

Our governance

What matters to us

When it comes to governance, what matters is how it works in practice. Having the right structures and processes in place is only part of the story: we aim to make sure our governance helps us run the business successfully and safely.

To be effective, our Board of Directors needs to:



In this section we are going to set out how this works. Then we will explain:

- what structures and processes we have in place
- what these structures have actually done during the year
- how we are planning to improve our governance further.

Applying our experience

The quality and character of the members of the Board of Directors are crucial to sound governance.

We have in place a Board that has now been stable for three years. This means that our Directors have had time to:

- **Build a good knowledge of our business and industry.** They have been involved in management briefings and strategic decision-making covering all of our production activity, major investment projects and development of our distribution network. They have set management targets based on a good understanding of the drivers of our business and helped management explain our operations and strategic plans externally. The Directors have also visited several operating units.
- **Develop good communication channels with management.** Good information flows and dialogue between the non-executive Directors and management is essential. Working together over the past two years, this is now firmly grounded on a basis of trust and understanding. This has not necessarily been easy and is still developing – it would be naïve to suggest that it is easy for non-executive Directors and management to establish an easy working relationship in any business culture. But information flows are good and management prefer to be open and provide full information. Our task is now to help management understand better the Directors' needs so that the timeliness of regular reporting to the Board can be improved further and the amount of detail can be reduced so that the key issues are more immediately clear.

• Be in a position to hold management accountable.

As this Board has directly taken decisions affecting most of the current management execution activity, it knows what was intended and agreed. It has also been involved in agreeing both short-term and long-term senior management targets, annual budgets and strategic plans. This direct, first-hand knowledge means the Directors are in a better position to assess management's approach and its performance.

This stability is crucial to good governance and we aim to maintain the current Directors as the core of our Board for the foreseeable future.

It has also enabled us to benefit more fully from our Directors' experience. We expect our non-executive Directors, while assiduously maintaining their independence, to help us both have a clear strategic direction and also oversee the strengthening of our internal operations. So for them it is not just a question of attending Board meetings. We need them to use their experience to help us make solid progress across many aspects of our work. We believe that the way they step up to the mark is key in achieving governance that is increasingly strong in practice, not just in form.

Charles Adriaenssen is particularly active in helping oversee issues around executive reward and development. He was a director of Interbrew (now Inbev). A former diplomat, Charles has a good knowledge of Russia and is a consultant on corporate governance and public affairs.

George Cardona is guiding the development of our strategic and investment analysis. As Chairman of the Strategy Committee, he ensures that a rigorous approach is taken to analysing strategic options, thinking through the options and risks, and presenting them to the Board. He is well positioned to do this as the former Head of Strategy at HSBC Group.

Keith Jackson is helping to ensure the development of our financial management as well as bringing focus to health & safety and environmental issues. He has had a 32 year career with the major international mining company, Anglo American plc. Keith was Chairman of Cleveland Potash Ltd, one of the three European potash producing companies, and has served as finance director of Petrosur SA, an Argentine urea fertilizer company. Most recently he was CFO of Anglo Industrial Minerals, a division which included Copebras, a significant Brazilian fertilizer company.

Andrey Melnichenko has been Chairman of the Board since 2007 and was first appointed to the Board of Directors in 2004. He was involved in the creation of EuroChem and since 2007 a company that holds Andrey's business interests has owned 95% of MCC Holding Public Limited (Cyprus), EuroChem's parent company. Andrey has played a significant role in building some of Russia's most successful private corporations, including MDM Bank, the Siberian Coal and Energy Company (SUEK) and TMK. Andrey's knowledge of Russian business is both broad and deep, and he currently also sits on the bureau of the management board of the Russian Union of Industrialists and Entrepreneurs.

Nikolay Pilipenko brings a detailed knowledge of EuroChem's operations and financial management, having been Finance Director until December 2008. He may not be fully independent but his past knowledge and experience from working at ABB is helpful to the current financial management team and he is well positioned to provide insightful challenge.

Richard Sheath is focusing on giving guidance to management in their development of risk management and internal control. As Chairman of the Audit Committee, he is also overseeing improvements in external reporting as well as giving advice on strengthening EuroChem's corporate governance. He has extensive experience in corporate governance and risk management, heading up a boutique governance consultancy which advises many leading companies on the effectiveness of their governance structures; he has particular expertise in risk governance and audit committees. As former risk management partner with PricewaterhouseCoopers, he has a good knowledge of Russia having been based here for six years.

Vladimir Stolin, as a leading adviser on human resource management, motivation and development, has been guiding in particular the development of EuroChem's executive reward schemes and HR strategy. As Chairman of the Corporate Governance & Personnel Committee, he has provided an expert response to management proposals on incentivisation and people risk management. He is the founder and Chairman of a leading Russian company advising on personnel development.

Dmitry Strezhnev has been CEO of EuroChem since 2004. He owns 5% of EuroChem's shares and Dmitry gained a wealth of experience in the management of large Russian industrial companies before joining EuroChem, holding executive positions at the Likinskiy Bus Manufacturing Plant, the auto manufacturer GAZ and a number of other smaller companies.

Full CVs are provided in Appendix 1.



Top row from left:

George Cardona
Nikolay Pilipenko
Andrey Melnichenko
Dmitry Strezhnev
Vladimir Stolin

Second row from left:

Richard Sheath
Keith Jackson
Charles Adriaenssen

Our governance continued

Being well informed

To do a good job, the Directors need to be well-informed. We achieve this through:

- **Board and committee meetings.** A minimum of six board meetings are held every year. All directors have an exemplary attendance record – we believe it is important that the directors meet together and discuss issues face to face. We aim to avoid meetings by phone unless it is about a specific issue that cannot be delayed.
- **Directors receive, in advance, board papers which provide full details on the issue under discussion.** In the meeting, this information is supplemented by additional comments from the CEO or CFO and, at times, from the Management Board member responsible.
- **Informal discussions.** Outside the board meetings directors are able to meet with senior managers on any issue. These discussions take place regularly across all aspects of management activity including investment analysis, risk management, security and HR.
- **Site visits.** The non-executive directors visit at least one site a year. In September 2009 they visited Novomoskovskiy Azot and were given a full presentation and tour of the plant. This year a visit to the site of our Gremyachinskoe potash deposit operation is scheduled.
- **Interim information.** Between meetings, directors receive flash reports with month end figures. They have full access online to the management accounts at any stage. They also regularly receive frequent updates on sell-side analyst coverage of our company and the global industry.

Acting with independence and influencing

Our directors have free access to information and management. In board and committee meetings the discussion is open and wide-ranging. Board meetings typically last from 4 to 6 hours with much of this time given to discussion rather than management presentation. The non-executive directors are free to express their views on any subject at any point and do so constantly with encouragement from the Chairman.

As the Board generally aims to act on the basis of consensus, the non-executive directors have a definite influence. If the Chairman sees that a consensus is lacking, management are asked for further information or to reconsider their proposal or possibly withdraw it. The Board, usually as a result of committee discussions, can also make specific requests of management to investigate issues or to consider developing a new approach. They also, not infrequently, ask management for updates on investment or development projects and will actively question the responsible managers to hold them accountable. The CFO attends all meetings, giving the directors ample opportunity to seek explanations or information.

Four of the six non-executive directors excluding the Chairman, (half of the eight-strong Board) are fully independent. One of the other two, Nikolai Piliipenko, was formerly the EuroChem CFO and brings a wealth of knowledge to the Board and the other, George Cardona, is Advisor to the Chairman. Although they are not formally independent, it is the Board's view that they are consistently independent in mindset, robustly questioning management and providing the necessary amount of challenge to proposals and performance.

The board committees play a major role as forums for the independent directors. The time spent in committee provides the directors with ample opportunity to exercise oversight in more detail and to provide more specific challenge. A key oversight role is that played by the Audit Committee in ensuring the objectivity and accuracy of externally reported information to help strengthen trust in the company's reporting and control systems. The role of the Corporate Governance & Personnel Committee is equally important. While EuroChem is not yet a listed company, the Committee has pushed forward a process aimed at transparent governance, sound reward systems and planning management and director succession. The Strategy Committee helps ensure that management proposals and investment analyses are thoroughly considered before they are presented to the full Board.

Showing leadership

As a Board, we aim to ensure that the company has clear direction both strategically and in how it is developing as an organization. Over the past two years EuroChem's strategy has become clearer and the Board is confident that this can now be set out and explained effectively to external stakeholders, management and employees. We are also aiming to show leadership in setting out what EuroChem stands for: its social role in the communities where it is operating, the behaviour of its management and employees toward each other and outside parties, and in ensuring appropriate business behaviour through compliance with business and legal norms. We recognise that some standards are easier to achieve than others and may require cultural change that takes time – but we also recognise that the Board has a role to play in setting and communicating standards. During 2010 we will be taking further steps to extend the reach of our Code of Ethics and to ensure that it is well-understood.

Furthermore, EuroChem expects its non-executive directors to show leadership by setting out the direction of the company's continuous improvement, in part with an eye to ensuring that EuroChem is well-positioned to meet the expectations of the international capital and debt markets. This work is often done by the board committees. For example, the Strategy Committee has been working with management to develop better analysis of the portfolio of capital investment projects; the Corporate Governance and Personnel Committee has been setting out its expectations around executive reward systems and performance evaluation; the Audit Committee has been focusing on the strengthening of risk identification and mapping risks to controls. EuroChem aims to achieve international standards across its operations and sees its non-executive directors as playing an important role in that push.

Director independence

The Board has a one-tier structure and eight members, seven of which are non-executive directors. At present, four of the Board's members hold independent status, which means that they are independent of the company's officers, affiliates, and major counterparties. Other than their directorships, they do not have any relations with the company that could potentially influence the objectivity of their decisions. The criteria for independent status are set out in the Board of Directors Regulations, which are aligned with generally recognized international practices and are even more stringent than national standards. A member's independent status is confirmed by the Board of Directors when he is elected. Independent directors must inform the Corporate Secretary of any changes to their status, including any events that may have an impact on their independent status, and any conflicts of interest that may arise during their directorships.

The Board Committees
Detailed oversight work in specific areas is undertaken by the Board's committees. While this delegation helps ensure oversight is thorough, the Board recognises that it is the full Board that ultimately retains responsibility. The Committees report back to the Board on issues that they feel need to be brought to the Board's attention or decided at the board level. The Regulations for each Committee can be found on our website.

The Audit Committee

The Audit Committee has two independent Board members and one non-executive director, Nikolai Pilipenko, who is not formally regarded as independent as he previously served as the company's Financial Director. We believe that the mix of a majority of independent members who are experienced in financial accounting, international reporting and risk management is complemented very effectively by the additional in-depth knowledge of the company's operations brought to the committee by Mr. Pilipenko.

In 2009, the Committee held six joint-presence meetings and three meetings by conference call. As a rule, committee meetings are attended by the external auditors, the CFO, the Head of Internal Audit, and the Corporate Secretary.

The Committee holds discussions with the external auditors, PricewaterhouseCoopers, twice a year without the presence of management. The committee chairman has regular one-to-one meetings with the Head of Internal Audit either in preparation for meetings or to discuss audit findings. Between meetings, the Committee is in regular contact with the Financial Director, the Head of Internal Audit, the Risk Management desk and the Corporate Secretary.

The Committee's primary function is to oversee the quality of financial reports, as well as the

integrity and reliability of the information disclosed about the company. During 2009 it has increasingly focused on risk management and is now actively overseeing the development of the risk management structure and processes.

In 2009 the Board reviewed the Audit Committee Regulations and expanded the Committee's terms of reference to reflect the focus on risk management.

The committee undertook a formal review of its effectiveness. This involved an assessment questionnaire that was completed by management who have regular contact with the committee as well as the committee members. As a result we are looking to make improvements in the agenda structure and management reports.

The committee's work during 2009 gives a good indication of its activity and responsibilities. Its work has included:

- The auditors' review of quarterly financial statements was discussed in detail. At year-end the full year audited financial statements were reviewed and discussed in particular detail to ensure compliance with the company's reporting standards and IFRS. The audit plans, reporting risks and financial disclosures were discussed prior to the start of the interim audit work and considered again during the approval of the year end financial statements.
- Monthly management accounts were discussed to help ensure that the review of the quarterly and year end statements were based on a good understanding of financial performance at all times during the year.
- Overseeing the development of the risk management function and improvements in reporting on risks, risk mitigation and controls assurance. The committee is currently putting considerable emphasis on the development of the risk management processes.
- Considering the steps to be taken to position the company for listing on an international exchange, including development of controls relating to insider trading regulations, anti-trust rules, public and regulatory disclosures and external reporting.
- Regular interaction with internal audit, approving its plans, discussing its findings and overseeing its development. Its effectiveness was formally reviewed through a survey of stakeholders as well as the committee. This particular focus on internal audit development will continue during 2010.

As well as continuing to drive the development of risk management and internal audit functions, in 2010 the committee will also look at how to ensure that the company's Code of Conduct is properly embedded and reflected in sound ethics and a strong control culture.

Our governance structure

The company's highest-ranking governance body is the General Shareholders Meeting (GM). The Board of Directors reports directly to the GM. The primary focus of the Board itself is company strategy; it oversees strategy implementation and setting out the company's investment policy

Reflecting the requirements of Russian law, the Board of Directors is elected annually by the GM for a term of one year. On 18 June 2009, the EuroChem GM re-elected all of the members of the Board of Directors for a new term. The Board of Directors appoints the General Director and the members of the Management Board and determines the length of their terms. These executive bodies report directly to the Board of Directors. For more information about the executive team, see Attachment 1 to this report, available online at www.eurochem.ru

The Board of Directors works in line with a forward agenda that is updated twice per year. Its schedule includes six joint-presence meetings and issues requiring substantive discussion and where necessary, additional meetings are held either by conference call or, for procedural issues, by absentee vote.

More detailed information about the Board's responsibilities can be found in the company Charter and the Board of Directors Regulation published on the company's website <http://www.eurochem.ru/internet/24>. The Board considers all issues that are referred to it by law and the company Charter. This includes taking key decisions for the manufacturing companies and exercising oversight down through the holding's vertical management structure. More about the Board's key decisions in 2009 can be found on page 38.

The Corporate Secretary oversees all preparations for Board and Committee meetings. All of the paperwork for the Board of Directors and the Board Committees are prepared in both Russian and English, and synchronized interpretation is provided at meetings. These efforts allow each director to express his own opinion in his preferred language. The General Director and the Corporate Secretary work together to ensure that papers are prepared in due time for meetings. As a rule, papers are submitted five business days before a meeting.

The Company takes out Directors & Officers Liability cover.

Our governance continued

The Strategy Committee

The Strategy Committee has two members, both of which are non-executive directors. It held six meetings during the year with the General Director and CFO in attendance. The Committee recommends to the Board the overall strategy of the Company, strategies for individual business lines, capital expenditure, acquisitions, joint ventures and licenses.

During 2009, the Committee's primary task was the review of the capital investment programme. Revenue generation from investments in developing and expanding production was the key area of focus along with lowering current production costs. The Strategy Committee reviewed revised strategies in all of the company's business lines: nitrogen, phosphorus, and potash. Management initiatives in logistics, sales and distribution, and production were considered in particular detail. The Committee has established a strong foundation for post-crisis development based on a reduced cost base and long-term strategic positioning, particularly in raw materials and distribution.

The Corporate Governance and Personnel Committee

The Corporate Governance and Personnel Committee has three members, all of which are independent directors. During 2009, the Committee held eight joint-presence meetings and focused in particular on the HR management policy. Over several years considerable progress has been made toward establishing international standards of governance and an important part of its role is to ensure that these standards are maintained.

In the wake of the economic crisis, considerable attention was paid to retaining key employees and also to protecting the core of our workforce, including increasing social protection taking into account the crisis conditions. Our response to the crisis also, however, inevitably involved workforce optimization to reduce costs, and the committee actively supported management's plans while also considering the people-related risks at each factory.

During the year, a series of meetings were held with operating unit senior managers to help the committee get a better, more direct understanding of the situation at each of our operating companies and to better identify the areas that need more attention.

A metrics-based system has helped the Committee monitor the situation at our regional facilities. Starting in November 2009, the reporting process was automated using a Group-wide information system. In 2010, one of the Committee's key tasks will be to adjust the HR strategy in view of the changes made to business strategies and the changing conditions on regional labour markets.

The Committee also pays close attention to remuneration for key managers. This is tied to the implementation of individual plans and the company's operational results. The Committee's activities are planned based on a cycle: for example, the incentives system and top management's targets for the coming year are set at the end of the year at the same time as the budgeting process and after adjustments have been made to business strategies. Individual target achievement results are assessed from February to April in the year following the reporting year once the results have been reported. As a result, the Committee uses a systemic approach to assure the Board that management remuneration is adequate and management incentivisation is appropriate.

The Committee has considered social projects that the company is working on in the regions in order to improve the quality of life for employees of its factories and for the region's other residents. EuroChem is keen to make sure it meets its commitments in this area.

Every year, the Committee organizes the Board's performance appraisal exercise. The method used for the appraisal involves a survey, and detailed answers provided by the directors form the basis for Board discussion and decisions made based on the conclusions.

The Committee also assists the Corporate Secretary with issues related to the development of corporate governance practices.

The Board's focus in 2009

The Board's focus during the year was determined to a great extent by its response to the economic crisis as its impact became increasingly felt during the final quarter of 2008.

In part this entailed regular review with management of the cost base and measures to be taken to optimise costs both in the short term and medium term. The Board also reviewed in detail the company's investment portfolio and prioritised the future investment projects taking into account the demands of active projects and the availability of financing. This included a review of projects aimed at providing the company with a strategic advantage in the long-term (such as developing the Gremyachinskoe and Verkhnekamskoe potash deposits), generating increased revenues in the short term (such as producing melamine at Nevinnomyskiy Azot and granulated urea at Novomoskovskiy Azot) or reducing raw material and energy costs.

Operating results were constantly reviewed against the backdrop of market prices and demand fluctuations; the Board sought to ensure that the company's investment appetite and expenditures were in line with meeting its covenant obligations. Alternative options for financing major projects and partnership opportunities were examined for a number of projects.

With access to raw materials a critical competitive factor, the Board looked to expand its resource base through participation in competitive bidding processes for licenses to develop new deposits. Applications were considered and submitted for three phosphorus deposits in the Kara Tau Basin in Kazakhstan.

The Board has also been keeping under review the further steps required to prepare the company for an initial public offering on an international stock exchange. With oversight from the Audit Committee, management has been ensuring that, as well as being in line with regulator and investor expectations, its management processes and reporting are those required for an internationally listed company.

EuroChem strives to meet at all times the requirements of the National Code of Corporate Conduct (issued by the Russian Federal Securities Market Commission) and fully complies with the requirements set out by Russian stock exchanges for securities listings. During the year it made a number of changes to company regulations and practices to tighten compliance. More information about compliance with the provisions of the Code of Corporate Conduct can be found in Attachment 1 to this Annual report, which is available on our website www.eurochem.ru.

Remuneration

Issues concerning Board member remuneration are referred to the General Meeting of Shareholders. The criteria for determining Board member remuneration and payment procedures for both remuneration and compensation of expenses are set out in the Board Member Remuneration Regulations. Remuneration is fixed and adjusted to account for membership and chairmanships in Board Committees and performing the duties of the Chairman of the Board of Directors.

The total remuneration paid to members of the Board of Directors for their work on the Board and Board Committees in 2009 amounted to RUR 39,838 thousand. Compensated expenses amounted to RUR 1,259 thousand.

Dividends

The Board of Directors prepares recommendations for dividend payments taking into account the long term development of the company and interests of the shareholders. High profits in the pre-crisis period resulted in a recommendation to pay interim dividends. With the onset of deteriorating economic conditions and a drop in company revenues and profits, and with a commitment to and the long term strategy and the need to support our investment programme, the Board decided to re-invest the company's profits into development. This position was in line with the company's dividend policy and is understood and accepted by the shareholders. The history of dividend payments and the company's Dividend Policy can be found in the Corporate Governance section published on the company's website.

Dividends declared and paid during the years 2008 and 2009 were as follows:

RUR '000	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	–	153.92

Board composition

Name	Position	No of years on the Board**	Independent (as determined by the Board)	Audit Committee	Corporate Governance & Personnel Committee	Strategy Committee
A. Melnichenko	Non-executive Director, Board Chairman	5	No	No	No	No
D. Strezhnev	Company General Director	2.8	No	No	No	No
G. Cardona	Non-executive Director, Chairman of the Strategy Committee	2.8	No	No	No	Yes
C. Adriaenssen	Non-executive Director	3.8	Yes	No	Yes	No
V. Stolin	Non-executive Director, Chairman of the Corporate Governance & Personnel Committee	2.8	Yes	No	Yes	No
R. Sheath	Non-executive Director, Chairman of the Audit Committee	2.8	Yes	Yes	Yes	No
K. Jackson	Non-executive Director	2.5	Yes	Yes	No	Yes
N. Pilipenko	Non-executive Director*	1.1	No	Yes	No	No

* Appointed in February 2009.

** As of 31 March 2010.

Attendance at meetings in 2009

Director	Board	Audit Committee	Corporate Governance & Personnel Committee	Strategy Committee
	6 (9)	6 (3)	8 (0)	5 (1)
A. Melnichenko	6 (9)	–	–	–
D. Strezhnev	6 (9)	–	–	–
G. Cardona	6 (9)	–	–	5 (1)
C. Adriaenssen	6 (9)	–	6 (0)	–
V. Stolin	5 (9)	–	7 (0)	–
R. Sheath	6 (9)	6 (3)	8 (0)	–
K. Jackson	6 (9)	6 (3)	–	5 (1)
N. Pilipenko	5 (8)	5 (3)	–	–

Parentheses indicate the additional number of meetings that were held by phone or in absentia.