EUROCHEM GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of EuroChem Group

1 We have audited the accompanying consolidated financial statements of open joint stock company Mineral Chemical Company "EuroChem" (the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of cashflows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
20 March 2009

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets:			
Property, plant and equipment	7	41,197,799	28,722,344
Exploration rights	11	7,163,276	3,076,110
Goodwill	8	204,866	157,396
Intangible assets	9	537,568	505,264
Restricted cash	15	30,053	37,212
Available-for-sale investments	10	13,899,438	21,051
Deferred tax assets	28	1,380,972	481,733
Total non-current assets		**64,413,972**	**33,001,110**
Current assets:			
Inventories	13	11,182,594	6,218,187
Trade receivables	14	3,184,371	3,739,264
Prepayments, other receivables and other current assets	14	10,612,755	6,367,124
Originated loans	12, 30	5,729,178	-
Trading investments	16	172,271	-
Restricted cash	15	481,912	359,393
Cash and cash equivalents	15	26,225,350	15,068,490
Total current assets		**57,588,431**	**31,752,458**
Assets of disposal group classified as held-for-sale	17	273,071	256,938
Total assets		**122,275,474**	**65,010,506**
LIABILITIES & EQUITY			
Equity:			
Capital and reserves attributable to the Company's equity holders:			
Share capital	18	6,800,000	6,800,000
Treasury shares		(7,760)	(7,760)
Retained earnings and other reserves		53,434,538	31,240,463
		60,226,778	**38,032,703**
Minority interest		809,874	2,067,192
Total equity		**61,036,652**	**40,099,895**
Non-current liabilities:			
Bank borrowings	19	34,418,679	944,765
Bonds issued	20	8,453,611	7,272,832
Other non-trade payables		305,101	235,705
Deferred income tax liabilities	28	1,842,981	1,342,117
Total non-current liabilities		**45,020,372**	**9,795,419**
Current liabilities:			
Bank borrowings	19	9,093,277	4,688,947
Trade payables	21	1,793,635	1,129,879
Other accounts payable and accrued expenses	21	3,960,747	3,410,848
Income tax payable		720,690	1,367,632
Other taxes payable		618,990	849,558
Dividends payable		-	3,668,328
Total current liabilities		**16,187,339**	**15,115,192**
Liabilities of disposal group classified as held-for-sale	17	31,111	-
Total liabilities		**61,238,822**	**24,910,611**
Total liabilities and equity		**122,275,474**	**65,010,506**

Approved on behalf of the Board of Directors
20 March 2009

D.S. Strezhnev
Chief Executive Officer

A.A. Ilyin
Chief Financial Officer

	Note	2008	2007
Revenues	22	112,173,573	73,821,464
Cost of sales	23	(44,466,467)	(32,663,732)
Gross profit		**67,707,106**	**41,157,732**
Distribution costs	24	(23,282,491)	(17,120,687)
General and administrative expenses	25	(3,208,718)	(3,494,114)
Other operating income/(expenses) - net	26	(325,410)	(1,322,591)
Operating profit		**40,890,487**	**19,220,340**
Gain on disposal of available-for-sale investments	10	209,723	153,962
Gain on disposal of subsidiary		-	68,969
Gain on disposal of non-current assets held for sale	16	310,493	335,144
Loss on revaluation of trading investments	16	(395,160)	-
Finance income	27	789,108	1,524,928
Finance cost	27	(5,024,540)	(1,069,769)
Profit before taxation		**36,780,111**	**20,233,574**
Income tax expense	28	(8,891,388)	(4,059,380)
Net profit for the year		**27,888,723**	**16,174,194**
Attributable to:			
Equity holders of the Company		27,385,406	15,654,529
Minority interest		503,317	519,665
Earnings per share – basic and diluted (in RR)	29	403.13	230.44

	Note	2008	2007
Operating profit		40,890,487	19,220,340
Income tax paid		(9,726,888)	(3,768,826)
Operating profit less income tax paid		**31,163,599**	**15,451,514**
Depreciation and amortization	25	2,835,199	2,860,921
Net loss on disposals and impairment of property, plant and equipment		393,009	(4,294)
Provisions		(566,964)	190,091
Other non-cash (income)/expenses		(259,900)	351,478
Gross cash flow	5	**33,564,943**	**18,849,710**
Changes in operating assets and liabilities:			
Trade receivables		574,167	(1,768,249)
Advances to suppliers		(434,039)	(46,478)
Other receivables		(2,544,418)	(687,125)
Inventories		(5,447,656)	(807,073)
Trade payables		634,897	351,388
Advances from customers		(375,165)	144,496
Other payables		898,097	746,544
Other assets and liabilities		(115,360)	56,486
Net cash – operating activities		**26,755,466**	**16,839,699**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and other intangible assets		(14,730,809)	(7,550,893)
Purchase of exploration rights	11	(4,087,166)	(58,329)
Acquisition of interest in subsidiaries	31	(2,488,678)	(327,806)
Acquisition of subsidiary, net of cash acquired	31	(416,862)	(349,967)
Acquisition of available-for-sale investment	10	(10,101,141)	-
Proceeds from sale of property, plant and equipment		45,231	287,628
Proceeds from disposal of investments in subsidiaries		-	620,699
Prepayment for non-current assets held for sale		37,500	425,576
Proceeds from sale of available-for-sale investment	10	783,680	501,691
Dividends received		-	57,195
Repayment of originated loans	12	-	3,982,260
Originated loans		(5,118,848)	-
Interest received		533,896	519,191
Net cash – investing activities		**(35,543,197)**	**(1,892,755)**
Free cash (outflow)/inflow	5	**(8,787,731)**	**14,946,944**
Cash flows from financing activities			
Proceeds from bank borrowings	19	47,399,732	2,686,551
Repayment of bank borrowings	19	(13,995,282)	(9,995,259)
Interest paid		(1,106,969)	(1,078,496)
Proceeds from bonds		-	7,803,390
Repayment of bonds buy back		(142,439)	-
Dividends paid	18	(14,124,419)	(671,840)
Net cash – financing activities		**18,030,623**	**(1,255,654)**
Effect of exchange rate changes on cash and cash equivalents		1,913,968	(270,644)
Net increase in cash and cash equivalents		**11,156,860**	**13,420,646**
Cash and cash equivalents at the beginning of the period (net of non-current restricted cash of RR 37,212 thousand and RR 105,846 thousand respectively, and current restricted cash of RR 359,393 thousand and RR 347,245 thousand respectively)	**15**	**15,068,490**	**1,647,844**
Cash and cash equivalents at the end 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)	**15**	**26,225,350**	**15,068,490**

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital (Note 18)	Treasury shares	Cumulative currency translation differences	Revaluation of investments available-for-sale	Retained earnings	Total		
Balance at 1 January 2007		**6,800,000**	**(7,760)**	**105,721**	**155,616**	**18,969,400**	**26,022,977**	**1,986,105**	**28,009,082**
Currency translation differences		-	-	117,085	-	-	117,085	12,709	129,794
Revaluation of investments available-for-sale		-	-	-	20,966	-	20,966	-	20,966
Net income recognised directly in equity		-	-	117,085	20,966	-	138,051	12,709	150,760
Disposal of investments available-for-sale		-	-	-	(155,616)	-	(155,616)	-	(155,616)
Net profit for the period		-	-	-	-	15,654,529	15,654,529	519,665	16,174,194
Total recognised income		-	-	117,085	(134,650)	15,654,529	15,636,964	532,374	16,169,338
Dividends	18	-	-	-	-	(3,668,328)	(3,668,328)	-	(3,668,328)
Disposal of subsidiary		-	-	-	-	-	-	(82,391)	(82,391)
Acquisitions of additional interest in subsidiaries		-	-	-	-	41,090	41,090	(368,896)	(327,806)
Balance at 31 December 2007		**6,800,000**	**(7,760)**	**222,806**	**20,966**	**30,996,691**	**38,032,703**	**2,067,192**	**40,099,895**
Currency translation differences		-	-	1,306,374	-	-	1,306,374	83,973	1,390,347
Revaluation of investments available-for-sale	10	-	-	-	4,560,747	-	4,560,747	-	4,560,747
Net income recognised directly in equity		-	-	1,306,374	4,560,747	-	5,867,121	83,973	5,951,094
Disposal of investments available-for-sale		-	-	-	(209,723)	-	(209,723)	-	(209,723)
Net profit for the period		-	-	-	-	27,385,406	27,385,406	503,317	27,888,723
Total recognised income		-	-	1,306,374	4,351,024	27,385,406	33,042,804	587,290	33,630,094
Dividends	18	-	-	-	-	(10,456,091)	(10,456,091)	-	(10,456,091)
Acquisitions of subsidiaries		-	-	-	-	-	-	251,432	251,432
Acquisitions of additional interest in subsidiaries	31	-	-	-	-	(392,638)	(392,638)	(2,096,040)	(2,488,678)
Balance at 31 December 2008		**6,800,000**	**(7,760)**	**1,529,180**	**4,371,990**	**47,533,368**	**60,226,778**	**809,874**	**61,036,652**

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 and significant accounting policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by available-for-sale investments, which are accounted for at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

The Company and its subsidiaries, registered on the territory of the Russian Federation, maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting and Regulations on Accounting and Reporting adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Reclassifications. Certain reclassifications have been made to prior year balances in the consolidated balance sheet, statement of income, cash flows and notes to conform to the current period presentation.

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The Group has a subsidiary located in Lithuania, where the functional currency is the Lithuanian Lit, which is the currency of measurement in Lifosa AB's financial statements. These have been translated into Russian Roubles, the presentation currency, at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Translation from functional to presentation currency. These consolidated financial statements have been presented in Russian Roubles ("RR"), which management believes is the most useful currency to adopt for users of these consolidated financial statements. The results and financial position of each group entity are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") as follows:

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

2 Basis of presentation of significant accounting policies (continued)

Foreign exchange gains and losses that relate to borrowings and deposits are presented in the statement of income within finance income and cost. All other foreign exchange gains and losses are presented in the income statement within other operating income/(expenses).

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

In addition to RR, the Group enters into transactions in other currencies, such as the United States Dollar ("US$") and the Euro ("EUR").

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net identifiable assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses, including costs incurred in distributing finished goods from the Group manufacturing entities to sea ports, are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Purchases of minority interests. The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded in equity.

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Minor repair and maintenance costs are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the statement of income.

2 Basis of presentation of significant accounting policies (continued)

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and land improvements	20 to 50
Transfer devices	20 to 35
Machinery and equipment	10 to 25
Transport	10 to 25
Other items	3 to 10

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

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

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.

Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include acquired land lease agreements and capitalized computer software costs.

Acquired computer software licenses, beneficial land and equipment lease agreements are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if it is probable that inflows of incremental economic benefits will exceed costs. Capitalised costs include staff costs of the software development team and cost of materials used. All other costs associated with computer software, e.g. maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Land lease agreement	45
Equipment lease agreement	5
Software licences	5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2 Basis of presentation of significant accounting policies (continued)

Exploration assets. Expenditures incurred in exploration activities (acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) are expensed unless they meet the definition of an asset. The Group recognises an asset when it is probable that economic benefits will flow to the Group as a result of the expenditure. In accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources,* exploration assets are measured applying the cost model described in IAS 16, *Property, plant and equipment* after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Exploration assets are tested for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

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

Financial assets held for trading are classified in this category if acquired principally for the purpose of selling in the short term. Trading investments are not reclassified out of this category even when the Group intentions subsequently change.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

"Held-to-maturity" classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. At 31 December 2008 and 2007 the Group did not have held to maturity investments on its balance sheet.

All other financial assets are included in the available-for-sale category.

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

All purchases and sales of financial instruments that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date, with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available-for-sale.

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

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the balance sheet date for each country where the Group subsidiaries are registered. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. The most significant Group subsidiaries are registered in Russia, where the corporate profit tax rate is 24% (2007: 24%). 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.

2 Basis of presentation of significant accounting policies (continued)

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

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

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

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

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income. When a receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the statement of income.

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

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale assets or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

2 Basis of presentation of significant accounting policies (continued)

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

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

Value added tax. Value added tax related to sales is payable to the tax authorities when the receivables from customers are recognised. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Borrowings. Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method. Borrowing costs are expensed. Borrowings are classified as current liabilities unless the Group has an unconditional obligation to settle the liability for more than 12 months after the balance sheet date.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

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

Asset retirement obligations. The estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period.

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

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable.

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

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

Group companies operate a defined benefit plan which is a pension plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method and is charged to the statement of income so as to spread the service cost over the service lives of the employees. The liability recognised in the balance sheet, in respect of defined benefit pension plans, is the present value of the defined benefit obligation at the balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that are denominated in a currency in which the benefits will be paid and that have terms of maturity approximating to the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in the statement of income.

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

2 Basis of presentation of significant accounting policies (continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8.

Taxation. Judgments are required in determining current income tax liabilities (Note 32). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred taxes provision in the period in which such determination is made.

Deferred income tax recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and estimates based on the last three years' taxable profits and expectations of future income that are believed to be reasonable under the circumstances (Note 28).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries to the amount of RR 14,900,117 thousand (2007: RR 18,530,741 thousand) as the Group controls the timing of the reversal of those temporary differences.

Related party transactions. The Group enters into transactions with its related parties in the normal course of business. These transactions are priced predominantly at market rates. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining whether transactions are priced at market or non-market interest rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties and performing effective interest rate analyses.

Export duties. In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties applicable to the Group's products were 8.5% of the declared customs value for nitrogen and complex fertilizers and 6.5% of the declared customs value for apatite. Export revenues are shown gross of above mentioned duties of RR 2,870,983 thousand (2007: nil). In making this judgment the Group considered that these export duties in substance represent a cost for the Group, rather than a sales tax collected on behalf of government authorities.

Impairment test of property, plant and equipment. At 31 December 2008 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period and the expected market prices for key fertilizers for the same period according to the leading industry publications, which are broadly in line with 2007 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used of 16.3% is pre-tax and reflects specific risks relating to the relevant CGUs.

4 Adoption of new or revised standards and interpretations

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's consolidated financial statements;

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

- 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). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its consolidated financial statements;
- 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 prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its consolidated financial statements;
- 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 will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be 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 expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- 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 will require 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 will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its financial statements;
- 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). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments;
- 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 will allow 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 will have 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 will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be 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 Group is currently assessing the impact of the amended standard on its financial statements;
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not applicable to the Group as the Group companies do not currently operate any loyalty programmes;

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

- 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 the manner of determining the 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 Group does not expect the amendments to have any material effect on its consolidated financial statements;

- 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 will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners;

- 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). 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 has concluded that the revised standard does not have any effect on its consolidated financial statements;

- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). 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 is not expected to have any impact on the Group's financial statements;

- 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). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements;

The Group has not early adopted the following other new standards or interpretations:

- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);

- 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);

- 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);

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

5 Cash flow statement

In managing the business, management focuses on a number of cash flow measures including 'gross cash flow' and 'free cash flow'. Gross cash flow refers to the operating profit after taxes and adjusted for items which are not of a cash nature which have been charged or credited to the statement of income. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities. The gross cash flow for the year ended 31 December 2008 was RR 33,564,943 thousand (2007: RR 18,849,710 thousand).

Free cash flows are the cash flows available to providers of finance of the business, be this debt or equity. The free cash outflow for the year ended 31 December 2008 was RR 8,787,731 thousand and the free cash inflow for the year ended 31 December 2007 was RR 14,946,944 thousand.

Since these terms are not standard IFRS measures EuroChem Group's definition of gross cash flow and free cash flow may differ from that of other companies.

6 Segment information

The Group's primary format for reporting segment information is geographical and the secondary format is business segments.

Primary reporting format – geographical segments

Revenues in the domestic market are from sales to customers located in the Russian Federation; export sales are to customers located outside the Russian Federation. Sales between segments are carried out at arm's length.

The segmental results for the year ended 31 December 2008 were as follows:

	Export	Domestic	Unallocated	Eliminated	Total
Revenue – external	93,082,697	19,090,876	-	-	**112,173,573**
Revenue – between segments	8,494,049	9,140,386	-	(17,634,435)	**-**
Total revenue	101,576,746	28,231,262	-	(17,634,435)	**112,173,573**
Operating profit	32,064,901	10,049,731	(1,224,145)	-	**40,890,487**
Gain on disposal of non-current assets	-	-	520,216	-	**520,216**
Loss on revaluation of trading investments	-	-	(395,160)	-	**(395,160)**
Finance income and cost, net	-	-	(4,235,432)	-	**(4,235,432)**
Profit before taxation	-	-	-	-	**36,780,111**
Income tax	-	-	(8,891,388)	-	**(8,891,388)**
Net profit	**-**	**-**	**-**	**-**	**27,888,723**

The segmental results for the year ended 31 December 2007 were as follows:

	Export	Domestic	Unallocated	Eliminated	Total
Revenue – external	58,833,155	14,988,309	-	-	**73,821,464**
Revenue – between segments	2,010,410	3,461,626	-	(5,472,036)	**-**
Total revenue	60,843,565	18,449,935	-	(5,472,036)	**73,821,464**
Operating profit	17,310,734	3,336,973	(1,427,367)	-	**19,220,340**
Gain on disposal of non-current assets	-	-	558,075	-	**558,075**
Finance income and cost, net	-	-	455,159	-	**455,159**
Profit before taxation	-	-	-	-	**20,233,574**
Income tax	-	-	(4,059,380)	-	**(4,059,380)**
Net profit	**-**	**-**	**-**	**-**	**16,174,194**

The total depreciation and amortization costs included in the statement of income for the years ended 31 December 2008 and 31 December 2007 are as follows:

	Export	Domestic	Unallocated	Total
2008	372,563	2,462,636	-	**2,835,199**
2007	337,906	2,523,015	-	**2,860,921**

The total provision for/reversal of impairment of receivables included in the statement of income for the years ended 31 December 2008 and 31 December 2007 are as follows:

	Export	Domestic	Unallocated	Total
2008	(4,215)	130,108	-	**125,893**
2007	-	(93,155)	-	**(93,155)**

6 Segment information (continued)

Primary reporting format – geographical segments (continued)

The segment assets and liabilities as at 31 December 2008 and 31 December 2007 and capital expenditure for the years ended 31 December 2008 and 31 December 2007:

31 December 2008	Export	Domestic	Unallocated	Total
Assets	29,816,842	70,864,354	21,594,278	**122,275,474**
Liabilities	(2,349,609)	(4,815,383)	(54,073,830)	**(61,238,822)**
Capital expenditure	515,080	14,217,996		**14,733,076**

31 December 2007	Export	Domestic	Unallocated	Total
Assets	22,145,186	42,086,500	778,820	**65,010,506**
Liabilities	(1,662,230)	(3,791,126)	(19,457,255)	**(24,910,611)**
Capital expenditure	483,191	7,176,147	-	**7,659,338**

Certain assets and liabilities were allocated to geographical segments on the basis of revenues. Property, plant and equipment and capital expenditures are allocated to the segments where the assets are physically located.

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, receivables and cash. Capital expenditure comprises additions to property, plant and equipment and construction in progress. Segment liabilities comprise operating liabilities. Financial assets, related parties loans, deferred and current income taxes, borrowings and finance costs are unallocated components.

Secondary reporting format – business segments

At 31 December 2008 and 31 December 2007 the Group is organized into four business segments:

(i) Nitrogen – comprising the production and sale of nitrogen mineral fertilisers

(ii) Phosphate – comprising the production and sale of phosphate mineral fertilisers

(iii) Mining – comprising extraction of ores to produce and subsequently sale apatite, baddeleyite and iron-ore concentrates

(iv) Potash – the Group also acquired a license for the extraction and manufacture of potassium fertilizers (“potash”) and continues to develop this relatively new segment (Note 11). No sales have been recorded to date in this segment.

The segment assets and capital expenditure for the years ended 31 December 2008 and 31 December 2007 may be analysed based on the use of the assets as follows:

31 December 2008	Nitrogen	Phosphate	Mining	Potash	Other	Unallocated	Total
Revenue	51,367,076	42,759,597	13,458,015	-	4,588,885	-	**112,173,573**
Assets	32,762,882	24,784,288	16,161,453	8,489,318	18,483,255	21,594,278	**122,275,474**
Capital expenditure	4,722,423	2,516,526	968,314	3,963,558	2,562,255	-	14,733,076

31 December 2007	Nitrogen	Phosphate	Mining	Potash	Other	Unallocated	Total
Revenue	38,815,237	22,201,550	8,489,194	-	4,315,483	-	**73,821,464**
Assets	27,215,359	12,547,518	9,332,136	4,147,997	10,988,676	778,820	**65,010,506**
Capital expenditure	1,963,594	1,174,793	1,627,147	813,098	2,080,706	**-**	**7,659,338**

Other segment includes assets, which are engaged in production of other goods and services and can not be directly allocated to Nitrogen, Phosphate, Mining or Potash segments. None of these assets forms a separate reportable segment.

7 Property, plant and equipment

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

	Buildings	Land and Land Improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2008	**6,181,150**	**3,107,161**	**3,615,980**	**20,056,160**	**5,470,011**	**864,776**	**7,634,622**	**46,929,860**
Additions and transfers from assets under construction	352,238	525,431	81,629	1,531,080	1,131,409	363,182	10,748,107	14,733,076
Acquisitions through business combinations	347,481	177,575	44,697	63,428	1,539	14,451	575	649,746
Disposals	(13,634)	(6,236)	(26,601)	(85,641)	(7,189)	(41,117)	(2,156)	(182,574)
Reclassification to non-current assets held for disposal	(77,346)	(52,855)	(37,714)	(149,435)	(1,730)	(4,242)	(82,641)	(405,963)
Idle property, plant and equipment write-off	(112,787)	(43,238)	(26,367)	(136,820)	(1,609)	(5,564)	(20,563)	(346,948)
Currency translation difference (Note 2)	203,592	136,386	92,007	357,088	24,888	20,615	70,617	905,193
Balance at 31 December 2008	**6,880,694**	**3,844,224**	**3,743,631**	**21,635,860**	**6,617,319**	**1,212,101**	**18,348,561**	**62,282,390**
Accumulated Depreciation and Impairment								
Balance at 1 January 2008	**(1,963,363)**	**(1,015,240)**	**(2,054,680)**	**(10,895,306)**	**(1,840,914)**	**(438,013)**	**-**	**(18,207,516)**
Charge for the year	(236,635)	(321,472)	(152,742)	(1,545,331)	(457,789)	(181,628)	-	(2,895,597)
Disposals	880	2,239	22,002	49,286	2,639	25,650	-	102,696
Reclassification to non-current assets held for disposal	48,348	19,049	37,706	133,166	524	2,010	-	240,803
Idle property, plant and equipment write-off	380	908	23,886	6,972	83	1,588	-	33,817
Currency translation difference (Note 2)	(35,657)	(65,842)	(31,536)	(197,538)	(12,152)	(16,069)	-	(358,794)
Balance at 31 December 2008	**(2,186,047)**	**(1,380,358)**	**(2,155,364)**	**(12,448,751)**	**(2,307,609)**	**(606,462)**	**-**	**(21,084,591)**
Net Carrying Value								
Balance at 1 January 2008	**4,217,787**	**2,091,921**	**1,561,300**	**9,160,854**	**3,629,097**	**426,763**	**7,634,622**	**28,722,344**
Balance at 31 December 2008	**4,694,647**	**2,463,866**	**1,588,267**	**9,187,109**	**4,309,710**	**605,639**	**18,348,561**	**41,197,799**

7 Property, plant and equipment (continued)

	Buildings	Land and Land Improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Gross carrying value								
Balance at 1 January 2007	**6,307,799**	**2,664,312**	**3,341,548**	**18,697,105**	**4,158,655**	**594,214**	**4,803,714**	**40,567,347**
Additions and transfers from assets under construction	412,799	456,882	357,020	1,880,394	1,389,461	281,333	2,881,449	7,659,338
Acquisitions through business combinations	12,120	11,805	-	47,897	8,911	849	8,437	90,019
Disposals	(67,586)	(26,698)	(9,863)	(285,737)	(65,409)	(13,167)	-	(468,460)
Disposal of subsidiary	(193,332)	-	(25,583)	(5,193)	(21,391)	(1,044)	(44,512)	(291,055)
Idle property, plant and equipment write-off	(322,704)	(21,550)	(60,467)	(334,667)	(4,549)	(400)	(26,506)	(770,843)
Currency translation difference (Note 2)	32,054	22,410	13,325	56,361	4,333	2,991	12,040	143,514
Balance at 31 December 2007	**6,181,150**	**3,107,161**	**3,615,980**	**20,056,160**	**5,470,011**	**864,776**	**7,634,622**	**46,929,860**
Accumulated Depreciation and Impairment								
Balance at 1 January 2007	**(1,813,449)**	**(785,404)**	**(1,966,091)**	**(9,728,296)**	**(1,443,497)**	**(315,236)**	**-**	**(16,051,973)**
Charge for the year	(308,985)	(244,208)	(153,352)	(1,520,839)	(459,456)	(125,044)	-	(2,811,884)
Disposals	25,321	12,496	10,669	83,474	49,604	3,562	-	185,126
Disposal of subsidiary	16,547	271	2,440	2,625	10,319	691	-	32,893
Idle property, plant and equipment write-off	122,409	12,359	56,383	298,128	4,180	379	-	493,838
Currency translation difference (Note 2)	(5,206)	(10,754)	(4,729)	(30,398)	(2,064)	(2,365)	-	(55,516)
Balance at 31 December 2007	**(1,963,363)**	**(1,015,240)**	**(2,054,680)**	**(10,895,306)**	**(1,840,914)**	**(438,013)**	**-**	**(18,207,516)**
Net Carrying Value								
Balance at 1 January 2007	**4,494,350**	**1,878,908**	**1,375,457**	**8,968,809**	**2,715,158**	**278,978**	**4,803,714**	**24,515,374**
Balance at 31 December 2007	**4,217,787**	**2,091,921**	**1,561,300**	**9,160,854**	**3,629,097**	**426,763**	**7,634,622**	**28,722,344**

7 Property, plant and equipment (continued)

Bank borrowings were secured on property, plant and equipment with a net book value of RR 10,546 thousand and pledge value of RR 30,659 thousand (2007: net book value of RR 269,812 thousand and pledge value of RR 287,903 thousand).

The Group decided to mothball certain production equipment with a gross carrying value and accumulated depreciation of RR 346,948 thousand and RR 33,817 thousand, respectively, at 31 December 2008 (2007: gross carrying value of RR 770,843 thousand and accumulated depreciation of RR 493,838 thousand) and recognised a loss of RR 313,131 thousand in these consolidated financial statements (2007: RR 277,005 thousand) (Note 23).

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. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been 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 the 1 January 2010. At 31 December 2008 three subsidiaries of the Group had bought part of the land on which their main production facilities are located at a price of RR 23,564 thousand.

8 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2008	2007
Carrying amount at 1 January		**157,396**	**213,824**
Acquisition of subsidiary	31	47,470	133,422
Disposals		-	(189,850)
Carrying amount at 31 December		**204,866**	**157,396**

Goodwill Impairment Test. Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	Note	2008	2007
CJSC Murmansk Alumina Terminal		116,498	116,498
OJSC Agrokhimik	31	47,470	-
Tankchem Aktsiaselts		7,004	7,004
Other		33,894	33,894
Total carrying amount of goodwill		**204,866**	**157,396**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period.

The discount rate used of 16.3% is pre-tax and reflects risks relating to the relevant CGUs.

The Group did not recognize any goodwill impairment at 31 December 2008 and 31 December 2007.

9 Intangible assets

	Note	Acquired Software, Licences	Other	Total
Cost at 1 January 2007		**358,260**	**379,893**	**738,153**
Accumulated depreciation		**-**	**(84,912)**	**(84,912)**
Carrying amount at 1 January 2007		**358,260**	**294,981**	**653,241**
Additions		15,533	-	15,533
Acquired through business combination		-	148,974	148,974
Disposed with a subsidiary		-	(271,480)	(271,480)
Amortisation charge		(41,004)	-	(41,004)
Cost at 31 December 2007		**373,793**	**172,475**	**546,268**
Accumulated depreciation		**(41,004)**	**-**	**(41,004)**
Carrying amount at 31 December 2007		**332,789**	**172,475**	**505,264**
Additions		35,935	1,127	37,062
Acquired through business combination	31	-	47,772	47,772
Amortisation charge		(54,498)	(866)	(55,364)
Currency translation difference		-	2,834	2,834
Cost at 31 December 2008		**409,728**	**224,208**	**633,936**
Accumulated depreciation		**(95,502)**	**(866)**	**(96,368)**
Carrying amount at 31 December 2008		**314,226**	**223,342**	**537,568**

The Group's other intangible assets include different intangible assets which have definite and indefinite useful lives.

The Group's intangible assets with indefinite useful life mainly comprise an exclusive land lease agreement for the bulk-handling cargo dock in Murmansk with a carrying value of RR 148,974 thousand at 31 December 2008 (2007: RR 148,974 thousand).

An exclusive land lease agreement for a plot of land in Kazakhstan acquired in a business combination with a carrying value of RR 47,772 thousand at 31 December 2008 has a definite useful life and will be amortised over the residual period not exceeding 41 years.

No impairment was recognised for these assets at 31 December 2008 and 31 December 2007.

10 Available-for-sale Investments

At 31 December 2008 available-for-sale investments comprised the shares of K+S Group, a German manufacturer of potassium-based fertilizers, and OJSC Sberbank.

During October, November and December 2008, the Group acquired 4,565,802 ordinary shares of K+S Group from MCC Holding Ltd. for RR 5,449,233 thousand paid in cash and 4,340,947 ordinary shares of K+S Group on the open market for RR 4,651,908 thousand. In December 2008 the Group sold 517,973 K+S Group shares (0.31% of the share capital) for RR 783,680 thousand and recognised a gain of RR 209,723 thousand in the statement of income. The Group determined the fair value of the remaining 8,388,776 shares in K+S Group as RR 13,895,175 thousand with reference to the share price quoted on the Xetra trading system. The increase in the fair value of the investment of RR 4,367,812 thousand was recognised in equity at 31 December 2008.

At 31 December 2008 the shares of OJSC Sberbank were accounted for at a fair value of RR 4,263 thousand (2007: RR 21,051 thousand). There was an unrealized loss of RR 16,788 thousand relating to these investments recorded in the statement of equity for the year ended 31 December 2008.

In 2007 the Group recognised a gain of RR 153,962 thousand in the statement of income on the sale of its stake in OJSC Sylvinit to a third party for RR 501,691 thousand.

11 Exploration rights

At 31 December 2008 the exploration rights balance of RR 7,163,276 thousand (2007: RR 3,076,110 thousand) comprised the rights for exploration and production at the Gremyachinskoe potash deposit acquired in December 2005 and accounted for at a cost of RR 3,017,781 thousand, the Kovdorsky deposit acquired in April 2007 and accounted for at a cost of RR 58,329 thousand and the Verhnekamskoe potash deposit acquired in March 2008 and accounted for at a cost of RR 4,087,166 thousand.

11 Exploration rights (continued)

In accordance with the conditions of the licence agreements, the Group has the following commitments:

- to commence construction of a potassium salt mining facility at the Gremyachinskoe potash deposit by 25 May 2009
- to commence extraction of potash salt at the Gremyachinskoe potash deposit by December 2012
- to commence construction of an exploration complex at the Verkhnekamskoe potash deposit by 15 April 2012
- to commence extraction of potash salt at the Verkhnekamskoe potash deposit by 15 April 2014.

The Group has launched all necessary actions to carry forward the construction of the mining facilities. The management believes that each stage of the process will be completed according to the schedule.

During 2008 the Group incurred expenses of RR 3,953,093 thousand (2007: RR 812,257 thousand) including advances to suppliers of RR 1,123,651 thousand (2007: RR 157,977 thousand) directly related to the development of the Gremyachinskoe, Verkhnekamskoe and Kovdorsky deposits. These expenses were capitalised on the balance sheet in accordance with the Group accounting policy and included in the assets under construction balance.

12 Originated loans

In October 2008 the Group provided MCC Holding Ltd. with a US$ denominated, unsecured loan at an interest rate of 1 month Libor +2.5% which was outstanding at 31 December 2008 amounting to RR 5,729,178 thousand. The maturity date is 21 April 2009 (Note 30). At 31 December 2008 the fair value of the loan was not materially different from its carrying amount.

In February 2007 MCC Holding Ltd., repaid to the Group the entire balance of the US$ denominated, unsecured, 8% annual interest loan issued in September 2006 of RR 3,982,260 thousand at the exchange rate at the date of repayment (Note 30).

13 Inventories

	2008	2007
Materials	4,050,120	2,855,707
Work in progress	1,065,593	440,808
Finished goods	4,987,935	1,878,573
Catalysts	1,465,009	1,451,543
Less: provision for obsolete and damaged inventories	(386,063)	(408,444)
Total inventories	**11,182,594**	**6,218,187**

The Group wrote-off materials to their net realisable value and recognised a loss of RR 325,416 thousand in the statement of income (Note 23).

At 31 December 2008 the Group has no bank borrowings secured on inventories (2007: carrying value of RR 285,363 thousand and pledge value of RR 242,560 thousand).

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

	2008	2007
Trade receivables		
Trade receivables denominated in RR	867,040	926,270
Trade receivables denominated in US$	1,955,166	3,377,260
Trade receivables denominated in EUR	186,081	186,330
Trade receivables denominated in other currencies	296,379	95,209
Less: impairment provision	(120,295)	(845,805)
Total trade receivables	**3,184,371**	**3,739,264**
Prepayments, other receivables and other current assets		
Advances to suppliers denominated in RR	2,662,847	2,122,556
Advances to suppliers denominated in US$	200,640	319,869
Advances to suppliers denominated in EUR	69,224	62,035
VAT recoverable and receivable	5,922,485	3,162,115
Income tax receivable	1,192,047	33,035
Other taxes receivable	64,134	123,590
Other receivables	545,590	602,220
Less: impairment provision	(44,212)	(58,296)
Total other receivables	**10,612,755**	**6,367,124**
Total trade receivables, prepayments, other receivables and other current assets	**13,797,126**	**10,106,388**

14 Trade receivables, prepayments, other receivables and other current assets (continued)

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

As of 31 December 2008, accounts receivable, prepayments and other current assets of RR 164,507 thousand (31 December 2007: RR 904,101 thousand) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to customers who started to experience financial difficulties due to the sharp worsening of the economic environment. A portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	2008	2007
Less than 3 months	7,208	6,823
From 3 to 12 months	32,879	49,777
Over 12 months	124,420	847,501
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets	**164,507**	**904,101**

The other classes within accounts receivable, prepayments and other current assets do not contain impaired assets.

Financial assets which are potentially subject to credit risk, consist principally of trade receivables.

As of 31 December 2008, trade receivables of RR 971,128 thousand (31 December 2007: RR 434,930 thousand) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2008	2007
Less than 3 months	562,103	421,634
From 3 to 12 months	394,513	13,296
Over 12 months	14,512	-
Trade accounts receivable past due not impaired	**971,128**	**434,930**

The movements in the provision for impairment of accounts receivable are as follows:

		2008		2007	
	Note	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January		845,805	58,296	1,613,795	58,941
Provision charged	24, 25	37,409	2,032	96,342	30,861
Provision used		(690,702)	(14,870)	(801,110)	(26,342)
Provision reversed	24, 25	(164,088)	(1,246)	(28,884)	(5,164)
Foreign exchange difference		91,871	-	(34,338)	-
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets		**120,295**	**44,212**	**845,805**	**58,296**

The exposure to credit risk relating to financial receivables on the reporting date is the fair value of each class of trade receivables mentioned above.

15 Cash and cash equivalents

	2008	2007
Cash on hand and bank balances denominated in RR	1,094,542	978,366
Bank balances denominated in US$	1,859,365	3,210,705
Bank balances denominated in EUR	833,523	1,291,273
Balances denominated in other currencies	211,259	127,887
Term deposits denominated in US$	20,048,393	4,174,909
Term deposits denominated in EUR	1,343,150	-
Term deposits denominated in RR	835,118	5,285,350
Total cash and cash equivalents	**26,225,350**	**15,068,490**
Current restricted cash	481,912	359,393
Non-current restricted cash	30,053	37,212
Total restricted cash	**511,965**	**396,605**

Term deposits at 31 December 2008 and 31 December 2007 have various original maturities but could be withdrawn on request without any restrictions.

15 Cash and cash equivalents (continued)

All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2008	2007
A to AAA rated**	17,027,631	6,555,211
BB- to BBB+ rated**	9,523,043	8,723,324
B- to B+ rated**	44,276	15,862
Unrated	139,416	169,233
Total*	**26,734,366**	**15,463,630**

* The rest of the balance sheet item ‘cash and cash equivalents’ is cash on hand and other cash equivalents.
** Based on the credit ratings of independent rating agencies Standard & Poor’s, Fitch Ratings and Moody’s Investors Services as at 5 February 2009.

At 31 December 2008 non-current restricted cash of RR 30,053 thousand (2007: RR 37,212 thousand) consists of a deposit for possible environmental obligations as required under statutory Lithuanian rules.

At 31 December 2008 current restricted cash of RR 326,122 thousand (2007: RR 359,393 thousand) consists of cash held at banks to meet the next principal and interest payments (Note 19). The rest of the current restricted cash balance of RR 155,790 thousand at 31 December 2008 primarily consists of letters of credit issued by the Group to its suppliers.

The fair value of cash and cash equivalents is equal to their carrying amount.

16 Trading investments

On 6 March 2008, the Group converted 29.95% of the voting shares of OJSC Tulenergo into 2.01% of the voting shares of OJSC MRSK “Center and Volga region”. The Group’s investment in shares of OJSC Tulenergo were classified as assets held for sale from the date of acquisition and accounted for at the lower of their cost and cost to sell of RR 256,938 thousand at 31 December 2007. At the date of conversion, the Group reflected the disposal of the 29.95% stake in OJSC Tulenergo in its balance sheet and accounted for its 2.01% stake in OJSC MRSK “Center and Volga region” as trading investments at their fair value of RR 567,431 thousand, determined with reference to the Russian Trade System (“RTS”). The resulting gain of RR 310,493 thousand was recognised in the statement of income. At the balance sheet date the fair value of the investment was RR 172,271 thousand determined with reference to the RTS quote at 31 December 2008. The loss on revaluation of this investment of RR 395,160 thousand was recognised in the statement of income.

17 Non-current assets held for sale

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. 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 rest of the consideration within one year. The outstanding amount bears a 20% annual interest charge.

The major classes of assets of LLC Novomoskovsky Chlor include:

	31 December 2008
Property, plant and equipment	165,160
Inventories	51,037
Trade and other receivables	29,562
Cash and cash equivalents	27,312
Total assets of disposal group classified as held for sale	**273,071**

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

	31 December 2008
Trade and other payables	31,111
Total liabilities of disposal group classified as held for sale	**31,111**

18 Equity

The nominal registered amount of the Company's issued share capital at 31 December 2008 is RR 6,800,000 thousand (2007: RR 6,800,000 thousand). The total authorised number of ordinary shares is 68,000,000 shares (2007: 68,000,000) with a par value of RR 100 per share. All authorised shares have been fully paid.

	Number of ordinary shares	Share capital	Treasury shares	Total
At 31 December 2006	**68,000,000**	**6,800,000**	**(7,760)**	**6,792,240**
At 31 December 2007	**68,000,000**	**6,800,000**	**(7,760)**	**6,792,240**
At 31 December 2008	**68,000,000**	**6,800,000**	**(7,760)**	**6,792,240**

Treasury shares. LLC PG Phosphorit, a 100% subsidiary of the Group, held 68,000 ordinary shares of the Company at 31 December 2008 (2007: 68,000 shares). These shares represent 0.1% of the Company's share capital and carry voting rights in the same proportion as other ordinary shares. The voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. For the year ended 31 December 2008, the net statutory profit of the Company as reported in the published annual statutory accounting report was RR 18,462,526 thousand (2007: RR 474,564 thousand) and the closing balance of the accumulated profit including the net statutory profit totaled RR 22,971,954 thousand (2007: RR 14,975,988 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation in relation to the depletion of distributable reserves. Accordingly management believes that, at present, it would not be appropriate to disclose an amount for the distributable reserves in this consolidated financial information.

Other reserves. As at 31 December 2008 other reserves in the statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 1,529,180 thousand and an increase in the fair value of investments in the shares of K+S Group of RR 4,367,812 thousand and an accumulated increase in the fair value of investments in the shares of OJSC Sberbank of RR 4,178 thousand (Note 10). As at 31 December 2007 other reserves in the statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 222,806 thousand and an increase in the fair value of investments in the shares of OJSC Sberbank of RR 20,966 thousand (Note 10).

Dividends. Dividends declared and paid during the year were as follows:

	2008	2007
Dividends payable at 1 January	**3,668,328**	**671,840**
Dividends declared during the year	10,456,091	3,668,328
Dividends paid during the year	(14,124,419)	(671,840)
Dividends payable at 31 December	**-**	**3,668,328**
Dividends per share declared during the year	**RR 153.92**	**RR 54.00**

In November 2008 the shareholders approved an interim dividend of RR 3,430,563 thousand (RR 50.50 per share) for the third quarter ended 30 September 2008.

In September 2008 the shareholders approved an interim dividend of RR 3,512,764 thousand (RR 51.71 per share) for the second quarter ended 30 June 2008.

In April 2008 the shareholders approved a final dividend payment for the year ended 31 December 2007 of RR 1,171,148 thousand (RR 17.24 per share) together with an interim dividend of RR 2,341,616 thousand (RR 34.47 per share) for the three months ended 31 March 2008.

In December 2007 the shareholders approved interim dividends for the nine months ended 30 September 2007 of RR 3,668,328 thousand (RR 54.00 per share).

The total amount of dividends attributable to treasury shares have been eliminated. All dividends are declared and paid in Russian Roubles.

19 Bank borrowings

	2008	2007
Balance as at 1 January	**5,633,712**	**13,404,443**
Bank loans received, denominated in US$	47,348,079	2,629,215
Bank loans received, denominated in RR	51,653	57,336
Bank loans repaid, denominated in US$	(13,807,859)	(9,830,565)
Bank loans repaid, denominated in EUR	(154,657)	(92,358)
Bank loans repaid, denominated in RR	(32,766)	(72,336)
Capitalisation and amortization of bank borrowings syndication fees	(529,869)	43,379
Currency translation difference	5,003,663	(505,402)
Balance as at 31 December	**43,511,956**	**5,633,712**

	2008	2007
Current bank borrowings		
Bank loans, denominated in US$	-	523,179
Bank loans, denominated in RR	18,887	-
Current portion of long-term US$ loans	9,074,390	4,017,481
Current portion of long-term EUR loans	-	148,287
Total current bank borrowings	**9,093,277**	**4,688,947**
Non-current bank borrowings		
Long-term bank loans, denominated in US$	43,493,069	4,962,246
Long-term bank loans, denominated in EUR	-	148,287
Less: Current portion of long-term bank loans	(9,074,390)	(4,165,768)
Total non-current bank borrowings	**34,418,679**	**944,765**
Total bank borrowings	**43,511,956**	**5,633,712**

At 31 December 2008 and 31 December 2007 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

Bank loans (including current portion) denominated in US$ bear a floating interest rate of 1 month Libor + 1.8% (2007: from 1 month Libor +1.25%, 12 months Libor +1.6%). At 2008 the Group does not have any loans denominated in EUR (2007: floating interest rate Euribor +2%).

Collaterals and pledges

Pledged assets as at 31 December 2008 comprise property, plant and equipment (Note 7) and cash balances of RR 326,122 thousand (31 December 2007: RR 359,393 thousand) restricted by banks to secure the next principal and interest payments (Note 15). Pledged assets as at 31 December 2007 comprise property, plant and equipment (Note 7), inventories (Note 13) and the restricted cash.

Bank loans of RR 43,493,069 thousand and RR 4,961,401 thousand at 31 December 2008 and 31 December 2007, 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 December 2008	31 December 2007
- within 1 year	9, 093,277	4,688,947
- between 1 and 2 years	12,149,084	944,765
- between 2 and 5 years	22,269,595	-
Total bank borrowings	**43,511,956**	**5,633,712**

20 Bonds issued

On 21 March 2007 the Group placed through an offering to the public under an open subscription US$ denominated, 7.875% notes with a face value of US$ 300 million to be redeemed on 21 March 2012. These notes have been admitted to the official list and are trading on the regulated market of the Irish Stock Exchange. On 11 December 2008 the Group bought back and cancelled bonds to the value of US$ 10 million and recognised a gain of RR 135,141 thousand in the statement of income (Note 27).

The outstanding balance of the notes was RR 8,453,611 thousand at 31 December 2008, applying the exchange rate at that date net of syndication fees.

The fair value of the outstanding notes balance at 31 December 2008 was RR 4,303,400 thousand with reference to Irish Stock Exchange quotations as of that date.

21 Trade payables, other accounts payable and accrued expenses

	2008	2007
Trade payables		
Trade payables denominated in RR	1,015,564	602,975
Trade payables denominated in US$	304,100	349,409
Trade payables denominated in EUR	145,095	65,931
Trade payables denominated in other currencies	328,876	111,564
Total trade payables	**1,793,635**	**1,129,879**
Other accounts payable and accrued expenses		
Advances received denominated in RR	411,632	280,640
Advances received denominated in US$	265,609	770,541
Advances received denominated in EUR	18,667	29,330
Advances received denominated in other currencies	9,888	450
Payroll and social tax	261,153	299,360
Accrued liabilities and other creditors	2,993,798	2,030,527
Total other payable	**3,960,747**	**3,410,848**
Total trade payables, other accounts payable and accrued expenses	**5,754,382**	**4,540,727**

22 Revenues

The components of revenues were as follows:

	2008	2007
Nitrogen fertilizers	**44,054,692**	**31,299,562**
Phosphate fertilizers		
Phosphates	32,180,079	17,941,373
Complex fertilizers group	6,427,423	2,301,542
Feed phosphates group	4,152,095	1,958,634
Total phosphate fertilizers	**42,759,597**	**22,201,549**
Mineral raw materials		
Iron-ore concentrate	11,008,535	8,026,456
Baddeleyite concentrate	426,233	440,119
Apatite concentrate	2,023,247	22,619
Total mineral raw materials	**13,458,015**	**8,489,194**
Organic synthesis products	**7,312,384**	**7,515,673**
Other		
Chlorides	382,383	475,047
Acids	690,420	556,693
Logistic services	959,362	1,275,866
Other sales of goods	1,240,763	1,022,815
Other sales of services	1,315,957	985,065
Total other	**4,588,885**	**4,315,486**
Total revenues	**112,173,573**	**73,821,464**

23 Cost of sales

The components of cost of sales were as follows:

	Note	2008	2007
Materials and components used or resold		25,000,693	16,012,088
Depreciation of property, plant and equipment		2,273,892	2,401,148
Energy		3,854,513	3,715,787
Utilities and fuel		2,209,539	2,051,190
Labour, including contributions to social funds		6,009,289	4,988,632
Repairs and maintenance		1,172,945	702,178
Production overheads		1,040,299	489,584
Property tax, rent payments for land and related taxes		937,968	685,961
Cost of logistic services		1,143,211	1,124,952
Idle property, plant and equipment write-off	7	313,131	277,005
(Reversal of provision)/ provision for obsolete and damaged inventory and finished goods		(22,381)	37,522
Write down of inventories to net realisable value		325,416	-
Other costs		207,952	177,685
Total cost of sales		**44,466,467**	**32,663,732**

24 Distribution costs

Distribution costs comprised:

	Note	2008	2007
Transportation		17,838,778	15,084,760
Export duties,other fees and commissions		3,027,912	128,793
Depreciation		367,955	255,124
Labour, including contributions to social funds		888,143	774,835
Repair		652,556	574,818
Provision for impairment of receivables	14	4,133	3,119
Other		503,014	299,238
Total distribution costs		**23,282,491**	**17,120,687**

25 General and administrative expenses

General and administrative expenses comprised:

	Note	2008	2007
Labour, including contributions to social funds		1,713,592	1,566,546
Repairs and maintenance		94,810	148,618
Depreciation and amortization		193,352	204,649
Social expenditure		90,760	145,844
Audit, consulting and legal services		275,753	216,521
Rent		138,930	153,468
Provision for impairment of receivables	14	(130,026)	90,036
Other expenses		831,547	968,432
Total general and administrative expenses		**3,208,718**	**3,494,114**

The total depreciation and amortisation expenses included in all statement of income captions amounted to RR 2,835,199 thousand (2007: RR 2,860,921 thousand). The total staff costs (including social expenses) included in all statement of income captions amounted to RR 8,611,024 thousand (2007: RR 7,330,013 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2008 amounted to RR 48,027 thousand (2007: RR 38,401 thousand). The auditors also provided the Group with consulting services amounting to RR 2,245 thousand (2007: RR 2,028 thousand).

26 Other operating income and expenses

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

	2008	2007
Reversal of provision/(provision) for taxes	418,689	(59,414)
(Loss)/gain on disposal of property, plant and equipment	(94,006)	4,294
Sponsorship	(444,201)	(385,981)
Foreign exchange difference	26,531	(682,902)
Other operating expenses, net	(232,423)	(198,588)
Total other operating income/(expenses)	**(325,410)**	**(1,322,591)**

27 Finance income and costs

The components of finance income and (costs) were as follows:

	Note	2008	2007
Finance income			
Foreign exchange gain on loans, bonds issued and deposits		-	948,542
Interest income		653,967	519,191
Dividends received		-	57,195
Gain on buy-back of bonds	20	135,141	-
Total finance income		**789,108**	**1,524,928**
Finance costs			
Foreign exchange loss on loans, bonds issued and deposits		(3,765,712)	-
Interest expense		(1,258,828)	(1,069,769)
Total finance costs		**(5,024,540)**	**(1,069,769)**

28 Income tax

	2008	2007
Income tax expense – current	(9,295,501)	(4,761,952)
Deferred income tax – origination and reversal of temporary differences	(37,840)	702,572
Effect of the change in the tax rate	441,953	-
Income tax expense	**(8,891,388)**	**(4,059,380)**

The profit before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	2008	2007
Profit before taxation	**36,780,111**	**20,233,574**
Theoretical tax charge at statutory rate of 24% (2007 – 24%)	(8,827,226)	(4,856,058)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(387,889)	(247,274)
- Effects of different tax rates in other countries	(143,086)	366,089
- Utilization of previously unrecognized tax loss carry forward	-	553,835
- Recognized tax loss carry forward for the year	24,860	124,028
- Effect of the change in the tax rate	441,953	-
Consolidated tax charge	**(8,891,388)**	**(4,059,380)**

Most companies of the Group were subject to tax rates of 24% on taxable profits in the Russian Federation for 2008 and 2007. 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. Deferred tax asset/liabilities are measured at the rate of 20% and 24% as at 31 December 2008 and 31 December 2007 respectively.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax assets of one company of the Group are not offset against any deferred tax liabilities of another company.

During 2008 and 2007 LLC EBMU and LLC PG Phosphorit reported taxable profit and the Group utilized RR 95,274 thousand and RR 553,834 thousand of tax losses carried forward respectively to reduce its profits tax.

At 31 December 2007 the Group had RR 129,569 thousand of accumulated tax losses carried forward and recognised as a deferred tax asset. At 31 December 2008 the Group had RR 415,085 thousand of accumulated tax losses carried forward and recognised as a deferred tax asset.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 14,900,117 thousand (2007: RR 18,530,741 thousand). The Group controls the timing of the reversal of those temporary differences.

28 Income tax (continued)

The movement in deferred tax assets and liabilities during 2008 and 2007 were as follows:

	31 December 2007	Differences (recognition and reversals)	Business combinations	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2008
Tax effects of deductible/(taxable) temporary differences:						
Property, plant and equipment and Intangible assets	1,485,355	1,128,220	72,862	2,269	(440,148)	2,248,558
Accounts receivable	(29,104)	(31,611)	-	3,150	13,881	(43,684)
Accounts payable	(440,542)	(153,477)	-	5,294	72,322	(516,403)
Inventories	(127,659)	(444,406)	-	(78,527)	(126,280)	(776,872)
Other	77,043	(115,233)	-	690	2,995	(34,505)
Tax losses carried-forward	(129,569)	(320,793)	-	-	35,277	(415,085)
Non-recognised deferred tax assets	24,860	(24,860)	-	-	-	-
Net deferred tax liability	**860,384**	**37,840**	**72,862**	**(67,124)**	**(441,953)**	**462,009**
Recognised deferred tax assets	(481,733)	(780,474)	-	(54,211)	(64,554)	(1,380,972)
Recognised deferred tax liabilities	1,342,117	818,314	72,862	(12,913)	(377,399)	1,842,981
Net deferred tax liability	**860,384**	**37,840**	**72,862**	**(67,124)**	**(441,953)**	**462,009**

	31 December 2006	Differences (recognition and reversals)	Business combinations	Currency translation difference (Note 2)	31 December 2007
Tax effects of deductible/(taxable) temporary differences:					
Property, plant and equipment and Intangible assets	1,618,993	(89,120)	(43,319)	(1,199)	1,485,355
Accounts receivable	106,736	(142,163)	6,323	-	(29,104)
Accounts payable	(262,129)	(174,571)	(1,299)	(2,543)	(440,542)
Inventories	23,484	(151,143)	-	-	(127,659)
Other	12,483	95,059	(31,884)	1,385	77,043
Tax losses carried-forward	(677,863)	554,205	(5,911)	-	(129,569)
Non-recognised deferred tax assets	819,699	(794,839)	-	-	24,860
Net deferred tax liability	**1,641,403**	**(702,572)**	**(76,090)**	**(2,357)**	**860,384**
Recognised deferred tax assets	(181,030)	(284,489)	(12,472)	(3,742)	(481,733)
Recognised deferred tax liabilities	1,822,433	(418,083)	(63,618)	1,385	1,342,117
Net deferred tax liability	**1,641,403**	**(702,572)**	**(76,090)**	**(2,357)**	**860,384**

The amounts shown in the balance sheet include the following:

	2008	2007
Deferred tax assets to be recovered after more than 12 months	(349,296)	(93,805)
Deferred tax liabilities to be settled after more than 12 months	2,155,634	1,208,358

29 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 year, excluding treasury shares (Note 18). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2008	2007
Net profit	27,385,406	15,654,529
Weighted average number of ordinary shares in issue	67,932,000	67,932,000
Basic and diluted earnings per share (expressed in RR per share)	**403.13**	**230.44**

30 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 December 2008	31 December 2007
Balance sheet caption				
Trade receivables	Other related parties*		56,849	55,134
Advances to suppliers	Other related parties*		-	147
Interest receivable	Parent company		53,158	-
Originated loans	Parent company	12	5,729,178	-
Trade payables	Other related parties*		-	1,069
Advances from customers	Other related parties*		698	-
Dividends payable	Parent company	18	-	3,668,328
Prepayments, other receivables and other current assets	Other related parties*		24,584	18,965
Non-trade payables	Other related parties*		-	137

Financial statements caption	Nature of relationship	2008	2007
Statement of income caption			
Sales	Other related parties*	454,354	3,073
Purchases of materials and components	Other related parties*	(144,858)	(26,921)
Distribution costs	Other related parties*	(67,057)	(150,491)
Other operating expenses	Other related parties*	(137,707)	(88,164)
Interest income	Parent company	53,158	26,672
Interest income	Other related parties*	-	17,491

Financial statements caption	Nature of relationship	Note	2008	2007
Cash flow caption				
Capital expenditure on property, plant and equipment	Other related parties*		(4,507)	-
Originated loans	Other related parties*		-	(6,394)
Acquisition of available-for-sale investment	Parent company	10	(5,449,233)	-
Originated loans	Parent company	12	(5,118,848)	-
Repayment of originated loans	Parent company	12	-	3,982,260
Dividends paid	Parent company		(14,124,421)	(671,840)

* Other related parties consist of the Group's assosiate.

The total key management personnel compensation included in general and administrative expenses in the statement of income was RR 346,027 thousand and RR 212,190 thousand for the years ended 31 December 2008 and 2007, 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.

31 Business combinations

During 2008 the Group made the following acquisitions of subsidiaries:

	Net outflow of cash and cash equivalents
OJSC Agrokhimik	105,197
OJSC Sary-Tas	311,665
	416,862

31 Business combinations (continued)

Acquisition of OJSC Agrokhimik. On 11 July 2008 and 11 December 2008 the Group acquired a total of 85.84% of the share capital of OJSC Agrokhimik, a distribution company registered in the Russian Federation. The purchase consideration comprised RR 105,258 thousand paid in cash. Given that the cash and cash equivalents of the subsidiary on acquisition totalled RR 61 thousand, the net cash outflow was RR 105,197 thousand. Property, plant and equipment acquired through the business combination totalled RR 88,158 thousand. The valuation of property, plant and equipment on acquisition was performed by an independent appraiser. The fair value of other assets and liabilities acquired was determined on the basis of a discounted cash flow model. The estimated fair value of net assets acquired was RR 57,788 thousand. As a result the Group has recognised goodwill of RR 47,470 thousand. This subsidiary contributed revenue of RR 8,995 thousand and net profit of RR 998 thousand to the Group including intercompany transactions for the period from the date of acquisition to 31 December 2008.

If the acquisition had occurred on 1 January 2008, the Group's consolidated revenue and profit for the year ended 31 December 2008 would not have changed significantly.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	Carrying value	Attributed fair value
Cash and cash equivalents		61	61
Accounts receivable		1,047	636
Inventories		1,513	1,092
Other current assets		696	716
Property, plant and equipment		7,056	88,158
Borrowings		-	(999)
Trade and other payables		(4,164)	(3,059)
Deferred income tax liability		-	(19,284)
Fair value of net assets of subsidiary			67,321
Less: minority interest			(9,533)
Fair value of acquired interest in net assets of subsidiary			57,788
Goodwill arising from the acquisition	8		47,470
Total purchase consideration			105,258
Less: cash and cash equivalents of subsidiary acquired			(61)
Outflow of cash and cash equivalents on acquisition			105,197

Acquisition of OJSC Sary-Tas. In November 2008 the Group acquired 56.33% of the share capital of OJSC Sary-Tas, a production company registered in the Republic of Kazakhstan. The purchase consideration comprised RR 193,728 thousand paid in cash for the common shares plus RR 117,937 thousand for debt redemption. The net cash outflow was RR 311,665 thousand. The estimated fair value of the Group's share in the net assets acquired was RR 312,076 thousand, as was provisionally determined by management on the basis of a discounted cash flow model. The purchase price allocation will be finalized within 12 months from the acquisition date. As a result the Group has provisionally recognised negative goodwill of RR 411 thousand. This subsidiary contributed nil revenue and a net loss of RR 1,253 thousand to the Group including intercompany transactions for the period from the date of acquisition to 31 December 2008.

If the acquisition had occurred on 1 January 2008, the Group's consolidated revenue and profit for the year ended 31 December 2008 would not have changed significantly.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	Carrying value	Attributed fair value
Accounts receivable		519	519
Inventories		245	245
Property, plant and equipment		252,135	561,588
Identifiable intangible assets	9	-	47,772
Trade and other payables		(2,571)	(2,571)
Deferred income tax liability		-	(53,578)
Fair value of net assets of subsidiary			553,975
Less: minority interest			(241,899)
Fair value of acquired interest in net assets of subsidiary			312,076
Gain arising from the acquisition			(411)
Total purchase consideration			311,665
Less: cash and cash equivalents of subsidiary acquired			-
Outflow of cash and cash equivalents on acquisition			311,665

31 Business combinations (continued)

Acquisition of additional interest in subsidiaries. In March 2008 the Group increased its shareholding in OJSC Kovdorsky GOK to 100%. In July 2008, the Group increased its shareholding in OJSC NAK Azot and OJSC Nevinnomyssky Azot to 100%. In March and in October 2008 the Group increased its shareholding in Agrocenter EuroChem Ust-Labinsk up to 100%. The total purchase consideration of these acquisitions comprised RR 2,488,678 thousand paid in cash.

32 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 31 December 2008 the Group had contractual commitments for capital expenditures of RR 22,494,066 thousand (2007: RR 3,000,118 thousand), mostly denominated in EUR and US$ (RR 10,257,045 thousand and RR 7,758,186 thousand, respectively). The management estimates that, out of these, approximately RR 10,857,014 thousand will represent cash outflows in 2009.

RR 15,207,869 thousand out of the total amount relates to the development of the Gremyachinskoe deposit and the construction of a potassium salt mining facility (2007: RR 571,095 thousand).

ii Operating lease commitments

As at 31 December 2008 the Group had non-cancellable operating lease commitment for the rent of vessels of RR 1,610,547 thousand (2007: Nil). Out of this amount RR 1,088,656 thousand is payable within 1 year from the balance sheet date and RR 521,891 thousand is payable from one to two years from the balance sheet date.

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 December 2008 and 31 December 2007.

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. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematised process for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authority scrutiny.

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 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.

As at 31 December 2008 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 December 2008 (2007: RR 419,102 thousand).

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 2,682,920 thousand (2007: RR 2,053,487 thousand). These exposures primarily relate to management services and other fees charged by the holding company to the Group subsidiaries.

32 Contingencies, commitments and operating risks (continued)

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 these consolidated financial statements.

viii Operating environment of the Group

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

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 above 2006 average prices. Average prices for key fertilizers according to the leading industry publications for the first ten weeks of 2009 ranged for nitrogen fertilizers from 24% to 42% of the maximum 2008 price, 40% to 60% of 2008 average price, 77% to 94% of the 2007 average price, and 85% to 135% of the 2006 average price. For phospate and complex fertilizers prices ranged from 31% to 44% of the maximum 2008 price, 40% to 55% of the 2008 average price, 90% to 120% of the 2007 average price, and 150% to 165% of the 2006 average price for phosphate and complex fertilizers.

Wholesale financing has become much less available since August 2007. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flow and assess of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

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 has 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 33.82 at date of issuance of these consolidated financial statements. International reserves of the Russian Federation decreased from US$ 556,813,000 thousand at 30 September 2008 to US$ 427,080,000 thousand at 31 December 2008 and to US$ 384,074,000 thousand at 1 March 2009.

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.

33 Financial and capital risk management

33.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimize potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

The Group's revenues, expenses, capital expenditure, investments and borrowings are denominated in foreign currencies as well as Russian Roubles. The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimize the volatility of the Group's cash flows arising from fluctuations in foreign exchange rates. The management focuses on assessing the Group's future cash flows in foreign currencies and managing the gaps arising between inflows and outflows. Translation gains and losses arising from the revaluation of its monetary assets and liabilities are therefore not viewed as an indicator of the total impact of foreign exchange fluctuations on its future cash flows since such gains or losses do not capture the impact on cash flows of foreign exchange-denominated revenues, costs, future capital expenditure, investment and financing activities.

The table below summarises the Group's financial assets and liabilities in foreign currencies at the balance sheet date:

31 December 2008	US$	EUR	Other foreign currency
ASSETS			
Current assets:			
Trade receivables	1,955,166	186,081	193,273
Originated loans	5,729,178	-	-
Restricted cash	341,986	139,926	-
Cash and cash equivalents	21,907,758	2,176,673	34,655
Total financial assets	**29,934,088**	**2,502,680**	**227,928**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	34,418,679	-	-
Bonds issued	8,453,611	-	-
Total non-current financial liabilities	**42,872,290**	**-**	**-**
Current liabilities:			
Bank borrowings	9,074,390	-	-
Trade payables	304,100	145,095	205,103
Total current financial liabilities	**9,378,490**	**145,095**	**205,103**
Total financial liabilities	**52,250,780**	**145,095**	**205,103**

31 December 2007	US$	EUR	Other foreign currency
ASSETS			
Current assets:			
Trade receivables	3,377,260	186,330	44,071
Restricted cash	359,393	-	-
Cash and cash equivalents	7,385,614	1,291,273	12,817
Total financial assets	**11,122,267**	**1,477,603**	**56,888**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	944,765	-	-
Bonds issued	7,272,832	-	-
Total non-current financial liabilities	**8,217,597**	**-**	**-**
Current liabilities:			
Bank borrowings	4,540,660	148,287	-
Trade payables	349,409	65,931	15,560
Total current financial liabilities	**4,890,069**	**214,218**	**15,560**

33. Financial and capital risk management (continued)

33.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The Group believes that it has significant positive foreign exchange exposure towards the US$ / RR exchange rate given that its expected US$-denominated revenues significantly exceed its planned outflows in US$, mostly related to servicing of debt and capital expenditure. Hence the depreciation of the RR against the US$ has a positive effect on the Group's future cash flows.

The Group's revenues for the years ended 31 December 2008 and 31 December 2007 are presented in the table below:

	US$	EUR	RR	Other foreign currency	Total
2008	83,574,310	4,937,069	19,090,876	4,571,318	112,173,573
	75%	4%	17%	4%	100%
2007	51,739,516	5,152,258	14,988,309	1,941,381	73,821,464
	70%	7%	20%	3%	100%

At 31 December 2008, if the RR exchange rate against the US$ had been higher/lower against by 10%, after tax profit for the year would have been RR 1,696,069 thousand (2007: RR 158,381 thousand) higher/lower, purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities and with no regard to the impact of this appreciation/depreciation on revenues. Profit is more sensitive to movements in RR/US$ exchange rates in 2008 than it was in 2007 because of the increased amount of US$-denominated borrowings.

The Group is disclosing the impact of such a 10% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit resulting from subsequent to future exchange rate changes.

During 2007 and 2008 the Group did not hedge this exposure using financial instruments.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to the risk from floating interest rates due to the fact that it has RR 43,493,069 thousand of US$ denominated loans outstanding at the 31 December 2008 bearing floating interest rate of 1 month Libor + 1.8%. The Group's profit after tax for 2008 would have been RR 89,534 thousand, or 0.32% lower/higher (2007: RR 46,008 thousand, or 0.29% lower/higher) if the US$ Libor interest rate was 1 percentage point higher/lower than its actual level during the year. During 2007 and 2008 the Group did not hedge this exposure using financial instruments.

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs a periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

(iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available for sale. At 31 December 2008 the Group owned 8,388,776 shares of K+S Group (5.08% of its share capital) with a fair value of RR 13,895,175 thousand (Note 10). The fair value of the shares is determined based on the closing price of EUR 39.97 as of the reporting date in the Xetra trading system. The Group's equity gain/loss for 2008 would have been RR 347,640 thousand if the share price was 1 EUR higher/lower than its actual level during the year. At 18 March 2009 the share price was EUR 32.41. During 2008 the Group did not hedge this exposure using financial instruments.

The Group is principally exposed to market price risks in relation to the investment in shares of K+S. The management reviews the reports on the performance of K+S on a quarterly basis and provides recommendations to the Board of Directors on the advisability of further investments. The subscribed investment commitments in this respect are approved by the Board of Directors.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

33. Financial and capital risk management (continued)

33.1 Financial risk management (continued)

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables. Management believes that no credit risk arises from loans to the parent company (Note 12).

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets RR 35,650,864 thousand (2007: RR 19,204,359 thousand). The Group has no other significant concentrations of credit risk.

Cash and cash equivalents. Cash and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. No bank balances and term deposits are past due or impaired. See the analysis by credit quality of bank balances and term deposits in Note 15.

Trade receivables. Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers. The credit quality of each new customer is analyzed before the Group provides it with the standard terms of delivery and payment. The Group gives preference to customers with an independent credit rating. New customers without an independent credit rating are evaluated on a sample basis by an appointed rating agency. The credit quality of other customers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 14).

Trade receivables that are neither due nor impaired relate to a number of major wholesale distributors and one of the major Russian steel groups. The credit exposures and related ratings for the largest ten customers are presented below:

Wholesale customers	Credit agency	Credit rating/Other	2008	2007
Wholesale customers	Credit Reform*	Good	457,629	1,592,132
Wholesale customers	-	Letter of credit	1,365,378	237,528
Wholesale customers	Moody's Investor's Service	Ba2	-	165,116
Total			**1,823,007**	**1,994,776**

* Independent credit agency used by the Group for evaluation of customer's credit quality.

Management believes that the remaining part of the receivables are of good quality.

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

In order to take advantage of financing opportunities in the international capital markets the Group has obtained credit ratings from Fitch and Standard & Poor's. These institutions have rated the Group as BB with stable outlook.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date.

33. Financial and capital risk management (continued)

33.1 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
As of 31 December 2007				
Trade payables	1,129,879	-	-	**1,129,879**
Dividends and other distributions to shareholders	3,668,328	-	-	**3,668,328**
Bank borrowings*	4,910,481	955,631	-	**5,866,112**
Bonds issued*	579,904	579,904	9,012,544	**10,172,352**
As of 31 December 2008				
Trade payables	1,793,635	-	-	**1,793,635**
Dividends and other distributions to shareholders	-	-	-	**-**
Bank borrowings*	10,635,088	13,642,436	24,081,939	**48,359,463**
Bonds issued*	670,975	670,975	9,359,035	**10,700,985**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2008 and 31 December 2007, respectively.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group adopted on 26 February 2007 by the Board of Directors. Such cash balances are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS.

Under the financial policy of the Group the liquidity ratio is calculated as current assets to current liabilities.

The liquidity ratio as of 31 December 2008 and 31 December 2007 was:

	2008	2007
Current assets	**57,588,431**	**31,752,458**
Inventories	11,182,594	6,218,187
Trade receivables	3,184,371	3,739,264
Prepayments, other receivables and other current assets	10,612,755	6,367,124
Originated loans	5,729,178	-
Trading investments	172,271	-
Restricted cash	481,912	359,393
Cash and cash equivalents	26,225,350	15,068,490
Current liabilities	**16,187,339**	**15,115,192**
Borrowings	9,093,277	4,688,947
Trade payables	1,793,635	1,129,879
Other accounts payable and accrued expenses	3,960,747	3,410,848
Income tax payable	720,690	1,367,632
Other taxes payable	618,990	849,558
Dividends payable	-	3,668,328
Liquidity ratio	**3.56**	**2.10**

33.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity as shown in the IFRS consolidated balance sheet. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio and the net debt to EBITDA ratio.

33. Financial and capital risk management (continued)

33.2 Capital risk management (continued)

Gearing ratio

The gearing ratio is determined as net debt to net debt plus shareholders' equity.

The gearing ratio as of 31 December 2008 and 31 December 2007 is shown in the table below:

	2008	2007
Total debt	51,965,567	12,906,544
Less: cash and cash equivalents	26,707,262	15,427,883
Net debt	**25,258,305**	**(2,521,339)**
Equity attributable to the holders of the Company	**60,226,778**	**38,032,703**
Net debt and shareholders' equity	**85,485,083**	**35,233,375**
Gearing ratio, %	**30%**	**n/a**

Net Debt/EBITDA

The Group has established a policy that the ratio of the Group's net debt to its 12 months' rolling EBITDA should not exceed two and a half times. For this purpose net debt is determined as the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents.

The ratio of net debt to EBITDA as of 31 December 2008 and 31 December 2007 is shown in the table below:

	Note	2008	2007
Operating profit		40,890,487	19,220,340
Add: depreciation and amortization	25	2,835,199	2,860,921
EBITDA		**43,725,686**	**22,081,261**
Net debt		25,258,305	(2,521,339)
Net debt/EBITDA		**0.58**	**(0.11)**

Since EBITDA is not a standard IFRS measure EuroChem Group's definition of EBITDA may differ from that of other companies.

34 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Fair values were determined based on quoted market prices.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used depend on the credit risk of the counterparty. The carrying amounts of trade receivables approximate their fair values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. At 31 December 2008 and 2007 the fair value of the current and non-current borrowings is not materially different from their carrying amounts. The fair value of the bond issued is disclosed in Note 20.

35 Subsequent events

Export duties

Effective from 1 February 2009 the Government of the Russian Federation cancelled the duties on exports of nitrogen fertilizers, complex fertilizers and apatite 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. The total cost incurred by the Group in relation to export duties in 2008 amounted to RR 2,870,983 thousand and is included in distribution costs in the profit and loss account (Note 3).

K+S Group shares

In January and February 2009, the Group acquired 588,633 K+S Group shares (an additional stake of 0.36% of its share capital) on the open market for RR 948,286 thousand paid in cash.

In March 2009, the Group acquired 9,110,498 K+S Group shares (an additional stake of 5.52% of its share capital) from MCC Holdings Limited for RR 14,541,542 thousand paid in cash and on the open market for RR 1,196,500 thousand paid in cash.