EUROCHEM GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2009

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	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets:			
Property, plant and equipment	7	56,382,417	41,197,799
Exploration rights	11	7,271,496	7,163,276
Goodwill	8	204,866	204,866
Intangible assets	9	427,457	537,568
Restricted cash	15	179,115	30,053
Available-for-sale investments	10	33,619,657	13,899,438
Other non-current assets	29	247,893	-
Deferred tax assets	26	1,328,848	1,380,972
Total non-current assets		**99,661,749**	**64,413,972**
Current assets:			
Inventories	13	8,105,067	11,182,594
Trade receivables	14	2,151,240	3,184,371
Prepayments, other receivables and other current assets	14	7,630,102	10,612,755
Originated loans	12, 28	-	5,729,178
Trading investments	16	-	172,271
Restricted cash	15	551,086	481,912
Cash and cash equivalents	15	10,676,772	26,225,350
Total current assets		**29,114,267**	**57,588,431**
Assets of disposal group classified as held for sale		-	273,071
TOTAL ASSETS		**128,776,016**	**122,275,474**
LIABILITIES AND EQUITY			
Equity:			
Capital and reserves attributable to owners of the parent:			
Share capital	17	6,800,000	6,800,000
Treasury shares	17	(7,760)	(7,760)
Retained earnings and other reserves		65,644,137	53,434,538
		72,436,377	**60,226,778**
Non-controlling interests		758,683	809,874
Total equity		**73,195,060**	**61,036,652**
Non-current liabilities:			
Bank borrowings	18	26,556,324	34,418,679
Bonds issued	19	8,724,895	8,453,611
Other non-trade payables		430,393	305,101
Deferred income tax liabilities	26	1,972,782	1,842,981
Total non-current liabilities		**37,684,394**	**45,020,372**
Current liabilities:			
Bank borrowings	18	12,491,434	9,093,277
Trade payables	20	1,373,488	1,793,635
Other accounts payable and accrued expenses	20	3,574,522	3,960,747
Income tax payable		108,465	720,690
Other taxes payable		348,653	618,990
Total current liabilities		**17,896,562**	**16,187,339**
Liabilities of disposal group classified as held for sale		-	31,111
Total liabilities		**55,580,956**	**61,238,822**
TOTAL LIABILITIES AND EQUITY		**128,776,016**	**122,275,474**

Approved on behalf of the Board of Directors
19 March 2010

D.S. Strezhnev
Chief Executive Officer

A.A. Ilyin
Chief Financial Officer

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

	Note	2009	2008
Sales	21	73,577,249	112,173,573
Cost of sales	22	(41,439,799)	(44,466,467)
Gross profit		**32,137,450**	**67,707,106**
Distribution costs	23	(18,388,692)	(23,282,491)
General and administrative expenses	24	(3,261,398)	(3,208,718)
Other operating income/(expenses)	25	225,029	(325,410)
Operating profit		**10,712,389**	**40,890,487**
Dividend income	10	2,168,715	-
Gain on disposal of non-current assets held for sale	29	358,878	310,493
Fair value gain/(loss) on trading investments	16	139,584	(395,160)
Gain on disposal of available-for-sale investments	10	966,640	209,723
Financial foreign exchange gain/(loss) – net		748,903	(3,765,712)
Interest income		399,724	653,967
Interest expense		(1,983,587)	(1,258,828)
Other financial income		193,458	135,141
Profit before taxation		**13,704,704**	**36,780,111**
Income tax expense	26	(2,629,256)	(8,891,388)
Net profit for the period		**11,075,448**	**27,888,723**
Other comprehensive income/(loss)			
Currency translation differences, net of tax		364,188	1,390,347
Revaluation of available-for-sale investments	10	1,689,667	4,560,747
Disposal of available-for-sale investments – reclassification of revaluation to profit and loss	10	(966,640)	(209,723)
Total other comprehensive income/(loss) for the period		**1,087,215**	**5,741,371**
Total comprehensive income for the period		**12,162,663**	**33,630,094**
Net profit for the period attributable to:			
Owners of the parent		11,111,048	27,385,406
Non-controlling interests		(35,600)	503,317
		11,075,448	**27,888,723**
Total comprehensive income/(loss) attributable to:			
Owners of the parent		12,189,656	33,042,804
Non-controlling interests		(26,993)	587,290
		12,162,663	**33,630,094**
Earnings per share – basic and diluted (in RR)	27	163.56	403.13

	Note	2009	2008
Operating profit		**10,712,389**	**40,890,487**
Income tax paid		(1,767,696)	(9,726,888)
Operating profit less income tax paid		**8,944,693**	**31,163,599**
Depreciation and amortisation	24	2,976,353	2,942,655
Net loss on disposals and write-off of property, plant and equipment		262,098	393,009
Impairment of receivables and provision for obsolete and damaged inventories		192,265	(566,964)
Other non-cash (income)/expenses		540,363	(367,356)
Gross cash flow	5	**12,915,772**	**33,564,943**
Changes in operating assets and liabilities:			
Trade receivables		896,167	574,167
Advances to suppliers		20,612	(434,039)
Other receivables		2,023,335	(2,544,418)
Inventories		2,969,179	(5,447,656)
Trade payables		(251,884)	634,897
Advances from customers		735,336	(375,165)
Other payables		(1,280,751)	898,097
Other assets and liabilities		(489,073)	(115,360)
Net cash – operating activities		**17,538,693**	**26,755,466**
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and other intangible assets		(18,593,560)	(14,730,809)
Purchase of exploration rights	11	(108,220)	(4,087,166)
Acquisition of interest in subsidiaries		(4,255)	(2,488,678)
Acquisition of subsidiary, net of cash acquired		(149,913)	(416,862)
Acquisition of available-for-sale investment	10	(25,405,127)	(10,101,141)
Proceeds from sale of property, plant and equipment		78,937	45,410
Proceeds from disposal of non-current assets held for sale		68,069	-
Prepayment for non-current assets held for sale		-	37,500
Proceeds from disposal of trading investments	16	311,855	-
Proceeds from sale of available-for-sale investment	10	7,374,575	783,501
Proceeds from sale of derivatives		193,458	-
Dividends received net of tax		2,060,279	-
Repayment of originated loans	12	6,568,110	-
Originated loans	12	-	(5,118,848)
Interest received		560,572	533,896
Net cash – investing activities		**(27,045,220)**	**(35,543,197)**
Free cash outflow	5	**(9,506,527)**	**(8,787,731)**
Cash flows from financing activities			
Proceeds from bank borrowings	18	9,843,054	47,399,732
Repayment of bank borrowings	18	(15,800,009)	(13,995,282)
Syndication fees paid		(140,343)	(1,106,969)
Interest paid		(1,778,824)	-
Repayment of bonds buy back		-	(142,439)
Dividends paid	17	-	(14,124,419)
Net cash – financing activities		**(7,876,122)**	**18,030,623**
Effect of exchange rate changes on cash and cash equivalents		1,834,071	1,913,968
Net increase/(decrease) in cash and cash equivalents		**(15,548,578)**	**11,156,860**
Cash and cash equivalents at the beginning of the period	**15**	**26,225,350**	**15,068,490**
Cash and cash equivalents at the end of the period	**15**	**10,676,772**	**26,225,350**

	Attributable to owners of the parent							
	Share capital	Treasury shares	Cumulative currency translation differences	Revaluation of investments available-for-sale	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2008	**6,800,000**	**(7,760)**	**222,806**	**20,966**	**30,996,691**	**38,032,703**	**2,067,192**	**40,099,895**
Comprehensive income								
Profit for the period	-	-	-	-	27,385,406	27,385,406	503,317	27,888,723
Other comprehensive income								
Currency translation differences	-	-	1,306,374	-	-	1,306,374	83,973	1,390,347
Revaluation of investments available-for-sale	-	-	-	4,560,747	-	4,560,747	-	4,560,747
Disposal of investments available-for-sale	-	-	-	(209,723)	-	**(209,723)**	-	(209,723)
Total other comprehensive income	-	-	1,306,374	4,351,024	-	5,657,398	83,973	5,741,371
Total comprehensive income	**-**	**-**	**1,306,374**	**4,351,024**	**27,385,406**	**33,042,804**	**587,290**	**33,630,094**
Transactions with owners								
Dividends	-	-	-	-	(10,456,091)	(10,456,091)	-	(10,456,091)
Acquisitions of subsidiaries	-	-	-	-	-	-	251,432	251,432
Acquisitions of additional interest in subsidiaries	-	-	-	-	(392,638)	(392,638)	(2,096,040)	(2,488,678)
Total transactions with owners	-	-	-	-	**(10,848,729)**	**(10,848,729)**	**(1,844,608)**	**(12,693,337)**
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**
Balance at 1 January 2009	**6,800,000**	**(7,760)**	**1,529,180**	**4,371,990**	**47,533,368**	**60,226,778**	**809,874**	**61,036,652**
Comprehensive income								
Profit for the period	-	-	-	-	11,111,048	11,111,048	(35,600)	11,075,448
Other comprehensive income								
Currency translation differences	-	-	355,581	-	-	355,581	8,607	364,188
Revaluation of investments available-for-sale	-	-	-	1,689,667	-	1,689,667	-	1,689,667
Disposal of investments available-for-sale	-	-	-	(966,640)	-	**(966,640)**	-	(966,640)
Total other comprehensive income	-	-	355,581	723,027	-	1,078,608	8,607	1,087,215
Total comprehensive income	**-**	**-**	**355,581**	**723,027**	**11,111,048**	**12,189,656**	**(26,993)**	**12,162,663**
Transactions with owners								
Acquisitions of additional interest in subsidiaries	-	-	-	-	19,943	19,943	(24,198)	(4,255)
Total transactions with owners	**-**	**-**	**-**	**-**	**19,943**	**19,943**	**(24,198)**	**(4,255)**
Balance at 31 December 2009	**6,800,000**	**(7,760)**	**1,884,761**	**5,095,017**	**58,664,359**	**72,436,377**	**758,683**	**73,195,060**

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

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).

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

The Group's manufacturing facilities are 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 and trading 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 (Note 4).

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.

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 Lita, 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 the statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as currency translation differences in other comprehensive income.

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 and loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and 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 recognised in other comprehensive income.

2 Basis of presentation and significant accounting policies (continued)

Foreign exchange gains and losses that relate to borrowings and deposits are presented in the statement of comprehensive income in a separate line "Financial foreign exchange gain/(loss) – net". All other foreign exchange gains and losses are presented in the statement of comprehensive income 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 recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to profit and loss.

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

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 and 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 non-controlling interest.

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

Non-controlling 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. Non-controlling 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 non-controlling interests. The difference, if any, between the carrying amount of a non-controlling 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 profit and loss. 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.

2 Basis of presentation and significant accounting policies (continued)

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 profit and loss.

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	15 to 80
Transfer devices	25 to 30
Machinery and equipment	6 to 30
Transport	5 to 25
Other items	3 to 8

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 and 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.

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 statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the 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 an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained. Goodwill on acquisitions of associates is included in the investment in associates.

Other intangible assets. The Group's other intangible assets have definite and indefinite 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.

Intangible assets with definite useful lives 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

Intangible assets with an indefinite useful life are not amortised. The Group tests such intangible assets for impairment at least annually and whenever there are indications that intangible assets may be impaired.

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 and 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 and loss. Financial assets at fair value through profit and 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's 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 2009 and 2008 the Group did not have "held to maturity" investments.

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 the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Derecognition of financial assets. The Group derecognises financial assets when (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 and loss. Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payment is established. All other elements of changes in the fair value are recognised in other comprehensive income and accumulated in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to profit and loss.

Impairment losses are recognised in profit and 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 other comprehensive income – is reclassed from equity and recognised in profit and loss. Impairment losses on equity instruments are not reversed through profit and 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 and loss, the impairment loss is reversed through the current period's profit and loss.

2 Basis of presentation and significant accounting policies (continued)

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 profit and loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity. The most significant Group subsidiaries are registered in Russia, where the corporate profit tax rate can range from 15.5% to 20%, depending on applicable rates set by regional authorities (2008: 24%).

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 profit and loss. When a receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the profit and loss.

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. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in 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 statement of financial position 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 statement of financial position are not reclassified or represented in the comparative statement of financial position 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.

2 Basis of presentation and significant accounting policies (continued)

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. 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 statement of financial position.

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. Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT related to certain assets under construction included within non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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. 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.

Revenues from the rendering of services are recognised in the period the services are provided. 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, etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

2 Basis of presentation and significant accounting policies (continued)

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

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment). Segments whose sales or result are ten percent or more of all the segments are reported separately. Segment reporting is prepared in a manner consistent with the internal reporting provided to the chief operating decision-maker.

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:

Taxation. Judgments are required in determining current income tax liabilities (Note 26). 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 in the statement of financial position. 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 26).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries to the amount of RR 667,166 thousand (2008: RR 113,164 thousand) as the Group controls the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

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. Effective from 1 February 2009, the Government of the Russian Federation cancelled the duties on exports of nitrogen and complex fertilizers to countries outside the CIS Customs Union. Effective from 1 May 2009, the Government of the Russian Federation also cancelled the duties on exports of 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. For the periods during which the duties applied, export sales were shown gross of the duties described above, which amounted to RR 222,493 thousand (2008: RR 2,870,983 thousand). In making this judgment the Group considered that these export duties in substance represented a cost for the Group, rather than a sales tax collected on behalf of government authorities.

Impairment test of property, plant and equipment. At 31 December 2009 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. 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 14.0% discount rate (2008: 16.3%) used is pre-tax and reflects specific risks relating to the relevant CGUs.

4 Adoption of new or revised standards and interpretations

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

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 requires an entity to report financial and descriptive information about its operating segments. Segment information is presented on a similar basis to that used for internal reporting purposes in a manner consistent with the internal reporting provided to the chief operating decision-maker, who for the Group has been identified as the Management Board. The Group decided to early-adopt improvements to IFRS 8 issued in April 2009, which allow the Group not to disclose information about segment assets and liabilities in the financial statements, because such information is not regularly provided to the Management Board;
- IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The effect on the Group's consolidated financial statements was not material;
- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present a statement of comprehensive income. These consolidated financial statements have been prepared under the revised requirements;
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; the 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; the 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 the profit and 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 improvements do not have a material effect on the Group's consolidated 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. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share;
- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). This amendment is not currently applicable to the Group as it has no such financial instruments;
- Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments;
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate;
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). This amendment does not impact the Group's consolidated financial statements;

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

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not relevant to the Group;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 is not relevant to the Group.

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

- 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);
- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- 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 Group is currently assessing the impact of the amended standard 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);
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 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);
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009);
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009);
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The Group is currently assessing the impact of these improvements on its consolidated financial statements;
- Group Cash-settled Share-based payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010);
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010);
- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010);
- IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011);
- IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011);
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

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

5 Statement of cash flows

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 profit and loss. 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 2009 was RR 12,915,772 thousand (2008: RR 33,564,943 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 2009 was RR 9,506,527 thousand (2008: RR 8,787,731 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 is a vertically integrated company with operations spanning mining, fertilizer manufacturing, organic synthesis products, sales and distribution. The Group's core business is fertilizers, with a wide product range including nitrogen and phosphate. On a monthly basis the Management Board reviews the financial reports of the Group, evaluates the operating results and allocates resources between the operating segments. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between segments are carried out on an arm's length basis. The Management Board assesses the performance of the operating segments based on, among others, a measure of profit before taxation adjusted by interest expense, depreciation and amortization, financial foreign exchange gain or loss, other non-cash and extraordinary items, excluding net profit for the period attributed to non-controlling interests (EBITDA). Since this term is not a standard IFRS measure EuroChem Group's definition of EBITDA may differ from that of other companies.

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

- Nitrogen – the production and sale of nitrogen mineral fertilisers and organic synthesis products;
- Phosphates – the production and sale of phosphate mineral fertilisers and the extraction of ores to produce and subsequently sell baddeleyite and iron-ore concentrates;
- Potash – the development of several deposits of potassium salts ("potash") under the licenses acquired by the Group with a view to start production and marketing of potassium fertilizers. No sales have been recorded to date in this segment;
- Distribution – retail sales of mineral fertilizers (including those not produced by the Group), seeds, crop protection items etc via a number of retailers located within Russia and the CIS;
- All other – certain logistics and service activities, central management, investment income and other items.

The segmental results for the year ended 31 December 2009 were as follows:

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	35,441,252	4,135,932	39,577,184	9,314,223
Phosphates	29,601,687	1,522,511	31,124,198	4,427,044
Potash	-	-	-	(246,796)
Distribution	5,389,809	5,127	5,394,936	22,400
Other	3,144,501	11,944,242	15,088,743	2,798,944
Elimination	-	(17,607,812)	(17,607,812)	200,422
Total	**73,577,249**	**-**	**73,577,249**	**16,516,237**

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

	External sales	Internal sales	Total sales	EBITDA
Nitrogen	51,786,016	4,133,957	55,919,973	23,874,930
Phosphates	49,376,221	2,639,942	52,016,163	20,147,952
Potash	-	-	-	(175,766)
Distribution	5,276,464	3,329	5,279,793	54,773
Other	5,734,872	17,814,579	23,549,451	824,169
Elimination	-	(24,591,807)	(24,591,807)	(429,135)
Total	**112,173,573**	**-**	**112,173,573**	**44,296,923**

6 Segment information (continued)

A reconciliation of net income is provided as follows:

	Note	2009	2008
EBITDA		16,516,237	44,296,923
Depreciation and amortisation	24	(2,976,353)	(2,942,655)
Idle property, plant and equipment write-off		(83,872)	(313,131)
Gain on disposal of non-current assets held for sale		358,878	310,493
Fair value gain/(loss) on trading investments		-	(395,160)
Gain on disposal of available-for-sale investments		966,640	209,723
Financial foreign exchange gain/(loss) – net		748,903	(3,765,712)
Interest expense		(1,983,587)	(1,258,828)
Other financial income		193,458	135,141
Non-controlling interest		(35,600)	503,317
Profit before taxation		**13,704,704**	**36,780,111**

Substantially all of the Group's operating assets are located in the Russian Federation. Operating assets, located in foreign countries are mainly represented by assets of the Group's production subsidiary Lifosa AB, located in Lithuania.

The analysis of non-current assets other than financial instruments and deferred tax assets by geographical locations was as follows:

	2009	2008
Non-current assets, located in Russia	59,649,410	44,649,577
Non-current assets, located in foreign countries	4,636,826	4,453,932
Total	**64,286,236**	**49,103,509**

The analysis of Group sales by geographical area was:

	2009	2008
Export	58,979,433	93,082,697
Domestic	14,597,816	19,090,876
Total sales	**73,577,249**	**112,173,573**

The analysis of Group sales by region was:

	2009	2008
Russia	14,597,816	19,090,876
CIS	9,031,643	9,283,909
Asia	17,761,986	28,934,266
Europe	15,285,533	25,067,773
Latin America	9,113,780	14,639,029
North America	3,729,779	11,223,182
Africa	3,539,876	2,906,228
Australasia	516,836	1,028,310
Total sales	**73,577,249**	**112,173,573**

The sales are allocated by regions based on the destination country. There were no individually material sales to countries, except for Russia in 2009 and 2008.

In 2009 and 2008 the Group had no external customers representing 10.0% or more of the Group's revenue.

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 2009	**6,880,694**	**3,844,224**	**3,743,631**	**21,635,860**	**6,617,319**	**1,212,101**	**18,348,561**	**62,282,390**
Additions and transfers from assets under construction	418,404	620,614	399,282	2,348,081	717,543	137,262	13,440,670	18,081,856
Acquisitions through business combinations	160,048	-	-	15,567	-	-	-	175,615
Disposals	(13,215)	(5,806)	(40,156)	(154,770)	(79,760)	(41,361)	(1,676)	(336,744)
Idle property, plant and equipment (write-off)/reversal of write-off	(100,581)	(41,816)	(11,399)	(73,602)	(219)	(593)	3,520	(224,690)
Currency translation difference (Note 2)	44,096	(43,699)	22,494	66,738	4,022	3,127	(12,616)	84,162
Balance at 31 December 2009	**7,389,446**	**4,373,517**	**4,113,852**	**23,837,874**	**7,258,905**	**1,310,536**	**31,778,459**	**80,062,589**
Accumulated Depreciation and Impairment								
Balance at 1 January 2009	**(2,186,047)**	**(1,380,358)**	**(2,155,364)**	**(12,448,751)**	**(2,307,609)**	**(606,462)**	**-**	**(21,084,591)**
Charge for the year	(309,759)	(182,160)	(199,554)	(1,559,430)	(506,979)	(163,092)	-	(2,920,974)
Disposals	1,685	590	38,104	114,319	75,457	24,879	-	255,034
Idle property, plant and equipment write-off	62,034	16,085	10,739	51,308	124	528	-	140,818
Currency translation difference (Note 2)	(6,041)	(14,408)	(7,240)	(38,428)	(1,496)	(2,846)	-	(70,459)
Balance at 31 December 2009	**(2,438,128)**	**(1,560,251)**	**(2,313,315)**	**(13,880,982)**	**(2,740,503)**	**(746,993)**	**-**	**(23,680,172)**
Net Carrying Value								
Balance at 1 January 2009	**4,694,647**	**2,463,866**	**1,588,267**	**9,187,109**	**4,309,710**	**605,639**	**18,348,561**	**41,197,799**
Balance at 31 December 2009	**4,951,318**	**2,813,266**	**1,800,537**	**9,956,892**	**4,518,402**	**563,543**	**31,778,459**	**56,382,417**

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 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)

The analysis of the Group's assets under construction is as follows:

	2009	2008
Construction in progress	24,725,923	12,806,213
Mining development expenses	1,609,231	1,219,114
Advances given to construction companies and suppliers of property, plant and equipment	5,443,305	4,323,234
Total assets under construction	**31,778,459**	**18,348,561**

At 31 December 2009 the Group had no bank borrowings secured on property, plant and equipment (2008: net book value of RR 10,546 thousand and pledge value of RR 30,659 thousand).

The Group decided to mothball certain production equipment with a gross carrying value and accumulated depreciation of RR 224,690 thousand and RR 140,818 thousand, respectively, at 31 December 2009 (2008: gross carrying value of RR 346,948 thousand and accumulated depreciation of RR 33,817 thousand) and recognised a loss of RR 83,872 thousand in these consolidated financial statements (2008: RR 313,131 thousand) (Note 22).

At 31 December 2009 the Group incurred expenses of RR 1,609,231 thousand (2008: RR 1,219,114 thousand) directly related to the development of the Gremyachinskoe, Verkhnekamskoe, and Kovdorsky deposits. These expenses were capitalised in the statement of financial position in accordance with the Group accounting policy and included in the property, plant and equipment balance. There were no impairments and disposals of capitalised development ,exploration and evaluation expenses during the year ended 31 December 2009. Generally, these expenses are paid in the period the services are provided.

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

The assets transferred to the Group upon privatisation did not include the land on which a number of the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. In 2001 all companies located in the Russian Federation were granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date to exercise this option is 1 January 2012. As at 31 December 2009 all but one of the Group's major Russia-based subsidiaries acquired the land on which their main production facilities are located.

8 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	2009	2008
Carrying amount at 1 January	**204,866**	**157,396**
Acquisition of subsidiary	-	47,470
Disposals	-	-
Carrying amount at 31 December	**204,866**	**204,866**

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:

	2009	2008
Murmansk Bulk Terminal	116,498	116,498
Agrokhimik	47,470	47,470
Tankchem	7,004	7,004
Other	33,894	33,894
Total carrying amount of goodwill	**204,866**	**204,866**

8 Goodwill (continued)

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 14.0% discount rate used is pre-tax and reflects risks relating to the relevant CGUs (2008: 16.3%).

The Group did not recognize any goodwill impairment at 31 December 2009 and 31 December 2008.

9 Intangible assets

	Acquired Software, Licences	Other	Total
Cost at 1 January 2008	**373,793**	**172,475**	**546,268**
Accumulated amortisation	**(41,004)**	**-**	**(41,004)**
Carrying amount at 1 January 2008	**332,789**	**172,475**	**505,264**
Additions	35,935	1,127	37,062
Acquired through business combination	-	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 amortisation	**(95,502)**	**(866)**	**(96,368)**
Carrying amount at 31 December 2008	**314,226**	**223,342**	**537,568**
Disposals cost	(3,632)	(14,458)	(18,090)
Accumulated amortisation on disposals	-	511	511
Amortisation charge	(83,453)	(900)	(84,353)
Currency translation difference	-	(8,179)	(8,179)
Cost at 31 December 2009	**406,096**	**201,571**	**607,667**
Accumulated amortisation	**(178,955)**	**(1,255)**	**(180,210)**
Carrying amount at 31 December 2009	**227,141**	**200,316**	**427,457**

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 lives 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 2009 (2008: RR 148,974 thousand).

The Group's intangible assets with definite useful lives mainly comprise an exclusive land lease agreement for a plot of land in Kazakhstan with a carrying value of RR 42,474 thousand at 31 December 2009 (2008: RR 47,772 thousand), which will be amortised over the residual period not exceeding 41 years.

No impairment was recognised for these assets at 31 December 2009 and 31 December 2008.

10 Available-for-sale investments

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

Between January and April 2009 the Group acquired 10,752,292 ordinary shares of K+S Group from MCC Holding Public Company Limited (Cyprus) for RR 19,605,626 thousand paid in cash (Note 28) and 1,499,297 ordinary shares of K+S Group on the open market for RR 2,290,044 thousand. In December 2009 the Group acquired 2,982,252 ordinary shares of K+S Group through a rights issue for RR 3,509,457 thousand paid in cash.

Between September and December 2009 the Group sold 2,701,291 K+S Group shares to MCC Holding Public Company Limited (Cyprus) for RR 4,529,819 thousand (Note 28) and 1,554,731 K+S Group shares on the open market for RR 2,844,756 thousand and recognised a gain of RR 966,640 thousand in the profit and loss.

10 Available-for-sale investments (continued)

At 31 December 2009 the Group owned 19,366,595 shares, or 10.12% of the issued share capital (2008: 8,388,776 shares, or 5.08% of the issued share capital) of K+S Group with a fair value of RR 33,602,943 thousand (2008: RR 13,895,175 thousand) with reference to the share price quoted on the Xetra trading system. The accumulated increase in the fair value of the investment of RR 5,078,388 thousand was recognised in equity at 31 December 2009 (2008: RR 4,367,812 thousand).

In May 2009 the Group received dividend income from K+S Group of RR 2,168,715 thousand including withholding tax of RR 108,436 thousand.

At 31 December 2009 the shares of OJSC Sberbank were accounted for at a fair value of RR 16,714 thousand (2008: RR 4,263 thousand) with reference to the share price quoted on the Russian Trade System ("RTS"). There was an unrealised gain of RR 16,629 thousand relating to these investments recognised in equity at 31 December 2009 (2008: RR 4,178 thousand).

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

	2009	2008
At 1 January	**13,899,438**	**21,051**
Acquisition of available-for-sale investments	25,405,127	10,101,141
Revaluation of available-for-sale investments	1,689,667	4,560,747
Disposal of available-for-sale investments, including:		
- available-for-sale investments at cost	(6,407,935)	(573,778)
- reclassification of revaluation to profit and loss	(966,640)	(209,723)
At 31 December	**33,619,657**	**13,899,438**

Available-for-sale investments:

	2009	2008
K+S Group ordinary shares	33,602,943	13,895,175
Sberbank ordinary shares	16,714	4,263
Total available-for-sale investments	**33,619,657**	**13,899,438**

11 Exploration rights

At 31 December 2009 the exploration rights balance of RR 7,271,496 thousand (31 December 2008: RR 7,163,276 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 Verhnekamskoe potash deposit acquired in March 2008 and accounted for at a cost of RR 4,087,166 thousand and the Kovdorsky apatite deposits acquired in April 2007 and March 2009 and accounted for at a cost of RR 58,329 thousand and RR 108,220 thousand, respectively.

The Group also obtained licenses for exploration and evaluation of the Darganovsky and Ravninny fields.

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

In accordance with the conditions of the licence agreements for developing the potash deposits, the Group has the following major commitments:

- to commence extraction of potash salt at the Gremyachinskoe potash deposit by 1 November 2014;
- 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.

12 Originated loans

	Note	2009	2008
Balance as at 1 January		**5,729,178**	**-**
Origination of loan	28	-	5,118,848
Repayment of loan	28	(6,568,110)	-
Foreign exchange gain		838,932	610,330
Balance as at 31 December		**-**	**5,729,178**

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

13 Inventories

	Note	2009	2008
Materials		3,050,401	4,050,120
Work in progress		813,971	1,065,593
Finished goods		3,207,001	4,987,935
Catalysts		1,413,464	1,465,009
Less: provision for obsolete and damaged inventories	22	(379,770)	(386,063)
Total inventories		**8,105,067**	**11,182,594**

The Group wrote-off materials to their net realisable value and recognised a loss of RR 54,616 thousand (2008: RR 325,416 thousand) in the profit and loss.

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

	Note	2009	2008
Trade receivables			
Trade receivables denominated in RR		1,009,891	867,040
Trade receivables denominated in US$		941,536	1,955,166
Trade receivables denominated in Euro		199,432	186,081
Trade receivables denominated in other currencies		225,165	296,379
Less: impairment provision		(224,784)	(120,295)
Total trade receivables – financial assets		**2,151,240**	**3,184,371**
Prepayments, other receivables and other current assets			
Advances to suppliers		2,914,765	2,932,711
VAT recoverable and receivable		4,114,920	5,922,485
Income tax receivable		212,608	1,192,047
Other taxes receivable		25,847	64,134
Other receivables		321,112	379,698
Less: impairment provision		(124,615)	(44,212)
Subtotal non-financial assets		**7,464,637**	**10,446,863**
Interest receivable		10,531	165,892
Other receivables	29	154,934	-
Subtotal financial assets		**165,465**	**165,892**
Total prepayments, other receivables and other current assets		**7,630,102**	**10,612,755**
Total trade receivables, prepayments, other receivables and other current assets		**9,781,342**	**13,797,126**
including			
Financial assets		2,316,705	3,350,263
Non-financial assets		7,464,637	10,446,863

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

As of 31 December 2009, accounts receivable, prepayments and other current assets of RR 349,399 thousand (2008: RR 164,507 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.

The ageing of these receivables is:

	2009	2008
Less than 3 months	25,388	7,208
From 3 to 12 months	19,047	32,879
Over 12 months	304,964	124,420
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets	**349,399**	**164,507**

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

As of 31 December 2009, trade receivables of RR 599,795 thousand (2008: RR 971,128 thousand) were past due but not impaired. The ageing analysis of these trade receivables from past due date is:

	2009	2008
Less than 3 months	407,396	562,103
From 3 to 12 months	152,406	394,513
Over 12 months	39,993	14,512
Trade accounts receivable past due not impaired	**599,795**	**971,128**

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

		2009		2008	
	Note	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January		**120,295**	**44,212**	**845,805**	**58,296**
Provision charged	23, 24	200,086	112,917	37,409	2,032
Provision used		(11,318)	(812)	(690,702)	(14,870)
Provision reversed	23, 24	(84,229)	(30,216)	(164,088)	(1,246)
Foreign exchange difference		(50)	(1,486)	91,871	-
Total gross amount of impaired trade receivables, prepayments, other receivables and other current assets		**224,784**	**124,615**	**120,295**	**44,212**

15 Cash and cash equivalents

	2009	2008
Cash on hand and bank balances denominated in RR	1,072,146	1,094,542
Bank balances denominated in US$	1,993,965	1,859,365
Bank balances denominated in Euro	880,578	833,523
Balances denominated in other currencies	18,486	42,438
Term deposits denominated in RR	1,727,614	835,118
Term deposits denominated in US$	2,594,479	20,048,393
Term deposits denominated in Euro	2,088,686	1,343,150
Term deposits denominated in other currencies	300,818	168,821
Total cash and cash equivalents	**10,676,772**	**26,225,350**
Current restricted cash	551,086	481,912
Non-current restricted cash	179,115	30,053
Total restricted cash	**730,201**	**511,965**

Term deposits at 31 December 2009 and 31 December 2008 have various original maturities but could be withdrawn on request without any restrictions.

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:

	2009	2008
A to AAA rated**	7,523,781	17,027,631
BB- to BBB+ rated**	3,539,708	9,523,043
B- to B+ rated**	3,906	44,276
Unrated	337,584	139,416
Total*	**11,404,979**	**26,734,366**

* The rest of the balance sheet item 'cash and cash equivalents' is cash on hand.

** Based on the credit ratings of independent rating agencies Standard & Poor's, Fitch Ratings and Moody's Investors Services as at 27 January 2010.

At 31 December 2009 RR 551,086 (2008: RR 326,122 thousand) of the current restricted cash consists of cash held at banks to meet the next principal and interest payments. There were no letters of credit issued by the Group to its suppliers at 31 December 2009 (2008: RR 155,790 thousand).

At 31 December 2009 and 31 December 2008 non-current restricted cash of RR 179,115 thousand and RR 30,053 thousand, respectively, primarily consists of letters of credit for equipment procurement and a deposit against possible environmental obligations as required under statutory Lithuanian rules.

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

16 Trading investments

In June 2009 the Group sold 2.01% of the voting shares of OJSC MRSK "Center and Volga region" to a third party for RR 311,855 thousand and recognised a fair value gain of RR 139,584 thousand in the profit and loss.

17 Equity

The nominal registered amount of the Company's issued share capital at 31 December 2009 is RR 6.8 billion (2008: RR 6.8 billion). The total authorised number of ordinary shares is 68 million shares (2008: 68 million) with a par value of RR 100 per share. All authorised shares have been issued and fully paid.

	Number of ordinary shares	Share capital	Treasury shares	Total
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**
At 31 December 2009	**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 2009 (2008: 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 2009, the net statutory profit of the Company as reported in the published annual statutory accounting report was RR 30,234,442 thousand (2008: RR 18,462,526 thousand) and the closing balance of the accumulated profit including the net statutory profit totalled RR 53,709,147 thousand (2008: RR 22,971,954 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 these consolidated financial statements.

Other reserves. As at 31 December 2009 other reserves in the statement of changes in equity comprised an accumulated net gain from currency translation differences of RR 1,884,761 thousand (2008: RR 1,529,180 thousand), an accumulated increase in the fair value of investments in the shares of K+S Group of RR 5,078,388 thousand (2008: RR 4,367,812 thousand) and an accumulated increase in the fair value of investments in the shares of OJSC Sberbank of RR 16,629 thousand (2008: RR 4,178 thousand) (Note 10).

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

	2009	2008
Dividends payable at 1 January	**-**	**3,668,328**
Dividends declared during the year	-	10,456,091
Dividends paid during the year	-	(14,124,419)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**-**	**RR 153.92**

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

18 Bank borrowings

	2009	2008
Balance as at 1 January	**43,511,956**	**5,633,712**
Bank loans received, denominated in US$	-	47,348,079
Bank loans received, denominated in Euro	9,811,419	-
Bank loans received, denominated in RR	31,635	51,653
Bank loans repaid, denominated in US$	(9,755,831)	(13,807,859)
Bank loans repaid, denominated in Euro	(5,993,656)	(154,657)
Bank loans repaid, denominated in RR	(50,522)	(32,766)
Capitalisation and amortisation of bank borrowings syndication fees	66,255	(529,869)
Foreign exchange loss	1,426,502	5,003,663
Balance as at 31 December	**39,047,758**	**43,511,956**

	2009	2008
Current bank borrowings		
Current portion of long-term bank loans in US$	12,491,434	9,074,390
Bank loans, denominated in RR	-	18,887
Total current bank borrowings	**12,491,434**	**9,093,277**
Non-current bank borrowings		
Long-term bank loans, denominated in US$	35,390,620	43,493,069
Long-term bank loans, denominated in Euro	3,657,138	-
Less: current portion of long-term bank loans in US$	(12,491,434)	(9,074,390)
Total non-current bank borrowings	**26,556,324**	**34,418,679**
Total bank borrowings	**39,047,758**	**43,511,956**

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

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

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

Interest rates

A syndicated loan facility, which was obtained in October 2008 in the amount of US$ 1.5 billion, bears a floating interest rate of 1 month Libor +1.8%. The outstanding amount at 31 December 2009 totalled US$ 1,186,047 thousand (2008: US$ 1,500,000 thousand). A loan denominated in Euros bears a floating interest rate of 3 month Euribor +2.0%.

Collaterals and pledges

At 31 December 2009 collaterals comprised cash balances of RR 551,086 thousand (2008: RR 326,122 thousand) restricted by banks to secure the next principal and interest payments (Note 15).

A bank loan of RR 35,390,620 thousand and RR 43,493,069 thousand at 31 December 2009 and 31 December 2008, respectively, was collateralized by future export proceeds of the Group under sales contracts with certain customers, and a bank loan of RR 3,657,138 at 31 December 2009 was secured with K+S Group shares as collateral represented by 5,316,627 shares with a fair value of RR 9,224,869 thousand with reference to the share price quoted on the Xetra trading system.

The Group's bank borrowings mature as follows:

	31 December 2009	31 December 2008
- within 1 year	12,491,434	9,093,277
- between 1 and 2 years	16,148,572	12,149,084
- between 2 and 5 years	10,407,752	22,269,595
Total bank borrowings	**39,047,758**	**43,511,956**

At 31 December 2009 the Group had a number of undrawn loan facilities.

In September 2008 the Group signed a loan agreement for up to US$ 50 million. The credit line had not been utilised. The expiry date for the loan was 4 March 2010.

18 Bank borrowings (continued)

Collaterals and pledges (continued)

In March 2009 the Group signed a loan agreement for up to RR 2.9 billion. The credit line had not been utilised. The expiry date for the facility was 12 March 2010.

In September 2009 the Group signed a loan agreement for up to Euro 130 million. The credit line has been utilised to the extent of Euro 85 million. The expiry date for the facility is 24 March 2011.

19 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.

The outstanding balance of the notes was RR 8,724,895 thousand and RR 8,453,611 thousand at 31 December 2009 and 31 December 2008, respectively, applying the exchange rate at those dates net of syndication fees.

The fair value of the outstanding notes balance at 31 December 2009 and 31 December 2008 was RR 8,836,599 thousand and RR 4,303,400 thousand with reference to Irish Stock Exchange quotations as of those dates.

20 Trade payables, other accounts payable and accrued expenses

	2009	2008
Trade payables		
Trade payables denominated in RR	1,007,316	1,015,564
Trade payables denominated in US$	141,685	304,100
Trade payables denominated in Euro	39,164	145,095
Trade payables denominated in other currencies	185,323	328,876
Total trade payables – financial liabilities	**1,373,488**	**1,793,635**
Other accounts payable and accrued expenses		
Advances received	1,441,095	705,796
Payroll and social tax	262,643	261,153
Accrued liabilities and other creditors	1,648,544	2,754,494
Subtotal non-financial liabilities	**3,352,282**	**3,721,443**
Interest payable	222,240	239,304
Subtotal financial liabilities	**222,240**	**239,304**
Total other payables	**3,574,522**	**3,960,747**
Total trade payables, other accounts payable and accrued expenses	**4,948,010**	**5,754,382**
including		
Financial liabilities	1,595,728	2,032,939
Non-financial liabilities	3,352,282	3,721,443

Trade payables include payables to suppliers of property, plant and equipment which amount to RR 324,073 thousand (2008: RR 410,010 thousand).

21 Sales

The components of sales were as follows:

		2009	2008
Nitrogen			
	Nitrogen fertilizers	26,274,056	39,225,066
	Organic synthesis products	5,041,872	7,204,293
	Complex fertilizers group	3,259,941	3,715,240
	Other goods	538,815	1,346,218
	Other services	326,568	295,199
		35,441,252	**51,786,016**
Phosphates			
	Phosphates	17,153,958	30,726,501
	Iron ore concentrate	7,956,948	11,008,535
	Feed phosphates group	2,288,958	4,152,095
	Apatite concentrate	948,465	2,023,247
	Baddeleyite concentrate	439,118	426,233
	Complex fertilizers group	50,963	255,470
	Other goods	238,771	367,796
	Other services	524,506	416,344
		29,601,687	**49,376,221**
Distribution			
	Nitrogen fertilizers	1,984,185	891,556
	Phosphates	1,199,879	1,453,578
	Complex fertilizers group	1,398,459	2,456,713
	Other goods	796,934	446,223
	Other services	10,352	28,394
		5,389,809	**5,276,464**
Others			
	Nitrogen fertilizers	1,562,992	3,938,070
	Organic synthesis products	120,436	108,091
	Logistic services	394,805	951,460
	Other goods	462,283	336,385
	Other services	603,985	400,866
		3,144,501	**5,734,872**
Total sales		**73,577,249**	**112,173,573**

22 Cost of sales

The components of cost of sales were as follows:

	Note	2009	2008
Materials and components used or resold		20,444,650	27,077,695
Energy		4,619,546	4,077,890
Utilities and fuel		2,062,700	2,559,172
Labour, including contributions to social funds		6,362,041	6,445,568
Depreciation		2,363,127	2,381,348
Repairs and maintenance		531,614	1,386,177
Production overheads		1,237,323	1,023,635
Property tax, rent payments for land and related taxes		750,048	939,101
Transportation expenses for logistics services		716,116	1,143,211
Idle property, plant and equipment written-off	7	83,872	313,131
Reversal of provision for obsolete and damaged inventory and finished goods		(6,293)	(22,381)
Changes in work in progress and finished goods		2,064,961	(3,089,813)
Other costs		210,094	231,733
Total cost of sales		**41,439,799**	**44,466,467**

In 2009 the Group introduced a new line “Changes in work in progress and finished goods”. All components of cost of sales in the comparative period are shown in compliance with this style of presentation.

23 Distribution costs

Distribution costs comprised:

	Note	2009	2008
Transportation		15,662,588	17,838,778
Export duties,other fees and commissions		336,900	3,027,912
Labour, including contributions to social funds		710,094	888,143
Depreciation		339,519	367,955
Repairs and maintenance		726,506	652,556
Provision for impairment of receivables	14	111,549	4,133
Other		501,536	503,014
Total distribution costs		**18,388,692**	**23,282,491**

24 General and administrative expenses

General and administrative expenses comprised:

	Note	2009	2008
Labour, including contributions to social funds		1,594,409	1,713,592
Depreciation and amortisation		273,707	193,352
Audit, consulting and legal services		205,611	275,753
Rent		131,156	138,930
Bank charges		110,141	131,056
Social expenditure		79,011	90,760
Repairs and maintenance		40,276	94,810
Provision/(reversal of provision) for impairment of receivables	14	87,009	(130,026)
Other expenses		740,078	700,491
Total general and administrative expenses		**3,261,398**	**3,208,718**

The total depreciation and amortisation expenses included in all captions of the statement of comprehensive income amounted to RR 2,976,353 thousand (2008: RR 2,942,655 thousand). The total staff costs (including social expenses) included in all captions of the statement of comprehensive income amounted to RR 8,666,544 thousand (2008: RR 9,047,303 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2009 amounted to RR 60,973 thousand (2008: RR 48,027 thousand). The auditors also provided the Group with consulting services amounting to RR 3,520 thousand (2008: RR 2,245 thousand).

25 Other operating income and expenses

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

	2009	2008
Reversal of provision for taxes	-	(418,689)
Loss on disposal of property, plant and equipment	181,076	94,006
Sponsorship	202,847	444,201
Foreign exchange gain	(679,113)	(26,531)
Other operating expenses	70,161	232,423
Total other operating (income)/expenses	**(225,029)**	**325,410**

26 Income tax

	2009	2008
Income tax expense – current	2,437,953	9,295,501
Deferred income tax – reversal of temporary differences	40,195	37,840
Effect of the change in the tax rate	151,108	(441,953)
Income tax expense	**2,629,256**	**8,891,388**

26 Income tax (continued)

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

	2009	2008
Profit before taxation	13,704,704	36,780,111
Theoretical tax charge at statutory rate of 20% (2008 – 24%)	(2,740,941)	(8,827,226)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(447,168)	(387,889)
- Effects of different tax rates in other countries	768,974	(143,086)
- Recognized tax loss carry forward for the year	-	24,860
- Unrecognized tax loss carry forward for the year	(59,013)	-
- Effect of the change in the tax rate	(151,108)	441,953
Consolidated tax charge	**(2,629,256)**	**(8,891,388)**

Most companies of the Group were subject to a tax rate of 20% on taxable profits in the Russian Federation for 2009 (2008: 24%). Their deferred tax asset/liabilities are measured at the rate of 20% as at 31 December 2009 and 31 December 2008.

Effective from 1 January 2010, the rate of profit tax payable by the company in Lithuania is 15% (2009: 20%). The respective deferred tax asset/liabilities are measured at the rate of 15% and 20% as at 31 December 2009 and 31 December 2008, 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.

At 31 December 2009 the Group had RR 1,164,929 thousand of accumulated tax losses carried forward and recognised as a deferred tax asset (2008: RR 415,085 thousand).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries of RR 667,166 thousand (2008: RR 113,164 thousand). The Group controls the timing of the reversal of these temporary differences and does not expect to reverse them in the foreseeable future.

The movement in deferred tax assets and liabilities during 2009 and 2008 was as follows:

	31 December 2008	Differences (recognition and reversals)	Business combinations	Currency translation difference (Note 2)	Effect of change in income tax rate	31 December 2009
Tax effects of (deductible)/taxable temporary differences:						
Property, plant and equipment and Intangible assets	2,248,558	(64,412)	26,124	(9,365)	340	2,201,245
Accounts receivable	(43,684)	4,778	-	1,642	10,205	(27,059)
Accounts payable	(516,403)	337,807	-	1,417	5,579	(171,600)
Inventories	(776,872)	801,842	-	(26,532)	319	(1,243)
Other	(34,505)	(97,791)	-	(1,552)	381	(133,467)
Tax losses carried-forward	(415,085)	(883,016)	-	(1,112)	134,284	(1,164,929)
Non-recognised deferred tax assets	-	(59,013)	-	-	-	(59,013)
Net deferred tax liability	**462,009**	**40,195**	**26,124**	**(35,502)**	**151,108**	**643,934**
Recognised deferred tax assets	(1,380,972)	(77,536)	-	(21,448)	151,108	(1,328,848)
Recognised deferred tax liabilities	1,842,981	117,731	26,124	(14,054)	-	1,972,782
Net deferred tax liability	**462,009**	**40,195**	**26,124**	**(35,502)**	**151,108**	**643,934**

26 Income tax (continued)

The total amount of deferred tax charge is recognised in profit and loss.

	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**

The amounts shown in the statement of financial position include the following:

	2009	2008
Deferred tax assets expected to be recovered after more than 12 months	(657,265)	(349,296)
Deferred tax liabilities expected to be settled after more than 12 months	1,880,528	2,155,634

27 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 17). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2009	2008
Net profit	11,111,048	27,385,406
Weighted average number of ordinary shares in issue (expressed in thousands)	67,932	67,932
Basic and diluted earnings per share (expressed in RR per share)	**163.56**	**403.13**

28 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 2009	31 December 2008
Statement of financial position caption				
Originated loans	Parent company	12	-	5,729,178
Trade receivables	Other related parties		16,104	56,849
Less: impairment provision	Other related parties		(16,104)	-
Prepayments, other receivables and other current assets	Other related parties		50,241	25,282
Less: impairment provision	Other related parties		(50,241)	-
Interest receivable	Parent company		-	53,158
Trade payables	Other related parties		13,517	-

Financial statements caption	Nature of relationship	2009	2008
Statement of comprehensive income caption			
Sales	Other related parties	145,830	454,354
Purchases of materials and components	Other related parties	(60,008)	(144,858)
General and administrative expenses	Other related parties	(117,190)	-
Distribution costs	Other related parties	(16,104)	(67,057)
Other operating income/(expenses)	Other related parties	-	(137,707)
Interest income	Parent company	59,376	53,158

Financial statements caption	Nature of relationship	Note	2009	2008
Statement of cash flows caption				
Decrease in trade receivables	Other related parties		40,745	-
Increase in other receivables	Other related parties		(24,959)	-
Acquisition of available-for-sale investments	Parent company	10	(19,605,626)	(5,449,233)
Proceeds from sale of available-for-sale investments	Parent company	10	4,529,819	-
Originated loans	Parent company		-	(5,118,848)
Repayment of originated loan	Parent company	12	6,568,110	-
Interest received	Parent company		121,199	-
Dividends paid	Parent company		-	(14,124,421)

The total key management personnel compensation included in the profit and loss was RR 177,338 thousand and RR 346,027 thousand for the years ended 31 December 2009 and 2008, respectively. This compensation is paid to six individuals who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

29 Non-current assets held for sale

Disposal of LLC Novomoskovsky Chlor. In December 2008 the Group signed a preliminary agreement with a third party for the disposal of LLC Novomoskovsky Chlor. At 31 December 2008 assets and liabilities of this subsidiary were presented as a disposal group held for sale. In June 2009 the Group sold its 100% stake in LLC Novomoskovsky Chlor to a third party for RR 508,396 thousand, which will be paid on a quarterly basis until 31 December 2012, bearing on interest rate of CBR rate +2.5%. At 31 December 2009 the outstanding amount was RR 402,827 thousand, which is included in other non-current assets (RR 247,893 thousand) and in other receivables (RR 154,934 thousand).

At the date of disposal the net assets of LLC Novomoskovsky Chlor were RR 149,518 thousand. The Group recognized a gain of RR 358,878 thousand on the disposal.

29 Non-current assets held for sale (continued)

The major classes of assets of LLC Novomoskovsky Chlor at the date of disposal included:

Property, plant and equipment	183,105
Inventories	111,064
Trade and other receivables	55,231
Cash and cash equivalents	693
Total assets	**350,093**

Major classes of liabilities directly associated with LLC Novomoskovsky Chlor at the date of disposal included:

Trade and other payables	200,575
Total liabilities	**200,575**
Net assets	**149,518**

30 Contingencies, commitments and operating risks

i Capital expenditure commitments

As at 31 December 2009 the Group had contractual commitments for capital expenditures of RR 9,388,416 thousand (2008: RR 22,494,066 thousand), mostly denominated in Euro and US$ (RR 1,652,759 thousand and RR 5,217,095 thousand, respectively). The management estimates that, out of these, approximately RR 8,762,405 thousand will represent cash outflows in 2010.

RR 5,700,730 thousand out of the total amount relates to the development of the Gremyachinskoe deposit and the construction of a potassium salt mining facility (2008: RR 15,207,869 thousand).

ii Tax legislation

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

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

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

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

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

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

30 Contingencies, commitments and operating risks (continued)

ii Tax legislation (continued)

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

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 1,433,262 thousand (2008: RR 2,682,920 thousand). These exposures primarily relate to management services and other fees charged by the holding company to the Group subsidiaries.

iii Insurance policies

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

iv Environmental matters

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

v Legal proceedings

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

vi Operating environment of the Group

Following a sharp deterioration in the global economic environment in the fourth quarter of 2008, prices for nitrogen and phosphate fertilizers, as predominantly manufactured and sold by the Group, have declined significantly from the peak levels of 2008 and average levels for 2008, while remaining broadly in line with 2007 average prices, and mostly above 2006 average prices. For nitrogen fertilizers, average prices during 2009 ranged from 26% to 33% of the maximum 2008 price, 44% to 52% of the 2008 average price, 68% to 86% of the 2007 average price, and 95% to 116% of the 2006 average price. For phosphate and complex fertilizers, prices ranged from 27% to 41% of the maximum 2008 price, 35% to 51% of the 2008 average price, 80% to 114% of the 2007 average price, and 133% to 155% of the 2006 average price.

The debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flows and assess any 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 effects of the global financial crisis continued to have a severe effect on the Russian economy in 2009:

- the rise in Russian and emerging market risk premiums resulted in a steep increase in financing costs;
- 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 30.24 at 31 December 2009. At the date of issuance of these financial statements the US$ exchange rate was RR 29.22.

Management is unable to determine reliably 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.

31 Financial and capital risk management

31.1 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. 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 which are subject to foreign currency risk at the balance sheet date:

31 December 2009	US$	Euro	Other foreign currency
ASSETS			
Non-current financial assets:			
Restricted cash	2,651	145,425	-
Total non-current financial assets	**2,651**	**145,425**	**-**
Current financial assets:			
Trade receivables	911,441	169,124	3,206
Restricted cash	548,357	-	2,729
Cash and cash equivalents	4,588,444	2,867,709	7,325
Total current financial assets	**6,048,242**	**3,036,833**	**13,260**
Total financial assets	**6,050,893**	**3,182,258**	**13,260**
LIABILITIES			
Non-current liabilities:			
Bank borrowings	22,899,186	3,657,138	-
Bonds issued	8,724,895	-	-
Total non-current financial liabilities	**31,624,081**	**3,657,138**	**-**
Current liabilities:			
Bank borrowings	12,491,434	-	-
Trade payables	141,685	34,783	-
Total current financial liabilities	**12,633,119**	**34,783**	**-**
Total financial liabilities	**44,257,200**	**3,691,921**	**-**

31 Financial and capital risk management (continued)

31.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2008	US$	Euro	Other foreign currency
ASSETS			
Current assets:			
Trade receivables	1,955,166	101,379	-
Originated loans	5,729,178	-	-
Restricted cash	341,986	139,926	-
Cash and cash equivalents	21,907,758	2,070,821	19,353
Total financial assets	**29,934,088**	**2,312,126**	**19,353**
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	-
Total current financial liabilities	**9,378,490**	**145,095**	**-**
Total financial liabilities	**52,250,780**	**145,095**	**-**

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$, mostly related to servicing of debt and capital expenditure. Hence any depreciation of the RR against the US$ has a positive effect on the Group's future cash flows.

The Group's sales for the years ended 31 December 2009 and 31 December 2008 are presented in the table below:

	US$	Euro	RR	Other foreign currency	Total
2009	50,977,211	3,642,965	15,892,608	3,064,465	73,577,249
	69%	5%	22%	4%	100%
2008	83,574,310	4,937,069	19,090,876	4,571,318	112,173,573
	75%	4%	17%	4%	100%

At 31 December 2009, if the RR exchange rate against the US$ had been higher/lower by 10%, all other things being equal, after tax profit for the year would have been RR 3,056,505 thousand (2008: RR 1,696,069 thousand) higher/lower, purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities and with no regard to the impact of this appreciation/depreciation on sales. Profit is more sensitive to movements in RR/US$ exchange rates in 2009 than it was in 2008 because of the increased amount of US$-denominated net debt.

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 future exchange rate changes.

During 2008 and 2009 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 risk from floating interest rates due to the fact that it has RR 35,871,028 thousand of US$ denominated loans outstanding at 31 December 2009 bearing a floating interest rate of 1 month Libor +1.8% (2008: 1 month Libor +1.8%) and RR 3,688,006 thousand of Euro denominated loans outstanding at 31 December 2009 bearing a floating interest rate of 3 months Libor +2% (2008: nil). The Group's profit after tax for the year ended 31 December 2009 would have been RR 210,757 thousand, or 1,90% lower/higher (2008: 89,534 thousand, or 0.32% lower/higher) if the US$ 1 month Libor interest rate was 0,61 percentage point higher/lower than its actual level during the year. The Group's profit after tax for the year ended 31 December 2009 would have been RR 7,018 thousand, or 0,06% lower/higher (2008: nil) if the Euribor interest rate was 0,63 percentage point higher/lower than its actual level during the year. During 2008 and 2009 the Group did not hedge this exposure using financial instruments.

31 Financial and capital risk management (continued)

31.1 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

(iii) Financial investments risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. At 31 December 2009 the Group owned 19,366,595 shares of K+S Group (10.12% of its share capital) with a fair value of RR 33,602,943 thousand (Note 10). The fair value of the shares is determined based on the closing price of Euro 39.99 as of the reporting date in the Xetra trading system. The Group's other comprehensive income/loss for 2009 would have been RR 840,284 thousand if the share price were 1 Euro higher/lower than its actual level as at 31 December 2009. At 18 March 2010 the share price was Euro 45.55. During 2009 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. Management reviews 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 in financial instruments whose value is exposed to the value of any commodities traded on a public market.

(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 13,971,571 thousand (2008: RR 35,816,756 thousand). The Group has no other significant concentrations of credit risk.

***Cash and cash equivalents*.** Cash and short-term deposits are mainly 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 that 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).

31 Financial and capital risk management (continued)

31.1 Financial risk management (continued)

(b) Credit risk (continued)

The major part of trade receivables that are neither due nor impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

Wholesale customers	Credit agency	Credit rating/Other	2009	2008
Wholesale customers	Credit Reform*	Good	533,776	457,629
Wholesale customers and steel producers	-	Letter of credit	296,317	1,365,378
Wholesale customers and steel producers	Moody's Investor's Service	Aa2 to Ba2	331,434	-
Total			**1,161,527**	**1,823,007**

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

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every single customer is monitored.

(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. As of 31 December 2009 these institutions have rated the Group as BB with stable and negative outlooks, respectively (2008: BB with stable outlook by both agencies).

Cash flow forecasting is performed throughout the Group. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 18) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
As of 31 December 2008				
Trade payables	1,793,635	-	-	**1,793,635**
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**
As of 31 December 2009				
Trade payables	1,373,488	-	-	**1,373,488**
Bank borrowings*	13,604,955	17,295,880	10,863,770	**41,764,605**
Bonds issued*	690,702	690,702	8,926,226	**10,307,630**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2009 and 31 December 2008, 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 in alignment with economic realities on 29 April 2009 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.

The Group assesses liquidity on a weekly basis using a twelve-month cash flow rolling forecast.

31 Financial and capital risk management (continued)

31.2 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 statement of financial position. 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.

Gearing ratio

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

The gearing ratio as of 31 December 2009 and 31 December 2008 is shown in the table below:

	2009	2008
Total debt	47,772,653	51,965,567
Less: cash and cash equivalents	11,227,858	26,707,262
Net debt	**36,544,795**	**25,258,305**
Equity attributable to the holders of the Company	**72,436,377**	**60,226,778**
Net debt and shareholders' equity	**108,981,172**	**85,485,083**
Gearing ratio, %	**34%**	**30%**

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 2009 and 31 December 2008 is shown in the table below:

	Note	2009	2008
EBITDA	**6**	**16,516,237**	**44,296,923**
Net debt		36,544,795	25,258,305
Net debt/EBITDA		**2.21**	**0.57**

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

32 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 statement of financial position at their fair value.

Effective from 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by three levels, depending on fair value measurements. Fair values of trading and available-for-sale investments were determined based on quoted market prices and were included in level 1.

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

32 Fair value of financial instruments (continued)

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 2009 and 2008 the fair value of the current and non-current borrowings is not materially different from their carrying amounts. The fair value of the issued bonds is disclosed in Note 19.

33 Subsequent events

In February 2010, the Group acquired a 1.08% additional stake in Lifosa AB, a production subsidiary located in Lithuania, for a total consideration of RR 18,021 thousand paid in cash.