

EUROCHEM GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

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

30 JUNE 2008

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**Report on the Review of the Interim Financial Information for the Six Months
Ended 30 June 2008**

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

Introduction

We have reviewed the accompanying consolidated condensed balance sheet of Open Joint Stock Company Mineral Chemical Company "EuroChem" and its subsidiaries (together, the "Group") as at 30 June 2008 and the related consolidated condensed statements of income, cash flows and changes in equity for the six month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of Review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

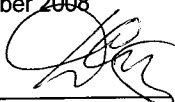
Moscow, Russian Federation
8 September 2008

EuroChem Group
Consolidated Condensed Interim Balance Sheet as at 30 June 2008
(all amounts are presented in thousands of Russian Roubles)



	Note	30 June 2008	31 December 2007
ASSETS			
Non-current assets:			
Property, plant and equipment	6	33,129,232	28,722,344
Goodwill		157,396	157,396
Other intangible assets		480,890	505,264
Restricted cash	8	38,493	37,212
Available-for-sale investments		15,361	21,051
Deferred tax assets		528,703	481,733
Exploration rights	10	7,163,276	3,076,110
Total non-current assets		41,513,351	33,001,110
Current assets:			
Inventories	11	9,708,971	6,218,187
Trade receivables		4,251,299	3,739,264
Prepayments, other receivables and other current assets		10,492,378	6,367,124
Trading investments	7	782,017	-
Cash and cash equivalents	8	13,525,882	15,427,883
		38,760,547	31,752,458
Non-current assets held for sale	9	71,124	256,938
Total current assets		38,831,671	32,009,396
Total assets		80,345,022	65,010,506
LIABILITIES & EQUITY			
Equity:			
Share capital	12	6,800,000	6,800,000
Treasury shares	12	(7,760)	(7,760)
Retained earnings and other reserves		45,414,671	31,240,463
		52,206,911	38,032,703
Minority interest		2,411,566	2,067,192
Total equity		54,618,477	40,099,895
Non-current liabilities:			
Bank borrowings	14	-	944,765
Bonds issued	15	6,960,080	7,272,832
Deferred income tax liabilities		1,184,751	1,342,117
Other non-trade payables		235,705	235,705
Total non-current liabilities		8,380,536	9,795,419
Current liabilities:			
Trade payables		1,753,720	1,129,879
Other accounts payable and accrued expenses		7,130,255	7,079,176
Income tax payable		1,552,509	1,367,632
Other taxes payable		1,199,405	849,558
Bank borrowings	14	5,710,120	4,688,947
Total current liabilities		17,346,009	15,115,192
Total liabilities		25,726,545	24,910,611
Total liabilities and equity		80,345,022	65,010,506

Approved on behalf of the Board of Directors
8 September 2008


D. S. Strezhnev
Chief Executive Officer


N. M. Pflipenko
Chief Financial Officer

EuroChem Group
Consolidated Condensed Interim Statement of Income
for the Six Months ended 30 June 2008

(all amounts are presented in thousands of Russian Roubles)



	Note	Three months ended		Six months ended	
		30 June 2008	30 June 2007	30 June 2008	30 June 2007
Revenues	16	30,122,899	16,869,058	55,835,645	32,454,122
Cost of sales	17	(10,826,054)	(7,436,012)	(20,278,170)	(14,797,199)
Gross profit		19,296,845	9,433,046	35,557,475	17,656,923
Distribution costs	18	(6,250,007)	(4,342,976)	(10,879,120)	(8,182,831)
General and administrative expenses	19	(899,262)	(910,651)	(1,765,781)	(1,665,841)
Other operating expenses	20	(334,220)	(191,319)	(726,757)	(367,318)
Operating profit		11,813,356	3,988,100	22,185,817	7,440,933
Gain on disposal of available-for-sale investments		-	153,962	-	153,962
Gain on disposal of subsidiary		-	68,969	-	68,969
Gain on disposal of non-current assets held for sale	7	-	-	310,493	335,144
Gain on revaluation of trading investments	7	214,586	-	214,586	-
Finance income	21	273,437	317,389	1,001,713	612,299
Finance cost	21	(338,511)	(399,053)	(569,921)	(664,476)
Profit before taxation		11,962,868	4,129,367	23,142,688	7,946,831
Income tax expense	22	(2,660,495)	(175,440)	(5,133,692)	(1,111,924)
Net profit for the period		9,302,373	3,953,927	18,008,996	6,834,907
Attributable to:					
Equity holders of the Company		9,038,919	3,855,711	17,526,363	6,626,447
Minority interest		263,454	98,216	482,633	208,460
Earning per share – basic and diluted (in RR)	13	133.06	56.76	258.00	97.55

EuroChem Group
Consolidated Condensed Interim Statement of Cash Flows
for the Six Months ended 30 June 2008



(all amounts are presented in thousands of Russian Roubles)

	Note	Six months ended 30 June 2008	30 June 2007
Operating profit		22,185,817	7,440,933
Income tax paid		(4,771,361)	(1,548,987)
Operating profit less income tax paid		17,414,456	5,891,946
Depreciation and amortization	19	1,382,404	1,484,903
Net loss on disposals and impairment of property, plant and equipment		319,924	185,342
Provisions		55,548	80,978
Other non-cash expenses/(incomes)		380,685	(117,415)
Interest paid		(445,871)	(350,437)
Gross cash flow	4	19,107,146	7,175,317
Changes in operating assets and liabilities:			
Trade receivables		(543,201)	(857,686)
Advances to suppliers		(1,722,469)	16,606
Other receivables		(1,675,039)	(227,181)
Inventories		(3,470,921)	(611,082)
Trade payables		623,841	174,250
Advances from customers		243,115	(73,494)
Other payables		(97,456)	(273,964)
Other assets and liabilities		6,981	(4,377)
Net cash – operating activities		12,471,997	5,318,389
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and other intangible assets		(6,114,017)	(2,844,185)
Purchase of exploration rights	10	(4,087,166)	(103,298)
Acquisition of interest in subsidiaries		(138,838)	(327,806)
Prepayment for additional interest in subsidiaries		(742,100)	-
Acquisition of subsidiary, net of cash acquired		-	(224,782)
Proceeds from sale of property, plant and equipment		13,854	28,196
Proceeds from disposal of investments in subsidiaries		-	725,701
Prepayment for non-current assets held for sale		37,500	425,578
Proceeds from sale of financial assets		-	501,691
Dividends received		-	38,524
Repayment of originated loans	23	-	3,982,260
Originated loans		-	(6,155)
Interest received		318,854	254,984
Net cash – investing activities		(10,711,913)	2,450,708
Free cash flow	4	1,760,084	7,769,097
Cash flows from financing activities			
Proceeds from bank borrowings	14	2,842,699	1,388,880
Repayment of bank borrowings	14	(2,544,178)	(7,454,080)
Proceeds from bonds		-	7,803,390
Dividends paid	12, 23	(3,668,328)	(671,838)
Net cash – financing activities		(3,369,807)	1,066,352
Effect of exchange rate changes		(297,978)	(40,135)
Net (decrease)/increase in cash and cash equivalents		(1,907,701)	8,795,314
Cash and cash equivalents at the beginning of the period (net of non-current restricted cash of RR 37,212 thousand and RR 105,846 thousand, respectively, and current restricted cash of RR 359,393 thousand and RR 347,255 respectively)		15,068,490	1,647,844
Cash and cash equivalents at the end of the period (net of non-current restricted cash of RR 38,493 thousand and RR 116,441 thousand, respectively, and current restricted cash of RR 365,093 thousand and RR 341,026 respectively)		13,160,789	10,443,158



EuroChem Group
Consolidated Condensed Interim Statement of Changes in Equity
for the Six Months ended 30 June 2008
(all amounts are presented in thousands of Russian Roubles)

	Notes	Attributable to equity holders of the Company						Total equity	
		Share capital (Note 12)	Treasury shares	Cumulative currency translation differences	Revaluation of available for sale investments	Retained earnings	Total		Minority interest
Balance at 1 January 2007		6,800,000	(7,760)	105,721	155,616	18,969,400	26,022,977	1,986,105	28,009,082
Currency translation differences		-	-	17,998	-	-	17,998	25,424	43,422
Revaluation of investments available for sale		-	-	-	(1,654)	-	(1,654)	-	(1,654)
Net income recognised directly in equity		-	-	17,998	(1,654)	-	16,344	25,424	41,768
Net profit for the period		-	-	-	-	6,626,447	6,626,447	208,460	6,834,907
Total recognised income		-	-	17,998	(1,654)	6,626,447	6,642,791	233,884	6,876,675
Disposal of investments available for sale		-	-	-	(153,962)	-	(153,962)	-	(153,962)
Disposal of subsidiary		-	-	-	-	-	-	(82,391)	(82,391)
Acquisitions of additional interest in subsidiaries		-	-	-	-	41,090	41,090	(368,896)	(327,806)
Balance at 30 June 2007		6,800,000	(7,760)	123,719	-	25,636,937	32,552,896	1,768,702	34,321,598
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
Currency translation differences		-	-	158,207	-	-	158,207	8,653	166,860
Revaluation of investments available for sale		-	-	-	(5,672)	-	(5,672)	-	(5,672)
Net income recognised directly in equity		-	-	158,207	(5,672)	-	152,535	8,653	161,188
Net profit for the period		-	-	-	-	17,526,363	17,526,363	482,633	18,008,996
Total recognised income		-	-	158,207	(5,672)	17,526,363	17,678,898	491,286	18,170,184
Dividends	12	-	-	-	-	(3,512,764)	(3,512,764)	-	(3,512,764)
Acquisitions of additional interest in subsidiaries		-	-	-	-	8,074	8,074	(146,912)	(138,838)
Balance at 30 June 2008		6,800,000	(7,760)	381,013	15,294	45,018,364	52,206,911	2,411,566	54,618,477

The accompanying notes on pages 5 to 14 are an integral part of this condensed consolidated interim financial information.



1. The EuroChem Group and its operations

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

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

The Company is owned 99.9% by MCC Holding Limited ("MCC"), a Cypriot limited liability company, and 0.1% by LLC PG Phosphorit, a Russian limited liability company and a wholly owned subsidiary of the Group. Effective from May 2007 the ultimate shareholders of the Group are Mr. Andrey Melnichenko, owning 95%, and Mr. Dmitry Strezhnev owning 5%.

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

At 30 June 2008 the Group included a number of subsidiaries which had minority shareholders. In March 2008 the Group increased its shareholding in OJSC Kovdorsky GOK to 100%. In subsequent financial period, in July 2008, the Group increased its shareholding in OJSC NAK Azot and OJSC Nevinomyssky Azot to 100%.

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 form to an open joint stock company. The Company has its registered office at:

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

2. Basis of presentation

This consolidated condensed interim financial information for the six months ended 30 June 2008 has been prepared in accordance with IAS 34, "Interim Financial Reporting". This consolidated condensed interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2007.

3. Accounting policies

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2007, as described in the consolidated financial statements for the year ended 31 December 2007, except for the revenue recognition.

In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties applicable to the Group's products are 8.5% of the declared customs value for nitrogen and complex fertilizers and 6.5% of the declared customs value for apatite. Export revenues are shown gross of above mentioned duties of RR 849,660 thousand (2007: nil). In making this judgment the Group considered that these export duties in substance represent a cost for the Group, rather than a sales tax collected on behalf of government authorities.

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

The following revised and issued standards were adopted in accordance with their transitional provisions and effective dates:

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, these standards and interpretations have not significantly affected the Group's financial information.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been adopted early:



3. Accounting policies (continued)

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's consolidated financial statements;
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not applicable to the Group as the Group companies do not currently operate any loyalty programmes;
- IAS 23 *Revised, Borrowing Costs*. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IAS 1, *Presentation of Financial Statements* (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- *Puttable financial instruments and obligations arising on liquidation* – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements;
- IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its 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 revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- *Vesting Conditions and Cancellations* – Amendment to IFRS 2, *Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Amendment to IFRS 2, *Share-based Payment* is not currently applicable to the Group as it has no such payments.



3. Accounting policies (continued)

Other new standards and interpretations. The Group has not adopted early the following new standards or interpretations:

- IFRIC 15, *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008);
- *Improvements to International Financial Reporting Standards* (issued in May 2008);
- *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009);
- *Eligible Hedged Items* – Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted).

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

4. Cash flow statement

In managing the business, management focuses on a number of cash flow measures including 'gross cash flow' and 'free cash flow'. Gross cash flow refers to the operating profit after taxes and interest paid and adjusted for items which are not of a cash nature which have been charged or credited to the statement of income. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities. The gross cash flow for the six months ended 30 June 2008 was RR 19,107,146 thousand (2007: RR 7,175,317 thousand).

Free cash flows are the cash flows available to providers of finance of the business, be this debt or equity. The free cash flow for the six months ended 30 June 2008 was RR 1,760,084 thousand (2007: RR 7,769,097 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.

5. Segment reporting

Primary reporting format – geographical segments

The segmental results for the six months ended 30 June 2008 were as follows:

	Domestic	Export	Unallocated	Total
Revenues	12,762,973	43,072,672	-	55,835,645
Operating profit	7,277,218	15,695,855	(787,256)	22,185,817

The segmental results for the six months ended 30 June 2007 were as follows:

	Domestic	Export	Unallocated	Total
Revenues	7,821,327	24,632,795	-	32,454,122
Operating profit	1,344,295	6,891,293	(794,655)	7,440,933

6. Property, plant and equipment

Property, plant and equipment consisted of the following:

	Note	2008	2007
Carrying amount at 1 January		28,722,344	24,515,374
Additions		6,106,113	2,973,288
Acquisition through business combination		-	16,283
Disposals		(21,147)	(294,469)
Depreciation charge for the period		(1,385,475)	(1,410,376)
Impairment	17	(312,631)	(177,384)
Currency translation difference		91,152	7,824
Reclassification to non-current assets held for sale	9	(71,124)	-
Carrying amount at 30 June		33,129,232	25,630,540

Bank borrowings were secured by property, plant and equipment with a net book value of RR 5,215 thousand and pledge value of RR 2,950 thousand (2007: net book value of RR 269,812 thousand and pledge value of RR 287,903 thousand) (Note 14).



6. Property, plant and equipment (continued)

The Group decided to mothball certain production equipment with a net book value of RR 312,631 thousand at 30 June 2008 (2007: RR 177,384 thousand). The Group recognised an impairment loss of RR 312,631 thousand in this consolidated condensed interim financial information (Note 17).

The assets transferred to the Group upon privatisation did not include the land on which a number of the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is the end of 2010. The Group plans to exercise the purchase option in other subsidiaries. In June 2008 one of the Group's subsidiaries bought the land, on which its main production facilities were located, at a price of RR 17,188 thousand.

7. Trading investments

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

At the balance sheet date the fair value of the investment was RR 782,017 thousand determined with reference to the RTS quote at 30 June 2008. The gain on revaluation of this investment of RR 214,586 thousand was recognized in the statement of income.

8. Cash and cash equivalents

	30 June 2008	31 December 2007
Cash on hand and bank balances denominated in RR	5,801,712	6,263,716
Bank balances denominated in US\$	6,728,042	7,385,614
Bank balances denominated in Euro	340,626	1,291,273
Balances denominated in other currencies	290,409	127,887
Current restricted cash	365,093	359,393
Total current cash and cash equivalents	13,525,882	15,427,883
Non-current restricted cash	38,493	37,212
Total cash and cash equivalents	13,564,375	15,465,095

9. Non-current assets held for sale

At 30 June 2008, the Group was in the process of selling certain non-current assets with a net book value of RR 71,124 thousand to a third party. The Group accounted for these assets as non-current assets held for sale at their net book value of RR 71,124 thousand.

10. Exploration rights

On 12 March 2008, the Group, following an auction process, won the right to acquire a license for the exploration and development of the Palashersky and the Balahontsevsky sections of the Verkhnekamskoye potash deposit, located in Perm region, Russian Federation. The Group accounted for the license at cost including cash consideration of RR 4,087 million and related expenses of RR 166 thousand.

11. Inventories

	30 June 2008	31 December 2007
Raw and auxiliary materials	3,991,359	2,855,707
Catalysts	1,398,041	1,451,543
Work in progress	726,395	440,808
Finished goods	4,026,002	1,878,573
Less: provision for obsolete and damaged inventories	(432,826)	(408,444)
Total inventories	9,708,971	6,218,187

Bank borrowings are secured by catalysts with a carrying value of RR 113,164 thousand and pledge value of RR 96,190 thousand (2007: carrying value of RR 285,363 thousand and pledge value of RR 242,560 thousand) (Note 14).



12. Equity

The nominal registered amount of the Company's issued share capital at 30 June 2008 and 31 December 2007 is RR 6,800,000 thousand. The total authorised number of ordinary shares is 68,000,000 shares with a par value of 100 Russian roubles per share.

	Number of ordinary shares	Share capital	Treasury shares	Total
At 1 January 2008	68,000,000	6,800,000	(7,760)	6,792,240
At 30 June 2008	68,000,000	6,800,000	(7,760)	6,792,240

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 six months ended 30 June 2008 the net statutory profit of the Company as reported in the statutory reporting forms was RR 3,582,157 thousand (for the six months ended 30 June 2007 the net statutory loss was RR 18,377 thousand) and the closing balance of the accumulated profit including the net statutory profit for the six months ended 30 June 2008 totalled RR 18,558,145 thousand (31 December 2007: RR 14,975,988 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation. Accordingly management believes, that at present, it would not be appropriate to disclose an amount for the distributable reserves in this consolidated condensed interim financial information.

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

13. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares (Note 12). The Company has no dilutive potential ordinary shares, therefore the diluted earnings per share equals the basic earnings per share.

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Net profit	9,038,919	3,855,711	17,526,363	6,626,447
Weighted average number of ordinary shares in issue	67,932,000	67,932,000	67,932,000	67,932,000
Basic and diluted earnings per share (expressed in RR per share)	133.06	56.76	258.00	97.55

14. Bank borrowings

	2008	2007
Balance as at 1 January	5,633,712	13,404,444
Bank loans received, denominated in US\$	2,835,930	1,370,382
Bank loans received, denominated in RR	6,769	18,498
Bank loans repaid, denominated in US\$	(2,491,320)	(7,361,722)
Bank loans repaid, denominated in EUR	(52,858)	(92,358)
Amortization of bank borrowings syndication fees	21,209	22,227
Currency translation difference	(243,322)	(171,819)
Balance as at 30 June	5,710,120	7,189,652
	30 June 2008	31 December 2007
Current bank borrowings		
Bank loans, denominated in US\$	2,792,443	523,179
Current portion of long-term US\$ loans	2,818,331	4,017,481
Current portion of long-term EUR loans	99,346	148,287
Total current bank borrowings	5,710,120	4,688,947
Non-current bank borrowings		
Long-term bank loans, denominated in US\$	2,818,331	4,962,246
Long-term bank loans, denominated in EUR	99,346	148,287
Less: Current portion of long-term bank loans	(2,917,677)	(4,165,768)
Total non-current bank borrowings	-	944,765
Total bank borrowings	5,710,120	5,633,712



14. Bank borrowings (continued)

At 30 June 2008 and 31 December 2007 the fair value of bank borrowings was not materially different from their carrying amounts.

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

Under the terms of its agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios, financial indebtedness and cross-default provisions. As of 30 June 2008, one of the lending banks restricted a cash balance of RR 27,164 thousand (31 December 2007: nil thousand) to ensure the maintenance of the debt service coverage ratio.

In accordance with a loan agreement, further cash balances of RR 324,344 thousand (31 December 2007: RR 359,393 thousand) were restricted by banks to secure the next principal and interest payments.

Interest rates

Bank loans denominated in US\$ bear floating interest rates ranging from LIBOR +1.2% to LIBOR +1.25% (31 December 2007: from LIBOR + 1.25% to LIBOR + 1.6%). Bank loans denominated in EUR bear floating interest rates of EURIBOR +2% (31 December 2007: floating interest rate of EURIBOR +2%).

Collaterals and pledges

Pledged assets as at 30 June 2008 and 31 December 2007 comprise property, plant and equipment (Note 6), inventories (Note 11) and the restricted cash referred to earlier in this note.

Bank loans of RR 2,844,784 thousand and RR 4,961,401 thousand at 30 June 2008 and 31 December 2007, respectively, were collateralised by future export proceeds of the Group under sales contracts with certain customers.

The Group's bank borrowings mature as follows:

	30 June 2008	31 December 2007
- within 1 year	5,710,120	4,688,947
- between 1 and 2 years	-	944,765
Total bank borrowings	5,710,120	5,633,712

15. 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. The Group incurred syndication fees, legal and consulting expenses directly related to the placement of notes of RR 91,996 thousand. At 30 June 2008 the average price of the notes was 99.72 and effective yield to maturity 8.12%.

The outstanding balance of the notes was RR 6,960,080 thousand at 30 June 2008, applying the exchange rate at that date net of syndication fees.

16. Revenues

The components of sales were as follows:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Nitrogen fertilizers	9,683,825	7,179,588	18,956,644	14,422,036
Phosphate fertilizers				
Phosphates	11,002,365	4,463,886	18,345,284	7,050,361
Complex fertilizers group	1,384,810	549,907	3,304,538	1,220,901
Feed phosphates group	1,152,629	441,844	1,823,141	911,960
Total phosphate fertilizers	13,539,804	5,455,637	23,472,963	9,183,222
Mineral raw materials				
Iron-ore concentrate	3,666,129	1,712,204	6,548,237	3,266,945
Baddeleyite concentrate	101,834	123,492	207,097	221,042
Apatite concentrate	270,351	3,020	449,875	3,020
Total mineral raw materials	4,038,314	1,838,716	7,205,209	3,491,007
Organic synthesis products	1,783,334	1,361,851	3,930,026	3,416,629
Other				
Chlorides	30,014	183,802	85,517	343,100
Acids	180,225	118,852	284,681	232,483
Logistic services	190,570	295,245	515,606	530,463
Non-core activity revenues	676,813	435,367	1,384,999	835,182
Total other	1,077,622	1,033,266	2,270,803	1,941,228
Total revenues	30,122,899	16,869,058	55,835,645	32,454,122



17. Cost of sales

The components of cost of sales were as follows:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Materials and components used or resold	(6,014,735)	(3,524,673)	(10,984,255)	(7,172,874)
Depreciation of property, plant and equipment	(572,287)	(555,906)	(1,119,746)	(1,242,137)
Energy	(967,676)	(826,982)	(1,982,690)	(1,866,457)
Repairs and maintenance	(305,921)	(163,259)	(477,832)	(268,860)
Utilities and fuel	(572,401)	(502,834)	(1,284,436)	(1,021,873)
Labour, including contributions to social funds	(1,369,889)	(1,256,711)	(2,735,381)	(2,206,780)
Production overheads	(193,382)	(61,689)	(292,764)	(160,553)
Provision for obsolete and damaged inventory and finished goods	(23,009)	(27,474)	(24,382)	(13,379)
Impairment loss on property, plant and equipment (Note 6)	(297,988)	(139,454)	(312,631)	(177,384)
Cost of logistic services	(181,321)	(186,891)	(552,643)	(308,304)
Property tax, rent payments for land and related taxes	(279,434)	(158,228)	(424,739)	(312,134)
Other	(48,011)	(31,911)	(86,671)	(46,464)
Total cost of sales	(10,826,054)	(7,436,012)	(20,278,170)	(14,797,199)

18. Distribution costs

Distribution costs comprised:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Transportation	(4,888,369)	(3,829,866)	(8,931,848)	(7,209,833)
Export duties, other fees and commissions	(887,453)	(54,883)	(920,887)	(75,810)
Depreciation	(78,331)	(73,427)	(167,837)	(139,690)
Labour, including contributions to social funds	(162,518)	(194,976)	(375,632)	(322,050)
(Provision)/reversal of provision for impairment of receivables	33,061	23,427	-	(16,712)
Repair	(160,505)	(182,933)	(274,043)	(275,060)
Other	(105,892)	(30,318)	(208,873)	(143,676)
Total distribution costs	(6,250,007)	(4,342,976)	(10,879,120)	(8,182,831)

19. General and administrative expenses

General and administrative expenses comprised:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Labour, including contributions to social funds	(525,925)	(487,190)	(1,064,613)	(892,841)
Repair and maintenance	(10,556)	(13,299)	(20,484)	(22,411)
Depreciation and amortization	(57,226)	(70,769)	(94,821)	(103,076)
Social expenditure	(22,370)	(28,577)	(37,063)	(38,002)
Audit, consulting and legal services	(78,070)	(37,507)	(128,800)	(102,511)
Provision for impairment of receivables	(31,166)	(87,597)	(31,166)	(87,597)
Other	(173,949)	(185,712)	(388,834)	(419,403)
Total general and administrative expenses	(899,262)	(910,651)	(1,765,781)	(1,665,841)

The total depreciation and amortisation expenses included in all statement of income captions amounted to RR 1,382,404 thousand (2007: RR 1,484,903 thousand). The total staff costs (including contributions to social funds) included in all statement of income captions amounted to RR 4,175,626 thousand (2007: RR 3,421,671 thousand).



20. Other operating expenses

The components of other operating expenses were as follows:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Provision for taxes other than on income and tax penalties	(6,510)	(41,788)	(11,418)	(23,943)
Loss on disposal of property, plant and equipment	(11,896)	(26,345)	(7,293)	(7,958)
Sponsorship	(198,889)	(121,820)	(241,166)	(163,468)
Foreign exchange difference	(34,114)	472	(491,211)	(108,818)
Other operating income/(expenses)	(82,811)	(1,838)	24,331	(63,131)
Total other operating expenses	(334,220)	(191,319)	(726,757)	(367,318)

21. Finance income and cost

The components of finance income and costs were as follows:

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Finance income				
Foreign exchange gain on loans received and bonds issued	137,232	149,242	697,213	364,760
Foreign exchange gain on investments	-	76,516	-	76,516
Interest income	136,205	91,631	304,500	132,499
Dividends received	-	-	-	38,524
Total finance income	273,437	317,389	1,001,713	612,299
Finance costs				
Foreign exchange loss on loans received	(119,208)	(81,275)	(127,220)	(118,969)
Foreign exchange gain on investments	-	(28,761)	-	(28,761)
Interest expense	(219,303)	(289,017)	(442,701)	(516,746)
Total finance costs	(338,511)	(399,053)	(569,921)	(664,476)

22. Income tax expense

	Three months ended		Six months ended	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Current income tax expense	(2,973,037)	(942,682)	(5,332,738)	(1,801,711)
Deferred tax credit	312,542	767,242	199,046	689,787
Total income tax expense	(2,660,495)	(175,440)	(5,133,692)	(1,111,924)

Most companies of the Group were subject to tax rates of 24% on taxable profits in the Russian Federation for the six months ended 30 June 2008 and 30 June 2007, respectively.

23. 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	Three months ended		Six months ended	
		30 June 2008	30 June 2007	30 June 2008	30 June 2007
Statement of income caption					
Revenues	Other related parties	84,165	115	473,628	327
Purchases of materials and components	Other related parties	-	(7,997)	-	(14,530)
Other operating expenses	Other related parties	(99,764)	(29,636)	(99,764)	(47,885)
Interest income	Parent company	-	96	-	27,199
Interest income	Other related parties	-	378	-	648



23. Balances and transactions with related parties (continued)

Financial statements caption	Nature of relationship	30 June 2008	31 December 2007
Balance sheet caption			
Trade receivables	Other related parties	56,072	55,134
Advances to suppliers	Other related parties	-	147
Interest receivable	Other related parties	-	1,476
Originated loans	Parent company	-	17,489
Trade payables	Other related parties	-	1,069
Advances from customers	Other related parties	6	-
Dividends payable	Parent company	3,512,764	3,668,328
Non-trade payables	Other related parties	99,764	137

Financial statements caption	Nature of relationship	Six months ended	
		30 June 2008	30 June 2007
Cash flow caption			
Repayment of originated loans	Parent company	-	3,982,260
Dividends paid	Parent company	(3,668,328)	(671,838)
Decrease in trade receivables, net	Other related parties	461,413	-

The total senior management compensation included in general and administrative expenses in the statement of income was RR 171,426 thousand and RR 113,404 thousand for the six months ended 30 June 2008 and 2007, respectively. This compensation is paid to six individuals who are members of the management board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual based on operating results.

24. Contingencies, commitments and operating risks

Contractual commitments and guarantees. As at 30 June 2008 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 7,065,499 thousand (31 December 2007: RR 3,000,118 thousand).

Taxation. 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 by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, in particular in relation to the use of certain commercial trading structures, and it is possible that transactions and activities that have not been challenged in the past may be challenged, which may be selective for particular taxpayers. 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 tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is not consistent.

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 be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated. However, it may be significant.

As at 30 June 2008 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, if challenged by the tax authorities provisions for related taxes, interest and penalties has been recorded in the consolidated condensed interim financial information. In addition, the Group estimates other possible obligations from exposures to other than remote tax risks which are monitored by the Group on a regular basis.



24. Contingencies, commitments and operating risks (continued)

Environmental matters. The enforcement of 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. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. As at 30 June 2008 the Group has liabilities for relocation of residents in respect of the construction of a sea terminal at Tuapse, Russian Federation, which is not considered to be material.

In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Restoration liability. OJSC Kovdorsky GOK, a Group subsidiary, has a legal obligation for the restoration of land damaged by mining operations. This obligation is established by the Subsoil Law of the Russian Federation and the license conditions. The management assessed restoration liability as the present value of costs to be incurred for restoration of land based on the future cash outflows. As at 30 June 2008 the liability is not considered to be material. The Group monitors alterations in the legal and operating environment which may lead to significant changes in the initial estimation of the liability.

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 and which have not been accrued or disclosed in this consolidated condensed interim financial information.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings on terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.