EUROCHEM GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

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

30 JUNE 2010

Contents

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT ON THE REVIEW OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 30 June 2010 and the related consolidated condensed statements of comprehensive income, cash flows and changes in equity for the six 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

20 August 2010
Moscow, Russian Federation

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

	Note	30 June 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	6	61,673,532	56,382,417
Exploration rights		7,271,496	7,271,496
Goodwill		204,866	204,866
Intangible assets		252,003	427,457
Restricted cash	11	129,203	179,115
Available-for-sale investments	7	27,681,028	33,619,657
Other non-current assets		-	247,893
Deferred tax assets		1,052,021	1,328,848
Total non-current assets		**98,264,149**	**99,661,749**
Current assets:			
Inventories	9	8,433,443	8,105,067
Trade receivables	10	3,649,778	2,151,240
Prepayments, other receivables and other current assets	10	7,184,510	7,630,102
Restricted cash	11	386,230	551,086
Cash and cash equivalents	11	6,499,583	10,676,772
Total current assets		**26,153,544**	**29,114,267**
TOTAL ASSETS		**124,417,693**	**128,776,016**
LIABILITIES AND EQUITY			
Equity:			
Capital and reserves attributable to owners of the parent:			
Share capital		6,800,000	6,800,000
Treasury shares		(7,760)	(7,760)
Retained earnings and other reserves		65,718,964	65,644,137
		72,511,204	**72,436,377**
Non-controlling interests		501,859	758,683
Total equity		**73,013,063**	**73,195,060**
Non-current liabilities:			
Bank borrowings	12	17,185,924	26,556,324
Bonds issued		9,010,487	8,724,895
Other non-current liabilities and deferred credits		517,729	430,393
Deferred income tax liabilities		1,867,717	1,972,782
Total non-current liabilities		**28,581,857**	**37,684,394**
Current liabilities:			
Bank borrowings	12	15,366,404	12,491,434
Derivative financial liabilities	8	516,501	-
Trade payables		1,558,268	1,373,488
Other accounts payable and accrued expenses		4,561,794	3,574,522
Income tax payable		268,902	108,465
Other taxes payable		550,904	348,653
Total current liabilities		**22,822,773**	**17,896,562**
Total liabilities		**51,404,630**	**55,580,956**
TOTAL LIABILITIES AND EQUITY		**124,417,693**	**128,776,016**

Approved on behalf of the Board of Directors
20 August 2010

D.S. Strezhnev
Chief Executive Officer

A.A. Ilyin
Chief Financial Officer

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

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

	Note	Three months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2010	Six months ended 30 June 2009
Sales	13	23,779,912	17,220,492	45,389,355	36,472,511
Cost of sales	14	(11,096,973)	(9,554,796)	(23,156,987)	(20,185,269)
Gross profit		**12,682,939**	**7,665,696**	**22,232,368**	**16,287,242**
Distribution costs	15	(5,495,536)	(4,654,263)	(9,772,788)	(9,178,113)
General and administrative expenses	16	(926,175)	(659,932)	(1,857,740)	(1,591,657)
Other operating income/(expenses)	17	413,482	(585,034)	512,237	705,088
Operating profit		**6,674,710**	**1,766,467**	**11,114,077**	**6,222,560**
Dividend income	7	147,946	2,168,715	147,946	2,168,715
Fair value gain on trading investments		-	75,867	-	139,584
Gain on disposal of non-current assets held for sale, net		-	249,123	-	249,123
Gain on disposal of available-for-sale investments	7	19,326	-	90,597	-
Financial foreign exchange gain/(loss) – net		(2,531,217)	4,549,091	(1,134,861)	(1,080,049)
Interest income		35,658	55,043	87,545	189,749
Interest expense		(466,657)	(487,977)	(889,231)	(1,043,167)
Other financial income/(loss) – net	18	(463,051)	-	(409,751)	-
Profit before taxation		**3,416,715**	**8,376,329**	**9,006,322**	**6,846,515**
Income tax expense	19	(928,785)	(987,232)	(2,048,776)	(1,192,010)
Net profit for the period		**2,487,930**	**7,389,097**	**6,957,546**	**5,654,505**
Other comprehensive income/(loss)					
Currency translation differences, net of tax		(412,877)	(524,725)	(1,292,526)	480,072
Revaluation of available-for-sale investments	7	(6,462,996)	2,592,530	(5,509,186)	417,786
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	7	(19,326)	-	(90,597)	-
Total other comprehensive income/(loss) for the period		**(6,895,199)**	**2,067,805**	**(6,892,309)**	**897,858**
Total comprehensive income/(loss) for the period		**(4,407,269)**	**9,456,902**	**65,237**	**6,552,363**
Net profit/(loss) for the period attributable to:					
Owners of the parent		2,467,911	7,416,788	6,914,725	5,680,338
Non-controlling interests		20,019	(27,691)	42,821	(25,833)
		2,487,930	**7,389,097**	**6,957,546**	**5,654,505**
Total comprehensive income/(loss) attributable to:					
Owners of the parent		(4,406,031)	9,519,274	73,439	6,577,970
Non-controlling interests		(1,238)	(62,372)	(8,202)	(25,607)
		(4,407,269)	**9,456,902**	**65,237**	**6,552,363**
Earnings per share – basic and diluted (in RR)	20	36.33	109.18	101.79	83.62

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

	Note	Six months ended 30 June 2010	30 June 2009
Operating profit		11,114,077	6,222,560
Income tax paid		(1,649,830)	(509,305)
Operating profit less income tax paid		**9,464,247**	**5,713,255**
Depreciation and amortisation	16	1,618,009	1,497,955
Net loss on disposals and write-off of property, plant and equipment		90,759	127,937
Impairment of receivables and provision for obsolete and damaged inventories		24,107	271,653
Other non-cash (income)/expenses		(457,269)	744,735
Gross cash flow		**10,739,853**	**8,355,535**
Changes in operating assets and liabilities:			
Trade receivables		(1,495,692)	933,291
Advances to suppliers		225,063	579,766
Other receivables		605,599	(29,152)
Inventories		(313,584)	1,811,231
Trade payables		(23,750)	229,028
Advances from customers		192,564	(388,024)
Other payables		989,758	(1,475,520)
Other assets and liabilities		214,768	(411,742)
Net cash – operating activities		**11,134,579**	**9,604,413**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and other intangible assets		(7,263,654)	(9,317,727)
Investment grants received	6	42,657	-
Purchase of exploration rights		-	(108,220)
Acquisition of interest in subsidiaries	22	(247,234)	(3,690)
Acquisition of subsidiary, net of cash acquired		-	(149,913)
Acquisition of available-for-sale investments		-	(21,895,670)
Proceeds from sale of property, plant and equipment		18,015	7,112
Proceeds from disposal of non-current assets held for sale		-	13,904
Prepayment for non-current assets held for sale		-	3,500
Proceeds from disposal of trading investments		-	311,855
Proceeds from disposal of available-for-sale investments	7	429,443	-
Proceeds from sale of derivatives	8	106,750	-
Dividends received, net of tax	7	140,549	2,060,279
Repayment of originated loans		-	6,568,110
Interest received		88,913	334,637
Net cash – investing activities		**(6,684,561)**	**(22,175,823)**
Free cash inflow/(outflow)		**4,450,018**	**(12,571,410)**
Cash flows from financing activities			
Proceeds from bank borrowings	12	2,347,799	2,479,525
Repayment of bank borrowings	12	(9,609,621)	(5,866,650)
Prepayment for transaction costs		(290,017)	-
Interest paid		(731,678)	(974,273)
Net cash – financing activities		**(8,283,517)**	**(4,361,398)**
Effect of exchange rate changes on cash and cash equivalents		(343,690)	1,761,910
Net decrease in cash and cash equivalents		**(4,177,189)**	**(15,170,898)**
Cash and cash equivalents at the beginning of the period	11	**10,676,772**	**26,225,350**
Cash and cash equivalents at the end of the period	11	**6,499,583**	**11,054,452**

(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		
Balance at 1 January 2009		**6,800,000**	**(7,760)**	**1,529,180**	**4,371,990**	**47,533,368**	**60,226,778**	**809,874**	**61,036,652**
Comprehensive income									
Profit/(loss) for the period		-	-	-	-	5,680,338	5,680,338	(25,833)	5,654,505
Other comprehensive income									
Currency translation differences		-	-	479,846	-	-	479,846	226	480,072
Revaluation of available-for-sale investments		-	-	-	417,786	-	417,786	-	417,786
Total other comprehensive income		-	-	479,846	417,786	-	897,632	226	897,858
Total comprehensive income/(loss)		**-**	**-**	**479,846**	**417,786**	**5,680,338**	**6,577,970**	**(25,607)**	**6,552,363**
Transactions with owners									
Acquisitions of additional interest in subsidiaries		-	-	-	-	17,321	17,321	(21,011)	(3,690)
Total transactions with owners		**-**	**-**	**-**	**-**	**17,321**	**17,321**	**(21,011)**	**(3,690)**
Balance at 30 June 2009		**6,800,000**	**(7,760)**	**2,009,026**	**4,789,776**	**53,231,027**	**66,822,069**	**763,256**	**67,585,325**
Balance at 1 January 2010		**6,800,000**	**(7,760)**	**1,884,761**	**5,095,017**	**58,664,359**	**72,436,377**	**758,683**	**73,195,060**
Comprehensive income									
Profit for the period		-	-	-	-	6,914,725	6,914,725	42,821	6,957,546
Other comprehensive income/(loss)									
Currency translation differences		-	-	(1,241,503)	-	-	(1,241,503)	(51,023)	(1,292,526)
Revaluation of available-for-sale investments	7	-	-	-	(5,509,186)	-	(5,509,186)	-	(5,509,186)
Disposal of available-for-sale investments	7	-	-	-	(90,597)	-	(90,597)	-	(90,597)
Total other comprehensive loss		-	-	(1,241,503)	(5,599,783)	-	(6,841,286)	(51,023)	(6,892,309)
Total comprehensive income/(loss)		**-**	**-**	**(1,241,503)**	**(5,599,783)**	**6,914,725**	**73,439**	**(8,202)**	**65,237**
Transactions with owners									
Acquisitions of additional interest in subsidiaries	22	-	-	-	-	1,388	1,388	(248,622)	(247,234)
Total transactions with owners		**-**	**-**	**-**	**-**	**1,388**	**1,388**	**(248,622)**	**(247,234)**
Balance at 30 June 2010		**6,800,000**	**(7,760)**	**643,258**	**(504,766)**	**65,580,472**	**72,511,204**	**501,859**	**73,013,063**

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 fertilizers and their distribution in domestic and foreign markets. The Group manufactures a large number of products, the most significant of which is a wide range of mineral fertilizers (nitrogen and phosphate group).

A company that holds the business interests of Mr. Andrey Melnichenko owns 100% of Linea Limited registered in Bermuda, which in turn owns 95% of MCC Holding Public Company Limited (Cyprus). The remaining 5% is held by Mr. Dmitry Strezhnev, CEO of the Group. MCC Holding Public Company Limited (Cyprus) owns 99.9% of EuroChem.

The Group's manufacturing facilities are 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 six months ended 30 June 2010 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 2009 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 2009, 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 2010 (Note 4).

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

4 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2010:

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for periods beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial information;
- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The effect on the financial information as at 30 June 2010 was not material;

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

- 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). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The effect on the financial information as at 30 June 2010 was not material;

- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets is recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is currently not relevant to the Group's operations because it does not distribute non-cash assets to owners;

- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. These amendments are not currently applicable to the Group as it has no embedded derivatives;

- 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). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment currently does not have any impact on the Group's financial information as the Group does not apply hedge accounting;

- IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 does not impact the Group's consolidated financial information;

- 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). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The improvements do not have a material effect on the Group's consolidated financial information;

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

- Group Cash-settled Share-based payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. These amendments are not relevant to the Group;
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments do not have any impact on the Group's consolidated financial information;
- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not currently applicable to the Group;
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009). The Group does not intend to adopt the IFRS for SMEs.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2010, and have not been early adopted:

- IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011);
- IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the amended standard on its consolidated financial information;
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The Group is currently assessing the impact of the amended standards on its consolidated financial information;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011);
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

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

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

- Nitrogen – the production and sale of nitrogen mineral fertilizers and organic synthesis products;
- Phosphates – the production and sale of phosphate mineral fertilizers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;

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

5 Segment information (continued)

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

The segmental results for the six months ended 30 June 2010 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	19,540,944	3,483,413	23,024,357	6,564,230
Phosphates	20,943,041	905,527	21,848,568	6,707,591
Potash	-	-	-	(139,486)
Distribution	4,299,814	96	4,299,910	234,823
Other	605,556	7,594,411	8,199,967	(210,343)
Elimination	-	(11,983,447)	(11,983,447)	(147,913)
Total	**45,389,355**	**-**	**45,389,355**	**13,008,902**

The segmental results for the six months ended 30 June 2009 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	17,886,053	2,082,113	19,968,166	5,432,135
Phosphates	14,973,819	430,063	15,403,882	2,287,300
Potash	-	-	-	(165,053)
Distribution	1,969,249	2,803	1,972,052	(37,104)
Other	1,643,390	6,191,666	7,835,056	2,753,007
Elimination	-	(8,706,645)	(8,706,645)	55,006
Total	**36,472,511**	**-**	**36,472,511**	**10,325,291**

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

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
EBITDA		**13,008,902**	**10,325,291**
Depreciation and amortisation	16	(1,618,009)	(1,497,955)
Idle property, plant and equipment write-off	6	(84,146)	(80,895)
Gain on disposal of non-current assets held for sale		-	249,123
Gain on disposal of available-for-sale investments	7	90,597	-
Financial foreign exchange loss – net		(1,134,861)	(1,080,049)
Interest expense		(889,231)	(1,043,167)
Other financial income/(loss) – net	18	(409,751)	-
Non-controlling interest		42,821	(25,833)
Profit before taxation		**9,006,322**	**6,846,515**

The analysis of Group sales by geographical area was:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Export	34,116,445	29,136,149
Domestic	11,272,910	7,336,362
Total sales	**45,389,355**	**36,472,511**

The analysis of Group sales by geographical area was:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Russia	11,272,910	7,336,362
CIS	6,518,920	3,635,936
Asia	9,793,287	10,046,914
Europe	7,298,545	7,623,729
Latin America	6,501,072	3,381,007
North America	2,683,273	2,185,760
Africa	1,141,397	1,911,448
Australasia	179,951	351,355
Total sales	**45,389,355**	**36,472,511**

The sales are allocated by regions based on the destination country. There were no sales in excess of 10% to any one country, except for Russia, during the six months ended 30 June 2010 and 30 June 2009.

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

6 Property, plant and equipment

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

	Note	2010	2009
Carrying amount at 1 January		**56,382,417**	**41,197,799**
Including advances given to construction companies and suppliers of property, plant and equipment		5,443,305	4,323,234
Additions		7,439,994	8,793,508
Including change in advances given		(1,134,351)	2,185,080
Acquisitions through business combination		-	175,615
Disposals		(24,628)	(42,191)
Reclassification to non-current assets held for sale		-	(27,980)
Depreciation charge for the period		(1,618,377)	(1,465,034)
Idle property, plant and equipment write-off	14	(84,146)	(80,895)
Currency translation differences		(421,728)	105,536
Carrying amount at 30 June		**61,673,532**	**48,656,358**
Including advances given to construction companies and suppliers of property, plant and equipment		4,308,954	6,508,314

The analysis of the Group's assets under construction, which are included in the property, plant and equipment balance, is as follows:

	30 June 2010	31 December 2009
Construction in progress	29,685,765	26,335,154
Advances given to construction companies and suppliers of property, plant and equipment	4,308,954	5,443,305
Total assets under construction	**33,994,719**	**31,778,459**

Trade payables to suppliers of property, plant and equipment amount to RR 506,562 thousand at 30 June 2010 (31 December 2009: RR 324,073 thousand).

In the first half 2010 the Group decided to mothball certain production equipment with a net book value of RR 84,146 thousand at 30 June 2010 (30 June 2009: net book value of RR 80,895 thousand) and recognised a loss of RR 84,146 thousand in this consolidated condensed interim financial information (six months ended 30 June 2009: RR 80,895 thousand) (Note 14).

In April 2010 Group's subsidiary Lifosa AB received a European Union Structural Assistance grant intended for financing an increase in production capacity. The amount of the assistance grant is equivalent to RR 42,657 thousand.

7 Available-for-sale investments

At 30 June 2010 available-for-sale investments comprised shares held in K+S Group, a German manufacturer of potassium-based fertilizers.

K+S Group shares

Between January and May 2010 the Group sold 230,000 ordinary shares of K+S Group on the open market for RR 413,276 thousand and recognised a gain of RR 74,515 thousand in the profit and loss, of which RR 3,244 thousand relates to second quarter.

At 30 June 2010 the Group owned 19,136,595 shares, or 9.998% of the issued share capital (31 December 2009: 19,366,595 shares, or 10.12% of the issued share capital) of K+S Group with a fair value of RR 27,681,028 thousand (31 December 2009: RR 33,602,943 thousand) with reference to the share price quoted on the Xetra trading system. The accumulated decrease in the fair value of the investment of RR 504,766 thousand was recognised in equity at 30 June 2010 (31 December 2009: the accumulated increase of RR 5,078,388 thousand).

In May 2010 the Group received dividend income from K+S Group of RR 147,946 thousand before withholding tax of RR 7,397 thousand.

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

7 Available-for-sale investments (continued)

Sberbank shares

In June 2010 the Group sold 202,000 ordinary shares of OJSC Sberbank to a third party for RR 16,167 thousand and recognised a gain of RR 16,082 thousand in the profit and loss.

Movements in the carrying amount of available-for-sale investments were:

	2010	2009
At 1 January	**33,619,657**	**13,899,438**
Acquisition of available-for-sale investments	-	21,895,670
Revaluation of available-for-sale investments	(5,509,186)	417,786
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(338,846)	-
- reclassification of revaluation to profit and loss	(90,597)	-
At 30 June	**27,681,028**	**36,212,894**

Available-for-sale investments:

	30 June 2010	31 December 2009
K+S Group ordinary shares	27,681,028	33,602,943
Sberbank ordinary shares	-	16,714
Total available-for-sale investments	**27,681,028**	**33,619,657**

8 Derivative financial liabilities

In January and February 2010, the Group entered into option agreements to sell 1,200,000 K+S Group ordinary shares for a total premium of RR 106,750 thousand. The strike price was Euro 50.0 and the expiry dates for the options were 18 June 2010 and 17 September 2010. At 18 June 2010 the option agreement to sell 600,000 K+S Group ordinary shares was not exercised and the Group recognised a gain of RR 54,707 thousand in the profit and loss. The remaining option agreement was covered with 600,000 shares of K+S Group with a fair value of RR 867,898 thousand. At 30 June 2010 the options were accounted for at a fair value of RR 1,293 thousand.

In May 2010, the Group entered into US$/RR non-deliverable forward contracts for US$ 450 million. The contractual settlement dates are 30 December 2010, 31 March 2011 and 30 June 2011. At 30 June 2010 the liabilities arising on these non-deliverable forward contracts were accounted for at a fair value of RR 515,208 thousand.

9 Inventories

	30 June 2010	31 December 2009
Materials	3,439,426	3,050,401
Work in progress	853,251	813,971
Finished goods	3,033,455	3,207,001
Catalysts	1,474,131	1,413,464
Less: provision for obsolete and damaged inventories	(366,820)	(379,770)
Total inventories	**8,433,443**	**8,105,067**

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

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

	30 June 2010	31 December 2009
Trade receivables		
Trade receivables denominated in RR	1,770,229	1,009,891
Trade receivables denominated in US$	1,805,680	941,536
Trade receivables denominated in Euro	67,176	199,432
Trade receivables denominated in other currencies	228,631	225,165
Less: impairment provision	(221,938)	(224,784)
Total trade receivables – financial assets	**3,649,778**	**2,151,240**
Prepayments, other receivables and other current assets		
Advances to suppliers	2,689,702	2,914,765
VAT recoverable and receivable	3,190,027	3,894,625
Income tax receivable	222,192	212,608
Other taxes receivable	19,751	25,847
Other receivables	802,547	541,407
Less: impairment provision	(159,660)	(124,615)
Subtotal non-financial assets	**6,764,559**	**7,464,637**
Interest receivable	17,124	10,531
Other receivables	402,827	154,934
Subtotal financial assets	419,951	**165,465**
Total prepayments, other receivables and other current assets	**7,184,510**	**7,630,102**
Total trade receivables, prepayments, other receivables and other current assets	**10,834,288**	**9,781,342**
Including:		
Financial assets	4,069,729	2,316,705
Non-financial assets	6,764,559	7,464,637

11 Cash and cash equivalents

	30 June 2010	31 December 2009
Cash on hand and bank balances denominated in RR	1,216,000	1,072,146
Bank balances denominated in US$	2,033,309	1,993,965
Bank balances denominated in Euro	1,676,129	880,578
Balances denominated in other currencies	158,998	18,486
Term deposits denominated in RR	1,144,108	1,727,614
Term deposits denominated in US$	62,411	2,594,479
Term deposits denominated in Euro	145,190	2,088,686
Term deposits denominated in other currencies	63,438	300,818
Total cash and cash equivalents	**6,499,583**	**10,676,772**
Current restricted cash	386,230	551,086
Non-current restricted cash	129,203	179,115
Total restricted cash	**515,433**	**730,201**

Term deposits at 30 June 2010 and 31 December 2009 have various original maturities but could be withdrawn on request without any restrictions.

At 30 June 2010 the RR 386,230 thousand (31 December 2009: RR 551,086 thousand) of current restricted cash consists of cash held at banks to meet the next principal and interest payments on bank borrowings.

At 30 June 2010 and 31 December 2009 non-current restricted cash of RR 129,203 thousand and RR 179,115 thousand, respectively, primarily consists of letters of credit for equipment procurement and a deposit against possible environmental obligations as required under statutory Lithuanian rules.

12 Bank borrowings

	2010	2009
Balance as at 1 January	**39,047,758**	**43,511,956**
Bank loans received, denominated in US$	1,897,799	-
Bank loans received, denominated in Euro	-	2,448,349
Bank loans received, denominated in RR	450,000	31,176
Bank loans repaid, denominated in US$	(6,265,128)	(3,372,740)
Bank loans repaid, denominated in Euro	(3,344,493)	(2,444,440)
Bank loans repaid, denominated in RR	-	(49,470)
Capitalisation and amortisation of transaction costs, net	115,979	75,495
Foreign exchange loss	650,413	2,959,253
Balance as at 30 June	**32,552,328**	**43,159,579**

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

12 Bank borrowings (continued)

	30 June 2010	31 December 2009
Current bank borrowings		
Short-term bank loans, denominated in US$	2,027,701	-
Short-term bank loans, denominated in RR	450,000	-
Current portion of long-term bank loans in US$	13,058,539	12,660,364
Less: short-term portion of transaction costs	(169,836)	(168,930)
Total current bank borrowings	**15,366,404**	**12,491,434**
Non-current bank borrowings		
Long-term bank loans, denominated in US$	30,469,925	35,871,029
Long-term bank loans, denominated in Euro	-	3,688,006
Less: current portion of long-term bank loans in US$	(13,058,539)	(12,660,364)
Less: long-term portion of transaction costs	(225,462)	(342,347)
Total non-current bank borrowings	**17,185,924**	**26,556,324**
Total bank borrowings	**32,552,328**	**39,047,758**

At 30 June 2010 and 31 December 2009 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 loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios, financial indebtedness and cross-default provisions.

Interest rates and outstanding amounts

A syndicated loan facility, which was obtained in October 2008 for US$ 1.5 billion, bears a floating interest rate of 1 month Libor +1.8%. The outstanding amount at 30 June 2010 totalled US$ 976,744 thousand (31 December 2009: US$ 1,186,047 thousand).

A loan obtained in September 2009 for Euro 85 million, bearing a floating interest rate of 3 month Euribor +2.0%, was fully repaid in April 2010. This credit line was converted into a revolving committed facility with a credit limit of Euro 130 million.

In April 2010 the Group signed an agreement for a 6 month unsecured loan facility, amounting to US$ 100 million, which is available in US$ and Euro with interest rates of 1 month Libor +3.25% and in RR with an interest rate of 1 month Mosprime +3.25%. At 30 June 2010 the facility has been utilised to the amount of RR 450 million and US$ 65 million.

Collaterals and pledges

At 30 June 2010 collaterals comprised cash balances of RR 386,230 thousand (31 December 2009: RR 551,086 thousand) restricted by banks to secure the next principal and interest payments (Note 11).

A bank loan of RR 30,469,925 thousand and RR 35,871,029 thousand at 30 June 2010 and 31 December 2009, respectively, was collateralized by future export proceeds of the Group under sales contracts with certain customers.

The Group's bank borrowings mature as follows:

	30 June 2010	31 December 2009
- within 1 year	15,366,404	12,491,434
- between 1 and 2 years	12,888,704	16,148,572
- between 2 and 5 years	4,297,220	10,407,752
Total bank borrowings	**32,552,328**	**39,047,758**

New undrawn loan facilities

In March 2010 the Group signed a US$ 261 million, 10-year export credit agency-backed loan facility for financing the ongoing construction of the cage shaft at Gremyachinskoe potash deposit by a South Africa-based company. At 30 June 2010 this facility has not been utilized by the Group.

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

13 Sales

The components of external sales were as follows:

		Three months ended		Six months ended	
		30 June 2010	30 June 2009	30 June 2010	30 June 2009
Nitrogen					
	Nitrogen fertilizers	6,660,025	6,752,384	14,021,715	13,857,838
	Organic synthesis products	1,562,903	1,139,798	3,149,442	2,000,511
	Complex fertilizers group	1,086,919	698,736	1,887,042	1,666,753
	Other goods	128,397	116,472	229,188	271,016
	Other services	102,350	64,866	253,557	89,935
		9,540,594	**8,772,256**	**19,540,944**	**17,886,053**
Phosphates					
	Phosphates	6,390,864	3,919,546	11,698,088	8,897,984
	Iron ore concentrate	4,256,850	2,045,464	6,651,326	3,612,176
	Feed phosphates group	736,587	510,639	1,300,349	1,194,857
	Apatite concentrate	338,915	282,850	521,441	654,044
	Baddeleyite concentrate	167,388	90,158	290,105	184,450
	Complex fertilizers group	41,820	9,176	58,539	44,214
	Other goods	61,178	48,484	138,422	103,140
	Other services	108,781	121,479	284,771	282,954
		12,102,383	**7,027,796**	**20,943,041**	**14,973,819**
Distribution					
	Nitrogen fertilizers	787,896	330,544	2,305,422	1,000,504
	Phosphates	253,353	139,404	443,272	280,118
	Complex fertilizers group	420,004	184,831	901,356	267,085
	Other goods	364,302	210,777	647,497	391,849
	Other services	1,294	28,146	2,267	29,693
		1,826,849	**893,702**	**4,299,814**	**1,969,249**
Others					
	Nitrogen fertilizers	60,455	87,793	107,371	757,382
	Organic synthesis products	-	68,162	-	103,557
	Logistic services	102,227	99,382	178,550	205,501
	Complex fertilizers group	8,419	-	8,419	-
	Other goods	-	217,650	-	415,168
	Other services	138,985	53,751	311,216	161,782
		310,086	**526,738**	**605,556**	**1,643,390**
Total sales		**23,779,912**	**17,220,492**	**45,389,355**	**36,472,511**

14 Cost of sales

The components of cost of sales were as follows:

		Three months ended		Six months ended	
	Note	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Materials and components used or resold		6,112,732	4,610,173	12,060,608	9,270,743
Energy		1,257,802	1,095,692	2,705,980	2,216,713
Utilities and fuel		662,158	465,823	1,549,197	965,984
Labour, including contributions to social funds		1,644,232	1,428,668	3,873,259	3,253,707
Depreciation		677,775	570,036	1,316,051	1,156,061
Repairs and maintenance		148,899	177,900	217,191	299,664
Production overheads		337,391	380,167	623,982	668,078
Property tax, rent payments for land and related taxes		250,006	167,780	486,168	289,478
Transportation expenses for logistics services		75,198	197,844	143,631	617,014
Idle property, plant and equipment written-off	6	41,991	20,669	84,146	80,895
Provision/(reversal of provision) for obsolete and damaged inventory and finished goods		(50,095)	70,741	(12,950)	114,854
Changes in work in progress and finished goods		(94,717)	352,046	42,605	1,167,092
Other costs		33,601	17,257	67,119	84,986
Total cost of sales		**11,096,973**	**9,554,796**	**23,156,987**	**20,185,269**

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

15 Distribution costs

Distribution costs comprised:

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Transportation	4,869,590	4,098,681	8,619,388	7,665,642
Export duties, other fees and commissions	94,406	43,289	115,200	318,574
Labour, including contributions to social funds	204,639	115,594	456,243	300,230
Depreciation	78,579	103,561	152,305	206,495
Repairs and maintenance	124,672	179,090	217,412	343,258
Provision/(reversal of provision) for impairment of receivables	22,006	(35,199)	13,651	80,377
Other costs	101,644	149,247	198,589	263,537
Total distribution costs	**5,495,536**	**4,654,263**	**9,772,788**	**9,178,113**

16 General and administrative expenses

General and administrative expenses comprised:

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Labour, including contributions to social funds	531,315	263,449	1,089,778	749,581
Depreciation and amortisation	80,130	73,347	149,653	135,399
Audit, consulting and legal services	41,916	69,071	98,236	110,266
Rent	33,349	31,175	62,106	63,666
Bank charges	41,354	19,873	68,179	87,281
Social expenditure	17,395	12,847	28,271	26,570
Repairs and maintenance	5,982	8,165	13,146	17,680
Provision for impairment of receivables	4,919	57,317	23,406	76,421
Other expenses	169,815	124,688	324,965	324,793
Total general and administrative expenses	**926,175**	**659,932**	**1,857,740**	**1,591,657**

The total depreciation and amortisation expenses included in all captions of the statement of comprehensive income amounted to RR 1,618,009 thousand (six months ended 30 June 2009: RR 1,497,955 thousand). The total staff costs (including social expenses) amounted to RR 5,419,280 thousand (six months ended 30 June 2009: RR 4,303,518 thousand). In March 2010 the Group paid a one-time inflation adjustment to salaries of RR 413,935 thousand, including contributions to social funds.

17 Other operating income and expenses

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

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
(Gain)/loss on disposal of property, plant and equipment	(4,354)	101,207	(11,892)	107,649
Sponsorship	70,736	38,380	140,700	88,117
Foreign exchange (gain)/loss	(520,375)	436,540	(651,725)	(1,035,848)
Other operating expenses	40,511	8,907	10,680	134,994
Total other operating (income)/expenses	**(413,482)**	**585,034**	**(512,237)**	**(705,088)**

18 Other financial income and loss

The components of other financial (income) and loss were as follows:

		Three months ended		Six months ended	
	Note	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Changes in the fair value of call options	8	(52,157)	-	(105,457)	-
Changes in the fair value of US$/RR non-deliverable forward contracts	8	515,208	-	515,208	-
Total other financial (income)/loss – net		**463,051**	**-**	**409,751**	**-**

19 Income tax

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Income tax expense – current	1,063,644	505,154	1,918,437	1,517,228
Deferred income tax – (origination)/reversal of temporary differences	(134,859)	482,078	130,339	(325,218)
Income tax expense	**928,785**	**987,232**	**2,048,776**	**1,192,010**

19 Income tax (continued)

The majority of the Group companies were subject to a tax rate of 20% on taxable profits in the Russian Federation during the six months ended 30 June 2010 (six months ended 30 June 2009: 20%).

During the six months ended 30 June 2010 the Group offset VAT and other tax receivables against income tax payables of RR 114,477 thousand (six months ended 30 June 2009: VAT and other tax payables against income tax receivables of RR 135,711 thousand).

20 Earnings per share

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

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Net profit for the period	2,467,911	7,416,788	6,914,725	5,680,338
Weighted average number of ordinary shares in issue (expressed in thousands)	67,932	67,932	67,932	67,932
Basic and diluted earnings per share (expressed in RR per share)	**36.33**	**109.18**	**101.79**	**83.62**

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 of 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	30 June 2010	31 December 2009
Statement of financial position			
Trade receivables	Other related parties	12,229	16,104
less: impairment provision on trade receivables	Other related parties*	(12,229)	(16,104)
Prepayments, other receivables and other current assets	Other related parties	67,013	50,241
less: impairment provision on prepayments, other receivables and other current assets	Other related parties*	(51,821)	(50,241)
Trade payables	Other related parties	-	13,517

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

		Three months ended		Six months ended	
Financial statements caption	Nature of relationship	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Statement of comprehensive income					
Sales	Other related parties	21,388	4,575	49,430	48,531
Purchases of materials and components	Other related parties	(36,334)	(62)	(37,440)	(81)
General and administrative expenses	Other related parties	-	(9,833)	-	(37,398)
Transportation costs	Other related parties	(13,652)		(13,652)	-
Interest income	Parent company	-	10,612	-	59,376

		Six months ended	
Financial statements caption	Nature of relationship	30 June 2010	30 June 2009
Statement of cash flows			
Decrease in trade receivables	Other related parties	3,875	32,672
Increase in other receivables	Other related parties	(11,749)	(59,316)
Decrease in trade payables	Other related parties	(13,517)	-
Acquisition of available-for-sale investments	Parent company	-	(19,605,626)
Repayment of originated loan	Parent company	-	6,568,110
Interest received	Parent company	-	121,199

21 Balances and transactions with related parties (continued)

The total key management personnel compensation included in the profit and loss was RR 167,942 thousand and RR 61,817 thousand for the six months ended 30 June 2010 and 30 June 2009, 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.

22 Acquisition of non-controlling interest

During the six months ended 30 June 2010 the Group increased its shareholding in Lifosa AB from 94.8% to 97.3%. The total purchase consideration comprised RR 247,234 thousand paid in cash.

23 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 30 June 2010 the Group had contractual commitments for capital expenditures of RR 14,360,230 thousand (31 December 2009: RR 9,388,416 thousand), mostly denominated in US$ and Euro (RR 7,617,923 thousand and RR 3,932,399 thousand, respectively). The management estimates that, out of these, RR 5.7 billion will represent cash outflows in 2010.

RR 9,876,538 thousand out of the total amount relates to the development of the Gremyachinskoe deposit and the construction of a potassium salt mining facility (31 December 2009: RR 5,700,730 thousand).

ii Tax legislation

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

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

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

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, 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 or the overall operations of the Group.

As at 30 June 2010 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 30 June 2010 and 31 December 2009.

23 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

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 1,305,752 thousand (31 December 2009: RR 1,433,262 thousand). These exposures primarily relate to management services and other fees charged by the holding company to the Group subsidiaries.

iii Insurance policies

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

iv Environmental matters

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

v Legal proceedings

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group.

vi Operating environment of the Group

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

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

The Group holds, among other licenses, valid licenses for the exploration and development of potash and apatite deposits issued by the relevant government authorities of the Russian Federation. Under the terms of these licenses, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of construction of mining facilities and commencement of extraction of mineral resources by certain dates. If the Company fails to materially comply with the terms of the license agreements there are circumstances whereby the licenses can be revoked. The management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licenses.

24 Subsequent events

In July 2010 the Group issued RR-denominated bonds at a nominal value of RR 5 billion bearing a coupon of 8.9% p.a. maturing in June 2018. The bonds give investors the ability to demand from the borrower redemption at par value of the bonds in July 2015.

In August 2010 the Group signed a Euro 36.7 million, 13-year export credit agency-backed loan facility for financing the acquisition of permanent hoisting equipment for the cage and skip shafts of the Gremyachinskoe potash deposit development project from a Czech engineering company.

In August 2010 the Group signed a US$ 250 million 5-year credit line agreement with a European commercial bank.

In August 2010 the Group announced an interim dividend of a gross amount of RR 1,600,040 thousand to be paid to shareholders in September 2010 subject to approval at the Group's extraordinary general meeting.