space at EuroChem, but also to broadcast significant components of the corporate culture to the entire audience of company employees. One of the instruments for developing EuroChem’s corporate identity is the development and implementation of a universal system of non-financial recognition and business rituals – professional, corporate, and industry holidays and other team events. The systematic character of information policy anchored in the relevant corporate documents aids in the effective management of the cultural aspects of corporate risks.

Besides which, the internal audit and security services conduct regular monitoring of all company divisions regarding corruption risks.

We inspect in order to improve

Our office conducted large comprehensive inspections of the group’s enterprises. The goal of the inspections is understanding the main business processes and the risks related to them, as well as an evaluation of the effectiveness of existing control procedures. The key processes that we evaluated are production management, purchasing and stock management, human resources management, logistics, management reporting and budgeting, sales and investments. We were tasked with receiving a clearer understanding of how effectively these business processes work at all the company’s enterprises. This requires a wide-ranging set of actions. Conversations with specialists, work with regulatory documents, visiting production facilities, analytical work and detailed testing. The inspections resulted in more than 150 observations and comments, and for each of them, a plan for corrective measures was developed by enterprise management together with our office. One should note that around 70% of them have already been completed or are being performed. Our task is to point out those deficiencies that we see, to explain why we consider a certain problem to be urgent, what we see the risks to be, and to give recommendation for possibilities for improvement.
Production risk management

The management production risks at EuroChem through investments in technological development and the replenishment of fixed assets corresponds to a contemporary trend throughout Russia – Russian business is intensively creating a reserve for long-term competitiveness and compliance with the global technological trends against the background of the price growth for basic resources.

Large parts of EuroChem’s production capacity entered into operation during the period from 1930 to 1970. As a result, the deterioration of these capacities requires significant investments to keep them in working condition, as well as capital repairs. Despite the fact that significant sums have already been invested, and also that the company’s budget envisions significant expenses for planned repairs, the planned amounts may turn out to be insufficient should there be unplanned equipment stoppages. Repair and restoration work may potentially affect the company’s production and financial results.

In order to lower the production risks associated with the likelihood of a breakdown of industrial equipment and mechanisms, EuroChem is carrying out a large-scale investment program.

Serious reconstruction and a diversification of existing production is taking place at all enterprises which are part of EuroChem. In 2007, RUR 7.7 billion was allocated to financing technical modernization, repairs and new investments.

The following large investment project for renewing production carried out in 2007 should be highlighted within the context of production risk management:

❖ at “Azot”, the main actions in the project “Modernization of the Ammonia Production Unit with Improvement of Technical and Economic Indicators” of the Ammonium-2 facilities were completed, which made it possible to increase the production of ammonia to 144 tons every 24 hours, to lower the consumption of natural gas and steam as well as expenses for purchasing catalyst for re-loading the average temperature CO converter in Facility No. 3-A, which made it possible to increase the productivity from 420-447 tons a shift to 1,250 tons a shift;

❖ measures were taken at “PG Phosphorit” to increase the quality of ammonium phosphate, which made it possible to improve the quality of the product delivered, and to increase its competitiveness. Work is also being conducted on the reconstruction of the sulfuric acid production workshop, which makes it possible to increase the productivity of the facility to 1 million tons a year and to increase the use of process heat to generate electricity;

❖ the main event at “Kovdorsky GOK” was a project for increasing the raw materials base through processing the tailings in the manmade field and the finely-grained apatite-francolite ore at the new enrichment factory. Thanks to the work of “Kovdorsky GOK” specialists, in 2007 all-time plant output records were achieved: the output of apatite concentrate was 2,500.7 thousand tons (124.6% of 2006 production), the output of baddelitite concentrate was 7,562 tons.

❖ the following independent projects were carried out at “EuroChem-BMU”. “Construction of Local Purification Facilities”, which made possible the treatment of net pure water for re-use at the the water circulation cooling cycle production facilities; “Modernization of the phosphoric acid extraction facility with an increase in capacity to 240 thousand tons P2O5 a year, which make it possible to increase the output and decrease the enterprise’s productions costs;

❖ “Nevinnomyssky Azot” modernized the Urea-2 facility. As a result of the project, productivity increased by 100 tons every 24 hours, moreover there were 0.01 Gcal of savings in steam. Moreover, the modernization of the of the ammonia compressor in facility 1C was carried out. As a result, ammonia losses were reduced to 2.2 tons per 24 hours (68.2 tons a month). Oil consumption was reduced by 100 tons a year. There were savings in steam, with consumption reduced from 40 to 30 Gcal per 24 hours or 930 Gcal per month.

❖ at Lifosa AB, a system for the re-use of process heat in the production of sulfuric acid was introduced, which made it possible to save 64 million kWh in 6 months.

All the investment agreements concluded by the company undergo careful legal analysis regarding their compliance with legislation. At the same time, the significant investment agreements did not undergo a special evaluation from the point of view of human rights.

### EuroChem Investment Volumes in 2007, RUR thousand (without VAT)

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Total investment volume</th>
<th>Scientific Research – Experimental Design Work and Design – Survey Work</th>
<th>Development and modernization</th>
<th>Replacement of physically deteriorated equipment and execution of compliance orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nevinnomyssky Azot</td>
<td>598,824</td>
<td>9,618</td>
<td>482,126</td>
<td>107,079</td>
</tr>
<tr>
<td>Azot</td>
<td>2,161,801</td>
<td>22,862</td>
<td>2,010,434</td>
<td>128,504</td>
</tr>
<tr>
<td>Kovdorsky GOK</td>
<td>1,093,820</td>
<td>54,618</td>
<td>776,307</td>
<td>262,894</td>
</tr>
<tr>
<td>PG Phosphorite</td>
<td>317,816</td>
<td>12,222</td>
<td>154,242</td>
<td>151,352</td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td>170,152</td>
<td>4,328</td>
<td>96,944</td>
<td>68,879</td>
</tr>
<tr>
<td>Lifosa AB</td>
<td>146,023</td>
<td>0</td>
<td>64,218</td>
<td>81,805</td>
</tr>
<tr>
<td>EuroChem- VolgaKaliy</td>
<td>715,699</td>
<td>715,699</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Infrastructure and Resource Risk Management

An important component of production risks is the group of infrastructure risks related to violations in the work of transport, logistics, and resource supply.

Railroad transport is the main means for transporting raw materials for production, as well as finished products. EuroChem’s activity with both internal and external partners depends on the effectiveness of Russian Railroads (RZhD), which is controlled by the state and carries out the majority of railroad transport in the country.

Russia’s railway system is potentially subject to risks of disruptions and breakdowns due to the deterioration of fixed assets, shortage of railroad cars, the limited capacity of border stations, reduction of cargo capacity, including due to insufficient technical servicing of railroad cars and train collisions. This is confirmed by the growth in railroad incidents in 2006-2007. The worsening of the situation with the work of RZhD may potentially lead to breakdowns in the transportation of raw materials and the company’s products and increase transportation expenses. The need to lease railroad cars in the future, if such a necessity arises, and to incur other associated expenses may also negatively affect the company’s financial and production indicators.

The establishment of railway tariffs has been referred to the competency of the Government of the RF, which regularly reviews them in order to increase them. The possible privatization of RZhD, investments in the repair and replenishment of the rolling stock may lead to a further growth in tariffs, which will in its turn lead to a reduction in the company’s income.

Transportation risks are managed at EuroChem through the development of a company transportation system and through investments in transportation infrastructure. The total investments in the development of the company’s railway transport in 2007 came to more than RUR 1.3 billion. Work was begun on the construction of the Tuapse Bulk Terminal for the transshipment of mineral fertilizer in the port of Tuapse. Work is in full swing on the construction of an access line and the construction of a tunnel. In accordance with the approved organizational plan, the construction of a terminal for the transshipment of iron ore concentrate for export has been underway since 2007 at the “Murmansk Alumina Terminal”. The total volume of investments planned is RUR 540.5 million.

The results of the enterprises which are part of EuroChem depend greatly upon access to cheap sources of natural gas and electrical energy. Any obstacles to access to gas and electrical energy sources may seriously affect the company’s business and its financial indicators.

Should there be an interruption in the supply of electrical energy as the result of an accident or for another reason, include those which are manmade, product production at the company’s enterprises may be fully or partially shut down. The restoration of production equipment after such a shutdown may take a rather considerable amount of time.

THE “MURMANSK ALUMINA TERMINAL” JOINS EUROCHEM.

Until 2007, EuroChem did not have its own capacity for loading Kovdor concentrate onto sea vessels. In May 2007 the company’s acquisition of 100% of the shares of the “Murmansk Alumina Terminal” was announced. The “Murmansk Alumina Terminal” (MAT), was planned as a transshipment point (unique in scale in Russia) for aluminum oxide on ships from America and Africa – the main raw material for the production of aluminum. It was unique for Russia in its maximum automation, and unique worldwide due to its use of pneumatic loaders to handle alumina. Besides this equipment, the complex includes a 2.47 meter long dock, a railroad viaduct, crane and railway tracks from the railroad car loading station and weigh station, and railroad maneuvering facilities. The purpose of the purchase and technical re-equipping of the MAT is to process the export production of iron ore concentrate produced by the “Kovdorsky GOK”, with temporary open-air storage. MAT concluded an important agreement for the supply of handling cranes for loading iron ore concentrate – new generation loading equipment which is more than twice as productive as traditional port cranes. The Murmansk terminal will be the first enterprise in Russia which uses such high-tech equipment. Transshipment is carried out using the direct method “vessel-railroad car”. It is also important that the requirements of contemporary business are met – that an effective production process is carried out without harming the environment or health through using a system for purifying the working air which guarantees that the amount of dust in the purified air does not exceed the maximum allowed concentration. After MAT joined EuroChem, the terminal received a second purpose: loading iron ore concentrate onto vessels, and the technical and technological re-equipment of the terminal is being carried out for this. The construction of an open warehouse with a capacity of 45 thousand tons will be completed in 2008. Work is now being done on the construction of an additional railway line. All this will allow MAT to become a universal terminal in the future which operates both in offloading and in loading see vessels.

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**Investments in the development of EuroChem’s transportation and logistics system**

<table>
<thead>
<tr>
<th>Area of investment</th>
<th>Actual, RUR thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of railroad cars and cisterns</td>
<td>1,183,246</td>
</tr>
<tr>
<td>Construction of the iron ore concentrate trans-</td>
<td>373,821.8</td>
</tr>
<tr>
<td>shipment terminal (along with the purchase of the</td>
<td></td>
</tr>
<tr>
<td>Murmansk Alumina Terminal)</td>
<td></td>
</tr>
<tr>
<td>Construction of the Tuapse Bulk Terminal</td>
<td>822,653.1</td>
</tr>
<tr>
<td>Reconstruction of the Agregatnaya Station</td>
<td>25,608.0</td>
</tr>
<tr>
<td>Construction of the railroad car repair depot</td>
<td>37,500.0</td>
</tr>
<tr>
<td>Purchase of maneuverable locomotives</td>
<td>58,230.0</td>
</tr>
<tr>
<td>Reconstruction of railroad tracks and the overhead</td>
<td>41,452.0</td>
</tr>
<tr>
<td>electrical network</td>
<td></td>
</tr>
<tr>
<td><strong>Total: by factories</strong></td>
<td><strong>1,346,036.0</strong></td>
</tr>
<tr>
<td><strong>Total with terminals</strong></td>
<td><strong>2,542,510.9</strong></td>
</tr>
<tr>
<td><strong>Total projects, ea.</strong></td>
<td>15</td>
</tr>
<tr>
<td><strong>Deployment of approved investments, % in 2007</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

The price of electrical energy in Russia is subject to state regulation. Furthermore, the Government of the RF is carrying out a plan for the reconstruction of the electrical energy sector for the purpose of developing competition and liberalizing this market, a transfer from regulated prices for electrical energy to market prices. Further growth of prices for electrical energy and future supply interruptions caused in part by the fact that the electrical energy sector is being transferred from state to the private sector may negatively affect the company’s financial indicators.
Financial and macroeconomic risk management

EuroChem is an export-oriented company, and for this reason the majority of its revenue from sales abroad is received in a foreign currency – US dollars. Therefore a change in the rate of the national currency (the ruble) in relation to the US dollar affects the company’s financial condition. EuroChem and its enterprises raise the majority of their credits in US dollars, and the interest rates on these credits is variable and tied to the LIBOR rate. In connection with this, changes in the LIBOR rate, as well as in the rate of the ruble to the US dollar affect EuroChem’s financial condition. In order to minimize the risks associated with changes in the rate of exchange between the ruble and the US dollar, credits are raised in US dollars, i.e. in the currency in which the majority of the company’s revenue is received. In order to control borrowing costs, which are determined by a variable rate in the form of a margin above the LIBOR rate, the company is negotiating with creditors to optimize the structure of the credit profile and lower the margin above the LIBOR rate.

Another economic risk is the risks associated with growing competition in the production of mineral fertilizers. EuroChem competes with various mineral fertilizer producers, both in the RF market and in foreign markets. There are no significant differences in the characteristics of mineral fertilizers of various producers. When choosing a fertilizer supplier, consumers are most of all focused on the price of the product. The company competes with a large number of local and foreign producers, including state-owned companies which also receive state subsidies.

The strengthening of competition in the world market is related to the introduction of new production capacities. EuroChem competes with various mineral fertilizer producers, both in the RF market and in foreign markets. The intensification of competition in the market for the production and sale of mineral fertilizers creates a potential risk that the company cannot successfully compete with mineral fertilizer producers from countries with access to cheap sources of raw materials.

In order to decrease competitive risks, EuroChem:
- conducts continuous analysis of the market for mineral fertilizers and agricultural products;
- is developing its own production, including modern and popular goods in its product line;
- is creating an innovative agricultural consulting system which makes it possible to create a significant pool of loyal customers worldwide.

The economic and production stability of EuroChem’s work is closely related to the situation on the world and national agriculture industry. For this reason, risks of agricultural trend changes in the RF and the countries to which the company exports products occupy a notable place in the risk management system.

Conditions for the development of agriculture in Russia and in countries which are importers of the company’s products in many ways pre-determine EuroChem’s results. The intensity of development of agriculture makes possible growth in the consumption of mineral fertilizers, and at the same time a drop in agricultural production may lead to its reduction. The agricultural production level depends on a number of factors, including weather weather, the level of demand for agricultural products, and state policy. In particular the effect of weather can significantly affect the use of different types of mineral fertilizer by agricultural producers.

In 2007, growth in the prices for agricultural prices was noted, and consequently, growth in the demand for all types of mineral fertilizer, which had a positive effect on EuroChem’s sustainable development.

EuroChem’s analysts concluded that the risks related to the geographic position of the countries and regions in which the company’s enterprises are located have practically no negative effect on the company’s activity. On the whole, the economic and political situation in the country and regions in which EuroChem’s enterprises are located had a beneficial effect on the company’s activity.

In the long term, global warming and climate change in various regions of the planet may have an effect on the structure and volume of the demand for mineral fertilizers. EuroChem envisions such a possibility and is differentiating its approach to the organization of mining, production and sales.
The company conducts an internal evaluation and accounting both of the economic and the non-financial risks which arise during its work. Social risks are among the most significant non-financial risks. Factors for the formation of social risks are cultural-historical traditions and the particularities of political development, among which one can highlight: the historically conditioned tradition of paternalism in the system of labor relations, a highly developed sense of social justice, and insufficiently effective regional social policy.

The fundamental approach to managing social risks is prevention and early warning. EuroChem carries out preventative work for the following sub-groups of social risks:

The risks which arise in the area of labor relations are related to a possible breakdown in the mutual understanding between employers and employees, and as a result, a drop in productivity and the possible loss of key personnel.

Considering the high competition for qualified personnel in the labor markets which interest EuroChem, the company integrated a system for managing these risks into the long-term Company Development Strategy. The development of internal communications systems, awards, motivation and work with staff make it possible to minimize the risks that labor conflicts may arise at the enterprises. Open and constructive dialogue with the trade unions and an effective process for concluding collective agreements play a large role in this open and constructive dialogue.

The risks which arise in the area of the social environment of the enterprises are related to the general socio-economic and political situation in the regions in which the company is located.

The company’s social policy is directed at work with the following factors:

- social sustainability and stability in the regions;
- EuroChem’s reputation as a socially-oriented company;
- the quality and sustainability of the lives of workers and their families;
- the transmission of professional and industry culture;
- the quality of human resources;
- the interaction of business policy with the development strategy of municipalities and regions;
- support for the company’s social policy in local communities and the mass media;
- interaction with municipalities for joint allocation of funds for social needs, especially on a project basis.

The key goal of the social policy is the replenishment of quality human resources, which are necessary in order for production to function and for promising investment projects to be completed. Social investments and social support are an instrument for preventing social risks to the company and an instrument for developing the company’s external and internal social potential. The company’s social role is to make Russia a leader in the chemical industry, to create generations of industry specialists and to develop territories. The overall corporate goal of social investments is increasing the value of intangible assets based on effective cost management.

The main technical issues:

- the efficacy of social investments;
- transition to a definition of objectives which takes into account corporate priorities and regional situations;
- the introduction of project technologies and mechanisms for social and expert evaluation;
- attracting leading actors in the social investment market – cooperation with non-profit organizations;
- strengthening interaction with regional administrations;
- institutionalization – strengthening on organizations’ territories – agents who will provide for the efficacy of social investments for the goals of the company and the territories;
- uniting the resources of the company and partners, shared financing of social programs.
SOCIAL TECHNOLOGY IN THE PROGRAM “ENVIRONMENT AND HEALTH OF THE PUBLIC IN THE CITY OF NEVINNOMYSSK AND OTHER REGIONS WHERE EUROCHEM IS LOCATED”.

The support of the non-profit sector and pursuance of corporate social interests through professional non-profit organizations is an important factor in the stability of the company’s business in the regions and imparts professionalism to the company’s social policy on a national level. The following are to be taken into account as part of the expert evaluation of applications: the definitions of project objectives, its orientation towards solving certain social problems, a quarterly working plan, a justified budget, partner relationships and financial support, quantitative and qualitative indicators of efficacy, the socio-economic effect, means of disseminating information on the project and other indicators.

THE PROGRAM’S THREE-YEAR MODEL IS FOCUSED:
❖ on the development of coordination with municipal authorities, state and non-profit sectors, business and the expert community as part of socially significant projects;
❖ on increasing project activity and the project culture of city dwellers;
❖ on the development of real self-governance, independence and self-organization of citizens for solving local problems;
❖ at nurturing skills for raising and using external non-governmental investments and the reinvestment of funds saved, financial management skills.

Image risks arise in the information sphere as the result of actions of hostile forces, or a communications breakdown.

These risks influence EuroChem’s business image and reputation in the perception of public opinion. Measures for preventing these risks are taken by EuroChem’s Public Relations Division which are directed at creating a cascade of well-tuned communications to all target audiences through establishing positive relationships with the mass media.

Prevention of image risks is based on the policy of presenting objective, reliable and fresh information on all EuroChem’s areas of activity without harming the company’s commercial interests.

CORPORATE COMMUNICATIONS – GROWTH IN THE COMPANY’S TEAM SPIRIT. A sociological survey was conducted among EuroChem employees in 2007, and one part of it was dedicated to sources of information on the company. The leading communications channel was the corporate newspaper “EuroChem” – 85% of the employees receive information on the company from the newspaper. Following the newspaper, as well as orders, directives and other regulatory documents, there are a whole series of items related directly to employees’ circle of communications – both horizontally and vertically. Likewise, in the process of interaction with direct and “more superior” managers, with work colleagues, acquaintances and friends within the company information is not only received, but discussed, analyzed and evaluated. Direct managers play a key role in the receipt of information. Moreover, the main flow of information takes place through them both “from the top down” (33% named discussions with their direct managers as one of the main sources of information), and “from the bottom up” (here the rating of the role “direct managers” reaches almost 70%). Besides which, the role of the intranet and other information products used for communications with workers are gradually growing.

We hope to continue partnership!

As a backbone enterprise for the city, “Kovdorsky GOK” provides not only products, but also jobs, hope and belief in tomorrow for two thousand inhabitants of Kovdor, and so the plant’s successes are the guarantee of our stability and prosperity. In solving production tasks, the executives of the group and the plant do not neglect the social sphere. This means financial aid for education, culture, healthcare in the Kovdor district, and aid to veterans of the Great Patriotic War. Great attention is paid to the development of physical education and sports in Kovdor. We hope that our partner relationships will be reliable and strong in the future also.

Oleg Mogurenko, Head of the Kovdor District
Human Resources Risk Management

In order to realize its strategic goals, EuroChem must be reliably supplied with all required resources and they must be used effectively. The main resource in the list of those which are required is personnel.

In order to reveal possible problems and risks which the company has to deal with when providing the required number personnel with the proper qualification for production facilities, a comprehensive analysis was made in the social and labor area, including:

❖ the current situation with the labor resources of each of EuroChem’s production subdivisions and their tendency for change in an inertial model (analyzed through modeling aging and retirement processes broken down by qualification group);
❖ the tendencies for change in the quantity and quality of labor resources on regional labor markets, built upon an analysis of migration and demographic processes, and also taking into account increasing competition for labor resources;
❖ tendencies for change in regional markets for salary taking into account inflationary processes and the growing competition for personnel in the form of reduced economic activity of the population as whole throughout Russia and accordingly in the regions where the company is located, but with varying rates of change;
❖ particular influences from the external environment specific to certain regions;
❖ best practices of companies in similar spheres of business regarding productivity and labor effectiveness (based on available information).

An analysis was conducted based upon the results, and it was determined that the main risks and problem areas are the following:

❖ the risk of providing personnel in the required quantity and quality for production (number, age, qualification);
❖ the risk of absolute expenses for personnel within limits which are critical for ensuring an acceptable level of profitability for production;
❖ the risk of social instability.

The first two risks are the most critical. This is caused by the simultaneous influence of two factors. On the one hand, implementation of the production development strategy is the determining factor in the demand for labor resources. On the other hand, a series of demographic factors are causing a decrease in the supply of labor resources in the labor markets in the regions in which the company is located; taking into account the overall growth of the economy, this results in an increase in the shortages on the labor market and a strengthening of competition for labor resources.

In order to take preventative measures and provide warning for these risks, the company has developed a 5-year Strategy for Human Resources Management with details for each production enterprise in which the main initiatives in the area of hiring and retaining personnel are defined, attaining qualitative changes in the professional qualification mix, organizational development, the organization of work; personnel motivation; personnel development and training, career management, formation of the employer’s internal and external image.

Recognizing the importance of human resources for realizing the plans of EuroChem – a conglomerate with complex production, the focus of attention in 2007 was the human resources strategy for the plants, which was constructed in the context of the planned development of the company as a whole and taking into account the particularities of each of the enterprises. For the first time, a measurable concrete five year human resources strategy was developed which is tied to the business strategy and to the economic and demographic situation in the regions.

Vladimir Stolin, Chairman of the Committee for Corporate Governance and Human Resources

A timely realization of the strategic initiatives which have been developed will make it possible to:

❖ Provide for the business’ requirement for qualified personnel in the necessary quantity during the relevant time periods;
❖ Lower the personnel expense growth rates and their share in product cost of sales. Ensure control over the potential growth in absolute personnel expenses due to a reduction in headcount, increasing work productivity and personnel qualifications, and also due to the effective regulation of salary issues, the reduction of unproductive losses of work time and stabilization of active turnover at an acceptable level;
❖ Increase the effectiveness of work for the formation and development of a succession pool, management of the career growth of staff and its effective deployment;
❖ Ensure a competitive salary level;
❖ Improve the structure of personnel employment;
❖ Improve the qualification and “quality structure” of personnel (lowering the average age and the share of working pensioners);
❖ Increasing personnel qualifications);
❖ Increase staff loyalty to the company.
Ecological and Industrial Safety Risk Management

Ecological Risk Management

EuroChem works in an industry with high ecological safety risks. The design and implementation of the company’s ecological policy is a most important part of corporate social responsibility.

The company’s ecological policy is declared in the document “Policy in the Area of Industrial Safety, Occupational Safety, and the Environment”.

The following ecological goals have been adopted as part of this current policy:

❖ improving environmental protection activity;
❖ providing industrial safety for production facilities and occupational safety for personnel;
❖ bringing the main environmental protection indicators for the enterprises’ activity up to international levels.

EuroChem takes a series of obligations upon itself in the area of managing ecological risks; among these the main ones are:

❖ not to harm workers and the public; compliance with environmental protection legislation;
❖ environmental protection as a principle in building the technological cycle;
❖ effective use of raw materials and energy;
❖ recognition of safety and environmental protection to be among the most important production indicators.

The company also reports publicly on its initiatives in the area of resource conserving, ecologically safe production and in the area of occupational safety.

The “Instruction on Risk Management in the Area of Industrial Safety, Occupational Safety and the Environment” has been developed, and comprehensive work for identifying dangers and evaluating risks is undertaken in accordance with it. The company’s specialists conduct internal audits of industrial safety, occupational safety, and environmental safety management systems (IS, OS, and ES) in all the organizations under management, as well as specialized training seminars for enterprise employees on managing risks.

The distinctive feature of the risk management system which has been implemented is the fact that it is built in accordance with the management models which have been proven in practice in the industrial enterprises of Australia, the European Union and the USA. According to the data of the Technical Committee of the International Association of Fertilizer Producers IFA, during the first 2 years of implementation of similar systems, there is about a 100% return on funds invested into Industrial and Occupational Safety and Environmental Protection.

The main permanent areas of the company’s activity in the area of ecological risk management are:

❖ conducting ecological monitoring of the effect of its production activity on the environment and the population of the regions where the company is located;
❖ allocating significant investments for the development of resource conserving and ecologically safe technologies;
❖ implementation of a communications policy focused on honestly and openly illuminating issues related to production activity in the context of ecological safety.

The large conglomerates pay the most attention to ecological investments

Chemical enterprises’ share in the pollution of the environment is rather significant: the chemical industry occupies ninth place among all branches of industry by discharges of pollutants into the atmosphere, and second place by the volume of polluted wastewater discharged – around 20% of all industrial wastewater. The ecological danger of the wastewater discharged by chemical enterprises lies in their high toxicity. But one should note that investments in environmental protection measures at the industry’s enterprises have begun to grow steadily, and by 2004 they came to around RUR 2 billion. Large conglomerates and enterprises pay the most attention to ecological investments. The state plans to solve ecological tasks first and foremost through the technological retooling of the industry, the creation of ecologically pure production facilities, and the use of modern technologies for wastewater purification and treating waste. The state administers this process, and also provides financial aid in the area of scientific development.

Ecological indicators depend greatly upon the level and newness of the industrial technologies used. EuroChem is among the leaders in the technical retooling of the national chemical industry, and constantly improves its environmental indicators. Among the measures are the introduction of modern technological machinery and the withdrawal of those that are outdated from operations, the implementation of new technologies for purifying discharges and wastewater, recycling of industrial wastes and the automation of ecological monitoring systems, increasing employees’ ecological culture.

Alexander Ischenko, Deputy of the State Duma of the Federal Assembly of the RF, Deputy Chairman of the State Duma Committee on Ecology
EuroChem makes targeted investments in the development and implementation of new technologies at its enterprises, which make it possible to use natural resources economically, including water, and to decrease the amount of energy consumed. Technologies using the heat output during the production process (in particular, of sulfuric acid) for heating premises, water and other enterprise and city facility needs are being expanded and modernized.

Technologies are being implemented for water recirculation during production.

EuroChem develops and carries out environmental protection measures. The costs for performing such measures came to RUR 607.41 million in 2007.

Illustration on ensuring of ecological safety of EuroChem enterprises in 2007 are the following:

- Reducing of processing facilities pollutant emissions into atmosphere by upgrading efficiency of dust-gas-cleaning units or installation of new dust-gas-cleaning units on 2150 tones;
- Reducing of water consumption and water removal by repair and modernization of water circulation cycles and water lines – 18 million cubic meters;

Labor safety and environment control system was implemented in the years 2005-2007. This management system satisfy the requirements of standard ISO 14001, specification OHSAS 18001 and Russian technical regulations.
RAW MATERIAL AND ENERGY USAGE


<table>
<thead>
<tr>
<th>Raw Materials unit of measurement</th>
<th>Volume in 2006</th>
<th>Volume in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas million cubic meters</td>
<td>4 658</td>
<td>4 592,2</td>
</tr>
<tr>
<td>Apatite concentrate thousand tons</td>
<td>2 548</td>
<td>2 846</td>
</tr>
<tr>
<td>Sulfur thousand tons</td>
<td>676,2</td>
<td>761,4</td>
</tr>
<tr>
<td>Ammonia thousand tons</td>
<td>317,7</td>
<td>325,6</td>
</tr>
</tbody>
</table>

In 2007, the main, most significant project at “Kovdorsky GOK” was a project for increasing the raw materials base through processing the tailings in the manmade field and the finely-grained apatite-francolite ores at the new enrichment factory.

The output of apatite concentrate was 2,500.7 thousand tons (124.6% in comparison with 2006), the output of baddelite concentrate was 7,562 tons.

INITIATIVES FOR ENERGY EFFICIENCY


<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Amount of energy, million kWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kovdorsky GOK</td>
<td>698,17</td>
</tr>
<tr>
<td>PG Phosphorit</td>
<td>250,87</td>
</tr>
<tr>
<td>Nevinnomyssky Azot</td>
<td>1 045,3</td>
</tr>
<tr>
<td>Azot</td>
<td>1 349,5</td>
</tr>
<tr>
<td>EuroChem-BMU</td>
<td>197,47</td>
</tr>
<tr>
<td>Total for MCC EuroChem</td>
<td>3 541</td>
</tr>
</tbody>
</table>

The steady, planned increase in the company’s energy efficiency continues. In particular, the total consumption of electrical energy and heat energy have been reduced:

❖ The main activities have been completed for the project “Modernization of the Ammonia Production Plant with Improved Technical and Economic Indicators” at the Ammonia-2 facility. This has made it possible to increase the output of ammonia to 144 tons every 24 hours, and also to lower the consumption of natural gas per ton of ammonia to 58 cubic meters, of steam (from the Novomoskovsk State District Electrical Station) by 0.09 Gcal, and to lower the expenses for purchasing catalyst for restarting the average temperature CO converter.

❖ A project was completed at Lifosa for the Recycling of Process Heat in the Production of Sulfuric Acid (part of the package of the HRS boiler equipment), which made it possible to save 34 million kWh in 6 months (total cost of the project 10.2 million dollars).

Waste disposal and utilisation

<table>
<thead>
<tr>
<th>Operation</th>
<th>Total</th>
<th>Waste danger class</th>
<th>Including mining industry waste with class 5 danger</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Formation</td>
<td>45 903 448,2</td>
<td>80,7</td>
<td>5 051,5</td>
</tr>
<tr>
<td>Usage</td>
<td>24 402 618,4</td>
<td>0</td>
<td>120,1</td>
</tr>
<tr>
<td>Detoxification</td>
<td>6 310,6</td>
<td>88,9</td>
<td>4 938,6</td>
</tr>
</tbody>
</table>
**EFFECTIVE WATER USE**

Effective water use is an important factor for an ecologically effective company.

**Total amount of EuroChem fresh water consumption**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Thousand cubic meters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total water consumption</td>
<td>109 569,9</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
</tr>
<tr>
<td>surface waters</td>
<td>69 769,4</td>
</tr>
<tr>
<td>Underground waters</td>
<td>2 464,8</td>
</tr>
<tr>
<td>Other sources of water supply</td>
<td>37 335,7</td>
</tr>
<tr>
<td>Beneficial water use</td>
<td>106 106,8</td>
</tr>
</tbody>
</table>

**EuroChem Fresh Water Consumption Trends, million cub. meters**

![Graph showing water consumption trends from 2001 to 2007]

**Total volume of water used multiple times and repeatedly**

<table>
<thead>
<tr>
<th>Water consumption in water supply systems</th>
<th>Thousand cubic meters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water consumption in return water supply systems</td>
<td>1 200 062</td>
</tr>
<tr>
<td>Water consumption in repeat usage water supply systems</td>
<td>3 055</td>
</tr>
</tbody>
</table>

The company’s water intake has the greatest impact on surface waters.

**Total volume of discharge, indicated the quality of waste water and the receiving body**

<table>
<thead>
<tr>
<th>Type of discharge</th>
<th>Volume/mass of discharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wastewater released to surface drainage objects, thousand cubic meters</td>
<td>138 630,1</td>
</tr>
<tr>
<td>Wastewater transferred for purification to outside organizations, thousand cubic meters</td>
<td>1 767,4</td>
</tr>
<tr>
<td>Pollutants released, tons</td>
<td>114 726</td>
</tr>
</tbody>
</table>

**Effluent discharge, million cubic meters**

![Graph showing effluent discharge from 2001 to 2007]

**Comparative data on effluent discharge, thousand cubic meters Permitted/actual**

<table>
<thead>
<tr>
<th>Name of the pollutant</th>
<th>Amount, tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>BODfull (bio-chemical oxygen demand)</td>
<td>566,8</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>20,6</td>
</tr>
<tr>
<td>Suspended material</td>
<td>1 128,4</td>
</tr>
<tr>
<td>Sulfates</td>
<td>22 780,7</td>
</tr>
<tr>
<td>Chlorides</td>
<td>6 716,3</td>
</tr>
<tr>
<td>Total phosphorus</td>
<td>97,8</td>
</tr>
<tr>
<td>Fluoride</td>
<td>10,9</td>
</tr>
<tr>
<td>Ammonium nitrogen</td>
<td>307</td>
</tr>
<tr>
<td>Nitrates</td>
<td>5 629,9</td>
</tr>
</tbody>
</table>
LOCAL PURIFICATION FACILITIES FOR OPERATIONAL WASTEWATER ARE PUT INTO OPERATION AT “EUROCHEM-BMU”. In the past few years, “EuroChem-BMU” has had the problem of keeping the existing sewage pipe for operational and fecal wastewater in working condition (the distance to the city purification facilities of the city of Belorechensk is 7.5 km), and especially the sewage pipe viaduct over the river Belaya (length 240 meters). The viaduct has been used since 1976.

The annual maintenance expenses for keeping these facilities in working condition is RUR 1 million. Besides which, after flooding in 2002, the river Belaya changed its channel above the viaduct crossing and there was a real threat that the in 2-2.5 years the new river channel would flow in the area of the right-bank pier of the viaduct, but their construction features do not allow them to be channel piers and the viaduct crossing would cease to exist.

For economic reasons, and due to technical feasibility, the technical council of “EuroChem-BMU” made the decision to construct its own compact treatment facilities with a productivity of 1,000 cubic meters/day. The Scientific Enterprise Ecos developed the design. The treatment of two categories of wastewater is provided for at the treatment facilities: service-utility and production. The treatment of wastewater will take place at a integrated block station which includes: a block for the chemical removal of phosphorus, a block for biological treatment with brush filtering, a block for second-stage treatment, including second stage biological treatment and filtration through a charcoal filter. After treatment, wastewaters can be discharged into a water body or be used for recycled water supply.

AS A RESULT:

– ecological and financial problems related to maintaining and operating the 7.5 km long fecal and utility sewer pipe have been removed, especially regarding the section of the viaduct crossing of the sewer pipe of the river Belaya;
– costs for the maintenance and operation of utilities lines and the viaduct over the river Belaya have been eliminated, along with costs for pumping wastewater to city treatment facilities;
– the volume of fresh river water intake to feed the closed water circulation for the phosphoric acid extraction facility has been reduced to 800-1,000 cubic meters/day.

The total costs for the construction of the local treatment system came to RUR 32.7 million.

WASTE DISPOSAL

Notwithstanding the development of production facilities and the substantial scope of repair work, positive tendencies prevailed in the waste treatment area in 2007. The mass of the processing industry waste sent for use and detoxification exceeded the waste which was produced during the year. The volume of hazard category 5 mining industry waste in the overall volume of waste was 98%.

The increase in the use of processing industry waste is explained by the use of “EuroChem-BMU” phosphogypsum in the construction of dams for sludge collectors.

In 2007, 957,435 tons of phosphogypsum was used in the construction of dams for sludge collectors, land reclamation and in agriculture.

EuroChem provides the following selected data on the volume of materials which are re-processed or re-used waste:

❖ “Azot”, facility Urea-2: 302.5 (used in the urea waste facility).
❖ “Nevinnomyssky Azot”, facility-18:136 (used in the NPK waste facility).

Relationship of actual waste to the limit established %

Handling of waste from re-processing industry

<table>
<thead>
<tr>
<th>Year</th>
<th>EuroChem-BMU</th>
<th>Nevinnomyssky Azot</th>
<th>Kudrinskoy GOK</th>
<th>Azot</th>
<th>PG Phosphorate</th>
<th>TOTAL in EuroChem MCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>600</td>
<td>400</td>
<td>200</td>
<td>800</td>
<td>600</td>
<td>2400</td>
</tr>
<tr>
<td>2003</td>
<td>650</td>
<td>450</td>
<td>250</td>
<td>825</td>
<td>650</td>
<td>2700</td>
</tr>
<tr>
<td>2004</td>
<td>700</td>
<td>500</td>
<td>300</td>
<td>870</td>
<td>700</td>
<td>2870</td>
</tr>
<tr>
<td>2005</td>
<td>750</td>
<td>550</td>
<td>350</td>
<td>920</td>
<td>750</td>
<td>3000</td>
</tr>
<tr>
<td>2006</td>
<td>800</td>
<td>600</td>
<td>400</td>
<td>970</td>
<td>800</td>
<td>3170</td>
</tr>
<tr>
<td>2007</td>
<td>850</td>
<td>650</td>
<td>450</td>
<td>1020</td>
<td>850</td>
<td>3320</td>
</tr>
</tbody>
</table>
Projects. A reduction in the total volume of greenhouse gases to 6.6 million projects in Russia and with the UN Committee for the Supervision of Jointly package of documents is being created which is necessary to register the emissions of nitrous oxide, design documentation has been developed, and the actions are conducted in partnership with the largest German energy conglomerates, and the engineering company Uhde. The total volume of project financing is 48 million dollars. This is currently the largest project in Russia in this area.

About the Kyoto Protocol
The Kyoto protocol is the main international document focused on reducing emissions into the atmosphere of greenhouse gases, which cause climate change. The protocol was approved on 11 December 1997 at the Conference of the Parties to the UN Framework Convention on Climate Change in the city of Kyoto (Japan). The document entered into force on 16 December 2005 after its ratification by the Russian Federation. The Kyoto protocol requires its participants to reduce the emissions of greenhouse gases for the period from 2008 through 2012. Specific obligations for each country have been established in accordance with annexes I, II, III and VIII to the protocol. Under this document, from 2008 through 2012 the level of Russia’s emissions must not exceed the level of the 1990 base. Moscow asserts that this obligation will be fulfilled. During the UN Climate Change Conference on the island of Bali in December 2007, a roadmap was approved which should lead to a new all-encompassing agreement to replace the Kyoto Protocol after it expires in 2012.

The technological changes effect the production of weak nitric acid at EuroChem subsidiaries “Nevinnomyssky Azot” and “Azot”.

At the current time, measurements have been made of the current emission of harmful substances into the atmosphere to the level approved in the Kyoto Protocol. In 2007 measures were undertaken for monitoring the emission of greenhouse gases at the enterprises of EuroChem as part of preparing the ecological reports for the IFA. In 2007 measures were taken to reduce N₂O and CO₂ emissions at the enterprises in Nevinnomyssk and Novomoskovsk as part of the implementation of EuroChem’s ecological policy.

Full direct emissions of greenhouse gases, indicating mass in tons

<table>
<thead>
<tr>
<th>Emissions</th>
<th>Quantity of substances emitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitric oxide</td>
<td>10 520</td>
</tr>
<tr>
<td>Carbon Dioxide</td>
<td>8 095 525</td>
</tr>
<tr>
<td>Methane</td>
<td>288 4</td>
</tr>
</tbody>
</table>

EuroChem pollutant emissions, tons

<table>
<thead>
<tr>
<th>Pollutant</th>
<th>Total emitted in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitric oxide</td>
<td>10 520</td>
</tr>
<tr>
<td>Carbon Dioxide</td>
<td>8 095 525</td>
</tr>
<tr>
<td>Nitrogen oxide</td>
<td>4 608 8</td>
</tr>
<tr>
<td>Airborne organic compounds (AOC)</td>
<td>413 9</td>
</tr>
<tr>
<td>Carbohydrates (without AOC)</td>
<td>403 9</td>
</tr>
<tr>
<td>Ammonia</td>
<td>3 271 9</td>
</tr>
<tr>
<td>Sulfuric acid</td>
<td>170 1</td>
</tr>
<tr>
<td>Hard</td>
<td>5 426 6</td>
</tr>
</tbody>
</table>

As part of the initiatives for mitigating the environmental impact of products and services and the scale of effect mitigation, the following work has been done at EuroChem enterprises:

❖ The project “Construction of a Local Treatment Facility” has been carried out at “EuroChem-BMU”. A station for the treatment of sewage wastewater with a capacity of 1,000 cubic meters/24 hours has been built, which makes it possible to recycle net pure water for re-use at the production facilities of the Water Purification Station;

❖ A project for the reconstruction of facility 1C has been carried out at “Nevinnomyssky Azot”. The total amount financed was RUR 485.7 million, which made possible savings of 29.8 million cubic meters of CH₄. There were savings of 6.9 million kWh. There was a growth of ammonium production of 200 tons per 24 hours. The modernization of the Urea-2 facility was also carried out. Total financing was RUR 57.4 million. At the result of the project implementation, productivity increased by 100 tons per 24 hours, and steam savings came to 0.01 Gcal. The modernization of the of the ammonia compressor in facility 1C was accomplished. As a result, ammonia losses were reduced to 2.2 tons per 24 hours (68.2 tons a month). Oil consumption was reduced by 100 tons a year. There were savings in steam, with consumption reduced from 40 to 30 Gcal per 24 hours or 930 Gcal per month.

Penalties imposed for the violation of environmental protection legislation came to RUR 255 thousand.

A significant portion of the purchases for repairs at EuroChem enterprises were accomplished in-house: from 24% at “EuroChem-BMU”
to 93% at Lifosa. EuroChem enterprises actively hire contractors from their own regions for this type of activity: at “Azot” their share was almost 51%, at “PG Phosphorit” almost 53%, at “Kovdorsky GOK” more than 50%. In the future, EuroChem will structure its purchases taking into account long-term production needs and an orientation towards sustainable development.

EuroChem enterprises do not have lands which they own, lease or administer which are located in nature conservation zones or areas with high value biodiversity. The activity of the enterprises and the group’s products, including discharges and surface wastewater, do not have a significant effect on the environment, including water bodies which have the status of nature protection areas and have biodiversity value. The activity of the company’s enterprises does not affect the habitat of animals, birds or plants which have been placed on the International Union for the Conservation of Nature and Natural Resources Red List or the RF Red List.

In 2007 there were no spills at EuroChem enterprises.

Due to the nature of the company’s products, data are not collected on the share of the product and its packing materials sold which are returned to the producer for recycling.

A number of the company’s products are more energy efficient than competitors’ products. The share of renewable energy in the company’s energy supply is insubstantial, so the company does conduct a special analysis of the use of renewable energy in its products and services, and lowering of energy needs as a result of these initiatives.

Ozone-destroying substances are not used in the technology for producing mineral fertilizers during the production cycle. Information is not collected separately on the significance of the effect of product transport, as well as other goods and materials used in the company’s activity, and the transportation of the workforce on the environment.

During the current period, the company has not tracked the indirect use of energy showing the primary sources. In subsequent social reports, EuroChem intends to reflect the indirect use of energy showing primary sources, as well as conduct initiatives for reducing indirect energy consumption and the level of the reduction achieved.

When calculating the possible ecological risks from production activity, EuroChem pays attention to the principle of prudence, conducting a careful evaluation of the situation in order to avoid serious or irreversible damage to the environment taking into account the risk factor. Paying attention to the principle of prudence is done within the limits of the regulations and standards for industrial and ecological safety which are employed at EuroChem for the evaluation, prevention and management of ecological risks.

Regular planned work for improving ecological indicators is being carried out

Today “EuroChem-BMU” is one of the large mineral fertilizer producer enterprises in the Northern Caucasus region, and ecologically, a large natural resources user in the Krasnodar Territory. The natural conservation actions undertaken were focused on the protection of the watershed, air and water as well as the population of the adjacent settled areas. During the first half of 2007, Scientific-Productive Center for Ecological and Sanitary-Hygienic Expertise (Saint-Petersburg) performed scientific and analytical work for evaluating the risk to the health of the population of the city of Belorechensk and the Belorechensk District related to the emission of pollutants from our enterprise. The results showed once again that the enterprise works with ecological indicators that are significantly below the established norms. I would note that the performance of a series of environmental protection measures costing around RUR 54.4 million played an important role in this. Among the most significant events regarding the protection of the watershed was the completion of construction and start of operations of in-house local treatment facilities for wastewater with productivity of 1 thousand cubic meters every 24 hours, which makes it possible to input the treated water into the phosphogypsum hydraulic transport system, thus lowering the intake of fresh river water. As part of the repair of the sulfuric acid production facilities, the catalyst in use was replaced by a more active one in order to reduce the content of pollutants in emissions; work was completed on the aspiration and absorption systems in the complex mineral fertilizer facility.

As for the protection of disturbed soils, here a project is underway for the reclamation of one of the pits the sludge collectors of the DFF (Deflourinated feed phosphates) facilities with mineral ground – phosphogypsum (instead of natural materials) – with the subsequent division of this territory into a forested park zone and return of the reclaimed land plot to the previous landowner.
Due to the implementation of the management decisions which have been made, the rational use of natural resources and compliance with RF legislation in the area of ecological safety in 2007, a decrease in the harmful and dangerous effects on the environment occurred in 2007 in comparison with 2006:

- discharges of polluting substances into the atmosphere were reduced by 2.15 thousand tons;
- discharge of wastewater was reduced by 25 million cubic meters;
- consumption of fresh water was reduced by 18 million cubic meters;
- the consumption of electrical energy was reduced by 354.6 million kWh;
- the consumption of heat energy was reduced by 1,219,913 Gcal;
- the use of heat from sulfuric acid production was 422,665 Gcal.

**THE WORK OF THE ENVIRONMENTAL DEPARTMENT AT LIFOSA, AB.** The control and analytical work of the environmental protection department at Lifosa AB is done in two laboratories: the control of emissions and workplace air as well as the laboratory for the control of wastewater and surface water. The department’s main functions – monitoring atmospheric emissions and wastewater, the evaluation of the effect on the environment, preparation of working regulatory documents, receipt of certain licenses (limits) for emissions and discharges, and control over compliance with the established limits. The maximum permitted levels of emissions and wastewater, as well as the number of pollutants the enterprise has the right to emit without causing harm to the environment are determined in the licenses of the regional environmental protection department. Department employees conduct laboratory analyses on the presence of harmful substances in the sources of atmospheric pollution and measure their effect on the environment. Besides the enterprise’s territory, the specialists take air samples in residential locales within a radius of 6 km downwind from the factory, analyzing the effect of the enterprise’s emissions on the air quality in populated areas. Some time ago, there was a problem with an overage of the quantity of phosphorus in wastewater. Both the production staff and the enterprise’s ecologists worked to solve it. The problem was solved in the Spring of 2007: the quantity of phosphorus was lowered to 2.8 mg/l (the maximum allowable limit – 4 mg/l). This was achieved after the introduction of environmental protection measures, automation of the production processes, and a tightening of control over the technological procedures. The environmental protection service participates in the operation of the enterprise’s environmental management system under the international standard ISO 14001:2004.

**Industrial and Occupational Safety Risk Management**

People are the key value for EuroChem. The company conducts a consistent policy for reducing industrial risks and improving the work conditions for its employees. The industrial safety and occupational safety management system clearly delimits the responsibilities and rights of the company’s workers.

EuroChem undertakes a whole series of actions in the area of industrial safety, occupational safety, and the environment as part of its engagement with stakeholders.

**STANDARDS FOR QUALITY MANAGEMENT AND RISK MANAGEMENT.** The implementation of the international standard ISO 14001:2004 (ecological management system) and the specification OHSAS 18001:1999 (system for the management of professional health and safety) play an important role in improving EuroChem’s risk management system. The Instruction for Risk Management in the Area of Industrial Safety, Occupational Safety and the Environment has been introduced at all company enterprises; it follows the requirements of this standard and specification.

One of the aspects of risk management is the involvement and participation of all staff in the process; they are given exact goals and the criteria for evaluating risks are designated.

In order to involve employees in the work, the specialists of the managing company’s Department of Industrial Safety, Occupational Safety, and Ecology and the outside consultants “Bureau Veritas” conducted training at EuroChem enterprises.

In accordance with the requirements of the methodology, the ecological aspects were identified as technical danger (related to accidents and incidents) and harm to the environment. All potential dangers were evaluated and based upon this evaluation the significant risks and harm to the environment were determined. The improvement of the risk management system at EuroChem taking into account the requirements of international standard ISO 14001:2004 and the Britain standard OHSAS 18001:2007 specification has been integrated into the organizational management system and is constantly at the center of attention of the company’s executive management. The risk management system determines the procedures and sequence for EuroChem enterprises to solve ecological problems in the regions where they are located. It is directed at the permanent reduction of ecological effects. Moreover, the structure, methods and resources which are necessary for reaching EuroChem’s ecological goals are coordinated with work in other areas – first of all in the area of the organization’s production, financial, quality and overall security management.

The overall management of industrial safety, occupational safety, and ecology is carried out by the General and Technical Directors of EuroChem. The organization of management procedures is done by the Department for Industrial and Occupational Safety and Ecology of the Technical Direction, which consists of two persons. At the enterpris-
Measures in the area of occupational safety, ecology and industrial safety which affect stakeholder interests

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Territorial and Regional Administrations</td>
<td>Environmental protection and social issues are included in cooperation agreements.</td>
</tr>
<tr>
<td>Consumers</td>
<td>Wholesale and retail consumers of mineral fertilizer and other chemical products are informed about dangerous product properties. All products are marked.</td>
</tr>
<tr>
<td>State Administrative Authorities</td>
<td>EuroChem enterprises are overseen by more than twenty state administration authorities.</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Are informed about the main indicators for industrial safety, occupational safety, and ecology.</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Identification of products’ harmful and dangerous characteristics is carried out, as is coordinated planning of purchases of individual protection equipment, safety control devices and fire safety equipment, etc. Contractors providing services at dangerous production facilities (design, construction, equipment diagnostics and repair, compilation of rules, etc.) The equipment supplied has the proper safety certificates and permits for their use. EuroChem’s requirements in the area of industrial safety, occupational safety, and ecology apply to contractors and their staff.</td>
</tr>
<tr>
<td>Trade Unions</td>
<td>Collective bargaining agreements have been concluded between the trade union committees and the Managed Entities. Public control of occupational safety and provision of workers with individual protection equipment is carried out.</td>
</tr>
<tr>
<td>Personnel</td>
<td>The number of specialists who are occupied with managing industrial safety, occupational safety, and ecology, including laboratory personnel and waste treatment facilities is around 500 persons. Once every three years all undergo training on safe work methods. Regular certification and periodic examinations of knowledge of safety rules are conducted.</td>
</tr>
</tbody>
</table>

The strategic planning level includes the analysis and evaluation of the existing technologies which are most effective from the standpoint of environmental protection, the evaluation of measures for observance of the Kyoto Protocol and the legislative requirements of the European Union.

Based upon monitoring and conducting expert evaluations on industrial safety, occupational safety, and ecology, control, correction and warning actions are developed. Coordination of staff training and certification in the areas of industrial safety, occupational safety, and ecology takes place as part of human resources management, as does the development of systems for rewarding safe work.

Chemical production objectively carries rather substantial industrial and technological risks. EuroChem also has dangerous production facilities under its management:

- at “EuroChem-BMU” there is a power-and-heating plant, facilities for sulfuric acid, complex mineral fertilizers, extract phosphoric acid, for producing diammonium phosphate and a storage facility for liquid ammonium;
- at “Azot”, there is a facility for the production of chlorine, ammonium, urea, facilities for nitric acid, and isothermal reservoirs with ammonia;
- at “Nevinnomyssky Azot” there are 2 isothermal reservoirs with a volume of 8,000 tons, storage facilities for liquid ammonium, a storage facility for chlorine, a storage facility for concentrated nitric acid with an elevated pipeline for tank car dispensing;
- at “PG Phosphorit” there is chemical production and hydro-mechanical structures.
- at “Kovdorsky GOK” there is a tailing pond and storage facility for explosive materials.

In 2007 the number of dangerous production facilities operated was reduced from 151 to 145 units. The reduction resulted both from the withdrawal of a number of objects from operation and from a...
change in the methodology and identification by insurance companies and the local bodies of the Russian Technical Supervisory Authority. Production control over industrial safety was expanded.

**There were no accidents at EuroChem Enterprises in 2007.**

In accordance with Art. 212 of the RF Labor Code, remote courses were organized for workers in safe methods for performing work as well as periodic instruction sessions. Remote interactive instruction was conducted on safety equipment, and this innovative form not only fits well within the structure of electronic workflow, but also enables quick testing. In particular, decree No. 07-196/01-2 of 7 December 2007 approved the procedures for remote conduct of instruction on occupational safety and fire safety. It will be conducted once every 6 months and consists of an independent familiarization with the instructions and answers to questions on a survey form. Such a combination allows for taking into account the opinion of each worker regarding work conditions, and to reveal and eliminate negative production factors at the workplace in a timely fashion. The implementation of the Integrated Management System continued in order to ensure the effectiveness of management in the area of occupational safety, ecology and industrial safety at all levels and in all of EuroChem’s and the Managed Entities’ fields of activity.

The main tasks in the area of industrial safety, occupational safety, and ecology were: the development of management solutions and proactive measures to exclude fatal accidents, reduction in the number of accidents, emissions into the environment with increasing production volumes and a reduction in the personnel operating the dangerous production facilities.

**The following measures were developed and implemented in 2007 to accomplish these tasks:**

- a system for the management of production risks has been implemented. By August 2007, the significant dangers and harms had been detected and evaluated and the risks had been evaluated for all production subdivisions of the Managed Entities and plans for measures for reducing them in 2008 had been developed. Risk management measures were included in the budget plans of the company and the enterprises;

- the implementation of a system for managing safe work conduct by contractors has begun, the system extends to repairs, construction, assembly, loading-offloading work, cleaning, transpiration services, design, consulting, audit (if the services include visitation of production sites);

- waste handling work has been systematized;

- target indicators in the area of occupational safety and the environment were included in the personal plans of 37 executive managers;

- the “Guideline for Managing Industrial Safety, Occupational Safety, and Ecology in a Management System” was developed as a stage in the implementation of the corporate Guideline for an Integrated Management System for Quality, Industrial Safety, Occupational Safety, and Ecology;

- a technical design specification was developed and work begun on a corporate standard for individual protection equipment and special clothing;

- a system for computerized certification and pre-certification training of specialists in the area of industrial safety was implemented at three Company enterprises.

**EuroChem continues to develop a system for risk management and forecasting which is integrated into the corporate management system, providing for a continuous reduction in the likelihood of an emergency situation occurring.**

**Number of hazardous production facilities operated at EuroChem enterprises**

![Number of hazardous production facilities operated at EuroChem enterprises](image)

**In industrial safety the main thing is people!**

The goal of our policy in the area of industrial safety is first of all ensuring the safety of the people who work in production, and secondly it is the improvement of the environmental activity of the company’s divisions and bringing it up to an international level. We may speak of a normalization of the number of dangerous production facilities.

The reduction resulted both from the withdrawal of a number of objects from operation and from a change in the methodology for their identification by insurance companies and the local bodies of the Russian Technical Supervisory Authority. Production control of industrial safety was expanded. In order to lower the number of traumatic accidents, it is necessary to change people’s psychology. Careful work is necessary for raising the general culture of behavior. Safety depends on people themselves. In order to avoid traumatic accidents in the future, we are searching for ways to convince all that violating the safety rules puts one in danger for an injury. It is important to increase the internalized responsibility of each employee for his or her life and health. 2007 was the first year in the company’s history when there was not one case of a fatal accident with our workers. The identification and evaluation of all significant workplace risks at the company’s enterprises (technical danger, workplace danger and harmfulness, ecological risks), was an important event, as was the development of measures for reducing the risks detected and inclusion of financing in the 2008 budget for such measures. For the most part, the construction of systems for managing industrial safety, occupational safety and the environment at the enterprises was completed and implementation of systems began at the subsidiaries and affiliated contractors.

Vladimir Lvov – Head of the Department of Industrial Safety and Occupational Safety and Ecology of MCC EuroChem
Management of Ecology and Occupational Safety at Azot

An important aspect of "Azot’s" activity is compliance with ecological safety requirements. In 2007 a whole series of sub-divisions were reconstructed. For example, the modernization of the department for the absorption purification of the AM 70 synthetic gas plant was completed in the Ammonia-2 facility, which resulted in a significant reduction in the amount of discharges from the tar separation unit – more than 57 tons a year – and exclusion of monoethanolamine emissions in the amount of 23 tons a year. In the Ammonia-4 facility a project was completed for using the heat from exhaust gases of the pipe furnace with retirement of the direct-fired heater, which make it possible to retire the source of 23 tons of atmospheric emissions of pollutingants a year. Besides which, the Company spent RUR 55 million on the replacement of catalysts in the catalytic purification reactors in the weak nitric acid facility, which made it possible to reduce emissions of nitrogen oxides by 20 tons a year. The reconstruction of the wastewater neutralization and treatment facility made it possible to re-use this resource, which significantly reduces water consumption and water diversion, and improves the quality of water in the Shatsky reservoir. In 2007 enterprise’s total costs for compliance with environmental protection legislation came to almost RUR 250 million. Now a list of measures is being actively developed for what is probably the most socially significant project – for a one-kilometer sanitary protection zone around the enterprise; it is planned to resettle all the residents who live there now, and to reforest the zone itself. In order to prevent and lower the level of injuries, the occupational safety and Industrial Safety Division conducted a detailed analysis of the reasons for worker injuries at the enterprise; the non-functioning elements of the occupational safety and industrial safety management system were detected and a plan for eliminating them was drawn up. Among the measures which promote the observance of technical safety rules by enterprise workers, one should note the visible manifestations in the form of special stands with posters in all sub-divisions, the work of specially authorized trade union committee representatives, and periodic broadcasts over the factory radio. An analysis of injury factors and reasons for injury is conducted monthly. At the current time a system of three-step production control of compliance with occupational safety, industrial, radiation, fire and ecological safety requirements functions at the enterprise.

PROTECTION OF WOMEN’S WORK. At EuroChem production facilities, attention is paid to issues of protecting women’s health. Here one can differentiate three aspects. First of all this means fulfilling the legislative requirements of the Russian Federation. For example the requirements of Art. 253 of the Labor Code of the Russian Federation on limitations on using women’s labor for heavy work with dangerous work conditions, the Resolution of the Government of the Russian Federation of 25 February 2000 No. 162 on heavy and harmful work and on limitations upon women working at such jobs. Secondly, the fulfillment of collective bargaining agreements between trade unions and the enterprise administration is observed in accordance with Art. 41 of the Labor Code of the Russian Federation. And thirdly, the protection of the health of working women is provided for by fulfilling the requirements of clause 4.3.1. of the OHSAS 18001 standard (the occupational safety management system) regarding the identification of dangers for health, the evaluation of risks and performance of measures to lower them. For example, the presence of fluorine in the air in the work zone during the production of phosphoric acid may inflict great harm to women’s health at chemical production facilities. EuroChem prohibits women from working at production facilities where there is fluorine and chlorine in the air in the work zone.

A systematic approach to the management of industrial safety and occupational safety measures made it possible to improve the majority of indicators in this area in 2007:

- there was not one fatal injury and the number of accidents which lead to disability was reduced to 27%,
- the injury frequency rate was reduced by 12%,
- the overall injury rate was 8% less than in 2006 and 22% less than the average indicator for the last 5 years,
- the weighted quantity of accidents per 1 mln tons of production was lowered from 2.3 to 1.6.

### Number of control and preventative inspections performed by the production control services

<table>
<thead>
<tr>
<th>Facility</th>
<th>PG Phosphorite</th>
<th>Kovdorsky GOK</th>
<th>Azot</th>
<th>EuroChem-BMU</th>
<th>Nevinnymyssky Azot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>391</td>
<td>22</td>
<td>536</td>
<td>167</td>
<td>190</td>
</tr>
</tbody>
</table>
Number of violations of industrial safety detected by the Russian Technical Supervisory Authority at EuroChem enterprises

The number of registered accidents at EuroChem enterprises

Lost time frequency rate at EuroChem enterprises

Trend of specific lost time frequency rate at EuroChem 2001-2007

Main injury causes

- Breakdown of machinery and equipment: 19%
- Loss of control: 11%
- Training of personnel, instruction: 2%
- Violation of functional duties: 28%
- Careless behaviour: 40%

During 2007 there were no major accidents at EuroChem enterprises and the main indicators for production control improved. The total injury figure at EuroChem enterprises in 2007 was less than the average annual level of this indicator for the last 5 years.
Addenda

<table>
<thead>
<tr>
<th>Structure of EuroChem Product Sales by world region</th>
<th>Future tasks for sustainable development</th>
<th>Events after the reporting period</th>
<th>Table of standard GRI G3 reporting elements</th>
</tr>
</thead>
</table>

Addenda
Structure of EuroChem by world regions

**EUROPE**
- Phosphoric and Compound fertilizers: 42%
- Nitrogen fertilizers: 11%
- Organic synthesys products: 39%
- Mineral raw materials: 14%

**NORTH AMERICA**
- Phosphoric and Compound fertilizers: 4%
- Nitrogen fertilizers: 23%
- Organic synthesys products: 1%

**AFRICA**
- Phosphoric and Compound fertilizers: 7%
- Nitrogen fertilizers: 3%

**LATIN AMERICA**
- Phosphoric and Compound fertilizers: 21%
- Nitrogen fertilizers: 39%
<table>
<thead>
<tr>
<th>Product</th>
<th>RF</th>
<th>CIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phosphoric and Compound fertilizers</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Nitrogen fertilizers</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Organic synthesis products</td>
<td>47%</td>
<td>3%</td>
</tr>
<tr>
<td>Mineral raw materials</td>
<td>63%</td>
<td>2%</td>
</tr>
</tbody>
</table>

### ASIA

<table>
<thead>
<tr>
<th>Product</th>
<th>Share in a sales volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phosphoric and Compound fertilizers</td>
<td>10%</td>
</tr>
<tr>
<td>Nitrogen fertilizers</td>
<td>7+3%**</td>
</tr>
<tr>
<td>Organic synthesis products</td>
<td>10%*</td>
</tr>
<tr>
<td>Mineral raw materials</td>
<td>21%*</td>
</tr>
</tbody>
</table>

* Asia & Oceania
** Australia & Oceania

Product Sales

Development of management in the area of corporate social responsibility and reporting:

❖ Further focus on a systematic approach to the planning and realization of measures in the area of corporate social responsibility using the methodological toolbox of social investment;
❖ Integration of the principles and indicators of corporate social reporting into EuroChem’s system of corporate management and the formation of systems for continuous business processes which take into account activity for preparing and compiling the company’s corporate social report;
❖ Renewal of the corporate social responsibility working group with the participation of managers and specialists from EuroChem enterprises, as well as outside experts;
❖ Activation of the exchange of opinions between EuroChem enterprises in the area of corporate social responsibility;
❖ Preparing the next corporate social report using additional Russian and international initiatives in the area of corporate social responsibility (The Social Charter of Russian Business, the UN Global Agreement et al.);
❖ Increasing the awareness of stakeholders and the broader public regarding EuroChem’s progress in the area of corporate social responsibility and the content of the company’s corporate social report.

Human Resources Management:

❖ Reforming the salary and bonus system in order to increase work productivity;
❖ Realization of investment projects of a social nature, among which the most significant are the construction and repair of the canteenas at “Azot” and “EuroChem-BMU”, reconstruction of the culture and business center of “Azot”, reconstruction of the “Chemist” country retreat center, the preventative care facility of “Azot”, the second stage of the reconstruction of the Training Center at “Azot”, and the construction of a dormitory for young specialists at “PG Phosphorit”;
❖ The organization and conduct of annual competitions of professional mastery of the main crafts at the enterprises and at the companywide level to develop corporate culture;
❖ Further development of programs for non-financial motivation of staff.

Interaction with local communities in the areas where EuroChem conducts its activities:

❖ Assistance to local community representative initiatives in the area of improving the quality of life through the development of social planning systems which were tested in the city of Nevinnomyssk;
❖ The gradual transition from the practice of annual agreements with local self-government bodies to strategic interaction based upon long-term (3-5 years) agreements which determine the priority areas for cooperation in the field of corporate social responsibility;
❖ Involving a wider circle of stakeholders from local communities in dialogue with the company on the theme of corporate social responsibility.

Industrial Safety and Occupational Safety Risk Management:

❖ Ensuring a level of total injuries at EuroChem enterprises which is less than the annual figure for this indicator for the last five years;
❖ Conducting audits at EuroChem enterprises on industrial safety, occupational safety and the environment in the management system;
❖ Carrying out a series of measures to reduce existing dangers, harmful situations and risks at all production sub-divisions;
❖ Development and implementation of a corporate standard on “Special Clothing and Individual Protection Equipment”, which includes electronic guidelines on special clothing and individual protection equipment and determination of the rules for the free issuance of special clothing and individual protection equipment;
❖ Development and implementation of instructions for investigating incidents at the company’s enterprises;
❖ Implementation of systems for managing the safe conduct of work by contractors (“17-PP01-08. Instructions for Ensuring Safety and Environmental Protection when Performing Contracted Work”, approved by Decree no. 07-63/01-2 of 10.05.2007) for the following types of work: repairs, construction, assembly, loading-unloading work, cleaning, transportation services, design, consulting, audit (if these services are related to visiting production sites).
Events after the Reporting Period

EUROCHEM RATINGS RAISED
In April 2008, the international rating agency Standard & Poor’s raised EuroChem’s corporate governance rating (CMR) to the level of CGR – 6+ on the international scale and raised the corporate governance rating to CGR – 6.7 on the Russian scale. Standard & Poor’s (S&P) raised EuroChem MMC’s long-term rating from BB- to BB. At the same time the agency raised EuroChem’s rating on the Russian scale from ruAA- to ruAA, and the long-term rating of the loan participation certificates issued by the company EuroChem Finance PLC from BB- to BB. Rating outlook – stable.

RECEIPT OF RIGHTS TO USE RESERVES
EuroChem won the auction for the right to use the reserves of the Palashersky and Balakhontsevsky sites of the Upper Kama files of potassium salts. Investments in the creation of capacity for the production of 1-1.5 million tons of potassium a year are estimated at RUR 40 billion. Taken together with the project for the development of a field of potassium ore in the Volgograd Region, by 2018 EuroChem’s resource base will make it possible to produce 5-7 million tons of potassium chloride a year, which comprises around 10% of the entire world potassium market.

SIGNING OF A COOPERATION AGREEMENT
A Cooperation Agreement was signed on cooperation between EuroChem and the Agriculture and Processing Industry Department of the Krasnodar Territory to provide agricultural producers with fertilizer and chemical protection equipment for the purpose of increase the production of agricultural products and improving their quality.

OPENING OF A NEW AGRO-CENTER IN UKRAINE
A new office of the Distribution Subdivision “Agro-Center EuroChem-Ukraine” has been opened in Kiev. The subdivision was created for the purpose of providing the Ukrainian market with a full product line of mineral fertilizers produced by the factories of EuroChem, fertilizer blending and the provision of comprehensive agro-chemical services. More than 10 million dollars was invested in the acquisition and development of this asset.

CONSTRUCTION OF A BULK TERMINAL
The Department of Architecture and City Planning of the Krasnodar Territory issued a permit for the construction of the “Tuapse Bulk Terminal”. The “Tuapse Bulk Terminal” (TBT) will be located in the industrial zone of the city of Tuapse, on the territory of the former shipbuilding factory. The annual cargo turnover of the terminal will be 2.3 million tons of mineral fertilizer, the capacity of the warehouse for storing shipload lots is 106 thousand tons, the daily loading rate is 19 thousand tons. It is planned to ship 4 types of mineral fertilizer through the terminal: urea, monoammonium phosphate, nitric monoaommonium phosphate and potassium salt.

EUROCHEM EMPLOYEES RECEIVE PRESTIGIOUS AWARDS
By the Decree of the President of the Russian Federation of 25 January 2008, the following workers of “PG Phosphorit” have been awarded the medal of the order “For Services to the Fatherland” second degree: PSK oxidation machine operator Valentin Borsenko, phosphoric acid extraction decomposition machine operator Vladimir Ilyin, monoammonium phosphate facility supervisor Vyacheslav Lebed. The honorary title “Distinguished Chemist of the Russian Federation” was awarded to the firing machine operator of the KOF facility Oleg Grigoriev and the remote control operator of the ammonium phosphate facility Nadezhda Fomina.

TRAINING OF SPECIALISTS IN CHEMISTRY
A Cooperation Agreement has been signed between EuroChem Mineral and Chemical Company and the Moscow State University of Ecology Engineering on training highly qualified chemistry specialists and their subsequent employment at EuroChem enterprises.

CONSTRUCTION OF A RAILROAD CAR REPAIR DEPOT
A solemn ceremony was held for laying the cornerstone for the construction of a railroad car repair depot by “Depot-EuroChem”. Nevinnomyssk was chosen as the site for constructing the railroad car repair depot as the most favorable from a logistics standpoint. The Novorossiysk port, which is used to export EuroChem cargo, is located nearby. The new, modern, high-powered enterprise will give Nevinnomyssk 350 new jobs after it starts operations.

SOCIAL REPORT ENTERED INTO NATIONAL REGISTRY
EuroChem’s social report was entered into the National Registry of Corporate Non-Financial Reports. The National Registry of Corporate Non-Financial Reports is a database of voluntary non-financial reports of organizations working in Russia. The National Registry consists of a registry of companies which prepare non-financial reports in the area of sustainable development, social reports and ecological reports and a library of non-financial reports which contains electronic versions of the non-financial reports of the companies working in the country.

ORGANIZATION OF AGRICULTURAL PRODUCTION
A new project has been started in the Kaluga Region – “Development of Agricultural Production and the Production of Grain and Rap Seeds at EuroChem-Novoselskoye” which will produce, process and sell high quality seed stock. The preliminary effectiveness indicators for the project have been presented. The business proposal for engaging in agricultural production and seed production at “EuroChem-Novoselskoye” was approved by the EuroChem Management Board.

PRESTIGIOUS AWARDS

CONSTRUCTION OF A RAILROAD CAR REPAIR DEPOT

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ORGANIZATION OF AGRICULTURAL PRODUCTION
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### 4. MANAGEMENT, OBLIGATIONS AND ENGAGEMENT OF STAKEHOLDERS

| 4.1 The management structure of the organization, including the main committees of the superior managing body which are responsible for specific tasks, for example for the development of strategy or general supervision of the activity of the organization |
| 12–13 |

| 4.2 Indicate whether the chairman of the superior management body is simultaneously an executive manager of the company (if yes, then what is the role of the executive in the management of the organization, and what are the reasons for such a situation?). |
| 13 |

| 4.3 For organizations which have a unitary board of directors, show the number of independent members of the superior managing body and/or members who are not related to the executive management of the company. |
| 13–14 |

| 4.4 Mechanisms through which the shareholders or employees of the organization may steer the activity of the superior managing body or give recommendations to it |
| 12–13 |

| 4.5 The connection between the payments to the members of the superior managing body, representatives of the senior executive management and the senior managers (including severance packages) and the results of activity of the organization (including social and ecological results). |
| 14 |

| 4.6 The processes in effect for the superior managing body for avoiding conflicts of interest |
| 13–14 |

| 4.7 The processes defining the qualification and competency of the members of the superior management body, for the determination of the strategy of the organization on economic, ecological and social results. |
| 14 |

| 4.8 The mission statement or values statement developed within the company, codes of corporate conduct and principles which are significant from the point of view of economic, ecological and social efficacy, and also the degree of the practical implementation |
| 32 |

| 4.9 The procedures used by the senior management body for supervision over how the organization evaluates its economic, ecological and social efficacy and manages it, including risk and opportunities, as well as following or complying with the international standards, corporate conduct codes and principles |
| 13 |

| 4.10 The processes for evaluating the effectiveness of the superior managing body itself, in particular in connection with the economic, ecological and social results of the activity of the organization |
| 4, 5, 12–14 |

| 4.11 An explanation of whether the organization applies the principle of precaution, and how |
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| 4.12 The economic, ecological and social charters, principles and other initiatives developed by external organizations which the organization has adhered to or supports |
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| 4.13 Membership in associations (for example, industry organizations) and/or national or international organizations for protecting interests, in which the organization: |
| 39 |

| – occupies a position in the management bodies; |
| – participates in projects or committees; |
| – provides substantial financing beyond the common membership dues; |
| – or considers its membership to be strategic |

### ENGAGEMENT WITH STAKEHOLDERS

| 4.14 The list of stakeholders with whom the organization is engaged |
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| 4.15 Grounds for the identification and selection of stakeholders for the purpose of further engagement with them |
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| 4.16 Approaches to engagement with stakeholders, including the frequency of engagement by forms and stakeholder groups |
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| 4.17 Key themes and interests raised or identified during the process of engagement with stakeholders and how the organization reacted to these themes and interests, including through its reporting |
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### 5. INFORMATION ON APPROACHES IN THE AREA OF MANAGEMENT AND EFFECTIVENESS INDICATORS

| EC1 The creation and distribution of direct economic value, including income, operational costs, payments to employees, donations and other investments in communities, retained earnings, payments to suppliers of capital and the state |
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| EC2 Financial aspects and other risks and possibilities for the activity of the organization related to climate change |
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| EC3 Ensuring the obligations of the organization related to a pension plan with defined benefits |
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| EC4 Significant financial aid received from state bodies |
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| EC5 The range of the ratio between the standard entry level salary and the established minimum wage in the regions of activity which are significant for the company |
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| EC6 The policy and practices for purchasing from local suppliers and the share of such purchases in the regions of activity which are significant for the company |
| 37, 69 |

| EC7 The procedures for hiring the local population and the share of upper management hired from the local population in the regions of activity which are significant for the company |
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| EC8 The development and impact of investments in the infrastructure and services provided, first of all for the interests of society through commercial, in-kind or charity participation |
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| EC9 The understanding and description of the significant indirect economic impacts, including in the area of influence |
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| EN1 The use of materials, showing their mass and volume |
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<td>PR3 The types of information on the properties of products and services which require procedures and the share of significant products and services in relation to which such information requirements are in effect</td>
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<td>PR4 The total number of cases of lack of compliance with regulatory requirements and voluntary codes related to information and marking of product and service properties, broken down by types of consequences</td>
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<td>PR5 The practices related to consumer satisfaction, including the results of research for evaluating the degree of consumer satisfaction</td>
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<td>PR6 Programs to provide for the compliance with legislation, standards and voluntary codes in the area of marketing communications, including advertising, product promotion and sponsorship</td>
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<td>PR7 The total number of cases of failure to comply with regulatory requirements and voluntary codes related to marketing communications, including advertising, product promotion and sponsorship, broken down by types of consequences</td>
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<td>PR8 The total number of justified complaints related to violations of the inviolability of the private life of the consumer and loss of consumer data</td>
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<td>PR9 The monetary value of the significant fines imposed for the failure to comply with the legislation and regulatory requirements related to the provision and use of products and services</td>
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Independent Auditor’s Conclusion Confirming the Social Report

ADDRESS TO THE MANAGEMENT OF THE COMPANY EUROCHEM

Introduction
We have provided the company EuroChem with auditing services for the assurance of the “Corporate Social Report of EuroChem for 2007” (hereinafter the Report). The Report was prepared for EuroChem, which bears responsibility for the collection and presentation of all the information in the Report. We bear responsibility for the results of the work for assuring of the Report only to the EuroChem within the framework of the technical assignment agreed upon with it and do not take any responsibility for any other evaluation or to any other third party.

Assurance methodology
(1) to assure that the Report is compliant with the principles of the AA1000 Assurance Standard 2003 (Significance of information, Completeness of information, Reaction to stakeholder questions);

(2) to assure that the Report is compliant at the level B+ (company self-evaluation) for applying the recommendations of the Global Reporting Initiative Sustainability Reporting Guidelines GRI-G3 2006;

(3) to apply the principles and procedures of the ISAE-3000 International Standard on Assurance Engagement during the assurance process.

During the verification of the Report, information was taken into consideration which was published on the corporate site of the company www.eurochem.ru, as well as in corporate publications: the EuroChem newspaper and the journal NPK.

Work performed
In order to provide assurance for the Report, we performed the following work:

❖ We conducted interviews with the executive management of EuroChem in order to confirm the company’s adherence to the principles of corporate social responsibility, to evaluate its approach to involving and taking into account the opinions and expectations of stakeholders.

❖ We studied a selection of corporate documents which characterize the status of EuroChem in the area of social responsibility and corporate sustainability.

❖ We visited the enterprise EuroChem-BMU (Belorechensk, Krasnodar Territory), where we conducted an interview with its executives, this made it possible to check the veracity of a series of assertions, statements and information in the Report regarding substantial aspects of corporate sustainability at the enterprise level. The management processes for the collection of data and reporting at the primary level were also also checked.

❖ We conducted an interview with the head of the municipality of the Belorechensk district, who assured us that EuroChem is a reliable partner in the development and realization of programs for the socio-economic development of the district and shows a high degree of social responsibility and informational openness regarding biological and industrial safety issues. In the city of Belorechensk, we examined examples of the social investments of EuroChem.

❖ We inspected precision and reliability of the methods used at EuroChem for the collection, processing, documentation, transfer, analysis, selection and consolidation of data which were to be included in the Report.

❖ We traced the selection of statements and data included in the report regarding production activity, the management of personnel, ensuring industrial safety, occupational safety and environmental protection and investments in social programs to the original source documents.

❖ We analyzed a selection of information from the mass media and the published statements of third parties regarding EuroChem’s adherence to its mission and values in the area of social responsibility as a reference point for examining the justification of the statements in the Report.

❖ We conduct benchmarking of the Report with the social report of the world leader in the production of NPK fertilizers, PotashCorp, “Enriching Responsibility. 2006 Sustainability Report”, for the purpose of determining possible directions for developing the social reporting.

❖ We analyzed the report and the information on the economic, ecological and social aspects of the company’s activity published on the corporate website, in corporate publications and in the Draft of the Annual Report of EuroChem for 2007 for their conformity to the principles of the AA 1000 AS standard and the GRI-G3 recommendations.

Assurance limitations
❖ The assurance was limited to the current 2007 reporting cycle.

❖ The assurance did not take into account statements expressing the opinions, reassurances or intentions of EuroChem to take any actions in the future.

❖ The assurance was limited to the visitation of the head office and one enterprise – EuroChem-Belorecheskine Minudobrenia and one region where production operations are carried out – the city of Belorechensk in the Krasnodar Territory.

Assurance level
We are aware that the selective inspection of the information in the Report carried out by us provides a lower level of assurance guarantee than the verification of all data. The application of a limited level of assurance is provided for by the ISAE-3000 International Standard on Assurance Engagements. In our work, we relied upon the supporting information presented at our request, on information from public sources and on analytical assurance methods. We believe that the information collected provides a sufficient basis for our conclusions regarding each of the AA 1000 AS principles (Significance, Completeness, Reaction).

Our opinion
❖ As a whole, the Report adequately reflects the indicators of the activity of EuroChem from the position of social reporting and corporate sustainability.

❖ The report is stated in a clear and understandable form, it is objective and informative.

❖ EuroChem has management instruments which allow it to plan, manage, control and improve the social reporting process.
Report compliance with AA1000 AS principles

Significance of the information

❖ The Report provides a balanced statement of the significant economic, ecological and social aspects of the activity of EuroChem which determine the company’s sustainable development indicators in the context of the Long-Term Development Strategy to 2015.

❖ The Report reflects the company’s strong production, social and ethical potential for increasing its contribution to the social and economic development of the regions where the company is located and to the country as a whole.

❖ The Report contains the upcoming tasks for the sustainable development of the company in 2008 and analyzes the accomplishment of tasks in 2007.

❖ The information provided in the Report and on the corporate site is significant for stakeholders and may influence them in their future decisions and conduct towards the company.

Completeness of information

❖ Except for data on the use of primary source energy (G3/EN3, G3/EN4), we cannot name one significant aspect of social reporting which was omitted during the compilation of the Report or excluded from the reporting without proper justification.

❖ We consider that the primary data of the EuroChem enterprises on key effectiveness indicators were correctly consolidated and presented in the Report.

❖ We did not discover any omissions which may influence the fullness of the disclosure of the information in the Report on significant economic, ecological and social aspects of the company’s activity.

❖ The substantive information on production and economic activity and engagement with stakeholders is strengthened by an exhaustive review of internal and external risks, and management of these is considered to be a guarantee of sustainable development.

Reaction to stakeholder needs

❖ We do not know of areas which could have been disclosed in the Report, but were not, for which the company would be unable to react to the justified requests of stakeholders.

❖ Reaction to the needs of the regions/cities where the company’s production activity takes place through implementing social projects within the framework of two- or three-party cooperation agreements on socio-economic cooperation.

❖ The interests and expectations of company workers are taken into account through the adoption of a Collective Bargaining Agreement between the enterprises of EuroChem and their facility-floor trade union organizations.

❖ The public’s right to a beneficial environment is ensured by compliance with the established norms for environmental impact and by undertaking environmental protection measures. Projects are being carried out which provide for a lowering of greenhouse gases.

❖ The interests of shareholders are taken into account through implementing EuroChem’s corporate governance principles, including holding annual shareholder meetings.

❖ The needs of agricultural producers are provided for by deliveries of certified products with the provision of consultation on their correct use.

Compliance of the Report with GRI recommendations

The Report has been completed using the recommendations of the GRI-G3 Guidelines for Reporting in the Area of Sustainable Development and contains information on practically all the standard GRI-G3 reporting elements which are applicable to Russian practice, including the effectiveness indicator (coverage 96%). The reporting meets the B+ level reporting criteria.

Recommendations for developing the corporate social reporting

❖ Planning of stakeholder engagement in accordance with the AA1000 SES Standard.

❖ To include company sustainable development obligations in the Report (practice of the PotashCorp).

❖ Include sustainable development tasks for the next reporting period for all key social reporting areas in the Report (practice of the PotashCorp).

❖ Development and implementation of a social responsibility management system in accordance with the SA 8000 international standard.

❖ Conduct of an internal audit of the social reporting process.

Bureau Veritas Certification statement on its independence, impartiality and competency

Bureau Veritas Certification is an independent professional international company which specializes in providing services for the evaluation of compliance in the areas of quality management, professional health and safety, environmental protection and social responsibility.

Bureau Veritas Certification officially states that this Conclusion is an independent evaluation of a third party auditor. Bureau Veritas Certification does not have any significant commercial interest in the activity of EuroChem except for providing assurance services.

ZAO Bureau Veritas Certification Rus
Lead Auditor, Leonid Yaskin, Ph.D.

30 June 2008
Feedback Form

You have become acquainted with EuroChem’s corporate report. Your opinion regarding the contents and form for presenting the information in the report is important to us. For this reason we ask you to answer a few questions.

1. Evaluate your general impression of EuroChem’s social report.
   Evaluation your impression on a 5-point scale, where 1 point is negative and 5 points is positive:

<table>
<thead>
<tr>
<th>NEGATIVE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>POSITIVE</th>
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</table>

2. Did you learn something new about the company from the social report?
   ❑ Yes  ❑ No  If Yes, then what exactly .................................................................

3. Your opinion about EuroChem’s social report:
   Completeness of information presented  ❑ 1 ❑ 2 ❑ 3 ❑ 4 ❑ 5
   Trust in the information and facts presented  ❑ 1 ❑ 2 ❑ 3 ❑ 4 ❑ 5
   Structure and presentation style  ❑ 1 ❑ 2 ❑ 3 ❑ 4 ❑ 5
   Report design  ❑ 1 ❑ 2 ❑ 3 ❑ 4 ❑ 5

4. How would you evaluate the completeness, veracity and objectivity of the information in the social report?
   ❑ High    ❑ Satisfactory    ❑ Low    ❑ Difficult to say

5. Will the information in the report aid in raising the effectiveness of engagement with EuroChem?
   ❑ Yes  ❑ No  ❑ There is no need for this

6. Would you like to receive information about EuroChem’s activity in the area of corporate social responsibility and sustainable development on a regular basis?
   ❑ Yes  ❑ No

7. Would you like to familiarize yourself with the next corporate social report of EuroChem?
   ❑ Yes  ❑ No

8. Your social position or social or public / work activity?
   ❑ company employee    ❑ consumer
   ❑ non-profit organization representative    ❑ employee of federal executive branch body
   ❑ employee of regional executive branch body    ❑ journalist
   ❑ professional community representative    ❑ independent expert
   ❑ resident of a city (region) where the company is located    ❑ supplier
   ❑ partner

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Thank you for the interest to corporate social report of MCC “EuroChem”!

Send the questionnaire to the address:
Moscow 115054 Russia 53/6, Dubininskay str.
OJSC “MCC “EuroChem”
The Public Relations and Communications Division