

# **URALCHEM HOLDING P.L.C.**

**Condensed consolidated interim  
financial statements  
for the six months ended 30 June 2010  
(unaudited)**

# URALCHEM HOLDING P.L.C.

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## URALCHEM HOLDING P.L.C.

### 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 2010

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The following statement, which should be read in conjunction with the independent auditors' report on review of condensed consolidated interim financial statements 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 condensed consolidated interim financial statements of UralChem Holding P.L.C. and its subsidiaries (the "Group").

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of the Group as at 30 June 2010, the results of its operations for the three and six months ended 30 June 2010, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 Interim Financial Reporting.

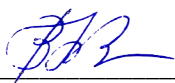
In preparing the unaudited condensed consolidated interim financial statements, management is responsible for:

- 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 condensed consolidated interim financial statements; and
- preparing the 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 condensed consolidated interim financial statements for the six months ended 30 June 2010 were approved and signed on 19 November 2010 by:

  
\_\_\_\_\_  
Victor N. Zorkin  
Director

  
\_\_\_\_\_  
Maksim Kh. Bakov  
Chief Financial Officer

Limassol, Cyprus  
19 November 2010

## **INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **To the Shareholders and Board of Directors of UralChem Holding P.L.C.:**

We have reviewed the accompanying condensed consolidated interim statement of financial position of UralChem Holding P.L.C. and its subsidiaries (collectively – the "Group") as at 30 June 2010 and the related condensed consolidated interim statements of income, comprehensive income, cash flows and changes in equity for the three and six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial statements 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 condensed consolidated interim financial statements 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.

### **Basis for Qualified Conclusion**

As discussed in note 11, the Group was unable to account for its investment in Open Joint Stock Company Perm Mineral Fertilisers using the equity method of accounting in accordance with IAS 28 Investments in Associates. As a result we were unable to satisfy ourselves as to the carrying value of investment in this associate as at 30 June 2010 stated at USD 24,431 thousand and the Group's share of profits of this associate for the three and six months ended 30 June 2010.

### **Qualified Conclusion**

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Deloitte & Touche*

Moscow, Russia  
19 November 2010

# URALCHEM HOLDING P.L.C.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Six months ended 30 June		Three months ended 30 June	
		2010	2009	2010	2009
<b>Revenue</b>					
Sales of goods	6	630,773	444,748	322,585	224,281
Other sales		32,680	27,424	16,185	13,334
<b>Total revenue</b>		<b>663,453</b>	<b>472,172</b>	<b>338,770</b>	<b>237,615</b>
Cost of sales	7	(360,861)	(273,244)	(186,887)	(141,501)
<b>Gross profit</b>		<b>302,592</b>	<b>198,928</b>	<b>151,883</b>	<b>96,114</b>
Selling and distribution expenses	8	(158,118)	(130,447)	(76,916)	(59,885)
General and administrative expenses	9	(57,974)	(46,565)	(30,378)	(24,689)
Net (loss)/gain from derivative financial instruments		-	(15,446)	-	2,253
Other operating income		3,149	13,339	2,485	2,292
Other operating expenses		(7,105)	(10,569)	(3,387)	(13,551)
<b>Operating profit</b>		<b>82,544</b>	<b>9,240</b>	<b>43,687</b>	<b>2,534</b>
Interest income		706	24,120	214	4,270
Interest expense		(78,680)	(77,401)	(38,105)	(41,106)
Share of loss of associates	11	(1,165)	(465)	(371)	(311)
Foreign exchange (loss)/gain from financing activities		(29,823)	(50,965)	(59,332)	82,333
<b>(Loss)/profit before tax</b>		<b>(26,418)</b>	<b>(95,471)</b>	<b>(53,907)</b>	<b>47,720</b>
Income tax		12,937	39,426	21,795	14,038
<b>(Loss)/profit for the period</b>		<b>(13,481)</b>	<b>(56,045)</b>	<b>(32,112)</b>	<b>61,758</b>
Attributable to:					
Shareholders of the parent		(9,502)	(44,681)	(30,755)	66,143
Non-controlling interests		(3,979)	(11,364)	(1,357)	(4,385)
		<b>(13,481)</b>	<b>(56,045)</b>	<b>(32,112)</b>	<b>61,758</b>
<b>(Loss)/earnings per share</b>					
Weighted average number of ordinary shares in issue during the period					
		175,000,000	10,110	175,000,000	10,110
Basic and diluted (loss)/earnings per share (US dollars per share)		(0.05)	(4,419.5)	(0.2)	6,542.3

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Six months ended 30 June		Three months ended 30 June	
	2010	2009	2010	2009
<b>(Loss)/profit for the period</b>	<b>(13,481)</b>	<b>(56,045)</b>	<b>(32,112)</b>	<b>61,758</b>
Other comprehensive (loss)/gain:				
Effect of translation to presentation currency	(3,486)	(19,691)	(5,222)	6,978
<b>Other comprehensive (loss)/gain</b>	<b>(3,486)</b>	<b>(19,691)</b>	<b>(5,222)</b>	<b>6,978</b>
<b>Total comprehensive (loss)/gain for the period, net of tax</b>	<b>(16,967)</b>	<b>(75,736)</b>	<b>(37,334)</b>	<b>68,736</b>
Total comprehensive (loss)/gain for the period, net of tax attributable to:				
Shareholders of the parent	(10,893)	(59,213)	(31,781)	68,385
Non-controlling interests	(6,074)	(16,523)	(5,553)	351
	<b>(16,967)</b>	<b>(75,736)</b>	<b>(37,334)</b>	<b>68,736</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	30 June 2010	31 December 2009
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	10	663,918	722,938
Goodwill		164,452	169,624
Intangible assets		9,447	8,158
Investments in associates	11	33,921	35,304
Inventories	12	23,757	29,605
Available-for-sale investments		172,414	177,837
Other financial assets		-	7,359
Deferred tax assets		79,845	55,153
		<b>1,147,754</b>	<b>1,205,978</b>
<i>Current assets</i>			
Inventories	12	119,289	101,502
Trade and other receivables		39,576	40,583
Advances paid and prepaid expenses		17,391	28,948
Income tax receivable		10,975	10,119
Other taxes receivable		70,710	95,306
Other financial assets		43,876	36,973
Cash and cash equivalents		53,335	53,658
		<b>355,152</b>	<b>367,089</b>
<b>TOTAL ASSETS</b>		<b>1,502,906</b>	<b>1,573,067</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Share capital	13	1,374	1,374
Additional paid-in capital		152,223	152,223
Foreign currency translation reserve		(68,027)	(66,636)
Accumulated deficit		(268,904)	(259,386)
<b>Equity attributable to shareholders of the parent</b>		<b>(183,334)</b>	<b>(172,425)</b>
Non-controlling interests		66,604	73,121
<b>Total equity</b>		<b>(116,730)</b>	<b>(99,304)</b>
<i>Non-current liabilities</i>			
Loans and borrowings	14	854,362	887,366
Obligations under finance leases		40,311	43,094
Trade and other payables		17,988	17,628
Retirement benefit obligations		7,760	7,635
Deferred tax liabilities		45,611	53,879
		<b>966,032</b>	<b>1,009,602</b>
<i>Current liabilities</i>			
Loans and borrowings	14	542,380	533,604
Obligations under finance leases		11,239	11,500
Trade and other payables		66,508	69,302
Advances received		24,530	39,705
Income tax payable		1,285	2,018
Other taxes payable		7,662	6,640
		<b>653,604</b>	<b>662,769</b>
<b>Total liabilities</b>		<b>1,619,636</b>	<b>1,672,371</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,502,906</b>	<b>1,573,067</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Six months ended 30 June 2010	Six months ended 30 June 2009
<b>Operating activities</b>		
<b>Loss before tax</b>	<b>(26,418)</b>	<b>(95,471)</b>
Adjustments for:		
Depreciation of property, plant and equipment	53,553	46,809
Amortisation of intangible assets	811	628
Change in fair value of derivative financial instruments	-	(32,143)
Change in provisions and allowances	185	(1,120)
Write-down of inventory to net realisable value	2,615	3,919
Impairment of investments in associates	-	3,055
Loss on disposal of property, plant and equipment	1,102	1,686
Foreign exchange loss, net	32,290	41,419
Share of loss of associates	1,165	465
Interest income	(706)	(24,120)
Interest expense	78,680	77,401
<b>Operating cash flows before working capital changes</b>	<b>143,277</b>	<b>22,528</b>
(Increase)/decrease in inventory	(16,481)	8,135
Decrease in trade and other receivables	2,269	1,064
Decrease in advances paid and prepaid expenses	11,409	10,016
Decrease in other taxes receivable	14,312	7,753
Increase in retirement benefit obligations	371	325
(Decrease)/increase in trade and other payables	(11,645)	5,796
Decrease in advances received	(15,765)	(11,683)
Increase in other taxes payable	1,496	214
<b>Cash generated from operations</b>	<b>129,243</b>	<b>44,148</b>
Interest paid	(69,653)	(77,473)
Income tax paid	(14,507)	(7,850)
<b>Net cash generated from/(used in) operating activities</b>	<b>45,083</b>	<b>(41,175)</b>
<b>Investing activities</b>		
Increase of ownership in subsidiaries	(459)	(114)
Acquisition of available-for-sale investments	-	(316)
Acquisition of short-term promissory note	(35,000)	-
Payments for property, plant and equipment	(18,812)	(34,613)
Proceeds from disposal of property, plant and equipment	3,762	6,076
Payments for intangible assets	(2,404)	(4,993)
Loans issued	(27,696)	(15,071)
Proceeds from repayment of loans issued	47,807	28,116
Interest received	15,973	2,425
<b>Net cash used in investing activities</b>	<b>(16,829)</b>	<b>(18,490)</b>
<b>Financing activities</b>		
Proceeds from short-term loans and borrowings	109,141	247,639
Proceeds from long-term loans and borrowings	66,031	-
Repayment of short-term loans and borrowings	(198,282)	(275,214)
Repayment of principal amounts of finance leases	(2,932)	(3,286)
<b>Net cash used in financing activities</b>	<b>(26,042)</b>	<b>(30,861)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,212</b>	<b>(90,526)</b>
Cash and cash equivalents at the beginning of the period	53,658	118,301
Effect of exchange rate changes on the balance of cash held in foreign currencies	(2,535)	1,385
<b>Cash and cash equivalents at the end of the period</b>	<b>53,335</b>	<b>29,160</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Attributable to shareholders of the company					Non-controlling interest	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)	Total		
<b>Balance as at 1 January 2009</b>		<b>24</b>	<b>155,204</b>	<b>(49,485)</b>	<b>23,667</b>	<b>129,410</b>	<b>72,867</b>	<b>202,277</b>
Loss for the period		-	-	-	(44,681)	(44,681)	(11,364)	(56,045)
Other comprehensive loss		-	-	(14,532)	-	(14,532)	(5,159)	(19,691)
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(14,532)</b>	<b>(44,681)</b>	<b>(59,213)</b>	<b>(16,523)</b>	<b>(75,736)</b>
Increase of ownership in subsidiaries		-	-	-	(13)	(13)	(99)	(112)
Other transactions with entities under common control		-	(2,704)	-	-	(2,704)	-	(2,704)
<b>Balance as at 30 June 2009</b>		<b>24</b>	<b>152,500</b>	<b>(64,017)</b>	<b>(21,027)</b>	<b>67,480</b>	<b>56,245</b>	<b>123,725</b>
<b>Balance as at 1 January 2010</b>		<b>1,374</b>	<b>152,223</b>	<b>(66,636)</b>	<b>(259,386)</b>	<b>(172,425)</b>	<b>73,121</b>	<b>(99,304)</b>
Loss for the period		-	-	-	(9,502)	(9,502)	(3,979)	(13,481)
Other comprehensive loss		-	-	(1,391)	-	(1,391)	(2,095)	(3,486)
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(1,391)</b>	<b>(9,502)</b>	<b>(10,893)</b>	<b>(6,074)</b>	<b>(16,967)</b>
Increase of ownership in a subsidiary	4	-	-	-	(16)	(16)	(443)	(459)
<b>Balance as at 30 June 2010</b>		<b>1,374</b>	<b>152,223</b>	<b>(68,027)</b>	<b>(268,904)</b>	<b>(183,334)</b>	<b>66,604</b>	<b>(116,730)</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

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### 1. GENERAL INFORMATION

#### Organisation

UralChem Holding P.L.C. (formerly ACF–Agrochem Finance Limited, the “Company”) is a public limited company which was incorporated in Cyprus on 4 May 2006. As at 30 June 2010, the Company was 95.5% owned by CI-Chemical Invest Limited, incorporated in Cyprus. The remaining 4.5% of the Company’s shares were held by management. The principal beneficial shareholder of the Company is Mr. Dmitry A. Mazepin. The Company’s main office is located at office 249, 28th Oktovriou Street, Lophitis Business Center, 1st floor, Office 101, P.C. Limassol 3035, Cyprus.

#### Principal business activities

The principal business activities of the Group are the production and distribution of mineral fertilisers. The main products of the Group are nitrogen based, phosphate based and complex fertilisers.

#### Market conditions

Global economic conditions continued to improve in the first half of 2010 and positively influenced fertiliser markets. The Group was also impacted by the main application season in the Northern Hemisphere starting in the first half of the year which contributed to the increase in demand for fertilisers. Demand for fertilisers and, consequently, prices for nitrogen and phosphate based fertilisers began to recover in the third quarter of 2009 and continued through the fourth quarter of 2009 and the first half of 2010. Market prices for ammonia and ammonium nitrate increased on average by 40% and for diammonium phosphate by 20% during the first half of 2010 in comparison with the first half of 2009. Global urea prices rebounded from their lows at the beginning of 2009 and were stable during 2009 and the first half of 2010.

### 2. BASIS OF PREPARATION

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board, except for accounting for investments in associates (refer to note 11).

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

These condensed consolidated interim financial statements are prepared based on the accounting policies applied in the annual consolidated financial statements of the Group for the year ended 31 December 2009, except for the impact of the adoption of the Standards and Interpretations described in note 3, and 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 2009.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

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### 3. ADOPTION OF NEW AND REVISED STANDARDS

#### Standards and Interpretations effective in the current period

The Group has adopted all revised and new Standards and Interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee that are mandatory for adoption in the annual periods beginning on 1 January 2010.

#### Standards and Interpretations adopted with no effect on the condensed consolidated interim financial statements

IFRS 2 Share-Based Payment (amendments)  
IFRS 3 Business Combinations (revised)  
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (amendments)  
IFRS 8 Operating Segments (amendments)  
IAS 1 Presentation of Financial Statements (amendments)  
IAS 7 Statement of Cash Flows (amendments)  
IAS 17 Leases (amendments)  
IAS 28 Investments in associates (amendments)  
IAS 32 Financial Instruments: Presentation (amendments)  
IAS 36 Impairment of Assets (amendments)  
IAS 38 Intangible Assets (amendments)  
IAS 39 Financial Instruments: Recognition and Measurement (amendments)  
IFRIC 16 Hedges of a Net Investment in a Foreign Operation  
IFRIC 17 Distributions of Non-cash Assets to Owners  
IFRIC 18 Transfers of Assets from Customers

#### Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these condensed consolidated interim financial statements, the following Standards and Interpretations were in issue but not yet effective:

<u>Standards and Interpretations</u>	<u>Effective on or for annual periods beginning on or after</u>
IFRS 3 Business Combinations (amendments)	1 July 2010
IFRS 7 Financial Instruments (amendments)	1 January 2011
IFRS 9 Financial Instruments – Classification and Measurement	1 January 2013
IAS 1 Presentation of Financial Statements (amendments)	1 January 2011
IAS 24 Related Party Disclosures (revised)	1 January 2011
IAS 27 Consolidated and Separate Financial Statements (amendments)	1 July 2010
IAS 34 Interim Financial Reporting (amendments)	1 January 2011
IFRIC 13 Customer Loyalty Programmes (amendments)	1 January 2011
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendments)	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The impact of adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management anticipates that, except for IFRS 9 Financial Instruments - Classification and Measurement (“IFRS 9”), the adoption of these Standards and Interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial adoption.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. All recognised financial assets that are currently in the scope of IAS 39 Financial Instruments: Recognition and Measurement, will be measured at either amortised cost or fair value.

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

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#### 4. BUSINESS COMBINATIONS

##### *Increase of ownership in Open Joint Stock Company Voskresensk Mineral Fertilisers ("VMF") during the six months ended 30 June 2010 by the Group*

During the six months ended 30 June 2010, the Group acquired, through transactions with non-controlling shareholders, an additional 0.2% of VMF's shares for a total cash consideration of USD 459 thousand, increasing its ownership in the company to 75.0%. The carrying value of VMF's net assets at the dates when the shares were acquired ranged from USD 265,504 thousand to USD 270,836 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to non-controlling shareholders in the amount of USD 443 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 16 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

As a result of the transactions described above, the Company made a mandatory offer of USD 0.21 per ordinary share to acquire the remaining non-controlling shares in VMF. The maximum amount of obligation which the Group could potentially face under this mandatory offer amounted to USD 31,856 thousand. The offer was made in accordance with the Russian Federal Law on Joint Stock Companies and non-controlling shareholders had 70 days from receipt of the mandatory offer documentation within which to accept the offer. The mandatory offer expired on 7 May 2010. As a result of this offer, the Group acquired 5,600 additional ordinary shares or 0.0004% interest in the share capital of VMF for a consideration of USD 1 thousand. VTB bank was acting as a guarantor of the transaction. The short-term promissory note in the amount of USD 35,000 thousand issued by VTB bank, which is included in other current financial assets, is pledged to secure this guarantee (see note 17).

#### 5. SEGMENT INFORMATION

For management purposes the Group is organised into two segments, Nitrogen Fertilisers and Phosphate Fertilisers. Reports reviewed by the Chief Executive Officer (the "chief operating decision maker") that are used to assess performance and allocate resources are prepared on the same basis.

- Nitrogen Fertilisers: The nitrogen fertilisers segment comprises subsidiaries engaged in the production of nitrogen based fertilisers, complex fertilisers, ammonia, inorganic acids and other chemical products. The major subsidiaries allocated to the nitrogen fertilisers segment are Open Joint Stock Company Kirovo-Chepetsk Chemical Works ("KCCW"), located in the Kirov region of the Russian Federation, and Open Joint Stock Company Azot ("Azot"), located in the Perm region of the Russian Federation; and
- Phosphate Fertilisers: The phosphate fertilisers segment comprises subsidiaries engaged in the production of phosphate based fertilisers, complex fertilisers, ammonia and inorganic acids. The major subsidiary allocated to the phosphate fertilisers segment is VMF, located in the Moscow region of the Russian Federation.

The chief operating decision maker does not regularly review the operating results of other operations, and these operations are not reported as separate operating segments. These other operations contain smaller subsidiaries which engage in a variety of businesses, for example electricity and heat energy generation, construction, repairs and maintenance and processing of waste water.

The profitability of the two operating segments is primarily measured based on OIBDA, which the Group defines as operating profit adjusted for depreciation and amortisation. Since this term is not a standard IFRS measure, the Group's definition of OIBDA may differ from that of other companies. Costs and assets of subsidiaries of the Group engaged in transportation, sales and marketing activities are allocated (pro rata volume of services rendered by these companies to the operating segments) to operating segments within management reports reviewed by the chief operating decision maker. Costs and assets of subsidiaries of the Group engaged in other operations are not allocated to operating segments within management reports reviewed by the chief operating decision maker.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

Segment information provided to the chief operating decision maker for the reportable segments for the six months ended 30 June 2010 is as follows:

<b>Six months ended 30 June 2010</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Revenue from external customers	502,166	128,607	<b>630,773</b>
Inter-segment revenue	14,658	428	<b>15,086</b>
<b>Total segment revenue</b>	<b>516,824</b>	<b>129,035</b>	<b>645,859</b>
OIBDA	148,901	7,349	<b>156,250</b>
<b>Six months ended 30 June 2009</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Revenue from external customers	377,325	67,423	<b>444,748</b>
Inter-segment revenue	345	1,653	<b>1,998</b>
<b>Total segment revenue</b>	<b>377,670</b>	<b>69,076</b>	<b>446,746</b>
OIBDA	97,149	(16,149)	<b>81,000</b>

The total reportable segment OIBDA is reconciled to consolidated loss before tax as follows:

<b>Six months ended 30 June 2010</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Segment OIBDA	148,901	7,349	<b>156,250</b>
<b>Unallocated operating activity</b>			
Depreciation and amortisation			(54,364)
Corporate overheads			(16,866)
Other			(23,873)
Inter-segment operations			21,397
<b>Group operating profit</b>			<b>82,544</b>
Interest income			706
Interest expense			(78,680)
Share of loss of associates			(1,165)
Foreign exchange loss from financing activities			(29,823)
<b>Group loss before tax</b>			<b>(26,418)</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

<b>Six months ended 30 June 2009</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Segment OIBDA	97,149	(16,149)	<b>81,000</b>
<b>Unallocated operating activity</b>			
Depreciation and amortisation			(47,437)
Corporate overheads			(21,678)
Other			(15,112)
Inter-segment operations			12,467
<b>Group operating profit</b>			<b>9,240</b>
Interest income			24,120
Interest expense			(77,401)
Share of loss of associates			(465)
Foreign exchange loss from financing activities			(50,965)
<b>Group loss before tax</b>			<b>(95,471)</b>

The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the income statement.

Total reportable segment assets are as follows:

<b>Total segment assets as at:</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
<b>30 June 2010</b>	745,986	373,957	<b>1,119,943</b>
<b>31 December 2009</b>	806,213	377,758	<b>1,183,971</b>

The amounts provided to the chief operating decision maker with respect to total assets are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment.

Investments in shares (classified as available-for-sale financial assets or investments in associates) held by the Group are not considered to be segment assets but are rather managed at the corporate headquarters by the strategic investment function.

Non-current assets other than financial instruments and deferred tax assets are located primarily in the Russian Federation, the location of the Group's major production facilities. The total of these non-current assets located in other countries, including Cyprus, are not significant.

Information about the revenue from sales to external customers attributed to individual countries is not available as the cost to develop it would be excessive. Therefore this information is not disclosed in these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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### 6. SALES OF GOODS

Six months ended 30 June 2010	Total	Export	Russia	CIS
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	340,643	189,582	106,462	44,599
Phosphate based fertilisers	101,492	71,248	14,188	16,056
Complex fertilisers	73,399	46,691	18,778	7,930
<b>Ammonia</b>	<b>71,591</b>	<b>70,401</b>	<b>1,190</b>	<b>-</b>
<b>Explosive grade ammonium nitrate</b>	<b>21,831</b>	<b>2,099</b>	<b>17,799</b>	<b>1,933</b>
<b>Inorganic acids</b>	<b>7,769</b>	<b>-</b>	<b>7,769</b>	<b>-</b>
<b>Other chemical products</b>	<b>14,048</b>	<b>971</b>	<b>12,715</b>	<b>362</b>
<b>Total</b>	<b>630,773</b>	<b>380,992</b>	<b>178,901</b>	<b>70,880</b>
<b>Six months ended 30 June 2009</b>				
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	253,003	173,784	58,857	20,362
Complex fertilisers	78,146	60,480	6,814	10,852
Phosphate based fertilisers	36,619	33,492	3,071	56
<b>Ammonia</b>	<b>33,854</b>	<b>31,676</b>	<b>2,178</b>	<b>-</b>
<b>Explosive grade ammonium nitrate</b>	<b>22,913</b>	<b>8,085</b>	<b>13,267</b>	<b>1,561</b>
<b>Inorganic acids</b>	<b>9,156</b>	<b>-</b>	<b>9,116</b>	<b>40</b>
<b>Other chemical products</b>	<b>11,057</b>	<b>73</b>	<b>10,688</b>	<b>296</b>
<b>Total</b>	<b>444,748</b>	<b>307,590</b>	<b>103,991</b>	<b>33,167</b>
<b>Three months ended 30 June 2010</b>				
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	170,555	95,782	40,427	34,346
Phosphate based fertilisers	61,652	42,968	7,769	10,915
Complex fertilisers	33,771	13,682	14,909	5,180
<b>Ammonia</b>	<b>32,834</b>	<b>32,219</b>	<b>615</b>	<b>-</b>
<b>Explosive grade ammonium nitrate</b>	<b>12,193</b>	<b>1,135</b>	<b>10,028</b>	<b>1,030</b>
<b>Inorganic acids</b>	<b>4,076</b>	<b>-</b>	<b>4,076</b>	<b>-</b>
<b>Other chemical products</b>	<b>7,504</b>	<b>707</b>	<b>6,518</b>	<b>279</b>
<b>Total</b>	<b>322,585</b>	<b>186,493</b>	<b>84,342</b>	<b>51,750</b>
<b>Three months ended 30 June 2009</b>				
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	114,352	77,378	23,683	13,291
Complex fertilisers	43,555	31,819	4,568	7,168
Phosphate based fertilisers	25,120	23,492	1,627	1
<b>Ammonia</b>	<b>16,463</b>	<b>15,030</b>	<b>1,433</b>	<b>-</b>
<b>Explosive grade ammonium nitrate</b>	<b>12,984</b>	<b>4,894</b>	<b>7,514</b>	<b>576</b>
<b>Inorganic acids</b>	<b>5,476</b>	<b>-</b>	<b>5,463</b>	<b>13</b>
<b>Other chemical products</b>	<b>6,331</b>	<b>73</b>	<b>6,060</b>	<b>198</b>
<b>Total</b>	<b>224,281</b>	<b>152,686</b>	<b>50,348</b>	<b>21,247</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

#### 7. COST OF SALES

	Six months ended 30 June		Three months ended 30 June	
	2010	2009	2010	2009
Raw materials, including:				
Natural gas	125,218	84,905	60,196	40,785
Apatite	61,785	26,676	30,817	13,438
Potassium chloride	9,146	12,525	4,580	8,380
Sulphur	7,285	2,407	3,836	1,450
Other raw materials	24,133	14,992	15,030	10,116
Energy and utilities	52,541	39,482	26,190	19,576
Depreciation	42,653	36,491	21,191	17,380
Payroll and social taxes	42,275	36,631	21,510	19,779
(Increase)/decrease in inventory balance of work in progress and finished goods	(13,211)	9,359	(1,314)	4,222
Other	9,036	9,776	4,851	6,375
<b>Total</b>	<b>360,861</b>	<b>273,244</b>	<b>186,887</b>	<b>141,501</b>

#### 8. SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2010	2009	2010	2009
Transportation, including:				
Railway tariff	69,727	50,131	32,081	23,026
Freight and transshipment	42,973	34,042	22,953	20,154
Rail cars rent expenses	9,842	10,368	4,846	5,669
Other transportation expenses	6,494	6,244	2,218	148
Payroll and social taxes	7,338	5,303	3,478	2,555
Depreciation	5,785	6,060	2,822	3,525
Advertising and marketing	4,687	9,933	2,416	-
Customs clearance charges	1,323	633	580	312
Other	9,949	7,733	5,522	4,496
<b>Total</b>	<b>158,118</b>	<b>130,447</b>	<b>76,916</b>	<b>59,885</b>

#### 9. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2010	2009	2010	2009
Payroll and social taxes	28,694	24,252	13,571	12,354
Depreciation	5,115	4,258	2,389	2,559
Audit, legal and consulting services	4,846	2,914	1,870	2,285
Security	1,928	1,720	1,041	891
Rent	1,797	1,792	904	896
Bank charges	933	1,160	607	-
Other	14,661	10,469	9,996	5,704
<b>Total</b>	<b>57,974</b>	<b>46,565</b>	<b>30,378</b>	<b>24,689</b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery, equipment and transport	Other	Construction in-progress	Total
<b>Cost</b>					
<b>Balance at 1 January 2009</b>	<b>294,485</b>	<b>478,762</b>	<b>28,721</b>	<b>55,942</b>	<b>857,910</b>
Additions	209	3,398	630	27,586	<b>31,823</b>
Transfers	214	3,559	658	(4,431)	-
Disposals	(521)	(58)	(489)	(6,869)	<b>(7,937)</b>
Effect of translation to presentation currency	(17,894)	(28,841)	(1,803)	(2,507)	<b>(51,045)</b>
<b>Balance at 30 June 2009</b>	<b>276,493</b>	<b>456,820</b>	<b>27,717</b>	<b>69,721</b>	<b>830,751</b>
<b>Balance at 1 January 2010</b>	<b>296,251</b>	<b>486,309</b>	<b>32,300</b>	<b>111,379</b>	<b>926,239</b>
Additions	1,310	1,901	856	16,285	<b>20,352</b>
Transfers	1,961	18,016	296	(20,273)	-
Disposals	(31)	(1,329)	(456)	(3,834)	<b>(5,650)</b>
Effect of translation to presentation currency	(10,530)	(15,325)	(27)	(2,588)	<b>(28,470)</b>
<b>Balance at 30 June 2010</b>	<b>288,961</b>	<b>489,572</b>	<b>32,969</b>	<b>100,969</b>	<b>912,471</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1 January 2009</b>	<b>(27,000)</b>	<b>(75,590)</b>	<b>(2,108)</b>	-	<b>(104,698)</b>
Charge for the year	(12,086)	(33,393)	(1,330)	-	<b>(46,809)</b>
Disposals	34	54	87	-	<b>175</b>
Effect of translation to presentation currency	966	2,746	65	-	<b>3,777</b>
<b>Balance at 30 June 2009</b>	<b>(38,086)</b>	<b>(106,183)</b>	<b>(3,286)</b>	-	<b>(147,555)</b>
<b>Balance at 1 January 2010</b>	<b>(53,088)</b>	<b>(144,965)</b>	<b>(5,248)</b>	-	<b>(203,301)</b>
Charge for the year	(13,834)	(37,728)	(1,991)	-	<b>(53,553)</b>
Disposals	26	572	188	-	<b>786</b>
Effect of translation to presentation currency	2,099	5,382	34	-	<b>7,515</b>
<b>Balance at 30 June 2010</b>	<b>(64,797)</b>	<b>(176,739)</b>	<b>(7,017)</b>	-	<b>(248,553)</b>
<b>Carrying value</b>					
<b>At 1 January 2010</b>	<b>243,163</b>	<b>341,344</b>	<b>27,052</b>	<b>111,379</b>	<b>722,938</b>
<b>At 30 June 2010</b>	<b>224,164</b>	<b>312,833</b>	<b>25,952</b>	<b>100,969</b>	<b>663,918</b>

As at 30 June 2010, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of USD 53,214 thousand (31 December 2009: USD 55,110 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 2010, the net book value of leased machinery, equipment and transport was USD 47,779 thousand (31 December 2009: USD 53,542 thousand).

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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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 (refer to note 14):

	<u>30 June 2010</u>	<u>31 December 2009</u>
Machinery, equipment and transport	131,908	139,889
Buildings and structures	58,122	48,782
Other	1,621	1,388
<b>Total</b>	<b><u>191,651</u></b>	<b><u>190,059</u></b>

### 11. INVESTMENTS IN ASSOCIATES

Details of the Group's associates are as follows:

<u>Name of associate</u>	<u>Principal activity</u>	<u>Effective ownership, %</u>	
		<u>30 June 2010</u>	<u>31 December 2009</u>
Perm Mineral Fertilisers	Production of mineral fertilisers	46.5	46.5
NPK Karbon-Shungit	Mining and processing	49.7	49.7
ZhDTsekh	Other services	50.0	50.0

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

	<u>Six months ended 30 June 2010</u>	<u>Six months ended 30 June 2009</u>
<b>Investments in associates – equity method</b>		
<b>Balance at the beginning of the period</b>	<b><u>10,726</u></b>	<b><u>15,892</u></b>
Share of loss of associates	(1,165)	(465)
Impairment	-	(3,055)
Effect of translation to presentation currency	(71)	(1,205)
<b>Balance at the end of the period</b>	<b><u>9,490</u></b>	<b><u>11,167</u></b>
<b>Investments in associates – at cost</b>		
<b>Balance at the beginning of the period</b>	<b><u>24,578</u></b>	<b><u>-</u></b>
Effect of translation to presentation currency	(147)	-
<b>Balance at the end of the period</b>	<b><u>24,431</u></b>	<b><u>-</u></b>
<b>Total at the beginning of the period</b>	<b><u>35,304</u></b>	<b><u>15,892</u></b>
<b>Total at the end of the period</b>	<b><u>33,921</u></b>	<b><u>11,167</u></b>

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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#### Investments in associates – equity method

Summarised financial information in respect of the Group's associates accounted for under the equity method:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	25,287	28,037
Total liabilities	(6,243)	(6,329)
<b>Net assets</b>	<b>19,044</b>	<b>21,708</b>
<b>Group's share of net assets of associates</b>	<b>9,490</b>	<b>10,726</b>
	<u>Six months ended</u>	<u>Six months ended</u>
	<u>30 June 2010</u>	<u>30 June 2009</u>
Revenue	2,404	1,305
Loss for the period	(2,336)	(926)
Share of loss of associates	(1,165)	(465)

#### Investments in associates – at cost

The Group does not have any information related to the financial position of Open Joint Stock Company Perm Mineral Fertilisers ("PMF") as at 30 June 2010 and its financial results for the six months then ended. Thus, it is impracticable for the Group to account for this investment applying equity method and the Group has continued to account for this investment at cost. PMF is a Russian-based company engaged in the production of mineral fertilisers, whose main operating facilities are located in the Perm region of the Russian Federation.

## 12. INVENTORIES

	<u>30 June 2010</u>	<u>31 December 2009</u>
<b>Inventories expected to be recovered after twelve months</b>		
Catalytic agents	22,939	25,583
Other inventories	818	4,022
	<b>23,757</b>	<b>29,605</b>
<b>Inventories expected to be recovered in the next twelve months</b>		
Raw materials, net of allowance for obsolescence	55,280	48,552
Finished goods	54,141	42,417
Goods for resale	237	222
Work in progress	9,631	10,311
	<b>119,289</b>	<b>101,502</b>
<b>Total</b>	<b>143,046</b>	<b>131,107</b>

During the six months ended 30 June 2010, the Group recognised a write down of USD 2,615 thousand to reduce the carrying amount of inventories to net realisable value (six months ended 30 June 2009: USD 3,919 thousand). At 30 June 2010, inventories in the amount of USD 17,332 thousand were stated at net realisable value (30 December 2009: USD 18,784 thousand).

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## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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At 30 June 2010, raw materials were presented net of allowance for obsolescence of USD 3,979 thousand (31 December 2009: USD 4,902 thousand). During the six months ended 30 June 2010, the Group recognised USD 49 thousand (six months ended 30 June 2009: USD 1,175 thousand) and released USD 972 thousand (six months ended 30 June 2009: USD 1,149 thousand) allowance for obsolescence of raw materials.

Certain inventories were pledged to secure bank loans and borrowings granted to the Group, as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Carrying value of pledged inventories (refer to note 14)	45,940	58,492

### 13. SHARE CAPITAL

	<u>Number of authorised ordinary shares</u>		<u>Number of issued ordinary shares</u>		<u>Share capital</u>
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>	
<b>Balance at 31 December 2009 and 30 June 2010</b>	<b><u>10,110</u></b>	<b><u>359,989,890</u></b>	<b><u>10,110</u></b>	<b><u>174,989,890</u></b>	<b><u>1,374</u></b>

There were no changes in share capital of the Company during the six months ended 30 June 2010.

Shareholders of Class A and Class B ordinary shares have the same rights, voting powers, preferences and restrictions. Class A ordinary shares have a par value of EUR 1.71 each and Class B ordinary shares have a par value of EUR 0.00515 each. At 30 June 2010, share capital was fully paid (31 December 2009: USD 18 thousand remained unpaid related to 100 Class A shares and 7,848,751 Class B shares).

### Loss per share

Loss per share was calculated by dividing net loss attributable to shareholders of the Company for the three and six months ended 30 June 2010 and 2009 by the weighted average number of ordinary shares in issue during respective period.

### 14. LOANS AND BORROWINGS

	<u>30 June 2010</u>	<u>31 December 2009</u>
Loans denominated in USD	1,205,376	1,149,585
Loans denominated in RUR	186,572	262,955
Loans denominated in EUR	4,784	8,165
Promissory notes	10	265
<b>Total</b>	<b><u>1,396,742</u></b>	<b><u>1,420,970</u></b>
Less: current portion repayable within twelve months and shown under current liabilities	<u>(542,380)</u>	<u>(533,604)</u>
<b>Long-term portion of loans and borrowings</b>	<b><u>854,362</u></b>	<b><u>887,366</u></b>

### Loans denominated in USD

In February 2010, the Group reached an agreement with UniCredit Bank to extend the repayment of short-term loans in the amount of USD 200,000 thousand from 2010 to 2011. The average interest rate on the loans increased from 6.1% per annum to 6.3% per annum. The commission for loans restructuring amounted to USD 750 thousand and was included in interest expense in the condensed consolidated interim income statement.

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The agreements foresaw that if an initial public offering (“IPO”) of UralChem Holding P.L.C. occurred before 31 July 2010 the entire outstanding amount should become due on 1 March 2011, otherwise, the Group was required to make installments starting from 31 July 2010 with the final payment due on 1 March 2011. In April 2010, the Group decided to postpone the IPO of UralChem Holding P.L.C. In June 2010 the Group reached a preliminary agreement with UniCredit Bank to postpone the first instalment till November 2010 and the second instalment from September 2010 till December 2010 with the final payment due in March 2011 which was approved by the bank’s Credit Committee in August 2010 (refer to note 17).

In March 2010, the Group reached an agreement with Raiffeisen Bank to extend the repayment of a short-term loan in the amount of USD 60,000 thousand from 2010 to 2011. The commission for loan restructuring amounted to USD 150 thousand and was included in interest expense in the condensed consolidated interim income statement. In June 2010, the Group reached an agreement with Raiffeisen Bank to decrease the interest rate from Libor 1m + 9.0% per annum to Libor 1m + 6.5% per annum.

In May 2010, the Group reached an agreement with VTB bank to extend repayment of a short-term loan in the amount of USD 65,000 thousand originally due in June 2010 to five monthly instalments starting from August 2010 with the final instalment due on December 2010. The interest rate on this loan remained unchanged.

The loans denominated in USD had a weighted average annual interest rate of 8.4% during the six months ended 30 June 2010 (during the year ended 31 December 2009: 9.7%) and included the following borrowings:

- USD 867,301 thousand (31 December 2009: USD 795,354 thousand) at fixed rates varying from 7.0% to 11.3% (31 December 2009: from 7.0% to 11.5%) per annum;
- USD 261,192 thousand (31 December 2009: USD 260,225 thousand) at floating rates linked to Libor 1m, varying from 6.1% to 6.9% (31 December 2009: from 5.2% to 9.2%) per annum;
- USD 76,115 thousand (31 December 2009: USD 75,914 thousand) at a fixed REPO rate of 8.0% per annum; and
- USD 768 thousand (31 December 2009: USD 18,092 thousand) at the floating BNPP rate (linked to Libor) of 2.9% per annum which were secured by trade receivables.

The loans denominated in USD are due in the years 2010 to 2013. USD-denominated loans in the amount of USD 1,204,664 thousand (31 December 2009: USD 1,048,268 thousand) are secured by 100% (31 December 2009: 100.0%) of Azot’s shares, 62.4% (31 December 2009: 62.4%) of KCCW’s shares, 74.8% of VMF’s shares (31 December 2009: 74.8%), 100% (31 December 2009: 100%) of KCCW MFP’s shares and 44.3% (31 December 2009: 44.3%) of PMF’s shares held by the Group and certain fixed assets and inventories.

#### Loans denominated in RUR

In March 2010, the Group reached an agreement with the Savings Bank of the Russian Federation (“Sberbank”) to extend the repayment of USD 67,959 thousand obtained under a revolving credit facility agreement from 2010 to 2011. In accordance with the agreement, the bank provided the Group with a new multi-currency revolving credit facility with a borrowing limit of USD 67,959 thousand. Annual interest rates under this facility vary from 9.0% to 14.5% depending on the currency in which the financing is drawn as compared to the annual interest rate of 16.0% under the old credit facility. As at 30 June 2010, the Group repaid USD 71,098 thousand of the amount outstanding under the old credit facility and obtained USD 65,873 thousand under the new credit facility. The commission for loan restructuring amounted to 0.5% of the borrowing limit and is included in interest expense in the condensed consolidated interim income statement.

Loans denominated in RUR consist of a loan of USD 154,448 thousand (31 December 2009: USD 159,375 thousand) that bears interest at a fixed rate of 16.0% (31 December 2009: 16.0%) per annum and is repayable in quarterly instalments starting from 24 March 2011 with the final instalment due on 24 June 2013 and other loans of USD 32,125 thousand (31 December 2009: USD 103,580 thousand) that bear interest at fixed rates varying from 9.0% to 14.5% (31 December 2009: from 14.5% to 16.0%) per annum and are due in 2010 to 2011. The majority of loans are secured by 100.0% (31 December 2009: 100.0%) of Azot’s shares, 62.4% (31 December 2009: 62.4%) of KCCW’s shares, 74.8% of VMF’s shares (31 December 2009: 74.8%), 100% (31 December 2009: 100.0%) of KCCW MFP’s shares and 44.3% (2008: nil; 2007: nil) of PMF’s shares held by the Group and certain fixed assets and inventories.

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

Total loans and borrowings were repayable as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Due within three months	70,899	166,150
Due from three to six months	194,950	190,792
Due from six to twelve months	276,531	176,662
	<u><b>542,380</b></u>	<u><b>533,604</b></u>
Due in the second year	324,518	199,867
Due in the third year	354,310	317,142
Due in the fourth year	175,534	370,357
	<u><b>854,362</b></u>	<u><b>887,366</b></u>

The Group's bank loans are subject to the restrictive covenants, including but not limited to:

- set-up limits for the total amount of borrowings of certain Group subsidiaries;
- bank approval for any transfer of pledged property;
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks; and
- set-up limits for disposal of assets with a carrying value of more than USD 3,206 thousand for two of the Company's subsidiaries, UralChem OJSC and UralChem Management Company.

All loan agreements have acceleration clauses, allowing the creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

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

Related parties include shareholders, entities under common ownership and control with the Group 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 and control.

The Group had the following outstanding balances with related parties:

	<u>30 June 2010</u>	<u>31 December 2009</u>
<b>Parent company of the Group</b>		
Trade and other payables	(38,873)	(47,628)
Loans issued, at amortised cost	-	35,116
Loans and borrowings	(606)	(1,087)
<b>Entities under common ownership and control with the Group</b>		
Trade and other receivables	4,426	4,277
Loans issued, at amortised cost	1,802	1,781
Promissory notes of related parties, at amortised cost	341	351
Trade and other payables	(1,677)	(2,816)

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

The Group entered into the following transactions with related parties:

	<u>Six months ended 30 June 2010</u>	<u>Six months ended 30 June 2009</u>
<b>Parent company of the Group</b>		
Loans issued	-	(11,347)
Proceeds from repayment of loans issued	35,124	22,384
Interest income	74	9,453
Interest expense	(52)	-
<b>Entities under common ownership and control with the Group</b>		
Sales of goods and services	20,140	13,915
Purchases of goods and services	(4,314)	(6,219)
Loans issued	-	(3,025)
Proceeds from repayment of loans issued	-	3,459
Interest income	78	565
Interest expense	-	(467)
Other income	329	252

### Transactions with related parties

#### *Sales and purchases of goods*

Sales of goods 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. Sales of services, 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 purchases of inventories for production of nitrogen fertilisers were made at market prices plus an insignificant premium of 1.0% to 2.0% as reimbursement for operating expenses of those entities.

#### *Loans issued to related parties*

The loans issued to related parties are primarily loans issued to the parent company for financing of its investing activities.

During the six months ended 30 June 2010, the parent company of the Group repaid previously issued loans in the amount of USD 35,124 thousand denominated in USD which were outstanding as at 31 December 2009. These loans bear interest at a rate of 12.0% (31 December 2009: 12.0%) per annum. As at 30 June 2010, loans issued to related parties included an amount of USD 1,802 thousand denominated in RUR (31 December 2009: USD 1,781 thousand). These loans bear interest at a fixed rate of 10.5% (31 December 2009: 10.5%) per annum.

### Compensation of key management personnel

The compensation of key management personnel of the Group for the six months ended 30 June 2010 comprised salaries and cash bonuses in the amount of USD 3,469 thousand (six months ended 30 June 2009: USD 1,855 thousand), including unified social tax in the amount of USD 489 thousand (six months ended 30 June 2009: USD 163 thousand).

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

# URALCHEM HOLDING P.L.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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### 16. 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 were as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Due in one year	238,752	238,856
Due from two to five years	317,566	436,738
<b>Total</b>	<b><u>556,318</u></b>	<b><u>675,594</u></b>

#### Capital commitments

As at 30 June 2010 the Group's contractual capital commitments for acquisition of property, plant and equipment amounted to USD 6,220 thousand (31 December 2009: USD 13,250 thousand).

#### 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-cancellable operating leases were as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Due in one year	23,193	18,748
Due from two to five years	43,877	46,840
<b>Total</b>	<b><u>67,070</u></b>	<b><u>65,588</u></b>

#### Guarantees issued

As at 30 June 2010 and 31 December 2009, the Group issued financial guarantees in respect of loans obtained by related and third parties. The total amount of outstanding guarantees issued by the Group was as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Related parties	2,734	6,723
Third parties	9	13
<b>Total</b>	<b><u>2,743</u></b>	<b><u>6,736</u></b>

The Group's maximum exposure to credit risk in the event of non-performance by parties to these financial guarantees is limited to the contractual amounts disclosed above. At 30 June 2010 and 31 December 2009 management assessed the risk of non-performance by parties to these financial guarantees as remote.

#### 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.

The notes on pages 8 to 25 are an integral part of these condensed consolidated interim financial statements.

## **URALCHEM HOLDING P.L.C.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)**

All amounts are in thousands of US Dollars unless otherwise stated

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#### **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 different 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 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 management's 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, continue 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.

## URALCHEM HOLDING P.L.C.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

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#### 17. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

##### Loans from Sberbank

In August 2010, the Group reached an agreement with Sberbank to extend the repayment of USD 27,000 thousand obtained under a credit facility agreement from August 2010 to February 2012. In accordance with the agreement, the bank provided the Group with a new revolving credit facility with a borrowing limit of USD 27,000 thousand. The interest rate under this facility is Libor 3m + 6.7% per annum as compared to the interest rate of 7.5% per annum under the old credit facility. As at the date of approval of these condensed consolidated interim financial statements, the Group repaid USD 27,000 thousand to Sberbank under the old credit facility and obtained USD 27,000 thousand under the new credit facility. The commission for loan restructuring amounted to 0.6% of the borrowing limit.

In September 2010, the Group reached agreements with Sberbank to decrease interest rates on several loans, including:

- USD-denominated loan in the amount of USD 699,933 thousand from 9.0% to Libor 3m+7.4% per annum;
- USD-denominated loan in the amount of USD 65,800 thousand from 9.0% to 7.5% per annum.
- RUR-denominated loan in the amount of USD 154,675 thousand from 16.0% to 13.0% per annum;

In November 2010, the Group reached an agreement with Sberbank to extend the repayment of the following loan instalments:

- repayment of the current portion of a long-term loan in the amount of USD 66,600 thousand was extended from May 2011 till May 2012, and the repayment of the long-term portion of the same loan in the amount of USD 633,333 thousand from 2011 - 2013 till 2012 - 2013. The commission for loan restructuring amounted to USD 6,000 thousand. The annual interest rate on this loan remained unchanged;
- repayment of the current portion of a long-term loan in the amount of USD 50,984 thousand was extended from March - June 2011 till June 2012, and the repayment of the long term portion of the same loan in the amount of USD 105,134 thousand from 2011 - 2013 to 2012 - 2013. The annual interest rate on this loan remained unchanged;
- repurchase of 9,452,559 shares of Togliattiazot, which represent 9.7% of the investee's share capital, for the amount of USD 75,750 thousand under REPO agreement, was extended from November 2010 to November 2011. The interest rate on this repurchase obligation remained unchanged.

##### Loans from UniCredit bank

In August 2010, the Group received a confirmation from UniCredit Bank on the amendment of the settlement terms of the outstanding loans in the amount of USD 200,000 thousand. The first instalment is postponed from August 2010 till November 2010 and the second instalment is postponed from September 2010 till December 2010; the final payment is due in March 2011. Later, in November 2010 the Group reached an agreement with UniCredit Bank to postpone the instalment from November 2010 to February 2011, which was approved by the bank's Credit Committee in November 2010. The annual interest rate on these loans remained unchanged (refer to note 14).

##### Loan from VTB bank

Up to the date of approval of these condensed consolidated interim financial statements, the Group repaid a loan obtained from VTB bank in the amount of USD 65,000 thousand (refer to note 14). The loan bore interest at an annual fixed interest rate of 11.3%.

##### Loan from Promsvyazbank

In October 2010, the Group entered into a new credit facility agreement with Promsvyazbank ("PSB") with a borrowing limit of USD 65,000 thousand maturing in April 2012. The loan bears interest at an annual fixed interest rate of 8.5%.

## **URALCHEM HOLDING P.L.C.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)**

All amounts are in thousands of US Dollars unless otherwise stated

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#### **Promissory note issued by VTB bank**

In October 2010, the short-term promissory note in the amount of USD 35,000 thousand issued by VTB bank (see note 4), which is included in other current financial assets in these condensed consolidated interim financial statements, was settled by the issuer.

#### **Increase of ownership in subsidiaries**

In October-November 2010, the Group acquired 228,852,000 ordinary shares or an additional 14.9% interest in the share capital of VMF for a total cash consideration of USD 58,056 thousand, increasing its ownership in the company to 89.9%.

Up to the date of approval of these condensed consolidated interim financial statements, the Group acquired through a number of transactions 6,065 preference shares or an additional 0.4% interest in the share capital of KCCW for a cash consideration of USD 1,324 thousand. In August 2010, the Group sold 25,000 preference shares or 1.8% interest in the share capital of KCCW to third parties for a cash consideration of USD 5,419 thousand. As a result of these transactions, the Group's share in KCCW decreased to 96.9%.

#### **Dividends from PMF**

In November 2010, PMF declared dividends, which was approved at the annual general shareholders' meeting on 12 November 2010. The Group will receive dividends in the proportion to its ownership in PMF, which is estimated at approximately USD 16,421 thousand.