

**Open Joint Stock Company
URALCHEM**

**Condensed consolidated interim financial statements
for the 3 months ended 31 March 2008 (unaudited)**

OPEN JOINT STOCK COMPANY URALCHEM

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OPEN JOINT STOCK COMPANY URALCHEM

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	3 months ended 31 March 2008	3 months ended 31 March 2007
<i>Continuing operations</i>			
Revenue			
Sales of goods	4	357,028	83,610
Other sales	5	19,320	11,237
Total revenue		376,348	94,847
Cost of sales	6	(140,346)	(61,267)
Gross profit		236,002	33,580
Selling and distribution expenses	7	(60,022)	(21,828)
General and administrative expenses	8	(21,074)	(4,934)
Gain on revaluation of forward exchange contracts		9,184	-
Other operating income	9	1,332	250
Other operating expenses	9	(1,471)	(1,330)
Operating profit		163,951	5,738
Interest income		3,030	29
Interest expense	10	(11,867)	(3,107)
Foreign exchange gain from financing activities		7,409	995
Profit before tax		162,523	3,655
Income tax expense	11	(36,764)	(373)
Profit for the period from continuing operations		125,759	3,282
<i>Discontinued operations</i>			
Loss for the period from discontinued operations	12	-	(2,077)
Profit for the period		125,759	1,205
Attributable to:			
Shareholders of the parent		99,782	723
Minority interest		25,977	482
		125,759	1,205
Earnings per share			
Weighted average number of ordinary shares in issue during the period		100,000,000	100,000,000
Basic and diluted earnings per share from continuing and discontinued operations (US dollars per share)		1.00	0.01
Basic and diluted earnings per share from continuing operations (US dollars per share)		1.00	0.03

The notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY URALCHEM

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AS OF 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	31 March 2008	31 December 2007
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	13	494,364	470,686
Goodwill	14	125,096	113,844
Intangible assets		1,708	1,499
Inventories	15	42,376	35,791
Other financial assets	16	2,520	2,199
Deferred tax assets	24	1,773	1,915
		667,837	625,934
<i>Current assets</i>			
Inventories	15	53,212	56,255
Trade and other receivables	17	54,391	20,025
Deferred sales proceeds on disposal of subsidiaries	12	60,459	56,533
Advances paid and prepaid expenses	18	51,946	55,206
Income tax receivable		756	255
Other taxes receivable	19	41,478	38,332
Other financial assets	16	47,778	27,326
Cash and cash equivalents	20	83,092	28,847
		393,112	282,779
TOTAL ASSETS		1,060,949	908,713
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital	21	80,485	80,485
Additional paid-in capital		33,419	33,407
Foreign currency translation reserve		22,971	7,320
Retained earnings		119,852	22,983
Equity attributable to the shareholders of the parent		256,727	144,195
Minority interest		128,590	106,897
		385,317	251,092
<i>Non-current liabilities</i>			
Loans and borrowings	22	331,928	312,224
Retirement benefit obligations	23	8,804	8,385
Deferred tax liabilities	24	67,020	66,257
		407,752	386,866
<i>Current liabilities</i>			
Loans and borrowings	22	135,919	149,531
Trade and other payables	25	48,168	37,053
Advances received		55,132	70,583
Income tax payable		17,499	7,531
Other taxes payable	26	11,162	6,057
		267,880	270,755
Total liabilities		675,632	657,621
TOTAL EQUITY AND LIABILITIES		1,060,949	908,713

The notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	3 months ended 31 March 2008	3 months ended 31 March 2007
Operating activities		
Profit before tax from continuing operations	162,523	3,655
Loss before tax from discontinued operations	-	(2,517)
Profit before tax	162,523	1,138
Adjustments for:		
Depreciation of property, plant and equipment	13,278	7,125
Amortisation of intangible assets	91	80
Gain on revaluation of forward exchange contracts	(9,184)	-
Loss/(gain) from disposal of property, plant and equipment, net	137	(151)
Foreign exchange gain, net	(8,064)	(985)
Interest income	(3,030)	(111)
Interest expense	11,867	3,838
Operating cash flows before working capital changes	167,618	10,934
Decrease/(increase) in inventories	477	(637)
Increase in trade and other receivables	(32,054)	(25,471)
Decrease/(increase) in advances paid and prepaid expenses	4,509	(3,898)
Increase in other taxes receivable	(1,421)	(1,578)
Increase in retirement benefit obligations	50	474
Increase in trade and other payables	9,940	18,516
(Decrease)/increase in advances received	(17,975)	5,443
Increase in other taxes payable	4,690	404
Cash generated from operations	135,834	4,187
Interest paid	(13,098)	(3,038)
Income tax paid	(29,753)	(1,798)
Net cash generated from/(used in) operating activities	92,983	(649)
Investing activities		
Purchase of intangible assets	(231)	-
Increase of ownership in subsidiaries	(12,413)	-
Purchase of property, plant and equipment	(16,410)	(8,956)
Proceeds from sale of property, plant and equipment	541	805
Loans issued	(11,641)	(4,193)
Proceeds from repayment of loans issued	2,679	2,437
Interest received	676	67
Net cash used in investing activities	(36,799)	(9,840)
Financing activities		
Proceeds from short-term loans and borrowings	475,522	54,799
Proceeds from long-term loans and borrowings	97,510	-
Repayment of short-term loans and borrowings	(528,904)	(44,871)
Repayment of long-term loans and borrowings	(48,980)	-
Net cash (used in)/generated from financing activities	(4,852)	9,928
Net increase/(decrease) in cash and cash equivalents	51,332	(561)
Cash and cash equivalents at the beginning of the period	28,847	768
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	2,913	3
Cash and cash equivalents at the end of the period	83,092	210

The notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY URALCHEM

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Attributable to the shareholders of the parent							Total
	Share capital	Unpaid contribution of shareholder	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Minority interest		
Balance at 1 January 2007	80,485	(80,485)	-	-	-	-	79,056	79,056
Effect of translation to presentation currency	-	-	-	187	-	187	817	1,004
Net income recognised directly in equity	-	-	-	187	-	187	817	1,004
Profit for the period	-	-	-	-	723	723	482	1,205
Total recognised income and expense	-	-	-	-	723	723	482	1,205
Increase of ownership in subsidiaries	-	-	12,000	-	(3,268)	8,732	(8,732)	-
Balance at 31 March 2007	80,485	(80,485)	12,000	187	(2,545)	9,642	71,623	81,265
Balance at 1 January 2008	80,485	-	33,407	7,320	22,983	144,195	106,897	251,092
Effect of translation to presentation currency	-	-	-	15,651	-	15,651	5,228	20,879
Net income recognised directly in equity	-	-	-	15,651	-	-	5,228	-
Profit for the period	-	-	-	-	99,782	99,782	25,977	125,759
Total recognised income and expense	-	-	-	15,651	99,782	115,433	31,205	146,638
Increase of ownership in subsidiaries	-	-	12	-	(2,913)	(2,901)	(9,512)	(12,413)
Balance at 31 March 2008	80,485	-	33,419	22,971	119,852	256,727	128,590	385,317

The notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY URALCHEM

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

1. GENERAL INFORMATION

Open Joint Stock Company Uralchem (the “Company”) was incorporated in Moscow, Russian Federation, on 22 October 2007. At 31 March 2008 the Company was 99% owned by ACF – Agrochem Finance Limited, Cyprus, a 100% subsidiary of CI – Chemical Invest Limited. The remaining 1% of the Company’s shares were held by CI – Chemical Invest Limited. All these entities are ultimately owned and controlled by Mr. Dmitry A. Mazepin.

The Company’s main office is located at Block B 18, Krasnopresnenskaya Naberezhnaya Moscow, Russian Federation.

The major operational facilities of the Company and its subsidiaries (the “Group”), except for Uralchem Freight Limited registered in Cyprus, are located in the Perm and Kirov regions of the Russian Federation. The principle business activities of the Group’s entities and effective ownership of the Group are presented below:

Subsidiaries	Principal activity	Effective ownership, %	
		31 March 2008	31 December 2007
Kirovo-Chepetsk Chemical Works ¹	Holding company	77.6	77.4
Zavod Mineralnykh Udobreniy ¹	Production of mineral fertilisers	77.6	77.4
Remontno-Mekhanichesky Zavod ¹	Construction and repairs	77.6	77.4
Energosnabzhayuschaya Organizatsiya ¹	Electricity and heat distribution	77.6	77.4
Upravleniye Avtomobilnogo Transporta ¹	Transportation and logistics	77.6	77.4
Azot ¹	Production of mineral fertilisers	81.8	78.7
Azotstroyremont ¹	Construction and repairs	81.8	78.7
Uralchem Freight Limited	Transportation and logistics	100.0	100.0
Uralchemtrans	Transportation and logistics	100.0	100.0
Management Company Uralchem	Management activities	100.0	100.0

¹ The Group increased its ownership in the entity during the 3 months ended 31 March 2008 (refer to note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements of the Group are prepared in accordance with International Financial Reporting Standards (“IFRS”), IAS 34 Interim Financial Reporting, as issued by International Accounting Standards Board.

The accounting policies adopted in the accompanying condensed consolidated interim financial statements for the 3 months ended 31 March 2008 are consistent with those applied in the annual consolidated financial statements of the Group for the year ended 31 December 2007.

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the 3 months ended 31 March 2008 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2007.

Exchange rates used in the preparation of the condensed consolidated interim financial statements, as quoted by the Central Bank of the Russian Federation, were as follows (RUR to 1 US Dollar):

	31 March 2008	31 December 2007	31 March 2007
Period-end rates	23.52	24.55	26.01
Average for the period ended	24.26	n/a	26.31

Certain reclassifications have been made to the comparative information for it to conform with the presentation of the condensed consolidated interim financial statements for the 3 months ended 31 March 2008.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

3. BUSINESS COMBINATIONS

Increase of ownership in subsidiaries during the 3 months ended 31 March 2008

In February and March 2008, the Group acquired, through a number of transactions with minority shareholders, 0.2% of Open Joint Stock Company Kirovo-Chepetsk Chemical Works ("KCCW") shares for a cash consideration of USD 780 thousand, increasing its ownership in the company to 77.6%. The carrying value of KCCW's net assets as at the date when majority of shares were acquired amounted to USD 288,038 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 792 thousand. The excess of the Group's share in net assets acquired over the consideration paid of USD 12 thousand was recognised directly in the statement of changes in equity as additional paid-in capital.

During the 3 months ended 31 March 2008, the Group acquired, through a number of transactions with minority shareholders, an additional 3.1% of Open Joint Stock Company Azot, Berezniki ("Azot") shares for a cash consideration of USD 11,633 thousand, increasing its ownership in the company to 81.8%. The carrying value of Azot's net assets as at the date when majority of shares were acquired amounted to USD 281,264 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 8,720 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 2,913 thousand was recognised directly in the statement of changes in equity as decrease of retained earnings.

4. SALES OF GOODS

3 month ended 31 March 2008	Total	Export	Russian Federation	Other CIS countries
Ammonium nitrate and its derivatives	186,419	98,712	70,048	17,659
Ammonia	63,601	62,470	1,131	-
Compound fertilisers	50,774	42,759	8,015	-
Urea	45,650	43,823	1,827	-
Other	10,584	127	10,290	167
Total	357,028	247,891	91,311	17,826

3 month ended 31 March 2007	Total	Export	Russian Federation	Other CIS countries
Ammonium nitrate and its derivatives	44,632	25,870	18,678	84
Ammonia	20,008	19,976	32	-
Compound fertilisers	18,915	15,218	3,697	-
Other	55	46	9	-
Total	83,610	61,110	22,416	84

5. OTHER SALES

	3 months ended 31 March 2008	3 months ended 31 March 2007
Electricity and heat energy	12,184	7,810
Construction, repairs and maintenance services	2,105	1,324
Transportation	1,931	1,192
Other	3,100	911
Total	19,320	11,237

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

6. COST OF SALES

	<u>3 months ended</u> <u>31 March 2008</u>	<u>3 months ended</u> <u>31 March 2007</u>
Raw materials, including:		
Natural gas	57,793	17,046
Apatite	2,836	2,858
Potassium chloride	2,015	1,735
Other raw materials	15,838	12,741
Energy and utilities	24,036	12,103
Wages and salaries	12,838	7,648
Depreciation	11,916	3,800
Unified social tax	3,613	1,515
Taxes, other than income tax	1,215	582
Repairs and maintenance	744	657
Change in inventory balance of work in-progress and finished goods	5,338	(1,628)
Other	2,164	2,210
Total	<u>140,346</u>	<u>61,267</u>

7. SELLING AND DISTRIBUTION EXPENSES

	<u>3 months ended</u> <u>31 March 2008</u>	<u>3 months ended</u> <u>31 March 2007</u>
Transportation, including:		
Rail-way tariff	30,224	15,925
Freight and transshipment	17,043	-
Other transportation expenses	6,191	3,440
Custom clearance charges	2,294	1,199
Wages and salaries	1,621	214
Commissions and agent fees	403	177
Unified social tax	312	39
Other	1,934	834
Total	<u>60,022</u>	<u>21,828</u>

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

8. GENERAL AND ADMINISTRATIVE EXPENSES

	3 months ended 31 March 2008	3 months ended 31 March 2007
Wages and salaries	8,609	1,437
Unified social tax	1,799	226
Rent	1,684	138
Depreciation	1,362	1,090
Bank charges	1,034	183
Audit, legal and consulting services	891	218
Fines and penalties	818	76
Bad debt provision recognised	772	436
Insurance	707	113
Taxes, other than income tax	635	107
Other	2,763	910
Total	21,074	4,934

9. OTHER OPERATING INCOME AND EXPENSES

	3 month ended 31 March 2008	3 month ended 31 March 2007
Other operating income		
Foreign currency exchange gain on operating activity, net	655	-
Gain on disposal of property, plant and equipment, net	-	109
Gain on disposal of other assets, net	-	79
Other income	677	62
Total	1,332	250
Other operating expenses		
Loss on disposal of other assets, net	723	-
Charity	611	105
Loss on disposal of property, plant and equipment, net	137	-
Loss on disposal of financial assets, net	-	556
Foreign currency exchange loss on operating activity, net	-	269
Other expenses	-	400
Total	1,471	1,330

10. INTEREST EXPENSE

	3 months ended 31 March 2008	3 months ended 31 March 2007
Interest on loans and borrowings	11,848	3,100
Interest on obligations under finance leases	19	7
Total	11,867	3,107

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

11. INCOME TAX EXPENSE

	3 months ended 31 March 2008	3 months ended 31 March 2007
Current income tax expense	37,999	3,232
Deferred tax benefit	(1,235)	(2,859)
Total	36,764	373

The corporate income tax rates in the Kirov and Perm regions of the Russian Federation, the primary locations of the Group's production entities, were 24% and 20%, respectively. The corporate income tax rate applicable to the Company and Uralchemtrans, a transportation subsidiary of the Group, which are registered in Moscow is 24%. The corporate income tax rate in Cyprus, where another transportation subsidiary of the Group, Uralchem Freight Limited, has a taxable presence, is 10%.

12. DISCONTINUED OPERATIONS

On 31 March 2007, shareholders of the Group approved a plan to dispose of investments in Zavod Polymerov and Transportno-Logisticheskaya Kompaniya which represented the polymers and fluoroplastics segment of CI – Chemical Invest Limited.

The results of the discontinued operations included in the income statement were as follows:

	3 months ended 31 March 2007
Revenue	
Sales of goods	24,119
Other sales	6,586
Total revenue	30,705
Cost of sales	(31,426)
Gross profit	(721)
Selling and distribution expenses	(557)
General and administrative expenses	(993)
Other operating income	409
Other operating expenses	(277)
Operating loss	(2,139)
Interest income	82
Interest expense	(731)
Foreign exchange gain from financing activities	271
Loss before tax	(2,517)
Income tax benefit	440
Loss for the period from discontinued operations	(2,077)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

The results of discontinued operations included in the cash flow statement were as follows:

	3 months ended 31 March 2007
Net cash flows generated from operating activities	693
Net cash flows used in investing activities	(1,038)
Net cash flows generated from financing activities	229
Net cash flows	(116)

During the 3 months ended 31 March 2007, the Group spent USD 2,708 thousand for acquisition of property plant and equipment attributable to discontinued operations.

Deferred proceeds on disposal of subsidiaries

Management of the Group expects that deferred proceeds on disposal of subsidiaries will be settled before 30 June 2008 as follows: partially offset against promissory notes held by related parties, and the remaining portion will be paid.

In determination of fair value of proceeds on disposal of subsidiaries management of the Group discounted expected future cash flows at the rate of 10% p.a.

Movement in deferred proceeds on disposal of subsidiaries was as follows:

	31 March 2008
Balance at beginning of the period	56,533
Interest income	1,408
Effect of translation to presentation currency	2,518
Balance at end of the period	60,459

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery, equipment and transport	Other	Construction in-progress	Total
Cost					
At 1 January 2008	162,831	314,521	4,441	21,907	503,700
Additions	219	2,157	59	14,451	16,886
Transfers	-	4,433	600	(5,033)	-
Disposals	-	(710)	(3)	(44)	(757)
Effect of translation to presentation currency	7,154	13,972	244	1,257	22,627
At 31 March 2008	170,204	334,373	5,341	32,538	542,456
Accumulated Depreciation					
At 1 January 2008	(9,036)	(23,625)	(353)	-	(33,014)
Charge for the year	(3,176)	(9,913)	(189)	-	(13,278)
Disposals	-	78	1	-	79
Effect of translation to presentation currency	(505)	(1,331)	(43)	-	(1,879)
At 31 March 2008	(12,717)	(34,791)	(584)	-	(48,092)
Carrying value					
At 1 January 2008	153,795	290,896	4,088	21,907	470,686
At 31 March 2008	157,487	299,582	4,757	32,538	494,364

At 31 March 2008, construction in-progress included advances paid for acquisition of the property, plant and equipment in the amount of USD 10,171 thousand (31 December 2007: USD 6,622 thousand).

14. GOODWILL

	31 March 2008
Balance at beginning of the period	113,844
Effect of translation to presentation currency	11,252
Balance at end of the period	125,096

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

15. INVENTORIES

	<u>31 March 2008</u>	<u>31 December 2007</u>
Inventories expected to be used in production after twelve months		
Catalytic agents	36,823	32,949
Mercury and other inventories	5,553	2,842
	<u>42,376</u>	<u>35,791</u>
Inventories expected to be used in production in the next twelve months		
Raw materials, net of allowance for obsolescence	27,891	26,722
Finished goods	21,105	24,223
Work in-progress	3,968	5,073
Goods for resale	248	237
	<u>53,212</u>	<u>56,255</u>
Total	<u><u>95,588</u></u>	<u><u>92,046</u></u>

At 31 March 2008, raw materials were presented net of allowance for obsolescence of USD 8,307 thousand (31 December 2007: USD 8,155 thousand).

16. OTHER FINANCIAL ASSETS

	<u>31 March 2008</u>	<u>31 December 2007</u>
Non-current		
Foreign currency forward contracts, carried at FVTPL	1,397	862
Loans issued, carried at amortised cost	720	-
Promissory notes of related parties, carried at amortised cost	-	988
Other financial assets	403	349
	<u>2,520</u>	<u>2,199</u>
Current		
Loans issued, carried at amortised cost	35,305	26,145
Interest receivable	1,259	11
Foreign currency forward contracts, carried at FVTPL	11,214	1,155
Other financial assets	-	15
	<u>47,778</u>	<u>27,326</u>
Total	<u><u>50,298</u></u>	<u><u>29,525</u></u>

At 31 March 2008 interest rates on loans issued varied from 10-12% (31 December 2007: 10-11%). The majority of loans issued were unsecured, RUR-denominated and receivable from related parties.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

17. TRADE AND OTHER RECEIVABLES

	<u>31 March 2008</u>	<u>31 December 2007</u>
Trade receivables	47,325	16,729
Other receivables	9,272	3,736
	56,597	20,465
Less: allowance for doubtful receivables	(2,206)	(440)
Total	54,391	20,025

18. ADVANCES PAID AND PREPAID EXPENSES

	<u>31 March 2008</u>	<u>31 December 2007</u>
Advances paid for supply of natural gas	24,570	24,656
Advances paid for transportation services	8,113	16,678
Other advances and prepaid expenses	19,263	13,872
Total	51,946	55,206

19. OTHER TAXES RECEIVABLE

	<u>31 March 2008</u>	<u>31 December 2007</u>
Value added tax reimbursable	40,851	38,095
Other taxes	627	237
Total	41,478	38,332

20. CASH AND CASH EQUIVALENTS

	<u>31 March 2008</u>	<u>31 December 2007</u>
Current accounts, including:		
- RUR-denominated	62,601	14,991
- USD-denominated	8,781	3,435
USD-denominated bank deposits	11,100	10,407
Other cash and cash equivalents	610	14
Total	83,092	28,847

At 31 March 2008, the interest rate on USD-denominated bank deposits at HSBC bank was 3% with maturity in April 2008 (2007: 3-4%).

21. SHARE CAPITAL

Authorised, issued and fully paid share capital

At 31 March 2008 and 31 December 2007, the share capital of the Company consisted of 100,000,000 authorised, issued and fully paid ordinary shares with a par value of RUR 20, carrying one vote per share and a right to dividends.

Retained earnings and dividends

The statutory financial statements of the Group entities are the basis for the profit distribution and other appropriations. Loss for the 3 months ended 31 March 2008, recorded in the statutory financial statements of the parent company amounted to USD 4,057 thousand.

OPEN JOINT STOCK COMPANY URALCHEM

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

Earnings per share

Earnings per share were calculated by dividing net profit attributable to shareholders of the Company for the 3 months ended 31 March 2008 and 2007 by weighted average number of ordinary shares in issue during the respective periods.

22. LOANS AND BORROWINGS

			<u>31 March 2008</u>		<u>31 December 2007</u>
	<u>Currency</u>	<u>Rate</u>	<u>Outstanding balance</u>	<u>Rate</u>	<u>Outstanding balance</u>
Secured bank loans					
Sberbank	RUR	8.0%-10.0%	214,561	8.0-9.5%	212,714
UniCreditBank	USD	6.6%	99,587	-	-
VTB Moscow	USD	6.9%	65,139	8.9%	65,207
VTB North-West	USD	9.0-11.0%	7,677	9.0-9.9%	38,583
VTB North-West	RUR	9.0-10.8%	639	10.0-10.8%	2,613
MDM bank	USD	-	-	12.0%	56,621
Uralsib	USD	-	-	9.8%	1,100
VTB North-West	EURO	-	-	8.5%	881
Unsecured bank loans					
Sberbank	RUR	8.0-9.0%	24,392	8.0-9.0%	20,046
BNP Paribas	USD	4.0%	8,718	-	-
VTB North-West	USD	9.0%-11.0%	2,457	-	-
Rosbank	USD	-	-	11.0-11.4%	17,831
Uralsib	USD	-	-	9.8%	3,200
Other loans	vary	vary	80	vary	88
Promissory notes	USD/RUR	10.0%	43,774	10.0%	41,858
Obligations under finance leases	RUR	vary	823	vary	1,013
Total			<u>467,847</u>		<u>461,755</u>
Less: current portion repayable within twelve months and shown under current liabilities			<u>(135,919)</u>		<u>(149,531)</u>
Long-term portion of loans and borrowings			<u>331,928</u>		<u>312,224</u>

During the period ended 31 March 2008, an amount of USD 35,709 thousand was transferred from the long-term portion of loans and borrowings to the current portion of long-term portion of loans and borrowings and is shown under current liabilities.

Long-term loans and borrowings are repayable as follows:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Due in the second year	224,405	160,590
Due in the third year	52,660	85,897
Due in the fourth year	54,657	54,057
Due in the fifth year	206	11,680
	<u>331,928</u>	<u>312,224</u>

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23. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plan

For the 3 months ended 31 March 2008 total expenses at amount of USD 4,403 thousand (for the 3 months 2007: USD 1,369 thousand) recognised in the income statement represent contributions payable to the State Pension Fund.

At 31 March 2008, an outstanding contribution to the State Pension Fund amounted to USD 1,197 thousand (31 December 2007: USD 720 thousand).

Defined benefit plans

The Group operates an unfunded defined benefit plan for qualifying employees of subsidiaries located in the Russian Federation.

The principle assumptions used for the purposes of the actuarial valuations were consistent with those used in preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2007.

24. DEFERRED TAXES

Certain deferred tax assets and liabilities were offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) recorded in the balance sheet:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Deferred tax assets	(1,773)	(1,915)
Deferred tax liabilities	67,020	66,257
	<u>65,247</u>	<u>64,342</u>

25. TRADE AND OTHER PAYABLES

	<u>31 March 2008</u>	<u>31 December 2007</u>
Trade and other payables	35,512	25,205
Provision for unused vacations	5,792	2,888
Unpaid salaries	4,485	4,840
Payables for property, plant and equipment	2,146	1,559
Accrued expenses	233	2,561
Total	<u>48,168</u>	<u>37,053</u>

26. OTHER TAXES PAYABLE

	<u>31 March 2008</u>	<u>31 December 2007</u>
Value added tax	7,231	1,984
Unified social tax	1,556	1,481
Property tax	984	911
Other taxes	1,391	1,681
Total	<u>11,162</u>	<u>6,057</u>

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

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27. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders and entities under common ownership and control with the Group and members of key management personnel.

As at 31 March 2008 and 31 December 2007 the Group had the following outstanding balances with related parties:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Shareholders of the Group		
Other financial assets	32,783	20,286
Entities under common ownership and control with the Group		
Deferred sales proceeds on disposal of subsidiaries	60,459	56,533
Other financial assets	1,107	7,315
Trade and other receivables	11,690	11,864
Loans and borrowings	(43,799)	(41,544)
Trade and other payables	(4,790)	(9,814)

During the 3 months ended 31 March 2008 and 2007 the Group entered into the following transactions with related parties:

	<u>3 months ended 31 March 2008</u>	<u>3 months ended 31 March 2007</u>
Shareholders of the Group		
Loans issued	11,136	-
Proceeds from repayment of loans issued	(494)	-
Entities under common ownership and control with the Group		
Sales of goods and services	16,055	10,767
Purchases of goods and services	(19,259)	(5,749)
Interest expense on loans and borrowings	(563)	(803)
Loans issued	-	3,177
Proceeds from repayment of loans issued	(2,183)	(2,037)

Compensation of key management personnel

The remuneration of key management personnel of the Group for the 3 months ended 31 March 2008 comprised salaries and bonuses in the amount of USD 1,428 thousand, including unified social tax in amount of USD 371 thousand (3 months ended 31 March 2007: USD 358 thousand, including unified social tax in amount of USD 93 thousand).

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28. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

In December 2007, the Group entered into binding purchase agreements with Gazprom and Novatek, to purchase defined volume of natural gas.

Future minimum costs under non-cancellable purchase agreements are as follows:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Due in one year	127,806	163,253
Due from one to five years	793,702	760,378
Total	<u>921,508</u>	<u>923,631</u>

Capital commitments

The Group's contractual capital commitments for acquisition of property, plant and equipment and fulfilment of certain finance lease agreements were as follows:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Acquisition of property, plant and equipment	7,622	1,074
Fulfilment of finance lease agreements	1,952	2,176
Total	<u>9,574</u>	<u>3,250</u>

During the 3 months ended 31 March 2008 the Group entered into certain agreements for acquisition of machinery and equipment for ammonia production. Most of agreements will be settled in 2008.

Operating leases: Group as a lessee

The Group leases certain machinery and equipment. The respective lease agreements have an average life of 1 to 5 years with no renewal option at the end of the lease term. Future minimum rental expenses under non-cancellable operating leases didn't change significantly during the 3 months ended 31 March 2008.

Guarantees issued

As at 31 March 2008 and 31 December 2007 the Group issued financial guarantees in respect of loans obtained by a number of related and third parties. Total amount of outstanding guarantees issued by the Group were as follows:

	<u>31 March 2008</u>	<u>31 December 2007</u>
Related parties	47,160	52,528
Third parties	8	28
Total	<u>47,168</u>	<u>52,556</u>

Litigation

The Group has a number of claims and litigation relating to sales and purchases. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

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Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the certain regions of Russian federation in which it operates. The Group's operations involve the discharge of materials, contaminants and waste water into the environment that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its production facilities are in compliance with all current existing environmental legislation in the regions in which it operates. However, environmental laws and regulations continue to evolve.

The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on the management understanding of current legal requirements and the terms of licence agreements. Should the requirements of applicable environmental legislation change or be clarified and amended, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2008 (UNAUDITED)

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values.

30. FINANCIAL RISK MANAGEMENT

Major risks that the Group is exposed to are as follows:

- capital risk;
- foreign currency risk;
- interest rate risk;
- credit risk; and
- liquidity risk.

Policies and procedures applied by the management of the Group to manage the above risks were consistent with those described in the Group's annual consolidated financial statements for the year ended 31 December 2007.

31. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Increase of ownership in subsidiaries

KCCW

During April-May 2008 the Group acquired an additional 11.5% interest in KCCW for USD 60,431 thousand, increasing its ownership in this company to 89.1%. As a result of this transaction the Group became the owner of 95.3% of voting shares of KCCW. In accordance with the Russian legislation the Group has the right to buyout the remaining shares of KCCW from minority shareholders. Management of the Group intends to exercise this right during 2008.

Azot

During April-May 2008 the Group acquired an additional 13.7% interest in Azot for a cash consideration of USD 53,327 thousand increasing its ownership in this company to 95.5%. In accordance with the Russian legislation the Group has the right to buyout the remaining shares of Azot from minority shareholders. Management of the Group intends to exercise this right during 2008.