

**Open Joint Stock Company  
URALCHEM**

**Condensed consolidated interim  
financial statements  
for the six months ended 30 June 2008  
(unaudited)**

**OPEN JOINT STOCK COMPANY URALCHEM**

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# OPEN JOINT STOCK COMPANY URALCHEM

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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The following statement, which should be read in conjunction with the independent auditors' report on review of interim financial information set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the unaudited condensed consolidated interim financial statements of Open Joint Stock Company Uralchem and its subsidiaries (the "Group").

Management is responsible for the preparation of unaudited condensed consolidated interim financial statements that present fairly the financial position of the Group as at 30 June 2008 and 31 December 2007, the results of its operations, cash flows and changes in equity for the six months ended 30 June 2008 and 30 June 2007, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

In preparing the unaudited condensed consolidated interim financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the unaudited condensed consolidated interim financial statements; and
- preparing the unaudited condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 were approved by:



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Dmitry V. Osipov  
Chief Executive Officer



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Anton V. Vyschanenko  
Chief Financial Officer

Moscow, Russia  
25 August 2008

## **INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

### **To the Shareholders and Board of Directors of Open Joint Stock Company Uralchem:**

We have reviewed the accompanying condensed consolidated interim balance sheet of Open Joint Stock Company Uralchem and its subsidiaries (collectively – the “Group”) as at 30 June 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. (collectively – “interim financial information”) Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on this 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

*Deloitte & Touche*

Moscow, Russia  
25 August 2008

# OPEN JOINT STOCK COMPANY URALCHEM

## UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
<b>Continuing operations</b>			
<b>Revenue</b>			
Sales of goods	6	752,738	162,870
Other sales	7	42,880	21,130
<b>Total revenue</b>		<b>795,618</b>	<b>184,000</b>
Cost of sales	8	(319,872)	(112,107)
<b>Gross profit</b>		<b>475,746</b>	<b>71,893</b>
Selling and distribution expenses	9	(116,241)	(38,464)
General and administrative expenses	10	(46,703)	(9,148)
Gain on revaluation of forward exchange contracts		9,209	-
Other operating income		1,911	2,669
Other operating expenses		(4,017)	(2,119)
<b>Operating profit</b>		<b>319,905</b>	<b>24,831</b>
Interest income	11	6,257	65
Interest expense	12	(25,667)	(5,243)
Foreign exchange gain from financing activities		15,386	1,783
<b>Profit before tax</b>		<b>315,881</b>	<b>21,436</b>
Income tax expense		(74,571)	(4,806)
<b>Profit for the period from continuing operations</b>		<b>241,310</b>	<b>16,630</b>
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	13	-	(1,797)
<b>Profit for the period</b>		<b>241,310</b>	<b>14,833</b>
Attributable to:			
Shareholders of the parent		200,703	8,159
Minority interest		40,607	6,674
		<b>241,310</b>	<b>14,833</b>
<b>Earnings per share</b>			
Weighted average number of ordinary shares in issue during the period	19	100,000,000	100,000,000
Basic and diluted earnings per share from continuing and discontinued operations (US dollars per share)		2.01	0.08
Basic and diluted earnings per share from continuing operations (US dollars per share)		2.01	0.10

The notes on pages 8 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	30 June 2008	31 December 2007
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	14	869,734	473,104
Goodwill	4	261,400	113,844
Intangible assets		3,150	1,499
Investments in associates	15	5,891	-
Inventories	16	41,762	35,791
Other financial assets	17	154,842	2,199
Deferred tax assets		4,510	1,915
		<b>1,341,289</b>	<b>628,352</b>
<i>Current assets</i>			
Inventories	16	115,831	53,837
Trade and other receivables		85,596	20,025
Deferred sales proceeds on disposal of subsidiaries	13	-	56,533
Advances paid and prepaid expenses		83,433	55,206
Income tax receivable		1,310	255
Other taxes receivable		91,061	38,332
Other financial assets	17	52,949	27,326
Cash and cash equivalents	18	82,680	28,847
		<b>512,860</b>	<b>280,361</b>
<b>TOTAL ASSETS</b>		<b>1,854,149</b>	<b>908,713</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Share capital		80,485	80,485
Additional paid-in capital		24,176	24,176
Foreign currency translation reserve		22,562	12,628
Retained earnings		190,736	26,906
<b>Equity attributable to shareholders of the parent</b>		<b>317,959</b>	<b>144,195</b>
Minority interest		126,728	106,897
		<b>444,687</b>	<b>251,092</b>
<i>Non-current liabilities</i>			
Loans and borrowings	20	796,639	311,924
Obligations under financial leases	21	17,711	300
Retirement benefit obligations		11,206	8,385
Deferred tax liabilities		138,905	66,257
		<b>964,461</b>	<b>386,866</b>
<i>Current liabilities</i>			
Loans and borrowings	20	242,426	148,818
Obligations under financial leases	21	1,553	713
Trade and other payables		94,485	37,053
Minority interest liability	4	37,574	-
Advances received		40,865	70,583
Income tax payable		15,380	7,531
Other taxes payable		12,718	6,057
		<b>445,001</b>	<b>270,755</b>
<b>Total liabilities</b>		<b>1,409,462</b>	<b>657,621</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,854,149</b>	<b>908,713</b>

The notes on pages 8 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

	Six months ended 30 June 2008	Six months ended 30 June 2007
<b>Operating activities</b>		
Profit before tax from continuing operations	315,881	21,436
Loss before tax from discontinued operations	-	(2,519)
<b>Profit before income tax</b>	<b>315,881</b>	<b>18,917</b>
Adjustments for:		
Depreciation of property, plant and equipment	33,841	13,300
Amortisation of intangible assets	340	168
Gain on revaluation of forward exchange contracts	(9,209)	-
Gain on disposal of property, plant and equipment	(522)	(703)
Foreign exchange gain, net	(13,230)	(1,367)
Interest income	(6,257)	(556)
Interest expense	25,667	6,732
<b>Operating cash flows before working capital changes</b>	<b>346,511</b>	<b>36,491</b>
Increase in inventories	(14,239)	(3,027)
Increase in trade and other receivables	(46,914)	(29,224)
(Increase)/decrease in advances paid and prepaid expenses	(924)	1,655
Increase in other taxes receivable	(16,300)	(2,344)
Decrease in retirement benefit obligations	(1,441)	(31)
Increase in trade and other payables	43,087	11,824
Decrease in advances received	(37,310)	(2,405)
Increase/(decrease) in other taxes payable	2,686	(148)
<b>Cash generated from operations</b>	<b>275,156</b>	<b>12,791</b>
Interest paid	(23,159)	(5,222)
Income tax paid	(83,464)	(7,300)
<b>Net cash generated from operations</b>	<b>168,533</b>	<b>269</b>
<b>Investing activities</b>		
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	(481,557)	-
Acquisition of available-for-sale investments	(145,519)	-
Acquisition of investments in associates	(5,840)	-
Proceeds from disposal of subsidiaries	3,807	-
Purchase of intangible assets	(1,539)	-
Purchase of property, plant and equipment	(59,490)	(22,383)
Proceeds from sale of property, plant and equipment	5,842	2,644
Loans issued	(36,903)	(3,871)
Proceeds from repayment of loans issued	29,325	3,222
Interest received	2,058	584
<b>Net cash used in investing activities</b>	<b>(689,816)</b>	<b>(19,804)</b>
<b>Financing activities</b>		
Proceeds from short-term loans and borrowings	594,205	134,055
Proceeds from long-term loans and borrowings	626,770	5,487
Repayment of short-term loans and borrowings	(600,322)	(117,852)
Repayment of long-term loans and borrowings	(49,626)	-
Repayment of principle amounts of finance leases	(1,496)	(69)
<b>Net cash generated from financing activities</b>	<b>569,531</b>	<b>21,621</b>
<b>Net increase in cash and cash equivalents</b>	<b>48,248</b>	<b>2,086</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>28,847</b>	<b>768</b>
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	5,585	54
<b>Cash and cash equivalents at end of the period</b>	<b>82,680</b>	<b>2,908</b>

The notes on pages 8 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

## OPEN JOINT STOCK COMPANY URALCHEM

### UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 (CONTINUED)

All amounts are in thousands of US Dollars unless otherwise stated

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The following non-cash transactions were excluded from investing and financing activities:

	<b>Six months ended 30 June 2008</b>	<b>Six months ended 30 June 2007</b>
Settlement of deferred sales proceeds on disposal of subsidiaries against promissory notes held by related parties and payables to related parties	(57,989)	-
Property, plant and equipment acquired under finance leases	(19,344)	(230)
	<b><u>(77,333)</u></b>	<b><u>(230)</u></b>

The notes on pages 8 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

## OPEN JOINT STOCK COMPANY URALCHEM

### UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

		Attributable to shareholders of the parent						
	Notes	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total
<b>Balance at 1 January 2007</b>		<b>80,485</b>	<b>19,438</b>	-	-	<b>99,923</b>	<b>79,056</b>	<b>178,979</b>
Effect of translation to presentation currency recognised directly in equity		-	-	2,077	-	<b>2,077</b>	1,645	<b>3,722</b>
Profit for the period		-	-	-	8,159	<b>8,159</b>	6,674	<b>14,833</b>
<b>Total recognised income and expense</b>		-	-	<b>2,077</b>	<b>8,159</b>	<b>10,236</b>	<b>8,319</b>	<b>18,555</b>
<b>Balance at 30 June 2007</b>		<b>80,485</b>	<b>19,438</b>	<b>2,077</b>	<b>8,159</b>	<b>110,159</b>	<b>87,375</b>	<b>197,534</b>
<b>Balance at 1 January 2008</b>		<b>80,485</b>	<b>24,176</b>	<b>12,628</b>	<b>26,906</b>	<b>144,195</b>	<b>106,897</b>	<b>251,092</b>
Effect of translation to presentation currency recognised directly in equity		-	-	9,934	-	<b>9,934</b>	5,150	<b>15,084</b>
Profit for the period		-	-	-	200,703	<b>200,703</b>	40,607	<b>241,310</b>
<b>Total recognised income and expense</b>		-	-	<b>9,934</b>	<b>200,703</b>	<b>210,637</b>	<b>45,757</b>	<b>256,394</b>
Minority interest arising on business combinations	4	-	-	-	-	-	101,213	<b>101,213</b>
Increase of ownership in subsidiaries	4	-	-	-	(29,585)	<b>(29,585)</b>	(97,445)	<b>(127,030)</b>
Minority interest liability	4	-	-	-	(7,288)	<b>(7,288)</b>	(29,694)	<b>(36,982)</b>
<b>Balance at 30 June 2008</b>		<b>80,485</b>	<b>24,176</b>	<b>22,562</b>	<b>190,736</b>	<b>317,959</b>	<b>126,728</b>	<b>444,687</b>

The notes on pages 8 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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### 1. GENERAL INFORMATION

Open Joint Stock Company Uralchem (the “Company”) was incorporated in Moscow, Russian Federation, on 22 October 2007. At 30 June 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 was held by CI – Chemical Invest Limited. All these entities are ultimately owned and controlled by Mr. Dmitry A. Mazepin.

On 6 June 2008, the Company acquired 437,115,724 or 71.7% of the total outstanding ordinary shares of Voskresensk Mineral Fertilisers (“VMF”). VMF produces and sells phosphate mineral fertilisers, sulphuric and phosphoric acids and other chemical products.

Prior to 31 October 2007, the Company owned subsidiaries that produced and sold polymers and fluoroplastics. These businesses are reflected as a discontinued operation in these unaudited condensed consolidated interim financial statements.

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 Moscow, Perm and Kirov regions of the Russian Federation.

### 2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements of the Group are prepared based on the accounting policies applied in the annual consolidated financial statements of the Group for the year ended 31 December 2007. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. The 31 December 2007 balance sheet was derived from the annual financial statements of the Group but does not include all of the disclosures required by International Financial Reporting Standards (“IFRS”). However, management of the Group believes that the disclosures are adequate to make the information presented not misleading.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Group’s consolidated financial statements for the year ended 31 December 2007.

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

	<u>30 June 2008</u>	<u>31 December 2007</u>	<u>30 June 2007</u>
Period-end rates	23.46	24.55	25.82
Average for the period ended	23.94	n/a	26.08

### 3. SIGNIFICANT ACCOUNTING POLICIES

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2007. During the period the Group entered into new contracts for which it did not previously disclose its accounting policies, these include the following:

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Financial assets

#### *Available-for-sale ("AFS") financial assets and their impairment*

Listed and unlisted shares and redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value of AFS is determined as follows:

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

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the investments revaluation reserve is included in the income statement for the period. If, in a subsequent period, the amount of the impairment loss attributable to AFS decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through equity and presented in the investment revaluation reserve as increase in fair value of AFS.

Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the income statement, and other changes are recognised in equity.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

### 4. BUSINESS COMBINATIONS

#### Acquisition of controlling interest of VMF

On 6 June 2008, the Company entered into an agreement to acquire 437,115,724 or 71.7% of the total outstanding ordinary shares of VMF for an aggregate purchase price of USD 380,537 thousand.

VMF produces and sells phosphate mineral fertilisers, sulphuric and phosphoric acids and other chemical products. VMF's output is intended both for the domestic and external markets. The main products (monoammonium phosphate and diammonium phosphate) are primarily sold in external markets. Other phosphate fertilisers and chemical products are primarily sold in the domestic market.

The Group has completed an initial purchase price allocation that will be finalised in future periods. Provisional values of VMF's assets, liabilities and contingent liabilities as at 6 June 2008, were as follows:

	<b>Provisional value at the date of acquisition</b>
<b>ASSETS</b>	
Property, plant and equipment	329,443
Intangible assets	355
Inventories	48,536
Other financial assets	2,516
Trade and other receivables	17,463
Advances paid and prepaid expenses	25,369
Other taxes receivable	33,801
Cash and cash equivalents	26,010
<b>Total assets</b>	<b>483,493</b>
<b>LIABILITIES</b>	
Loans and borrowings	29,412
Retirement benefit obligations	3,845
Deferred tax liabilities	71,599
Trade and other payables	18,923
Advances received	5,014
Income tax payable	9,772
Other taxes payable	3,585
<b>Total liabilities</b>	<b>142,150</b>
<b>Net assets at the date of acquisition</b>	<b>341,343</b>
Less: Share of net assets attributable to minority shareholders	(101,213)
<b>Group's share of net assets acquired</b>	<b>240,130</b>
Add: Goodwill arising on acquisition	140,407
<b>Total consideration</b>	<b>380,537</b>
<b>Net cash flow arising on acquisition:</b>	
Cash consideration	(380,537)
Cash and cash equivalents acquired	26,010
<b>Net cash outflow on acquisition of subsidiary</b>	<b>(354,527)</b>

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

VMF's consolidated financial statements in accordance with IFRS as at the date of acquisition were not available at the date of approval of these unaudited condensed consolidated interim financial statements. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these unaudited condensed consolidated interim financial statements.

VMF and its subsidiaries contributed USD 41,134 thousand of revenue and USD 6,068 thousand of loss for the period from 6 June 2008 to 30 June 2008.

Goodwill arising on the acquisition of VMF relates to benefits of expected synergy, revenue growth and cost saving, future market development and the assembled workforces of the acquired entities. These benefits are not recognised separately as the future economic benefits arising from them cannot be reliably measured.

#### *Pro-forma condensed consolidated income statement data*

The potential effect of the acquisition of VMF on the results of the Group's operations, as if this subsidiary was acquired at the beginning of respective reporting period, is analysed as follows:

	<b>Six months ended 30 June 2008</b>
Revenue	1,020,013
Profit for the period	257,270

These unaudited pro-forma amounts are provided for information purposes only and do not present the results of operations of the Group had the transactions assumed therein occurred on or as at the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

In determining the pro-forma revenue and profit for the period of the Group had VMF been acquired at the beginning of the respective reporting period, the Group has calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising from the initial accounting for the business combinations rather than the carrying amounts recognised in the financial statements of the acquired businesses.

#### **Increase of ownership in subsidiaries during the six months ended 30 June 2008**

##### *KCCW*

During the six months ended 30 June 2008, the Group acquired, through a number of transactions with minority shareholders, an additional 11.8% of KCCW's shares for a total cash consideration of USD 61,888 thousand, increasing its ownership in the company to 89.2%. The carrying value of KCCW's net assets as at the dates when the shares were acquired ranged from USD 217,961 thousand to USD 322,514 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 37,293 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 24,595 thousand was recognised directly in the statement of changes in equity as a decrease of retained earnings.

##### *Azot*

During the six months ended 30 June 2008, the Group acquired, through a number of transactions with minority shareholders, an additional 16.9% of Azot's shares for a cash consideration of USD 65,142 thousand, increasing its ownership in the company to 95.6%. The carrying value of Azot's net assets as at the dates when the shares were acquired ranged from USD 281,264 thousand to USD 372,189 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 60,152 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 4,990 thousand was recognised directly in the statement of changes in equity as a decrease of retained earnings.

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

#### *Minority interest liability*

In accordance with the Russian Joint Stock Company Law, minority shareholders may require the Group to purchase their voting shares and securities convertible into voting shares (put option), or the Group may require the remaining minority shareholders to sell such securities to the Group (minority squeeze-out) following the acquisition of more than 95% of the voting shares of a company during the period.

During 2008, the Group increased its ownership in KCCW and Azot to greater than 95% of the voting shares. In accordance with IFRS, the Group derecognised minority interest and recognised a liability for the unavoidable cash obligation. The Group recognised a liability equal to the fair value of the ultimate cash obligation. The difference between the carrying value of the minority interest derecognised in the statement of changes in equity and the fair value of the put option was recognised in equity.

In July 2008, the Group made an offer of USD 426 per KCCW share and USD 956 per Azot share to the remaining minority shareholders to purchase their shares in cash.

The remaining minority interest relating to voting shares of 3.5% in KCCW and 4.4% in Azot as at 30 June 2008 is reflected as a current liability in the amount of USD 37,574 thousand.

#### 5. SEGMENT INFORMATION

The Group is organised into two primary operating divisions – nitrogen fertilisers and phosphate fertilisers. These divisions are the basis on which the Group reports its primary segment information. All other operations including transportation, construction, repairs and maintenance, electricity services are reported as other segment.

Prior to the acquisition of phosphate fertiliser manufacturer and seller, VMF, on 6 June 2008, the Group was organised and reported as a single operating segment.

<b>Six months ended 30 June 2008</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Other</b>	<b>Adjustments and eliminations</b>	<b>Total</b>
<b>Segment revenue</b>					
Third parties	715,118	37,620	42,880	-	<b>795,618</b>
Inter-segments	-	-	118,641	(118,641)	-
<b>Total revenue</b>	<b>715,118</b>	<b>37,620</b>	<b>161,521</b>	<b>(118,641)</b>	<b>795,618</b>
<b>Segment results</b>					
Operating profit/(loss)	300,269	(8,582)	29,476	(1,258)	<b>319,905</b>
Profit/(loss) before tax	314,209	(8,543)	11,473	(1,258)	<b>315,881</b>
<b>Other segment information</b>					
Depreciation and amortisation	26,372	4,828	2,981	-	<b>34,181</b>
Capital expenditures	34,337	1,723	44,059	-	<b>80,119</b>

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Six months ended 30 June 2007	Nitrogen fertilisers	Phosphate fertilisers	Other	Adjustments and eliminations	Total
<b>Segment revenue</b>					
Third parties	162,870	-	21,130	-	<b>184,000</b>
Inter-segments	-	-	18,558	(18,558)	-
<b>Total revenue</b>	<b>162,870</b>	<b>-</b>	<b>39,688</b>	<b>(18,558)</b>	<b>184,000</b>
<b>Segment results</b>					
Operating profit/(loss)	27,826	-	(2,731)	(264)	<b>24,831</b>
Profit/(loss) before tax	24,453	-	(2,753)	(264)	<b>21,436</b>
<b>Other segment information</b>					
Depreciation and amortisation	6,995	-	2,030	-	<b>9,025</b>
Capital expenditures	16,929	-	668	-	<b>17,597</b>
<b>As at 30 June 2008</b>					
	Nitrogen fertilisers	Phosphate fertilisers	Other	Adjustments and eliminations	Total
<b>Segment assets</b>					
Inter-segment assets	401,029	3,484	2,383	(406,896)	-
Other segment assets	895,157	594,812	358,360	-	<b>1,848,329</b>
<b>Total assets</b>	<b>1,296,186</b>	<b>598,296</b>	<b>360,743</b>	<b>(406,896)</b>	<b>1,848,329</b>
<b>Segment liabilities</b>					
Inter-segment liabilities	4,514	3,913	398,469	(406,896)	-
Other segment liabilities	365,942	65,010	824,225	-	<b>1,255,177</b>
<b>Total liabilities</b>	<b>370,456</b>	<b>68,923</b>	<b>1,222,694</b>	<b>(406,896)</b>	<b>1,255,177</b>
<b>As at 31 December 2007</b>					
	Nitrogen fertilisers	Phosphate fertilisers	Other	Adjustments and eliminations	Total
<b>Segment assets</b>					
Inter-segment assets	187,012	-	4,797	(191,809)	-
Other segment assets	841,125	-	65,418	-	<b>906,543</b>
<b>Total assets</b>	<b>1,028,137</b>	<b>-</b>	<b>70,215</b>	<b>(191,809)</b>	<b>906,543</b>
<b>Segment liabilities</b>					
Inter-segment liabilities	3,683	-	188,126	(191,809)	-
Other segment liabilities	375,953	-	207,880	-	<b>583,833</b>
<b>Total liabilities</b>	<b>379,636</b>	<b>-</b>	<b>396,006</b>	<b>(191,809)</b>	<b>583,833</b>

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

### 6. SALES OF GOODS

Six months ended 30 June 2008	Total	Export	Russian Federation	Other CIS countries
<b>Nitrogen fertilisers</b>				
Ammonium nitrate and its derivatives	366,539	205,781	130,298	30,460
Ammonia	130,027	126,992	3,035	-
Compound fertilisers	105,119	92,959	12,160	-
Urea	90,981	85,297	5,684	-
<b>Phosphate fertilisers</b>				
Monoammonium phosphate	18,049	18,024	25	-
Diammonium phosphate	10,177	10,177	-	-
Other phosphate fertilisers	821	-	821	-
Chemical products	31,025	450	29,604	971
<b>Total</b>	<b>752,738</b>	<b>539,680</b>	<b>181,627</b>	<b>31,431</b>

Six months ended 30 June 2007	Total	Export	Russian Federation	Other CIS countries
<b>Nitrogen fertilisers</b>				
Ammonium nitrate and its derivatives	93,876	73,364	20,427	85
Compound fertilisers	36,003	28,327	7,676	-
Ammonia	32,439	32,362	77	-
Chemical products	552	72	471	9
<b>Total</b>	<b>162,870</b>	<b>134,125</b>	<b>28,651</b>	<b>94</b>

### 7. OTHER SALES

	Six months ended 30 June 2008	Six months ended 30 June 2007
Electricity and heat energy	23,129	14,574
Transportation	4,199	2,451
Construction, repairs and maintenance services	4,036	1,921
Processing of amines	1,743	-
Processing of waste water	1,340	344
Other	8,433	1,840
<b>Total</b>	<b>42,880</b>	<b>21,130</b>

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### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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#### 8. COST OF SALES

	<u>Six months ended 30 June 2008</u>	<u>Six months ended 30 June 2007</u>
Raw materials, including:		
Natural gas	120,107	37,679
Apatite	28,066	5,226
Potassium chloride	5,779	3,008
Other raw materials	49,127	7,831
Energy and utilities	49,971	25,198
Wages and salaries	29,212	13,258
Depreciation	28,426	7,344
Unified social tax	6,866	3,296
Repairs and maintenance	5,649	967
Taxes, other than income tax	2,728	1,179
Change in inventory balance of work in-progress and finished goods	(11,301)	3,252
Other	5,242	3,869
<b>Total</b>	<b><u>319,872</u></b>	<b><u>112,107</u></b>

During the six months ended 30 June 2008, energy and utilities included USD 17,845 thousand which relates to the cost of electricity and heat energy sales (for the six months ended 30 June 2007: USD 11,150 thousand).

#### 9. SELLING AND DISTRIBUTION EXPENSES

	<u>Six months ended 30 June 2008</u>	<u>Six months ended 30 June 2007</u>
Transportation, including:		
Railway tariff	48,131	29,296
Freight and transshipment	43,365	-
Rail cars rent expenses	11,997	6,603
Customs clearance charges	3,576	494
Wages and salaries	3,159	437
Unified social tax	753	98
Other	5,260	1,536
<b>Total</b>	<b><u>116,241</u></b>	<b><u>38,464</u></b>

#### 10. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Six months ended 30 June 2008</u>	<u>Six months ended 30 June 2007</u>
Wages and salaries	22,455	2,776
Rent	6,003	314
Depreciation	5,415	1,681
Audit, legal and consulting services	3,093	662
Unified social tax	2,637	601
Taxes, other than income tax	1,752	189
Security	1,473	397
Other	3,875	2,528
<b>Total</b>	<b><u>46,703</u></b>	<b><u>9,148</u></b>

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

#### 11. INTEREST INCOME

	<b>Six months ended 30 June 2008</b>	<b>Six months ended 30 June 2007</b>
Interest on loans issued	3,459	65
Unwinding of discount on deferred sales proceeds on disposal of subsidiaries	2,798	-
<b>Total</b>	<b>6,257</b>	<b>65</b>

#### 12. INTEREST EXPENSE

	<b>Six months ended 30 June 2008</b>	<b>Six months ended 30 June 2007</b>
Interest on loans and borrowings	25,271	5,227
Interest on obligations under finance leases	396	16
<b>Total</b>	<b>25,667</b>	<b>5,243</b>

#### 13. DISCONTINUED OPERATIONS

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

At 31 October 2007, the Group sold 100% of Zavod Polymerov and 100% of Transportno-Logisticheskaya Kompaniya to CI – Chemical Invest Limited. The disposal of the Group's polymers and fluoroplastics operations is consistent with the Group's policy to focus its activities primarily on the fertilisers market.

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

	<b>Six months ended 30 June 2007</b>
Net cash used in operating activities	(1,131)
Net cash used in investing activities	(1,138)
Net cash generated from financing activities	2,233
<b>Net cash flows</b>	<b>(36)</b>

During the six months ended 30 June 2007, the Group spent USD 2,708 thousand for acquisition of property, plant and equipment attributable to discontinued operations.

## OPEN JOINT STOCK COMPANY URALCHEM

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The results of the discontinued operations included in the unaudited condensed consolidated interim income statement were as follows:

	<b>Six months ended 30 June 2007</b>
<b>Revenue</b>	
Sales of goods	49,427
Other sales	13,008
<b>Total revenue</b>	<b>62,435</b>
Cost of sales	(58,148)
<b>Gross profit</b>	<b>4,287</b>
Selling and distribution expenses	(1,187)
General and administrative expenses	(5,364)
Other operating income	822
Other operating expenses	(516)
<b>Operating loss</b>	<b>(1,958)</b>
Interest income	491
Interest expense	(1,489)
Foreign exchange gain from financing activities	437
<b>Loss before tax</b>	<b>(2,519)</b>
Income tax benefit	722
<b>Loss for the period from discontinued operations</b>	<b>(1,797)</b>

#### Deferred sales proceeds on disposal of subsidiaries

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

	<b>30 June 2008</b>	<b>31 December 2007</b>
<b>Balance at the beginning of the period</b>	<b>56,533</b>	-
Unwinding of discount on deferred sales proceeds on disposal of subsidiaries	2,798	936
Recognised on disposal of subsidiaries	-	55,290
Settlement of deferred sales proceeds	(61,796)	-
Effect of translation to presentation currency	2,465	307
<b>Balance at the end of the period</b>	<b>-</b>	<b>56,533</b>

The repayment of deferred sales proceeds during the period was received in cash of USD 3,807 thousand, an offset of USD 43,424 thousand against promissory notes held by the purchaser and promissory notes issued by the related parties in the amount of USD 8,012 thousand and an offset of payables to the purchaser in the amount of USD 6,553 thousand.

Due to the early settlement of deferred sales proceeds, the difference between the amount of the consideration received from the shareholders and carrying value of deferred sales proceeds on the date of settlement in the amount of USD 1,167 thousand was recognised in the income statement as interest income.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

### 14. PROPERTY, PLANT AND EQUIPMENT

	<u>Total</u>
<b>Cost</b>	
<b>Balance at 1 January 2007</b>	<b>244,020</b>
Additions	23,399
Disposals	(2,105)
Effect of translation to presentation currency	5,295
<b>Balance at 30 June 2007</b>	<b>270,609</b>
<b>Balance at 1 January 2008</b>	<b>505,380</b>
Additions	78,580
Acquisitions through business combinations	329,443
Disposals	(5,924)
Effect of translation to presentation currency	30,954
<b>Balance at 30 June 2008</b>	<b>938,433</b>
<b>Accumulated depreciation</b>	
<b>Balance at 1 January 2007</b>	-
Charge for the period	(13,300)
Disposals	164
Effect of translation to presentation currency	(278)
<b>Balance at 30 June 2007</b>	<b>(13,414)</b>
<b>Balance at 1 January 2008</b>	<b>(32,276)</b>
Charge for the period	(33,841)
Disposals	604
Effect of translation to presentation currency	(3,186)
<b>Balance at 30 June 2008</b>	<b>(68,699)</b>
<b>Carrying value</b>	
<b>Balance at 1 January 2007</b>	<b>244,020</b>
<b>Balance at 1 January 2008</b>	<b>473,104</b>
<b>Balance at 30 June 2007</b>	<b>257,195</b>
<b>Balance at 30 June 2008</b>	<b>869,734</b>

As at 30 June 2008, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of USD 36,587 thousand (31 December 2007: USD 6,622 thousand).

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements with third parties.

As at 30 June 2008, the net book value of leased machinery, equipment and transport was USD 21,290 thousand (31 December 2007: USD 1,685 thousand).

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#### Assets pledged as collateral

The carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group were as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Machinery, equipment and transport	185,331	72,599
Buildings and structures	50,162	76,182
Other	1,623	37
<b>Total</b>	<b><u>237,116</u></b>	<b><u>148,818</u></b>

#### 15. INVESTMENTS IN ASSOCIATES

During the six months ended 30 June 2008, the Group acquired a 50% interest in ZhDTsekh for a cash consideration of USD 5,840 thousand. ZhDTsekh is a private entity that is not listed on any public stock exchange and its principal business activity is to provide transportation services.

Movements in the carrying amount of investments in associates were as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
<b>Balance at beginning of the period</b>	-	-
Acquired on business combination	5,840	-
Share of post-acquisition profit	17	-
Effect of translation to presentation currency	34	-
<b>Balance at end of the period</b>	<b><u>5,891</u></b>	<b><u>-</u></b>

#### 16. INVENTORIES

	<u>30 June 2008</u>	<u>31 December 2007</u>
<b>Inventories expected to be recovered after twelve months</b>		
Catalytic agents	37,294	32,949
Other inventories	4,468	2,842
	<b><u>41,762</u></b>	<b><u>35,791</u></b>
<b>Inventories expected to be recovered in the next twelve months</b>		
Raw materials, net of allowance for obsolescence	62,741	24,304
Finished goods	47,509	24,223
Work in-progress	5,213	5,073
Goods for resale	368	237
	<b><u>115,831</u></b>	<b><u>53,837</u></b>
<b>Total</b>	<b><u>157,593</u></b>	<b><u>89,628</u></b>

As at 30 June 2008, raw materials were presented net of allowance for obsolescence of USD 9,233 thousand (31 December 2007: USD 8,155 thousand).

As at 30 June 2008, inventories with a carrying value of USD 65,331 thousand were pledged to secure bank loans and borrowings granted to the Group (31 December 2007: USD 27,583 thousand).

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#### 17. OTHER FINANCIAL ASSETS

	<u>30 June 2008</u>	<u>31 December 2007</u>
<b>Non-current</b>		
Advance payment for acquisition of investment in Togliattiazot	147,064	-
Loans issued, at amortised cost	4,793	-
AFS investments, at cost	1,578	106
Foreign currency forward contracts, at FVTPL	1,193	862
Promissory notes of related parties, at amortised cost	-	988
Other financial assets	214	243
	<u>154,842</u>	<u>2,199</u>
<b>Current</b>		
Loans issued, at amortised cost	32,906	26,156
Foreign currency forward contracts, at FVTPL	10,318	1,155
Promissory notes of related parties, at amortised cost	9,036	-
Other financial assets	689	15
	<u>52,949</u>	<u>27,326</u>
<b>Total</b>	<u>207,791</u>	<u>29,525</u>

Advance payment for acquisition of investment in Togliattiazot represents an advance for 7,280,399 ordinary shares or 7.5% of the total outstanding shares of Togliattiazot. Subsequent to 30 June 2008, the Group acquired the shares and will classify the investment in Togliattiazot as AFS (refer to note 24).

As at 30 June 2008, interest rates on loans issued varied from 10.2% to 12.0% (31 December 2007: varied from 10.4% to 11.5%). The majority of loans issued were unsecured, USD - denominated and receivable from related parties.

Promissory notes are interest free and are expected to be settled in the third quarter of 2008.

#### 18. CASH AND CASH EQUIVALENTS

	<u>30 June 2008</u>	<u>31 December 2007</u>
Current accounts, including:		
USD-denominated	25,784	3,435
RUR-denominated	22,021	14,991
Euro-denominated	10,733	-
USD-denominated bank deposits	14,770	10,407
Euro-denominated bank deposit	6,136	-
RUR-denominated bank deposits	3,108	-
Other cash and cash equivalents	128	14
<b>Total</b>	<u>82,680</u>	<u>28,847</u>

As at 30 June 2008, interest rates on deposits denominated in USD varied from 2.5% to 3.8% (31 December 2007: varied from 3.0% to 4.0%), on deposits denominated in RUR varied from 3.0% to 6.7% and on a deposit denominated in Euro was 3.7%.

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#### 19. EARNINGS PER SHARE

Earnings per share were calculated by dividing net profit attributable to shareholders of the parent by the weighted average number of ordinary shares in issue during the reporting period. The weighted average number of shares in issue during the six months ended 30 June 2007 was calculated based on the assumption that the number of shares issued on 22 October 2007 was outstanding during the period.

#### 20. LOANS AND BORROWINGS

	<u>30 June 2008</u>	<u>31 December 2007</u>
Loans denominated in USD	761,324	182,622
Loans denominated in RUR	266,782	235,381
Loans denominated in Euro	-	881
Unconvertible bonds	10,563	-
Promissory notes	396	41,858
<b>Total</b>	<b><u>1,039,065</u></b>	<b><u>460,742</u></b>
Less: current portion repayable within twelve months and shown under current liabilities	(242,426)	(148,818)
<b>Long-term portion of loans and borrowings</b>	<b><u>796,639</u></b>	<b><u>311,924</u></b>

##### Loans denominated in USD

Loans denominated in USD consist of various borrowings with a variety of lenders. During the six months ended 30 June 2008, the Group entered into a new loan agreement to fund its acquisition of VMF and advance payment for acquisition of its investment in Togliattiazot. The USD loans, including the new borrowings, had a weighted average interest rate of 9.8% during the six months ended 30 June 2008 (six months ended 30 June 2007: 9.0%). The loans include borrowings of USD 590,107 thousand that bear interest at a fixed rate varying from 3.6% to 12.0% per annum and USD 171,217 thousand of loans that bear interest at floating rates varying from Libor + 3.25% to Libor + 4.2%. The loans are repayable in instalments with maturities due in 2009 to 2012. The majority of loans are secured by 92.6% of Azot's shares and 87.4% of KCCW's shares held by the Group and certain fixed assets and inventories.

##### Loans denominated in RUR

Loans denominated in RUR consist of USD 230,660 thousand of a loan that bears interest at a fixed rate of 9.5% and is repayable quarterly starting from 20 March 2009 with the final instalment due on 26 July 2012 and other loans of USD 36,122 thousand that bear interest at fixed rates varying from 8.0% to 12.0%. The loans are secured by 77.7% of Azot's shares held by the Group.

##### Bonds

In connection with the purchase of VMF (refer to note 4), the Group assumed VMF's outstanding bonds. The bonds bear interest at a rate of 11.0% which is payable semi-annually. The bonds are repayable on 22 December 2009, however the Group has the right to modify the interest rate each year end and at that point the bondholders have the right to redeem the bonds at their par amount or may accept the Group's new interest rate, causing the maturity to be extended for another year.

##### Promissory notes

During the six months ended 30 June 2008 a majority of these notes were forgiven as an offset to the deferred sales proceeds associated with the sale of the discontinued operations (refer to note 13).

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Non-current loans and borrowings are repayable as follows:

	<u>30 June 2008</u>
Due in the second year	159,812
Due in the third year	152,733
Due in the fourth year	304,762
Due in the fifth year	<u>179,332</u>
<b>Total long-term portion of loans and borrowings</b>	<b><u><u>796,639</u></u></b>

As at 30 June 2008 and 31 December 2007, the carrying value of loans approximated their fair values due to the fact that the interest rates on such instruments approximate the current market rates for similar instruments.

The Group's borrowings are subject to various restrictive covenants.

#### 21. OBLIGATIONS UNDER FINANCIAL LEASES

The Group leases certain items of machinery, equipment and transport under a number of financial lease agreements (refer to note 14). The average lease term is 92 months. For the six months ended 30 June 2008 the weighted average effective annual interest rate was 8.3% (for the six months ended 30 June 2007:10.3%). All leases are on a fixed repayment basis and denominated in RUR and USD.

	<u>Minimum lease payments</u>		<u>Present value of minimum lease payments</u>	
	<u>30 June 2008</u>	<u>31 December 2007</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
Due within one year	4,005	785	1,553	713
Due from the second to the fifth year	16,559	339	11,544	295
Due thereafter	<u>7,450</u>	<u>5</u>	<u>6,167</u>	<u>5</u>
	<b><u>28,014</u></b>	<b><u>1,129</u></b>	<b><u>19,264</u></b>	<b><u>1,013</u></b>
Less: future finance charges	<u>(8,750)</u>	<u>(116)</u>	<u>-</u>	<u>-</u>
<b>Present value of lease obligations</b>	<b><u>19,264</u></b>	<b><u>1,013</u></b>	<b><u>19,264</u></b>	<b><u>1,013</u></b>
Less: amount due for settlement within one year and shown under current liabilities			<u>(1,553)</u>	<u>(713)</u>
<b>Total</b>			<b><u><u>17,711</u></u></b>	<b><u><u>300</u></u></b>

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All amounts are in thousands of US Dollars unless otherwise stated

#### 22. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, entities under common ownership and control with the Group, associates and members of key management personnel. The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements to and from its parent entity or entities under common ownership.

As at 30 June 2008 and 31 December 2007, the Group had the following outstanding balances with related parties:

	<u>30 June 2008</u>	<u>31 December 2007</u>
<b>Shareholders of the Group</b>		
Loans issued, at amortised cost	32,678	20,286
<b>Entities under common ownership and control with the Group</b>		
Deferred sales proceeds on disposal of subsidiaries	-	56,533
Loans issued, at amortised cost	3,408	6,327
Promissory notes of related parties, at amortised cost	9,036	-
Other financial assets	93	988
Trade and other receivables	7,212	11,864
Loans and borrowings	-	(41,544)
Trade and other payables	(2,797)	(9,814)

During the six months ended 30 June 2008 and 2007, the Group entered into the following transactions with related parties:

	<u>Six months ended 30 June 2008</u>	<u>Six months ended 30 June 2007</u>
<b>Shareholders of the Group</b>		
Interest income on loans issued	1,950	-
Loans issued, at amortised cost	35,138	-
Proceeds from repayment of loans issued	(24,029)	-
<b>Entities under common ownership and control with the Group</b>		
Sales of goods and services	30,102	19,941
Purchases of goods and services	(21,551)	(11,636)
Interest expense on loans and borrowings, net	(252)	(361)
Loans issued, at amortised cost	22	3,201
Proceeds from repayment of loans issued	(3,059)	(2,053)

The amounts outstanding were unsecured and are expected to be settled in cash. No expense has been recognised during the six months ended 30 June 2008 and 2007 for bad or doubtful debts in respect of amounts owed by related parties.

Sales of goods and services to related parties were made on terms similar to those that were used in transactions with third parties, including average discounts of 3.0% to 5.0% applicable to the Group's largest customers.

Other sales, which mainly consisted of sales of electricity and heat energy, were made at prices established by the Federal Utility Committee, a government regulator responsible for establishing and monitoring the prices on the utility market in the Russian Federation.

Purchases from related parties which primarily included re-charges of transport bills from Russian Railways and other independent carriers were made at market prices plus an insignificant premium of 1.0% to 2.0% as reimbursement for operating expenses of those entities.

As at 30 June 2008, loans to related parties included borrowings of USD 32,678 thousand and RUR 3,408 thousand that bear interest at fixed rates varying from 9.0% to 12.0% (31 December 2007: varying from 9.0% to 12.0%).

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

All amounts are in thousands of US Dollars unless otherwise stated

### Compensation of key management personnel

The remuneration of key management personnel of the Group for the six months ended 30 June 2008 comprised salaries and bonuses in the amount of USD 4,694 thousand, including unified social tax in amount of USD 1,221 thousand (for the six months ended 30 June 2007: USD 1,307 thousand, including unified social tax in amount of USD 340 thousand).

### 23. COMMITMENTS AND CONTINGENCIES

#### Purchase of natural gas

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

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

	<u>30 June 2008</u>	<u>31 December 2007</u>
Due in one year	199,530	163,253
Due from the second to the fifth year	709,050	760,378
<b>Total</b>	<b><u>908,580</u></b>	<b><u>923,631</u></b>

#### 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>30 June 2008</u>	<u>31 December 2007</u>
Acquisition of property, plant and equipment	20,720	6,295
Fulfilment of finance lease agreements	1,744	2,176
<b>Total</b>	<b><u>22,464</u></b>	<b><u>8,471</u></b>

During the six months ended 30 June 2008, the Group entered into certain agreements for the acquisition of machinery and equipment for ammonia production. The majority of the agreements will be settled in 2008.

#### Operating leases: Group as a lessee

The Group leases certain machinery, equipment and office premises. The respective lease agreements have an average life of one to five years with no renewal option at the end of the lease term.

Future minimum rental expenses under non-cancelable operating leases were as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Due in one year	3,245	381
Due from one to five years	3,624	115
<b>Total</b>	<b><u>6,869</u></b>	<b><u>496</u></b>

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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### Guarantees issued

As at 30 June 2008 and 31 December 2007, the Group issued financial guarantees in respect of loans obtained by related and third parties. The total amounts of outstanding guarantees issued by the Group were as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
Related parties	38,783	52,528
Third parties	91	28
<b>Total</b>	<b><u>38,874</u></b>	<b><u>52,556</u></b>

### 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.

### Taxation contingencies in the Russian Federation

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax, UST, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year.

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 the 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

The economy of the Russian Federation, while deemed to be of market status, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

## **OPEN JOINT STOCK COMPANY URALCHEM**

### **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008**

All amounts are in thousands of US Dollars unless otherwise stated

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#### **24. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

##### **Acquisition of available-for-sale investments**

On 1 July 2008, the Group acquired 7,280,399 ordinary shares or 7.5% of the total outstanding ordinary shares of Togliattiazot for a cash consideration of USD 147,064 thousand (refer to note 17).

During the period from 2 July 2008 to the date of approval of these unaudited condensed consolidated interim financial statements, the Group acquired through a number of transactions an additional 0.5% of the total outstanding ordinary shares of Togliattiazot for a cash consideration of USD 16,677 thousand, increasing its ownership in this company to 8.0%.

##### **Disposal of subsidiaries**

On 28 July 2008, the Group sold 100% of Remontno-Mekhanichesky Zavod, a 100% subsidiary of the Group, to CI – Chemical Invest Limited for a cash consideration of USD 2,648 thousand.

##### **Acquisition of property, plant and equipment**

In July 2008, the Group acquired a railway construction depot for USD 15,255 thousand.

##### **Loans issued and obtained**

Up to the date of approval of these unaudited condensed consolidated interim financial statements, the Company issued loans to one of its shareholders in the total amount of USD 90,810 thousand. The loans bear interest at rates varying from 10% to 12%. In addition, the Group issued loans to third and related parties in the total amount of USD 9,041 thousand. The loans bear interest at a fixed rate of 10.5%.

Up to the date of approval of these unaudited condensed consolidated interim financial statements, the Group obtained loans from third parties in the amount of USD 58,596 thousand. The loans bear interest at fixed and variable rates varying from 3.5% to 10.5%.