



**EUROCHEM GROUP**

**INTERNATIONAL ACCOUNTING STANDARD No. 34**

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

**31 MARCH 2009**

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**REPORT ON THE REVIEW OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL  
INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2009**

To the Shareholders and Board of Directors of Open Joint Stock Company Mineral Chemical  
Company "EuroChem":

*Introduction*

We have reviewed the accompanying consolidated condensed statement of financial position of Open Joint Stock Company Mineral Chemical Company "EuroChem" and its subsidiaries (together, the "Group") as at 31 March 2009 and the related consolidated condensed statement of comprehensive income, cash flows and changes in equity for the three month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

*Scope of Review*

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

*Conclusion*

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

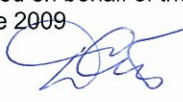
*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation  
18 June 2009



	Note	31 March 2009	31 December 2008
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	6	45,206,120	41,197,799
Exploration rights		7,271,496	7,163,276
Goodwill		204,866	204,866
Intangible assets		497,181	537,568
Restricted cash	11	178,036	30,053
Available-for-sale investments	7	28,556,280	13,899,438
Deferred tax assets		2,240,448	1,380,972
<b>Total non-current assets</b>		<b>84,154,427</b>	<b>64,413,972</b>
<b>Current assets:</b>			
Inventories	9	9,724,655	11,182,594
Trade receivables	10	3,418,597	3,184,371
Prepayments, other receivables and other current assets	10	10,051,422	10,612,755
Originated loans	8, 21	5,102,011	5,729,178
Trading investments		235,988	172,271
Restricted cash	11	25,620	481,912
Cash and cash equivalents	11	12,985,708	26,225,350
<b>Total current assets</b>		<b>41,544,001</b>	<b>57,588,431</b>
Assets of disposal group classified as held for sale	12	782,091	273,071
<b>TOTAL ASSETS</b>		<b>126,480,519</b>	<b>122,275,474</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Equity:</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Share capital		6,800,000	6,800,000
Treasury shares		(7,760)	(7,760)
Retained earnings and other reserves		50,510,555	53,434,538
		<b>57,302,795</b>	<b>60,226,778</b>
Non-controlling interests		825,628	809,874
<b>Total equity</b>		<b>58,128,423</b>	<b>61,036,652</b>
<b>Non-current liabilities:</b>			
Bank borrowings	13	36,391,641	34,418,679
Bonds issued		9,802,285	8,453,611
Other non-trade payables		308,217	305,101
Deferred income tax liabilities		1,817,862	1,842,981
<b>Total non-current liabilities</b>		<b>48,320,005</b>	<b>45,020,372</b>
<b>Current liabilities:</b>			
Bank borrowings	13	14,111,116	9,093,277
Trade payables		1,308,709	1,793,635
Other accounts payable and accrued expenses		2,866,651	3,960,747
Income tax payable		959,049	720,690
Other taxes payable		317,840	618,990
<b>Total current liabilities</b>		<b>19,563,365</b>	<b>16,187,339</b>
Liabilities of disposal group classified as held for sale	12	468,726	31,111
<b>Total liabilities</b>		<b>68,352,096</b>	<b>61,238,822</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>126,480,519</b>	<b>122,275,474</b>

Approved on behalf of the Board of Directors  
18 June 2009

  
D.S. Strezhnev  
Chief Executive Officer

  
A.A. Ilyin  
Chief Financial Officer

**EuroChem Group**  
**Consolidated Condensed Statement of Comprehensive Income**  
**for the Three Months Ended 31 March 2009**



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

	Note	Three months ended 31 March 2009	31 March 2008
Sales	14	19,252,019	25,712,746
Cost of sales	15	(10,630,473)	(9,598,496)
<b>Gross profit</b>		<b>8,621,546</b>	<b>16,114,250</b>
Distribution costs	16	(4,523,850)	(4,622,030)
General and administrative expenses	17	(931,725)	(748,747)
Other operating income/(expenses)	18	1,290,122	(279,492)
<b>Operating profit</b>		<b>4,456,093</b>	<b>10,463,981</b>
Gain on disposal of non-current assets held for sale		-	310,493
Gain on revaluation of trading investments		63,717	-
Financial foreign exchange (loss)/gain - net		(5,629,140)	460,449
Interest income		134,706	168,295
Interest expense		(555,190)	(223,398)
<b>(Loss)/profit before taxation</b>		<b>(1,529,814)</b>	<b>11,179,820</b>
Income tax expense	19	(204,778)	(2,473,197)
<b>Net (loss)/profit for the period</b>		<b>(1,734,592)</b>	<b>8,706,623</b>
<b>Other comprehensive (loss)/income</b>			
Currency translation differences		1,004,797	221,433
Revaluation of investments available-for-sale	7	(2,174,744)	(6,212)
<b>Total other comprehensive (loss)/income for the period</b>		<b>(1,169,947)</b>	<b>215,221</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(2,904,539)</b>	<b>8,921,844</b>
<b>Net (loss)/profit for the period attributable to:</b>			
Owners of the parent		(1,736,450)	8,487,444
Non-controlling interests		1,858	219,179
		<b>(1,734,592)</b>	<b>8,706,623</b>
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the parent		(2,941,304)	8,692,593
Non-controlling interests		36,765	229,251
		<b>(2,904,539)</b>	<b>8,921,844</b>
Earnings per share – basic and diluted (in RR)	20	(25.56)	124.94



**EuroChem Group**  
**Consolidated Condensed Statement of Cash Flows**  
**for the Three Months Ended 31 March 2009**

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



		<b>Three months ended</b>	
	<b>Note</b>	<b>31 March 2009</b>	<b>31 March 2008</b>
<b>Operating profit</b>		4,456,093	10,463,981
Income tax paid		(460,503)	(1,798,210)
<b>Operating profit less income tax paid</b>		<b>3,995,590</b>	<b>8,665,771</b>
Depreciation and amortization	17	751,011	692,183
Net loss on disposals and impairment of property, plant and equipment		79,947	10,040
Provisions		178,793	34,434
Other non-cash expenses		45,501	330,260
<b>Gross cash flow</b>		<b>5,023,799</b>	<b>9,732,688</b>
Changes in operating assets and liabilities:			
Trade receivables		(330,761)	808,862
Advances to suppliers		834,473	(493,857)
Other receivables		(715,242)	(515,532)
Inventories		1,180,828	(1,521,029)
Trade payables		(82,729)	289,391
Advances from customers		(221,832)	40,052
Other payables		(982,073)	770,999
Other assets and liabilities		440,299	(3,053)
<b>Net cash – operating activities</b>		<b>5,173,805</b>	<b>9,108,521</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on property, plant and equipment and other intangible assets		(5,019,570)	(2,725,181)
Purchase of exploration rights		(90,220)	(670,000)
Acquisition of interest in subsidiaries		(3,690)	(138,838)
Acquisition of available-for-sale investment	7	(16,831,586)	-
Prepayment for acquisition of subsidiary		(50,000)	-
Proceeds from sale of property, plant and equipment		5,718	13,786
Prepayment for non-current assets held for sale		6,096	37,500
Repayment of originated loans	8	1,506,006	-
Interest received		296,136	166,769
<b>Net cash – investing activities</b>		<b>(20,181,110)</b>	<b>(3,315,964)</b>
<b>Free cash flow</b>		<b>(15,007,305)</b>	<b>5,792,557</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	13	2,469,426	1,312,399
Repayment of bank borrowings	13	(2,461,765)	(1,002,140)
Interest paid		(697,590)	(366,644)
Dividends paid		-	(3,668,328)
<b>Net cash – financing activities</b>		<b>(689,929)</b>	<b>(3,724,713)</b>
Effect of exchange rate changes on cash and cash equivalents		2,457,592	(288,815)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(13,239,642)</b>	<b>1,779,029</b>
<b>Cash and cash equivalents at the beginning of the period (net of non-current restricted cash of RR 30,053 thousand and RR 37,212 thousand respectively, and current restricted cash of RR 481,912 thousand and RR 359,393 thousand respectively)</b>	11	<b>26,225,350</b>	<b>15,068,490</b>
<b>Cash and cash equivalents at the end of the period (net of non-current restricted cash of RR 178,036 thousand and RR 38,461 thousand, respectively, and current restricted cash of RR 25,620 thousand and RR 355,091 thousand, respectively)</b>	11	<b>12,985,708</b>	<b>16,847,519</b>

**Consolidated Condensed Statement of Changes in Equity for the Three Months Ended 31 March 2009***(all amounts are presented in thousands of Russian Roubles, unless otherwise stated)*

Note	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of investments available-for-sale	Retained earnings	Total		
<b>Balance at 1 January 2008</b>	<b>6,800,000</b>	<b>(7,760)</b>	<b>222,806</b>	<b>20,966</b>	<b>30,996,691</b>	<b>38,032,703</b>	<b>2,067,192</b>	<b>40,099,895</b>
Total comprehensive income/(loss)	-	-	211,361	(6,212)	8,487,444	8,692,593	229,251	8,921,844
Acquisitions of additional interest in subsidiaries	-	-	-	-	8,074	8,074	(146,912)	(138,838)
<b>Balance at 31 March 2008</b>	<b>6,800,000</b>	<b>(7,760)</b>	<b>434,167</b>	<b>14,754</b>	<b>39,492,209</b>	<b>46,733,370</b>	<b>2,149,531</b>	<b>48,882,901</b>
<b>Balance at 1 January 2009</b>	<b>6,800,000</b>	<b>(7,760)</b>	<b>1,529,180</b>	<b>4,371,990</b>	<b>47,533,368</b>	<b>60,226,778</b>	<b>809,874</b>	<b>61,036,652</b>
Total comprehensive (loss)/income	-	-	969,890	(2,174,744)	(1,736,450)	(2,941,304)	36,765	(2,904,539)
Acquisitions of additional interest in subsidiaries	-	-	-	-	17,321	17,321	(21,011)	(3,690)
<b>Balance at 31 March 2009</b>	<b>6,800,000</b>	<b>(7,760)</b>	<b>2,499,070</b>	<b>2,197,246</b>	<b>45,814,239</b>	<b>57,302,795</b>	<b>825,628</b>	<b>58,128,423</b>



## **1 The EuroChem Group and its operations**

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

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

The Company is owned 99.9% by MCC Holding Limited ("MCC"), a Cypriot limited liability company, and 0.1% by LLC PG Phosphorit, a Russian limited liability company and a wholly owned subsidiary of the Group. The ultimate shareholders of the Group are Mr. Andrey Melnichenko, owning 95%, and Mr. Dmitry Strezhnev, owning 5%.

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

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

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

## **2 Basis of presentation**

This consolidated condensed interim financial information for the three months ended 31 March 2009 has been prepared in accordance with IAS 34, "Interim Financial Reporting". It should be read in conjunction with the consolidated financial statements for the year ended 31 December 2008 which have been prepared in accordance with International Financial Reporting Standards.

## **3 Accounting policies and critical accounting judgements and estimates**

The accounting policies and significant judgements and estimates applied are consistent with those of the consolidated financial statements for the year ended 31 December 2008, except for the policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2009 (Note 4).

**Reclassifications.** Certain reclassifications have been made to prior year amounts in the statement of comprehensive income, statement of cash flows and notes to conform to the current period presentation. The reclassifications relate to the following amounts:

- foreign exchange gains and losses arising from loans received, bonds issued and deposits are reported on a net basis in the profit or loss;
- expenses of RR 146,380 thousand were reclassified to the line "Cost of sales" from the lines "Distribution costs" (RR 7,083 thousand), "General and administrative expenses" (RR 117,772 thousand) and "Other operating income/(expenses)" (RR 21,525 thousand) in the profit or loss;
- foreign exchange gains and losses arising from deposits of RR 91,520 thousand were reclassified from the line "Other operating income/(expenses)" to the line "Financial foreign exchange (loss)/gain - net" in the profit or loss. A corresponding reclassification was made in the consolidated condensed statement of cash flows;
- interest paid of RR 366,644 thousand was reclassified from the line "Gross cash flow" to the line "Cash flows from financing activities" in the consolidated condensed statement of cash flows.

**Export duties.** Effective from 1 February 2009, the Government of the Russian Federation cancelled the duties on exports of nitrogen and complex fertilizers to countries outside the CIS Customs Union. The duties, introduced in April 2008 were equal to 8.5% and 6.5% of the declared customs value of nitrogen and complex fertilizers and apatite, respectively. Export sales were shown gross of the above mentioned duties which amounted to RR 196,463 thousand (2008: nil). In making this judgment the Group considered that these export duties in substance represented a cost for the Group, rather than a sales tax collected on behalf of government authorities.

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





#### **4 Adoption of new or revised standards and interpretations**

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2009:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 requires an entity to report financial and descriptive information about its operating segments. Segment information is to be presented on a similar basis to that used for internal reporting purposes in a manner consistent with the internal report provided to the chief operating decision-maker, who for the Group has been identified as the Management Board. The Group has decided to early adopt improvements to IFRS 8 issued in April 2009 which allows the Group not to disclose information about segment assets and liabilities in the interim financial information prepared in accordance with IAS 34, Interim Financial Reporting, because such information is not regularly provided to the Management Board;
- IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group considers a qualifying asset to be an investment project with an execution period exceeding 1 year. The effect on the financial information as at 31 March 2009 was not material;
- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present a statement of comprehensive income. This consolidated condensed interim financial information has been prepared under the revised requirements;
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The improvements do not have a material effect on the Group's consolidated financial information;
- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). This amendment is not currently applicable to the Group as it has no such financial instruments;
- Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments;
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate;
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). This amendment does not impact the Group's consolidated financial information;
- Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). This amendment does not have a material impact on the Group's consolidated financial information;



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

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not relevant to the Group;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The Group is currently assessing the impact of IFRIC 16 on its consolidated condensed interim financial information.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 March 2009, and have not been early adopted:

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009);
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009);
- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009);
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009);
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009);
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).

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

#### **5 Segment information**

The main business units of the Group are its individual production subsidiaries. On a monthly basis the Management Board reviews the financial reports of the Group, evaluates the operating results and allocates resources between the operating segments. Budgets and financial reports are prepared in a standard format by each of the Group's subsidiaries according to the IFRS accounting policy adopted by the Group. The Management Board assesses the performance of the operating segments based on, among others, a measure of operating profit adjusted by depreciation and amortization (EBITDA). Since this term is not a standard IFRS measure EuroChem Group's definition of EBITDA may differ from that of other companies.

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

- Nitrogen – the production and sale of nitrogen mineral fertilisers;
- Organics – the production and sale of organic synthesis products;
- Phosphates – the production and sale of phosphate mineral fertilisers;
- Mining by-products – extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the Group acquired a license for the extraction and manufacture of potassium fertilizers ("potash") and continues to develop this relatively new segment. No sales have been recorded to date in this segment;
- Distribution – a number of retailers located within Russia and CIS;
- Others – certain logistics and service activities, central management and other items.



## 5 Segment information (continued)

The segmental results for the three months ended 31 March 2009 were as follows:

	<b>Sales external</b>	<b>Sales internal</b>	<b>Total sales</b>	<b>EBITDA</b>
Nitrogen	8,229,202	1,135,634	9,364,836	3,044,681
Organics	884,595	373	884,968	160,511
Phosphates	6,285,019	138,738	6,423,757	2,055,687
Mining by-products	1,661,004	-	1,661,004	266,815
Potash	-	-	-	(138,859)
Distribution	1,075,547	1,403	1,076,950	(92,276)
Others	1,116,652	3,550,876	4,667,528	(101,189)
Reconciliation	-	(4,827,024)	(4,827,024)	11,734
<b>Total</b>	<b>19,252,019</b>	<b>-</b>	<b>19,252,019</b>	<b>5,207,104</b>

The segmental results for the three months ended 31 March 2008 were as follows:

	<b>Sales external</b>	<b>Sales internal</b>	<b>Total sales</b>	<b>EBITDA</b>
Nitrogen	9,630,573	1,136,729	10,767,302	4,433,188
Organics	2,176,948	-	2,176,948	1,028,341
Phosphates	8,535,505	416,145	8,951,650	4,332,820
Mining by-products	2,987,370	-	2,987,370	932,711
Potash	-	-	-	(22,724)
Distribution	1,182,274	17	1,182,291	104,148
Others	1,200,076	3,688,415	4,888,491	239,481
Reconciliation	-	(5,241,306)	(5,241,306)	108,199
<b>Total</b>	<b>25,712,746</b>	<b>-</b>	<b>25,712,746</b>	<b>11,156,164</b>

A reconciliation of total profit before income tax was provided as follows:

	<b>Three months ended</b>	
	<b>31 March 2009</b>	<b>31 March 2008</b>
<b>EBITDA</b>	<b>5,207,104</b>	<b>11,156,164</b>
Depreciation	(729,093)	(688,057)
Amortization	(21,918)	(4,126)
<b>Operating profit</b>	<b>4,456,093</b>	<b>10,463,981</b>
Gain on disposal of non-current assets held for sale	-	310,493
Gain on revaluation of trading investments	63,717	-
Financial foreign exchange (loss)/gain - net	(5,629,140)	460,449
Interest income	134,706	168,295
Interest expense	(555,190)	(223,398)
<b>(Loss)/profit before taxation</b>	<b>(1,529,814)</b>	<b>11,179,820</b>

The analysis of Group sales by geographical area was as follows:

	<b>Three months ended</b>	
	<b>31 March 2009</b>	<b>31 March 2008</b>
Export	15,097,046	19,222,381
Domestic	4,154,973	6,490,365
<b>Total sales</b>	<b>19,252,019</b>	<b>25,712,746</b>



## 6 Property, plant and equipment

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

	Note	2009	2008
<b>Carrying amount at 1 January</b>		<b>41,197,799</b>	<b>28,722,344</b>
Including advances given to construction companies and suppliers of property, plant and equipment		4,323,234	2,470,824
Additions		4,558,399	2,719,946
Including change in advances given		1,366,320	788,893
Disposals		(13,835)	(9,183)
Reclassification to non-current assets held for sale		(32,885)	(71,124)
Depreciation charge for the period		(729,093)	(688,057)
Idle property, plant and equipment write-off	15	(60,226)	(14,643)
Currency translation differences		285,961	115,970
<b>Carrying amount at 31 March</b>		<b>45,206,120</b>	<b>30,775,253</b>
Including advances given to construction companies and suppliers of property, plant and equipment		5,689,554	3,259,717

Bank borrowings are secured on property, plant and equipment with a net book value of RR 10,324 thousand and pledge value of RR 30,659 thousand (2008: net book value of RR 10,546 thousand and pledge value of RR 30,659 thousand).

The Group decided to mothball certain production equipment with a net book value of RR 60,226 thousand at 31 March 2009 (31 March 2008: net book value of RR 14,643 thousand) and recognised a loss of RR 60,226 thousand in these consolidated financial statements (three months ended 31 March 2008: RR 14,643 thousand) (Note 15).

At 31 March 2009 the Group incurred expenses of RR 1,320,516 thousand (2008: RR 1,219,114 thousand) directly related to the exploration and evaluation of the Gremyachinskoe, Verkhnekamskoe, and Kovdorsky deposits. These expenses were capitalised in the statement of financial position in accordance with the Group accounting policy and included in the property, plant and equipment balance.

The assets transferred to the Group upon privatisation did not include the land on which a number of the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. In 2001 all companies located in the Russian Federation were granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is 1 January 2010. In 2007 and 2008 the major Group subsidiaries bought part of the land on which their main production facilities are located.

The fair value of the fixed assets of the Group at 1 January 2009 as determined by American Appraisal (AAR), Inc amounted to RR 96 billion. The Group has not reflected the result of this valuation in this consolidated condensed financial information. Fair values were determined by the independent appraiser based on the depreciated replacement cost method. The replacement cost of buildings, constructions, machinery and equipment and transfer devices has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of current purchase contracts and price-lists of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in profitability testing varies from 13.3% to 18.8%. The forecast period was 7 years for the majority of Group companies, except for Kovdorsky GOK, for which the forecast period was 14 years.

## 7 Available-for-sale investments

At 31 March 2009 available-for-sale investments comprised the shares of K+S Group, a German manufacturer of potassium-based fertilizers, and OJSC Sberbank.

During January, February and March 2009, the Group acquired 8,300,000 ordinary shares of K+S Group from MCC Holding Limited for RR 14,541,542 thousand paid in cash (Note 21) and 1,499,297 ordinary shares of K+S Group on the open market for RR 2,290,044 thousand.

At 31 March 2009 the Group owned 18,188,073 shares, or 11.02% of the share capital issued (31 December 2008: 8,388,776 shares, or 5.08% of the share capital issued) of K+S Group with a fair value of RR 28,552,011 thousand with reference to the share price quoted on the Xetra trading system. The decrease in the fair value of the investment of RR 2,174,750 thousand was recognised in equity for the three months ended 31 March 2009.

At 31 March 2009 the shares of OJSC Sberbank were accounted for at a fair value of RR 4,269 thousand (2008: RR 4,263 thousand). There was an unrealized gain of RR 6 thousand relating to these investments recorded in equity for the three months ended 31 March 2009.



## 8 Originated loans

	<b>2009</b>
<b>Balance as at 1 January</b>	<b>5,729,178</b>
Repayment of the loan	(1,506,006)
Foreign exchange gain	878,839
<b>Balance as at 31 March</b>	<b>5,102,011</b>

In October 2008 the Group provided MCC Holding Limited with a US\$ denominated, unsecured loan with an interest rate of 1 month Libor +2.5%. The loan was fully repaid in April 2009 (Note 23).

## 9 Inventories

	<b>31 March 2009</b>	<b>31 December 2008</b>
Materials	3,341,005	4,050,135
Work in progress	840,804	1,065,593
Finished goods	4,561,798	4,987,935
Catalysts	1,411,239	1,465,009
Less: provision for obsolete and damaged inventories	(430,191)	(386,078)
<b>Total inventories</b>	<b>9,724,655</b>	<b>11,182,594</b>

The Group wrote-off inventories to their net realisable value and recognised a loss of RR 172,577 thousand (2008: RR 325,416 thousand) in the profit or loss.

At 31 March 2009 bank borrowings were secured by inventories with a carrying value of RR 58,960 and pledge value of RR 48,385 thousand (2008: the Group had no bank borrowings secured on inventories).

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

	<b>31 March 2009</b>	<b>31 December 2008</b>
<b>Trade receivables</b>		
Trade receivables denominated in RR	860,059	867,040
Trade receivables denominated in US\$	2,520,511	1,955,166
Trade receivables denominated in Euro	47,208	186,081
Trade receivables denominated in other currencies	240,309	296,379
Less: impairment provision	(249,490)	(120,295)
<b>Total trade receivables</b>	<b>3,418,597</b>	<b>3,184,371</b>
<b>Prepayments, other receivables and other current assets</b>		
Advances to suppliers	1,853,072	2,932,711
VAT recoverable and receivable	6,927,119	5,922,485
Income tax receivable	767,406	1,192,047
Interest receivable	10,919	165,892
Other taxes receivable	86,607	64,134
Other receivables	449,254	379,698
Less: impairment provision	(42,955)	(44,212)
<b>Total other receivables</b>	<b>10,051,422</b>	<b>10,612,755</b>
<b>Total trade receivables, prepayments, other receivables and other current assets</b>	<b>13,470,019</b>	<b>13,797,126</b>





## 11 Cash and cash equivalents

	31 March 2009	31 December 2008
Cash on hand and bank balances denominated in RR	1,285,761	1,094,542
Bank balances denominated in US\$	6,948,881	1,859,365
Bank balances denominated in Euro	415,713	833,523
Balances denominated in other currencies	126,438	42,438
Time deposits denominated in RR	55,828	835,118
Time deposits denominated in US\$	909,845	20,048,393
Time deposits denominated in Euro	3,098,744	1,343,150
Time deposits denominated in other currencies	144,498	168,821
<b>Total cash and cash equivalents</b>	<b>12,985,708</b>	<b>26,225,350</b>
Current restricted cash	25,620	481,912
Non-current restricted cash	178,036	30,053
<b>Total restricted cash</b>	<b>203,656</b>	<b>511,965</b>

At 31 March 2009 and 31 December 2008 non-current restricted cash of RR 178,036 thousand and RR 30,053 thousand, respectively, consists of a deposit for possible environmental obligations as required under statutory Lithuanian rules and a letter of credit for equipment procurement.

At 31 March 2009 current restricted cash of RR 25,620 thousand (2008: RR 155,790 thousand) primarily consists of letters of credit issued by the Group to its suppliers. At 31 March 2009 the Group had no current restricted cash held at banks to meet the next principal and interest payments (2008: RR 326,122 thousand) (Note 13).

## 12 Non-current assets held for sale

**LLC Novomoskovsky Chlor.** The assets and liabilities related to LLC Novomoskovsky Chlor, a wholly owned subsidiary of the Group engaged in the production of chlorides, were presented as a disposal group held for sale following the approval of the Board of Directors to dispose of that subsidiary.

In December 2008 the Group signed a preliminary agreement with a third party for the disposal of LLC Novomoskovsky Chlor and received a prepayment of RR 37,500 thousand, which increased to RR 43,596 thousand at 31 March 2009. On 16 February 2009, the Group signed a final agreement for the sale of LLC Novomoskovsky Chlor for a cash consideration of RR 508,396 thousand. Under the terms of this agreement the buyer has to pay the remaining consideration within one year. The outstanding amount bears a 20% annual interest charge.

As at 31 March 2009 the Group was in the process of finalising transfer of its stake in LLC Novomoskovsky Chlor to the buyer.

The major classes of assets of LLC Novomoskovsky Chlor include:

	31 March 2009
Property, plant and equipment	179,704
Inventories	52,652
Trade and other receivables	68,043
Cash and cash equivalents	2,391
<b>Total assets of disposal group classified as held for sale</b>	<b>302,790</b>

Major classes of liabilities directly associated with LLC Novomoskovsky Chlor include:

	31 March 2009
Trade and other payables	50,127
<b>Total liabilities of disposal group classified as held for sale</b>	<b>50,127</b>

**LLC Eurochem-Novoselskoe.** The assets and liabilities related to LLC Eurochem-Novoselskoe, a wholly owned subsidiary of the Group, were presented as a disposal group held for sale following the approval of the Board of Directors to dispose of that subsidiary.



## 12 Non-current assets held for sale (continued)

In February 2009 the Group signed a preliminary agreement with a third party for the disposal of LLC Eurochem-Novoselskoe and in April 2009 received a prepayment of RR 3,500 thousand. On 16 April 2009, the Group signed a final agreement for the sale of LLC Eurochem-Novoselskoe for a cash consideration of RR 70,000 thousand.

The major classes of assets of LLC Eurochem-Novoselskoe include:

	31 March 2009
Property, plant and equipment	28,337
Intangible Assets	13,943
Inventories	24,672
Trade and other receivables	8,720
Cash and cash equivalents	974
<b>Total assets of disposal group classified as held for sale</b>	<b>76,646</b>

Major classes of liabilities directly associated with LLC Eurochem-Novoselskoe include:

	31 March 2009
Trade and other payables	7,622
<b>Total liabilities of disposal group classified as held for sale</b>	<b>7,622</b>

**Harvester Shipmanagement Limited.** The assets and liabilities related to Harvester Shipmanagement Limited, a wholly owned logistics subsidiary of the Group, were presented as a disposal group held for sale following the approval of the Board of Directors to dispose of that subsidiary.

On 12 May 2009 the Group signed an agreement with a third party for the disposal of 100% stake in Harvester Shipmanagement Limited. The cash consideration amounts to US\$ 240 thousand.

The major classes of assets of Harvester Shipmanagement Limited include:

	31 March 2009
Property, plant and equipment	4,548
Intangible assets	2,305
Inventories	37,362
Trade and other receivables	263,264
Cash and cash equivalents	95,176
<b>Total assets of disposal group classified as held for sale</b>	<b>402,655</b>

Major classes of liabilities directly associated with Harvester Shipmanagement Limited include:

	31 March 2009
Trade and other payables	410,977
<b>Total liabilities of disposal group classified as held for sale</b>	<b>410,977</b>

## 13 Bank borrowings

	2009	2008
<b>Balance as at 1 January</b>	<b>43,511,956</b>	<b>5,633,712</b>
Bank loans received, denominated in US\$	-	1,309,759
Bank loans received, denominated in EUR	2,448,349	-
Bank loans received, denominated in RR	21,077	2,640
Bank loans repaid, denominated in US\$	-	(999,925)
Bank loans repaid, denominated in EUR	(2,444,440)	-
Bank loans repaid, denominated in RR	(17,325)	(2,215)
Amortization of bank borrowings syndication fees	37,550	9,820
Foreign exchange loss/(gain)	6,945,590	(233,521)
<b>Balance as of 31 March</b>	<b>50,502,757</b>	<b>5,720,270</b>



### 13 Bank borrowings (continued)

	31 March 2009	31 December 2008
<b>Current bank borrowings</b>		
Bank loans, denominated in RR	22,638	18,887
Current portion of long-term US\$ loans	14,088,478	9,074,390
<b>Total current bank borrowings</b>	<b>14,111,116</b>	<b>9,093,277</b>
<b>Non-current bank borrowings</b>		
Long-term bank loans, denominated in US\$	50,480,119	43,493,069
Less: Current portion of long-term bank loans	(14,088,478)	(9,074,390)
<b>Total non-current bank borrowings</b>	<b>36,391,641</b>	<b>34,418,679</b>
<b>Total bank borrowings</b>	<b>50,502,757</b>	<b>43,511,956</b>

At 31 March 2009 and 31 December 2008 the fair value of borrowings was not materially different from their carrying amounts.

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

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

#### *Interest rates*

A syndicated loan facility, which was obtained in October 2008 in the amount of US\$ 1,500,000 thousand, bears a floating interest rate of 1 month Libor + 1.8% (2008: 1 month Libor +1.8%).

#### *Collaterals and pledges*

Pledged assets as at 31 March 2009 comprise property, plant and equipment (Note 6), inventories (Note 9) and cash balances of RR nil (2008: RR 326,122 thousand – the amount restricted by banks to secure the next principal and interest payments (Note 11)).

Bank loans of RR 50,480,119 thousand and RR 43,493,069 thousand at 31 March 2009 and 31 December 2008, respectively, were collateralized by future export proceeds of the Group under sales contracts with certain customers.

The Group's bank borrowings mature as follows:

	31 March 2009	31 December 2008
- within 1 year	14,111,116	9,093,277
- between 1 and 2 years	14,088,479	12,149,084
- between 2 and 5 years	22,303,162	22,269,595
<b>Total bank borrowings</b>	<b>50,502,757</b>	<b>43,511,956</b>



## 14 Sales

The components of sales were as follows:

		Three months ended	
		31 March 2009	31 March 2008
<b>Nitrogen</b>			
	Nitrogen fertilizers	7,055,417	8,128,006
	Complex fertilizers group	968,017	1,116,481
	Other goods and services	205,768	386,086
		<b>8,229,202</b>	<b>9,630,573</b>
<b>Organics</b>			
	Organic synthesis products	860,713	2,146,692
	Other goods	23,882	30,256
		<b>884,595</b>	<b>2,176,948</b>
<b>Phosphates</b>			
	Phosphates	4,978,438	7,414,737
	Feed phosphates group	684,218	670,512
	Apatite concentrate	371,194	179,524
	Complex fertilizers group	35,038	69,278
	Other goods and services	216,131	201,454
		<b>6,285,019</b>	<b>8,535,505</b>
<b>Mining by-products</b>			
	Iron ore concentrate	1,566,712	2,882,107
	Baddeleyite concentrate	94,292	105,263
		<b>1,661,004</b>	<b>2,987,370</b>
<b>Distribution</b>			
	Nitrogen fertilizers	669,960	372,882
	Phosphates	140,714	156,007
	Complex fertilizers group	82,254	506,145
	Other goods and services	182,619	147,240
		<b>1,075,547</b>	<b>1,182,274</b>
<b>Others</b>			
	Nitrogen fertilizers	669,589	771,931
	Organic synthesis products	35,395	-
	Logistic services	106,119	325,035
	Other goods and services	305,549	103,110
		<b>1,116,652</b>	<b>1,200,076</b>
<b>Total sales</b>		<b>19,252,019</b>	<b>25,712,746</b>

## 15 Cost of sales

The components of cost of sales were as follows:

		Three months ended	
		31 March 2009	31 March 2008
	Note		
Materials and components used or resold		4,660,570	5,504,773
Depreciation of property, plant and equipment		586,025	574,053
Energy		1,121,021	1,065,381
Utilities and fuel		500,161	739,598
Labour, including contributions to social funds		1,825,039	1,509,943
Repairs and maintenance		121,764	201,991
Production overheads		287,911	118,310
Property tax, rent payments for land and related taxes		121,698	152,167
Cost of logistic services		419,170	371,322
Idle property, plant and equipment write-off	6	60,226	14,643
Provision for obsolete and damaged inventory and finished goods		44,113	1,219
Other costs		67,729	40,208
Changes in work in progress and finished goods	9	815,046	(695,112)
<b>Total cost of sales</b>		<b>10,630,473</b>	<b>9,598,496</b>



## 16 Distribution costs

Distribution costs comprised:

		Three months ended	
	Note	31 March 2009	31 March 2008
Transportation		3,566,961	4,098,323
Export duties, other fees and commissions		275,285	33,322
Depreciation		102,934	78,775
Labour, including contributions to social funds		184,636	196,685
Repair		164,168	113,577
Provision for impairment of receivables	10	115,576	33,061
Other costs		114,290	68,287
<b>Total distribution costs</b>		<b>4,523,850</b>	<b>4,622,030</b>

## 17 General and administrative expenses

General and administrative expenses comprised:

		Three months ended	
	Note	31 March 2009	31 March 2008
Labour, including contributions to social funds		486,132	427,028
Repairs and maintenance		9,515	10,077
Depreciation and amortization		62,052	39,355
Social expenditure		13,723	14,853
Audit, consulting and legal services		41,195	49,453
Rent		32,491	37,682
Provision for impairment of receivables	10	19,104	1,594
Other expenses		267,513	168,705
<b>Total general and administrative expenses</b>		<b>931,725</b>	<b>748,747</b>

The total depreciation and amortisation expenses included in all captions of the statement of comprehensive income amounted to RR 751,011 thousand (2008: RR 692,183 thousand). The total staff costs (including social expenses) included in all captions of statement of comprehensive income amounted to RR 2,495,807 thousand (2008: RR 2,133,656 thousand).

## 18 Other operating income and expenses

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

	Three months ended	
	31 March 2009	31 March 2008
(Loss)/gain on disposal of property, plant and equipment	(6,442)	4,603
Sponsorship	(49,737)	(42,277)
Foreign exchange gain/(loss)	1,472,388	(304,313)
Other operating (expenses)/income	(126,087)	62,495
<b>Total other operating income/(expenses)</b>	<b>1,290,122</b>	<b>(279,492)</b>

## 19 Income tax

	Three months ended	
	31 March 2009	31 March 2008
Income tax expense – current	(1,012,074)	(2,359,701)
Deferred income tax – reversal/(origination) of temporary differences	807,296	(113,496)
<b>Income tax expense</b>	<b>(204,778)</b>	<b>(2,473,197)</b>

With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 15.5% to 20%, depending on applicable rates set by regional authorities. Most companies of the Group were subject to tax rates of 24% on taxable profits in the Russian Federation for 2008. Deferred tax asset/liabilities are measured at the rate of 20% as at 31 March 2009 and 31 December 2008 respectively.





## 20 Earnings per share

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

	Three months ended	
	31 March 2009	31 March 2008
Net profit	(1,736,450)	8,487,444
Weighted average number of ordinary shares in issue	67,932	67,932
<b>Basic and diluted earnings per share (expressed in RR per share)</b>	<b>(25.56)</b>	<b>124.94</b>

## 21 Balances and transactions with related parties

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

Financial statements caption	Nature of relationship	Note	31 March 2009	31 December 2008
<b>Statement of financial position caption</b>				
Trade receivables	Other related parties*		23,434	56,849
Interest receivable	Parent company		1,690	53,158
Originated loans	Parent company	8	5,102,011	5,729,178
Advances from customers	Other related parties*		-	698
Prepayments, other receivables and other current assets	Other related parties*		52,845	24,584
Trade payables	Other related parties*		32,550	-

Financial statements caption	Nature of relationship	31 March 2009	31 March 2008
<b>Statement of comprehensive income caption</b>			
Sales	Other related parties*	43,956	389,463
Purchases of materials and components	Other related parties*	(19)	-
General and administrative expenses	Other related parties*	(27,565)	-
Interest income	Parent company	48,764	-

Financial statements caption	Nature of relationship	Note	31 March 2009	31 March 2008
<b>Statement of cash flows caption</b>				
Repayment of originated loan	Parent company	8	1,506,006	-
Dividends paid	Parent company		-	(3,668,328)
Acquisition of available-for-sale investments	Parent company	7	(14,541,542)	-
Decrease in trade receivables	Other related parties*		33,415	320,767
Interest received	Parent company		51,468	-
Increase in other receivables	Other related parties*		(28,261)	-
Increase in trade payables	Other related parties*		32,550	-
Decrease in advances from customers	Other related parties*		(698)	-

\* Other related parties consist of the Group's associate.

The total key management personnel compensation included in general and administrative expenses in the statement of income was RR 48,745 thousand and RR 43,703 thousand for the three months ended 31 March 2009 and 31 March 2008, respectively. This compensation is paid to six individuals who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual based on operating results.



## **22 Contingencies, commitments and operating risks**

### **i Capital expenditure commitments**

As at 31 March 2009 the Group had contractual commitments for capital expenditures of RR 21,624,376 thousand (2008: RR 22,494,066 thousand), mostly denominated in Euro and US\$ (RR 8,746,967 thousand and RR 8,567,185 thousand, respectively). The management estimates that out of these approximately RR 10,673,158 thousand will represent cash outflows in 2009.

RR 16,581,401 thousand out of the total amount relates to the development of the Gremyachinskoe deposit and the construction of a potassium salt mining facility (2008: RR 15,207,869 thousand).

### **ii Operating lease commitments**

As at 31 March 2009 the Group had non-cancellable operating lease commitments for the rent of vessels of RR 139,285 thousand (2008: RR 1,610,547 thousand) payable within 1 year.

### **iii Guarantees**

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group did not have issued guarantees at 31 March 2009 and 31 December 2008.

### **iv Tax legislation**

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

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

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

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

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

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



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

### **iv Tax legislation (continued)**

As at 31 March 2009 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained, if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 March 2009 and 31 December 2008.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 1,601,390 thousand (2008: RR 2,682,920 thousand). These exposures primarily relate to management services and other fees charged by the holding company to the Group subsidiaries.

### **v Insurance policies**

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

### **vi Environmental matters**

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

### **vii Legal proceedings**

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in this consolidated condensed interim financial information.

### **viii Operating environment of the Group**

Following a sharp deterioration in global economic environment in the fourth quarter of 2008, prices for nitrogen and phosphate fertilizers, as predominantly manufactured and sold by the Group have declined significantly from the peak levels of 2008 and average levels for 2008, while remaining broadly in line with 2007 average prices, and mostly above 2006 average prices. Average prices for the first quarter of 2009 ranged for nitrogen fertilizers from 25% to 41% of the maximum 2008 price, 42% to 58% of 2008 average price, 78% to 92% of the 2007 average price, and 90% to 131% of the 2006 average price. For phosphate and complex fertilizers prices ranged from 30% to 43% of the maximum 2008 price, 40% to 55% of the 2008 average price, 90% to 122% of the 2007 average price, and 150% to 166% of the 2006 average price for phosphate and complex fertilizers.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the RR depreciated significantly against some major currencies. The official US\$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 34.01 at 31 March 2009. At the date of issuance of this consolidated condensed interim financial information US\$ exchange rate was RR 31.13.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. It believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.



## **23 Subsequent events**

### **K+S Group shares**

In April 2009, the Group acquired 2,452,292 K+S Group shares (an additional stake of 1.49% of its share capital) from MCC Holding Limited for RR 5,064,084 thousand paid in cash. As a result, the Group owned 12.51% of share capital of K+S Group at the date of issuance of this consolidated condensed interim financial information.

### **Loan repaid**

In April 2009 MCC Holding Limited, the Group's shareholder, fully repaid to the Group the remaining balance of the loan which was outstanding at 31 March 2009 and totalling RR 5,102,011 thousand (RR 5,062,014 thousand at the exchange rate at the date of repayment) (Note 8).

### **Disposal of a subsidiary**

On 12 May 2009 the Group disposed of its 100% stake in Harvester Shipmanagement Limited, a logistics company, for US\$ 240 thousand.

### **Dividends received**

In May 2009 the Group received dividends from K+S Group of RR 2,060,279 thousand paid in cash.

### **Disposal of trading investments**

In June 2009 the Group disposed of its stake in OJSC MRSK "Center and Volga region" for RR 311,855 thousand.