

OPEN JOINT STOCK COMPANY URALCHEM

**CONDENSED COMBINED FINANCIAL INFORMATION
(UNAUDITED)**

31 DECEMBER 2006

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OPEN JOINT STOCK COMPANY URALCHEM

GENERAL INFORMATION AND BASIS FOR PREPARATION OF CONDENSED COMBINED FINANCIAL INFORMATION (UNAUDITED) FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

All amounts are in thousands of US Dollars unless otherwise stated

Open joint stock company Uralchem ("the Company" or "Uralchem") was established on 22 October 2007. In November 2007 the shareholder of the Company contributed to the share capital of the Company 100.00% ownership in LLC Managing Company Uralchem ("LLC MC Uralchem"), which owned 77.7% of Open Joint Stock Company Azot ("OJSC Azot"). In November-December 2007 44.6% of Open Joint Stock Company Kirovo-Chepetsk Chemical Works ("OJSC KCCW") was contributed by the shareholder to the share capital of the Company. In December 2007 the Company acquired another 32.7% of OJSC KCCW from its shareholder. In November 2007 the shareholder contributed 100% ownership in Uralchem Freight Ltd. to the share capital of the Company. The Company, OJSC Azot, OJSC KCCW, LLC MC Uralchem and Uralchem Freight Ltd. are referred together later to as "the Group".

In November-December 2007 the Group acquired an additional 0.1% ownership in OJSC Azot from third parties. As a result of reorganization, as of 31 December 2007 the Group owned 78.7% in OJSC Azot, 77.4% in OJSC KCCW and 100.0% in LLC MC Uralchem.

The Company is registered and located at Krasnopresnenskaya emb., 18, 123317, Moscow, Russian Federation.

This condensed combined financial information of Uralchem has been prepared to present financial results of the Group as if the Group had been formed on 1 January 2005 and included the same subsidiaries. Financial results of OJSC Azot and OJSC KCCW presented in this condensed combined financial information constitute more than 95% of the Group's financial results as if the Group had been formed on 1 January 2005 and included the same subsidiaries.

This unaudited condensed combined financial information of Uralchem has been prepared for the years ended 31 December 2006 and 2005 for OJSC Azot and its subsidiaries and OJSC KCCW and its subsidiaries as if a spin-off of Limited Liability Company Zavod Polimerov, one of the subsidiaries of OJSC KCCW, from OJSC KCCW to its parent and all the respective settlements had taken place on 1 January 2005.

In preparation of this unaudited condensed combined financial information the following information was used:

- annual consolidated financial statements of OJSC Azot and its subsidiaries prepared in accordance with IFRS for the year ended 31 December 2006; and
- annual consolidated financial statements of OJSC KCCW and its subsidiaries prepared in accordance with IFRS for the year ended 31 December 2006.

The accounting policies adopted and management estimates and assumptions applied in this unaudited condensed combined financial information are consistent with those of the above mentioned annual financial statements for the year ended 31 December 2006.

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**CONDENSED COMBINED INCOME AND EXPENSE INFORMATION (UNAUDITED)
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

All amounts are in thousands of US Dollars unless otherwise stated

	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>
Revenue		
Sales of goods	421,698	284,956
Other sales	42,960	65,509
Total revenue	464,658	350,465
Cost of sales	(328,581)	(274,758)
Gross profit	136,077	75,707
Selling and distribution expenses	(44,740)	(23,211)
General and administrative expenses	(33,099)	(34,280)
Other operating expenses, net	(11,527)	(9,072)
Operating profit	46,711	9,144
Interest income	2,783	782
Interest expense	(11,282)	(12,147)
Foreign exchange gain/ (loss) on financial items	5,509	(941)
Profit/ (loss) before income tax	43,721	(3,162)
Income tax expense	(8,743)	(7,337)
Profit/ (loss) for the year	34,978	(10,499)
Combined EBITDA reconciliation:		
Profit/ (loss) for the year	34,978	(10,499)
Add:		
Depreciation and amortisation	32,247	30,549
Interest expense	11,282	12,147
Income tax	8,743	7,337
Combined EBITDA	87,250	39,534

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**CONDENSED COMBINED BALANCE SHEET INFORMATION (UNAUDITED)
AS OF 31 DECEMBER 2006 AND 2005**

All amounts are in thousands of US Dollars unless otherwise stated

	<u>31 December 2006</u>	<u>31 December 2005</u>
ASSETS		
Non-current assets		
Property, plant and equipment	320,740	302,116
Inventories	21,877	18,141
Deferred tax assets	9,272	8,849
Advances issued to suppliers for capital construction	1,012	54
Long-term available for sale financial assets	8,796	3,822
Long-term letters of credit	6,278	389
Other non-current assets	2,052	1,575
	<u>370,027</u>	<u>334,946</u>
Current assets		
Inventories	37,521	28,200
Accounts receivable, advances issued and prepayments	67,746	55,695
Taxes receivable	31,428	34,435
Other current assets	720	625
Cash and cash equivalents	59,101	16,510
	<u>196,516</u>	<u>135,465</u>
Total assets	<u>566,543</u>	<u>470,411</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	6,713	6,713
Share premium	2,333	2,333
Financial assets revaluation reserve	3,748	1,432
Retained earnings	338,072	303,094
Translation reserve	19,012	(10,414)
	<u>369,878</u>	<u>303,158</u>
Non-current liabilities		
Loans and borrowings	286	-
Retirement benefit obligations	3,413	2,898
Other non-current liabilities	1,336	2,430
Deferred tax liabilities	40,070	43,750
	<u>45,105</u>	<u>49,078</u>
Current liabilities		
Loans and borrowings	102,814	68,480
Accounts payable and accrued charges	38,189	36,061
Dividends payable	382	350
Taxes payable	7,534	10,721
Other current liabilities	2,641	2,563
	<u>151,560</u>	<u>118,175</u>
Total equity and liabilities	<u>566,543</u>	<u>470,411</u>

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**CONDENSED COMBINED CASH FLOW STATEMENT (UNAUDITED)
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

All amounts are in thousands of US Dollars unless otherwise stated

	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>
Operating activities		
Profit/ (loss) before tax	43,721	(3,162)
Adjustments for:		
Depreciation and amortisation	32,247	30,549
Loss from disposal of property, plant and equipment, net	4,692	6,920
(Gain)/ loss from disposal of other assets	355	(1,174)
Change in provision for unused vacation	170	422
Change in provision for obsolete and slow-moving inventories	569	1,148
Change in provision for bad debt	(3)	755
Interest income	(2,783)	(782)
Interest expense	11,282	12,147
Dividend income	(86)	(13)
Foreign exchange (gain)/ loss, net	(2,052)	889
Other non-monetary expense/ (income), net	56	(891)
Operating cash flows before working capital changes	88,168	46,808
Increase in accounts receivable, advances issued and prepayments	(7,725)	(25,780)
(Increase)/ decrease in inventory	(9,391)	1,463
Increase/ (decrease) in accounts payable and accrued charges	(2,530)	(6,799)
Change in tax balances	5,969	2,040
Cash generated from operations	74,491	17,732
Income tax paid	(14,738)	(15,027)
Interest paid	(9,638)	(7,737)
Interest received	2,120	763
Net cash generated from/ (used in) operating activities	52,235	(4,269)
Investing activities		
Purchase of property, plant and equipment	(42,814)	(10,214)
Purchase of intangible assets	(35)	(930)
Proceeds from sale of property, plant and equipment	2,849	32
Placement of cash in bank deposits	(17,658)	(5,620)
Receipt of cash from bank deposits	30,965	-
Loans issued	(44,915)	-
Repayment of loans issued	42,326	-
Dividends received	86	13
Investments in shares	(1,626)	(7)
Proceeds from disposal and redemption of promissory notes	-	159
Net cash used in investing activities	(82,927)	(22,012)
Financing activities		
Proceeds from borrowings	270,744	106,157
Repayment of borrowings	(239,243)	(85,521)
Proceeds from issuance of shares	-	2,376
Net cash generated from financing activities	31,501	23,012
Net increase/ (decrease) in cash and cash equivalents	809	(3,269)
Cash and cash equivalents at the beginning of the year	5,635	9,177
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	552	(273)
Cash and cash equivalents at the end of the period	59,101	16,510

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