

**Open Joint Stock Company  
URALCHEM**

**Consolidated financial statements  
for the year ended 31 December 2007**

# OPEN JOINT STOCK COMPANY URALCHEM

## TABLE OF CONTENTS

---

	<b>Page</b>
Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2007 .....	1
Independent auditors' report .....	2
Consolidated financial statements for the year ended 31 December 2007:	
Consolidated income statement.....	3
Consolidated balance sheet .....	4
Consolidated cash flow statement .....	5-6
Consolidated statement of changes in equity .....	7
Notes to the consolidated financial statements.....	8-48

# OPEN JOINT STOCK COMPANY URALCHEM

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

The following statement, which should be read in conjunction with the independent auditors' report 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 consolidated financial statements of Open Joint Stock Company Uralchem and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at 31 December 2007 and 2006 the results of its operations, cash flows and changes in equity for the year ended 31 December 2007, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated 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 consolidated financial statements for the year ended 31 December 2007 were approved on 14 May 2008 by:



---

Dmitry V. Osipov  
Chief Executive Officer



---

Anton V. Wischanenko  
Chief Finance Officer

Moscow, Russia  
14 May 2008

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Open Joint Stock Company Uralchem:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Uralchem and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2007 and 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

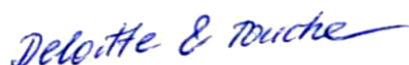
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007 and 2006, and the results of its financial performance and its cash flows for the year ended 31 December 2007 in accordance with International Financial Reporting Standards.



Moscow, Russia  
14 May 2008

# OPEN JOINT STOCK COMPANY URALCHEM

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Year ended 31 December 2007
<i>Continuing operations</i>		
<b>Revenue</b>		
Sales of goods	6	486,207
Other sales	7	<u>51,247</u>
<b>Total revenue</b>		<b>537,454</b>
Cost of sales	8	<u>(302,545)</u>
<b>Gross profit</b>		<b>234,909</b>
Selling and distribution expenses	9	(102,267)
General and administrative expenses	10	(38,867)
Other operating income	11	5,673
Other operating expenses	11	<u>(5,871)</u>
<b>Operating profit</b>		<b>93,577</b>
Interest income		799
Interest expense	12	(23,115)
Foreign exchange gain from financing activities		<u>5,812</u>
<b>Profit before tax</b>		<b>77,073</b>
Income tax expense	13	<u>(17,000)</u>
<b>Profit for the year from continuing operations</b>		<b><u>60,073</u></b>
<i>Discontinued operations</i>		
Loss for the year from discontinued operations	14	<u>(7,855)</u>
<b>Profit for the year</b>		<b><u>52,218</u></b>
Attributable to:		
Shareholders of the parent		38,268
Minority interest		<u>13,950</u>
		<b><u>52,218</u></b>
<b>Earnings per share</b>		
Weighted average number of ordinary shares in issue during the year	23	100,000,000
Basic and diluted earnings per share from continuing and discontinued operations (US dollars per share)		0.38
Basic and diluted earnings per share from continuing operations (US dollars per share)		0.46

The notes on pages 8 to 48 are an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	31 December 2007	31 December 2006
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	15	465,985	241,148
Goodwill	16	113,844	26,600
Intangible assets		1,499	1,188
Inventories	17	27,888	19,664
Other financial assets	18	2,199	14
Deferred tax assets	26	1,915	-
		<b>613,330</b>	<b>288,614</b>
<i>Current assets</i>			
Inventories	17	68,859	47,496
Trade and other receivables	19	20,025	51,577
Deferred sales proceeds on disposal of subsidiaries	14	56,533	-
Advances paid and prepaid expenses	20	55,206	11,930
Income tax receivable		255	357
Other taxes receivable	21	38,332	23,317
Other financial assets	18	27,326	59
Cash and cash equivalents	22	28,847	768
		<b>295,383</b>	<b>135,504</b>
<b>TOTAL ASSETS</b>		<b>908,713</b>	<b>424,118</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Share capital	23	80,485	80,485
Unpaid contribution of shareholders		-	(80,485)
Additional paid-in capital		33,407	-
Foreign currency translation reserve		7,320	-
Retained earnings		22,983	-
<b>Equity attributable to shareholders of the parent</b>		<b>144,195</b>	<b>-</b>
Minority interest		106,897	79,056
		<b>251,092</b>	<b>79,056</b>
<i>Non-current liabilities</i>			
Loans and borrowings	24	312,224	25,348
Retirement benefit obligations	25	8,385	1,903
Deferred tax liabilities	26	66,257	35,390
		<b>386,866</b>	<b>62,641</b>
<i>Current liabilities</i>			
Loans and borrowings	24	149,531	129,511
Trade and other payables	27	37,053	17,747
Deferred consideration on acquisition of subsidiaries	5	-	123,225
Advances received		70,583	4,894
Income tax payable		7,531	1,753
Other taxes payable	28	6,057	5,291
		<b>270,755</b>	<b>282,421</b>
<b>Total liabilities</b>		<b>657,621</b>	<b>345,062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>908,713</b>	<b>424,118</b>

The notes on pages 8 to 48 are an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

	<b>Year ended 31 December 2007</b>
<b>Operating activities</b>	
Profit before tax from continuing operations	77,073
Loss before tax from discontinued operations	(9,725)
<b>Profit before tax</b>	<b>67,348</b>
Adjustments for:	
Depreciation of property, plant and equipment	38,324
Amortisation of intangible assets	362
Gain on revaluation of forward exchange contracts	(1,936)
Gain on disposal of property, plant and equipment	(662)
Foreign exchange gain, net	(2,403)
Interest income	(1,557)
Interest expense	25,859
<b>Operating cash flows before working capital changes</b>	<b>125,335</b>
Increase in inventories	(14,037)
Decrease in trade and other receivables	16,413
Increase in advances paid and prepaid expenses	(40,131)
Increase in other taxes receivable	(5,833)
Increase in retirement benefit obligations	1,942
Increase in trade and other payables	11,181
Increase in advances received	54,590
Increase in other taxes payable	1,314
<b>Cash generated from operations</b>	<b>150,774</b>
Interest paid	(21,822)
Income tax paid	(15,252)
<b>Net cash generated from operating activities</b>	<b>113,700</b>
<b>Investing activities</b>	
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	(343,556)
Purchase of property, plant and equipment	(48,850)
Proceeds from sale of property, plant and equipment	4,918
Purchase of intangible assets	(696)
Loans issued	(28,245)
Proceeds from repayment of loans issued	3,320
Interest received	1,204
<b>Net cash used in investing activities</b>	<b>(411,905)</b>
<b>Financing activities</b>	
Proceeds from short-term loans and borrowings	329,214
Proceeds from long-term loans and borrowings	306,381
Repayment of short-term loans and borrowings	(313,861)
Contribution from shareholders	5,065
Cash distributed to shareholders on disposal of subsidiaries	(225)
Repayment of principle amounts of finance leases	(1,287)
<b>Net cash generated from financing activities</b>	<b>325,287</b>
<b>Net increase in cash and cash equivalents</b>	<b>27,082</b>
Cash and cash equivalents at beginning of the year	768
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	997
<b>Cash and cash equivalents at end of the year</b>	<b>28,847</b>

The notes on pages 8 to 48 are an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

All amounts are in thousands of US Dollars unless otherwise stated

---

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

	<b>Year ended 31 December 2007</b>
<b>Non-cash investing activities</b>	
Offsetting of deferred consideration on acquisition of subsidiaries against unpaid contribution from shareholders	(98,059)
Property, plant and equipment acquired under finance lease	(15,663)
Change in payables for purchase of property, plant and equipment	(1,267)
<b>Total non-cash investing activities</b>	<b><u>(114,989)</u></b>
<b>Non-cash financing activities</b>	
Offsetting of deferred consideration on acquisition of subsidiaries against unpaid contribution from shareholders	98,059
Increase in obligations under finance leases	15,663
<b>Total non-cash financing activities</b>	<b><u>113,722</u></b>

The notes on pages 8 to 48 are an integral part of these consolidated financial statements.

## OPEN JOINT STOCK COMPANY URALCHEM

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Attributable to shareholders of the parent							Total
	Share capital	Unpaid contribution of shareholder	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Minority interest		
<b>Balance at 29 December 2006</b>	<b>80,485</b>	<b>(80,485)</b>	-	-	-	-	-	-
Minority interest arising on business combinations (refer to note 5)	-	-	-	-	-	-	79,056	<b>79,056</b>
<b>Balance at 31 December 2006</b>	<b>80,485</b>	<b>(80,485)</b>	-	-	-	-	<b>79,056</b>	<b>79,056</b>
Effect of translation to presentation currency	-	-	-	7,320	-	<b>7,320</b>	7,224	<b>14,544</b>
<b>Net income recognised directly in equity</b>	-	-	-	<b>7,320</b>	-	<b>7,320</b>	<b>7,224</b>	<b>14,544</b>
Profit for the year	-	-	-	-	38,268	<b>38,268</b>	13,950	<b>52,218</b>
<b>Total recognised income and expense</b>	-	-	-	-	<b>38,268</b>	<b>38,268</b>	<b>13,950</b>	<b>52,218</b>
Contribution from shareholders	-	80,485	22,639	-	-	<b>103,124</b>	-	<b>103,124</b>
Loss on disposal of subsidiaries distributed to shareholders (refer to note 14)	-	-	-	-	(8,271)	<b>(8,271)</b>	(936)	<b>(9,207)</b>
Increase of ownership in subsidiaries (refer to note 5)	-	-	10,768	-	(7,014)	<b>3,754</b>	(46,075)	<b>(42,321)</b>
Minority interest arising on business combinations (refer to note 5)	-	-	-	-	-	-	53,678	<b>53,678</b>
<b>Balance at 31 December 2007</b>	<b>80,485</b>	-	<b>33,407</b>	<b>7,320</b>	<b>22,983</b>	<b>144,195</b>	<b>106,897</b>	<b>251,092</b>

The notes on pages 8 to 48 are an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### 1. GENERAL INFORMATION

#### Organisation

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

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

The Company was formed for the purpose to facilitate reorganisation of the fertilisers segment of CI – Chemical Invest Limited, incorporated in Cyprus. As a part of the reorganisation, in November-December 2008 CI – Chemical Invest Limited contributed to the Company’s share capital 44.6% interest in its subsidiary, Open Joint Stock Company Kirovo-Chepetsk Chemical Works (“KCCW”). In December 2007, CI – Chemical Invest Limited sold remaining 32.7% shares of KCCW to the Company for a cash consideration of USD 155,860 thousand. At the date of acquisition by CI – Chemical Invest Limited, KCCW had a number of subsidiaries involved in fertiliser, polymers and fluoroplastics production.

In November 2007, CI – Chemical Invest Limited contributed its 77.7% ownership in Open Joint Stock Company Azot, Berezniki (“Azot”) to the share capital of the Company.

For the purposes of these consolidated financial statements, all prior period financial information have been retrospectively restated as if the reorganisation was effective from 29 December 2006, the date on which the fertilisers, polymers and fluoroplastics operations comprising KCCW, were acquired by CI – Chemical Invest Limited (refer to note 5). Accordingly, the financial information of KCCW has been included in the consolidated financial statements from 29 December 2006, and the financial information of Azot has been included in the consolidated financial statements from 1 August 2007. Further details of the accounting policy adopted in relation to the reorganisation are included within note 1 under *Accounting for reorganisation of the Group*.

#### Principal business activities

Prior to 31 October 2007, principal business activities of the Company and its subsidiaries (the “Group”) were the production and distribution of mineral fertilisers, polymers and fluoroplastics. The main fertiliser products of the Group are nitrogen fertilisers, including ammonia, ammonium nitrate, urea and compound fertilisers. The main polymers and fluoroplastics products are various types of polymers, fluoroplastics, special gases and freons.

On 31 October 2007, the subsidiaries held by KCCW, namely, LLC Zavod Polymerov and LLC Transportno-Logisticheskaya Kompaniya, were transferred to CI – Chemical Invest Limited. Both entities operated in the polymers and fluoroplastics segment. Consequently, subsequent to this transfer, the Group predominantly operates in one segment, being production and distribution of mineral fertilisers. Further details are described within note 3 under *Discontinued operations* and note 14.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The major operational facilities of the Group, except for Uralchem Freight Limited registered in Cyprus, are located in the Perm and Kirov regions of the Russian Federation. The principle business activities of the Group's entities and effective ownership of the Group are presented below:

<b>Subsidiaries</b>	<b>Principal activity</b>	<b>Effective ownership, %</b>	
		<b>31 December 2007</b>	<b>31 December 2006</b>
Kirovo-Chepetsk Chemical Works	Holding company	77.4	55.0
Zavod Mineralnykh Udobreniy	Production of mineral fertilisers	77.4	55.0
Remontno-Mekhanichesky Zavod	Construction and repairs	77.4	55.0
Energosnabzhayuschaya Organizatsiya	Electricity and heat distribution	77.4	55.0
Upravleniye Avtomobilnogo Transporta	Transportation and logistics	77.4	55.0
Azot <sup>1</sup>	Production of mineral fertilisers	78.7	-
Azotstroyremont <sup>1</sup>	Construction and repairs	78.7	-
Uralchem Freight Limited <sup>2</sup>	Transportation and logistics	100.0	-
Uralchemtrans <sup>2</sup>	Transportation and logistics	100.0	-
MC Uralchem <sup>2</sup>	Management activities	100.0	-
Zavod Polymerov <sup>3</sup>	Production of polymers and fluoroplastics	-	55.0
Transportno-Logisticheskaya Kompaniya <sup>3</sup>	Transportation and logistics	-	55.0

<sup>1</sup> Acquired by the Group during 2007.

<sup>2</sup> Established by the Group during 2007.

<sup>3</sup> Disposed of during 2007 as a part of the Group's reorganisation.

### Accounting for reorganisation of the Group

The following principles were used in the preparation of the consolidated financial statements for the year ended 31 December 2007:

- all assets and liabilities of the Company, including goodwill, were recorded at the same carrying values as in the consolidated financial statements of CI – Chemical Invest Limited prior to the reorganisation;
- share capital of the Group represented share capital of the Company as if the Company was established on 29 December 2006;
- minority interest was recorded at the same values as in CI – Chemical Invest Limited's consolidated financial statements, and adjusted for subsequent changes in the minority interest in the Group's subsidiaries; and
- transfer of assets between CI – Chemical Invest Limited and the Company was accounted for at same carrying values as reported in the CI – Chemical Invest Limited consolidated financial statements. Differences between consideration paid by the Company and carrying values of assets and liabilities transferred were included in additional paid-in capital.

The accompanying consolidated financial statements do not include comparative information in the statements of income and cash flows for the period from 29 December 2006 to 31 December 2006, as the amounts were insignificant.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### 2. ADOPTION OF NEW AND REVISED STANDARDS

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

In the current year, the Group has adopted all new International Financial Reporting Standards (“IFRS”) and interpretations issued by International Financial Interpretation Reporting Interpretation Committee (“IFRIC”) that are mandatory for adoption in the annual periods beginning on or after 1 January 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group but gave rise to additional disclosures in the consolidated financial statements as follows:

#### IAS 1 *Presentation of Financial Statements (amendment)*

This amendment required the Group to provide new disclosures to enable users of the consolidated financial statements to evaluate the Group’s principal objectives; policies and procedures for managing capital (refer to note 32).

#### IFRS 7 *Financial Instruments: Disclosures*

This standard introduced new disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments.

#### IFRIC Interpretations

The following interpretations issued by IFRIC were effective for the current period: IFRIC 7 *Applying the Restatement Approach under IAS 29*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these interpretations has not led to any changes in the Group’s accounting policies or disclosures provided in the consolidated financial statements.

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

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

<b>Standards and Interpretations</b>	<b>Effective for annual periods beginning on or after</b>
IAS 1 <i>Presentation of Financial Statements (amendment)</i>	1 January 2009
IAS 23 <i>Borrowing Costs (amendment)</i>	1 January 2009
IAS 27 <i>Consolidated and Separate Financial Statements (amendment due to revision of IFRS 3)</i>	1 July 2009
IAS 28 <i>Investments in Associates (amendments due to revision of IFRS 3)</i>	1 July 2009
IAS 31 <i>Investments in Joint Ventures (amendments due to revision of IFRS 3)</i>	1 July 2009
IAS 32 <i>Financial Instruments: Presentation (amendment)</i>	1 January 2009
IFRS 2 <i>Share-based Payment (amendment)</i>	1 January 2009
IFRS 3 <i>Business Combinations (revised on applying the acquisition method)</i>	1 July 2009
IFRS 8 <i>Operating segments</i>	1 January 2009
IFRIC 11 <i>IFRS 2: Group and Treasury Share Transactions</i>	1 March 2007
IFRIC 12 <i>Service Concession Arrangements Defined</i>	1 January 2008
IFRIC 13 <i>Customer Loyalty Programmes</i>	1 July 2008
IFRIC 14 <i>IAS 19: The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2008

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 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.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards.

#### Basis of preparation

The consolidated 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*.

#### Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Other than transactions which were a part of reorganisation of the Group, the results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in net assets since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's net assets are allocated against the interests of the Group except to the extent that the minority have a binding obligation and are able to make an additional investment to cover the losses.

Acquisitions of additional interests in subsidiaries from minority shareholders are accounted for as transactions between equity holders. Differences between the Group's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities of the subsidiaries acquired from minority shareholders and the consideration given for such increases are recognised as additional paid-in capital, if positive, or recognised directly in retained earnings, if negative. Gains or losses arising from the disposal of minority interests in subsidiaries of the Group are recognised in the income statement.

#### Business combinations

Acquisitions of subsidiaries and businesses, other than those arising from entities under common control, are accounted for using the purchase method. The cost of business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority participants in the acquiree is initially measured at the minority's proportion of the net fair value of the assets (other than goodwill), liabilities and contingent liabilities recognised.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### **Goodwill**

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### **Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale at the balance sheet date. Classification of a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period. The comparative balance sheet is not restated for information related to discontinued operations.

Where the discontinued operations was disposed of through a distribution to an entity under common control and ownership, any differences between the consideration received and the carrying value of net assets disposed is recognised directly in equity.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, excluding:

- value added tax;
- custom duties; and
- estimated customer returns, rebates and other similar allowances.

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue and costs incurred or to be incurred in respect of transaction can be reliably measured.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

### ***Sales of goods***

Revenue from sale of goods comprises sales of mineral fertilisers, polymers, fluoroplastics and their by-products, and is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### *Other sales*

The Group provides the following principle types of services:

- supply of electricity and heat energy;
- construction, repairs and maintenance services; and
- transportation services.

Revenue from service contracts are recognised when the services are rendered or by reference to the stage of completion of construction contracts.

### *Dividend and interest revenue*

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **Leasing – the Group as lessee**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### **Foreign currencies**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which reflects the economic substance of its operations. The functional currency of the Company and its subsidiaries operating on the territory of the Russian Federation is the Russian Rouble ("RUR"); functional currency of Uralchem Freight Limited, registered in Cyprus, is the US Dollar ("USD").

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise, except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

Management of the Group has chosen to present consolidated financial statements in the USD, which is convenient for the current and potential users of these consolidated financial statements.

The translation from functional currency into presentation currency is performed as follows. Assets and liabilities are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in the income statement for the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the business combination are treated as assets and liabilities of the respective operation and translated at the closing rate.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of presenting consolidated financial statements of the Group does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

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

	<u>31 December 2007</u>	<u>31 December 2006</u>
Year-end rates	24.55	26.33
Average for the year ended	25.58	n/a

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of the business combination.

### **Current tax**

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

### **Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Property, plant and equipment**

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as incurred.

### ***Depreciation***

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance lease arrangements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset. Land is not depreciated.

The estimated useful lives for the major classes of assets are as follows:

Buildings and structures	15-60 years
Machinery, equipment and transport	5-30 years
Other	2-10 years

### ***Construction-in-progress***

Construction-in-progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated and an appropriate provision for impairment is made, if necessary.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in the income statement.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### Intangible assets

Intangible assets, other than goodwill, are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

The estimated useful lives for the major classes of intangible assets are as follows:

Software	5 years
Licences	1-20 years

The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- financial assets as at fair value through profit or loss (“FVTPL”);
- held-to-maturity investments; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

### *Financial assets as at fair value through profit or loss*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gain or loss resulting from re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 31.

### *Held-to-maturity investments*

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any, with income recognised on an effective interest method.

### *Loans and receivables*

Trade receivables, loans issued, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

If in a subsequent period the amount of the impairment loss 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 profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by using the weighted average method. The cost of finished goods and work in progress includes direct and the allocation of related production overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Where the net realisable value is lower than costs, an allowance for obsolete and slow-moving raw materials is recognised.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three months or less, that are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value.

### **Financial liabilities**

Financial liabilities are classified into the following specified categories:

- financial guarantee contract liabilities; and
- other financial liabilities.

### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

### *Other financial liabilities*

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### **Provisions and accruals**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Employee benefit obligations**

Remuneration to employees in respect of services rendered during reporting period, including accrual for unused vacations and bonuses and related unified social tax (“UST”), is recognised as an expense in the period when it is earned.

#### ***Defined contribution plan***

Subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-go basis.

In the Russian Federation all obligatory social contributions, including contributions to the State Pension Fund, are collected through a UST calculated by the application of a regressive rate varying from 2% to 26% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the State Pension Fund at rates varying from 2% to 20% of the annual gross remuneration of each employee.

#### ***Defined benefit plans***

The Group operates a number of unfunded defined benefit plans for its employees.

Under these plans a retired employee (or his/her family members) is entitled to the following payments:

- *one-time payment on retirement* varying from USD 20 to three average monthly salaries and depending on the seniority;
- *quarterly allowance* varying from USD 9 to USD 16 for the rest of his/her life;
- *one-time payment upon death* which is calculated by reference to the official minimum monthly salary. At 31 December 2007 the official minimum monthly salary was USD 98 (2006: USD 42); and
- other payments stipulated in labour agreements such as anniversary payments, disability compensation, etc.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date and with immediate recognition of all actuarial gains and losses in the income statement. Past service cost is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

### Segment information

#### *Business segments – primary reporting format*

At 31 December 2007, the Group is organised in one business segment, being the production and distribution of mineral fertilisers and by-products, following the disposal of polymer business segment on 31 October 2007. The financial information relating to discontinued operations is presented in note 14.

Other Group operations comprising distribution, transport, logistics, construction and repairs services, do not constitute separate business segments.

#### *Geographical segments – secondary reporting format*

The Group's production entities operate primarily in Kirov and Perm regions of the Russian Federation. Uralchem Freight Limited, a subsidiary of the Group, registered in Cyprus, acts as an agent of the Groups' operations in the Russian Federation and does not constitute a separate geographical segment.

The revenue from continuing operations by geographical location of the Group's customers is presented in note 6.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving raw materials;
- employee benefit obligations;
- taxation; and
- initial accounting for acquisition of subsidiaries.

#### **Useful lives of property, plant and equipment**

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the Group's experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of the assets (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefit from these assets.

Management periodically reviews the appropriateness of the remaining useful lives of the property, plant and equipment.

#### **Impairment of assets**

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit is based on a cash flows projection utilising the latest budget information available.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

---

Future cash flows model involves significant estimates and assumptions regarding the market growth, market demand for the products, profitability of products and discount rates. Critical estimate in the Group's cash flows model is the expected increase of natural gas prices on the territory of the Russian Federation. This estimate was made based on the announced government policy on natural gas prices growth.

### **Allowances for doubtful debts, obsolete and slow-moving raw materials**

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful debts.

The Group creates an allowance for obsolete and slow-moving raw materials. As at 31 December 2007, the allowance for obsolete and slow-moving items was USD 8,155 thousand (2006: USD 6,185 thousand). Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the reporting period.

### **Employee benefit obligations**

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements and related employee current service cost during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group's operations.

The other principle assumptions used in calculating these benefits relate to:

- discount rate used in determining the present value of post employment benefit;
- projected salary and pension increase; and
- mortality projection.

### **Taxation**

The Group is subject to income taxes mainly in Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

### **Initial accounting for acquisition of subsidiaries**

Initial accounting for acquisition of subsidiaries involves determining the fair values assigned to the identifiable assets, liabilities and contingent liabilities of the acquired companies and the cost of acquisition. Significant management judgements and estimates are involved in determining the fair values of assets, liabilities and contingent liabilities of the acquired companies and cost of acquisition. When initial accounting can be determined only provisionally by the end of the period in which acquisition is effected, the Group accounts for the acquisition using provisional values. Adjustments to those provisional values as a result of completing the initial accounting for acquisitions in the following accounting periods might be material.

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

#### 5. BUSINESS COMBINATIONS

The table below sets a summary of acquisitions of subsidiaries and increase of ownership in subsidiaries:

	<u>Date of acquisition</u>	<u>Shares acquired, %</u>	<u>Cost of acquisition</u>
<b>KCCW</b>			
Acquisition of controlling interest	December 2006	55.0	123,225
Increase of ownership	January 2007	5.0	12,000
Increase of ownership	July 2007	1.3	5,203
Increase of ownership	October 2007	16.0	21,000
Increase of ownership	October 2007	0.1	445
		<u>77.4</u>	<u>161,873</u>
<b>Azot</b>			
Acquisition of controlling interest	August 2007	77.7	272,934
Increase of ownership	October-December 2007	1.0	3,673
		<u>78.7</u>	<u>276,607</u>

#### Open Joint Stock Company Kirovo-Chepetsk Chemical Works (“KCCW”)

##### *Acquisition of controlling interest in 2006*

On 29 December 2006, CI – Chemical Invest Limited acquired 55.0% interest in KCCW for a cash consideration of USD 123,225 thousand. KCCW is an unlisted holding company which at the date of acquisition by CI – Chemical Invest Limited owned 100% shares of Zavod Mineralnykh Udobreniy and 100% shares of Zavod Polymerov. KCCW’s production subsidiaries specialise in production of fertilisers and polymers and also provide production services to the other Group entities. The production facilities of Zavod Mineralnykh Udobreniy and Zavod Polymerov are located in Kirov region of the Russian Federation.

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

	<b>Carrying value at the date of acquisition</b>	<b>Fair value at the date of acquisition</b>
<b>ASSETS</b>		
Property, plant and equipment	199,934	241,148
Intangible assets	1,085	1,188
Inventories	52,291	67,160
Other financial assets	385	73
Trade and other receivables	53,950	51,577
Advances paid and prepaid expenses	9,861	11,930
Income tax receivable	357	357
Other taxes receivable	23,619	23,317
Cash and cash equivalents	768	768
<b>Total assets</b>	<b>342,250</b>	<b>397,518</b>
<b>LIABILITIES</b>		
Loans and borrowings	154,966	154,859
Retirement benefit obligations	-	1,903
Deferred tax liabilities	14,873	35,390
Trade and other payables	16,172	17,747
Advances received	4,894	4,894
Income tax payable	1,753	1,753
Other taxes payable	5,291	5,291
<b>Total liabilities</b>	<b>197,949</b>	<b>221,837</b>
<b>Net assets at the date of acquisition</b>		<b>175,681</b>
Less: Share of net assets attributable to minority shareholders		(79,056)
<b>Group's share of net assets acquired</b>		<b>96,625</b>
Add: Goodwill arising on acquisition		26,600
<b>Total consideration</b>		<b>123,225</b>
Deferred consideration		(123,225)
<b>Net cash flow arising on acquisition:</b>		
Cash and cash equivalents acquired		768
<b>Net cash inflow on acquisition of subsidiary</b>		<b>768</b>

In the consolidated financial statements for the year ended 31 December 2007, the acquisition of KCCW was accounted for as if it had taken place at 31 December 2006.

#### *Increase of ownership interest in 2007*

On 25 January 2007, CI – Chemical Invest Limited acquired from related parties an additional 5.0% of KCCW's shares for a cash consideration of USD 12,000 thousand, increasing its ownership in the company to 60.0%. The carrying value of KCCW's net assets at the date of transaction amounted to USD 174,639 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 8,732 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 3,268 thousand was recognised directly in the statement of changes in equity as decrease of retained earnings.

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

---

In July 2007, CI – Chemical Invest Limited acquired, through a number of transactions with minority shareholders, an additional 1.3% of KCCW's shares for a cash consideration of USD 5,203 thousand, increasing its ownership in the company to 61.3%. The carrying value of KCCW's net assets as at 31 July 2007 (the date when majority of shares were acquired) amounted to USD 193,302 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 2,513 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 2,690 thousand was recognised directly in the statement of changes in equity as decrease of retained earnings.

On 16 October 2007, CI – Chemical Invest Limited acquired from related parties an additional 16.0% of KCCW's shares for a cash consideration of USD 21,000 thousand, increasing its ownership to 77.3%. The carrying value of KCCW's net assets at the date of transaction amounted to USD 198,552 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 31,768 thousand. The excess of the Group's share in net assets acquired over the consideration paid of USD 10,768 thousand was recognised directly in the statement of changes in equity as additional paid-in capital.

As a result of acquisitions made during 2006 and 2007, at 1 November 2007, CI – Chemical Invest Limited accumulated 77.3% of KCCW's shares. During November-December 2007 all the shares were transferred to the Company as follows:

- 44.6% shares were contributed to the share capital of the Company; and
- 32.7% shares were sold to the Company for a cash consideration of USD 155,860 thousand.

On 31 October 2007, the Group acquired from minority shareholders an additional 0.1% of KCCW's shares for a cash consideration of USD 445 thousand, increasing its ownership to 77.4%. The carrying value of KCCW's net assets at on the date of acquisition amounted to USD 208,024 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 249 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 196 thousand was recognised directly in the statement of changes in equity as increase of retained earnings.

#### **Open Joint Stock Company Azot, Berezniki (“Azot”)**

##### *Acquisition of controlling interest in 2007*

On 18 July 2007 and 1 August 2007, CI – Chemical Invest Limited acquired 77.7% of share capital of Azot for a total consideration of USD 272,934 thousand through the following transactions:

- 25.1% Azot shares were contributed to share capital of CI – Chemical Invest Limited by its shareholders. The provisional value of contribution at the date of transaction amounted to USD 85,000 thousand;
- 52.6% Azot shares were purchased from third parties for a cash consideration of USD 187,934 thousand.

Azot is an unlisted company, specialising in production of nitrogen fertilisers with the main production facilities located in Berezniki, Perm region of the Russian Federation.

As there were no significant changes in fair value between 18 July 2007 and 1 August 2007, the step acquisition has been disclosed as a single transaction effective at 1 August 2007.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

The initial accounting for the acquisition of Azot was performed using provisional values, as follows:

	<b>Provisional value at the date of acquisition</b>
<b>ASSETS</b>	
Property, plant and equipment	250,445
Inventories	32,750
Other financial assets	2,114
Trade and other receivables	6,592
Advances paid and prepaid expenses	4,943
Other taxes receivable	10,197
Cash and cash equivalents	4,356
<b>Total assets</b>	<b>311,397</b>
<b>LIABILITIES</b>	
Loans and borrowings	2,007
Retirement benefit obligations	5,533
Deferred tax liabilities	35,685
Trade and other payables	15,175
Advances received	10,981
Income tax payable	485
Other taxes payable	860
<b>Total liabilities</b>	<b>70,726</b>
<b>Net assets at the date of acquisition</b>	<b>240,671</b>
Less: Share of net assets attributable to minority shareholders	(53,678)
<b>Group's share of net assets acquired</b>	<b>186,993</b>
Add: Goodwill arising on acquisition	85,941
<b>Total consideration</b>	<b>272,934</b>
Satisfied by cash	(187,934)
Satisfied in the form of contribution to share capital	(85,000)
<b>Net cash flow arising on acquisition:</b>	
Cash consideration	(187,934)
Cash and cash equivalents acquired	4,356
<b>Net cash outflow on acquisition of subsidiary</b>	<b>(183,578)</b>

At the date of acquisition, Azot did not prepare consolidated financial statements in accordance with IFRS. 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 consolidated financial statements.

Azot and its subsidiaries contributed USD 150,547 thousand of revenue and USD 39,840 thousand of profit before tax from the date of acquisition to 31 December 2007.

In November 2007, CI – Chemical Invest Limited contributed its 77.7% ownership in Azot to the share capital of the Company.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

---

### *Increase of ownership interest in 2007*

During the fourth quarter of 2007, the Group acquired through a number of transactions with minority shareholders an additional 1.0% of Azot shares for a cash consideration of USD 3,673 thousand, increasing its ownership in Azot to 78.7%. The carrying value of Azot net assets at the date of transaction was USD 281,264 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 2,813 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 860 thousand was recognised directly in the statement of changes in equity as increase of retained earnings.

### **Goodwill arising on acquisition**

Goodwill arose on acquisitions of KCCW and Azot relate 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 (unaudited)**

Potential effect of acquisition of Azot 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>Year ended 31 December 2007 (unaudited)</b>
Revenue from continuing operations	700,018
Profit before tax from continuing operations	91,027

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 before tax of the Group had Azot 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.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 6. SALES OF GOODS

<b>Year ended 31 December 2007</b>	<b>Total</b>	<b>Export</b>	<b>Russian Federation</b>	<b>Other CIS countries</b>
Ammonium nitrate and its derivatives	277,612	185,123	71,041	21,448
Ammonia	82,659	78,451	3,187	1,021
Compound fertilisers	75,219	61,667	13,552	-
Urea	34,162	31,285	2,877	-
Other	16,555	478	15,697	380
<b>Total</b>	<b>486,207</b>	<b>357,004</b>	<b>106,354</b>	<b>22,849</b>

### 7. OTHER SALES

	<b>Year ended 31 December 2007</b>
Electricity and heat energy	31,715
Transportation	5,877
Construction, repair and maintenance services	3,861
Other	9,794
<b>Total</b>	<b>51,247</b>

Substantially all other sales were made on the territory of the Russian Federation.

### 8. COST OF SALES

	<b>Year ended 31 December 2007</b>
Raw materials, including:	
Natural gas	112,375
Apatite	10,863
Potassium chloride	7,771
Other raw materials	26,159
Energy and utilities	63,628
Wages and salaries	34,370
Depreciation	26,522
Unified social tax	8,335
Repairs and maintenance	6,637
Taxes, other than income tax	3,082
Rent	1,630
Transportation	1,342
Pension costs	1,096
Change in inventory balance of work in-progress and finished goods	(8,561)
Other	7,296
<b>Total</b>	<b>302,545</b>

Unified social tax for the year ended 31 December 2007 included contributions to the State Pension Fund in the amount of USD 6,412 thousand.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 9. SELLING AND DISTRIBUTION EXPENSES

	<b>Year ended 31 December 2007</b>
Transportation	85,505
Customs clearance charges	5,347
Commissions and agent fees	1,913
Wages and salaries	702
Unified social tax	155
Other	8,645
<b>Total</b>	<b>102,267</b>

Unified social tax for the year ended 31 December 2007 included contributions to the State Pension Fund in the amount of USD 119 thousand.

### 10. GENERAL AND ADMINISTRATIVE EXPENSES

	<b>Year ended 31 December 2007</b>
Wages and salaries	13,487
Depreciation	4,328
Audit, legal and consulting services	2,653
Unified social tax	2,236
Banks charges	1,769
Fines and penalties	1,736
Security	1,321
Rent	1,036
Pension costs	191
Other expenses	10,110
<b>Total</b>	<b>38,867</b>

Unified social tax for the year ended 31 December 2007 included contributions to the State Pension Fund in the amount of USD 1,720 thousand.

### 11. OTHER OPERATING INCOME AND EXPENSES

	<b>Year ended 31 December 2007</b>
<b>Other operating income</b>	
Gain on disposal of property, plant and equipment, net	2,814
Change in fair value of forward exchange contracts	1,936
Amortisation of guarantees fee	923
<b>Total</b>	<b>5,673</b>
<b>Other operating expenses</b>	
Foreign currency exchange loss on operating activities, net	(4,961)
Charity	(541)
Other	(369)
<b>Total</b>	<b>(5,871)</b>

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 12. INTEREST EXPENSE

	<b>Year ended 31 December 2007</b>
Interest on loans and borrowings	22,985
Interest on obligations under finance leases	130
<b>Total</b>	<b>23,115</b>

### 13. INCOME TAX EXPENSE

#### Income tax expense from continuing operations

	<b>Year ended 31 December 2007</b>
Current income tax expense	19,595
Deferred tax benefit	(2,595)
<b>Total</b>	<b>17,000</b>

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

Profit before tax for the year ended 31 December 2007 is reconciled to income tax expense as follows:

	<b>Year ended 31 December 2007</b>
Profit before tax from continuing operations	77,073
Loss before tax from discontinued operations	(9,725)
<b>Total profit from operations</b>	<b>67,348</b>
Income tax expense calculated at 24%	16,164
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,587)
Effect of expenses that are non-deductible	1,596
Effect of previously unrecognised and unutilised tax losses and tax offsets now recognised as deferred tax assets	(1,353)
Adjustments to prior years tax expense recognised in the current year	310
<b>Total income tax at effective income tax rate of 22%</b>	<b>15,130</b>
Income tax benefit attributable to discontinued operations	(1,870)
<b>Income tax expense attributable to continuing operations</b>	<b>17,000</b>

### 14. DISCONTINUED OPERATIONS

On 31 March 2007, shareholders of the Group approved a plan to dispose of investments in Zavod Polymerov and Transportno-Logisticheskaya Kompaniya which represented the polymers and fluoroplastics segment of CI – Chemical Invest Limited. Consequently, the Group sold its interest in Zavod Polymerov and Transportno-Logisticheskaya Kompaniya to CI – Chemical Invest Limited for USD 55,290 thousand. The difference between the consideration received and the carrying amount of the net assets disposed of amounted to USD 8,271 thousand was recognised in the statement of changes in equity as loss on disposal of subsidiaries distributed to the Group's shareholders.

The disposal of the polymer operations is consistent with the Group's policy to focus its activities primarily on the fertilisers market. Transaction was completed on 31 October 2007. Details of the assets and liabilities disposed of are disclosed below.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### Assets and liabilities of discontinued operations

Details of the major classes of assets and liabilities as at 31 October 2007, the date of disposal, were as follows:

	<u>31 October 2007</u>
<b>ASSETS</b>	
Property, plant and equipment	76,846
Goodwill	4,340
Intangible assets	340
Inventories	23,888
Trade and other receivables	21,324
Advances paid and prepaid expenses	4,424
Income tax receivable	44
Other taxes receivable	3,347
Cash and cash equivalents	225
<b>Total assets</b>	<b><u>134,778</u></b>
<b>LIABILITIES</b>	
Loans and borrowings	34,994
Obligations under finance lease	14,215
Retirement benefit obligations	1,426
Deferred tax liabilities	5,320
Trade and other payables	10,409
Advances received	2,955
Income tax payable	28
Other taxes payable	1,870
<b>Total liabilities</b>	<b><u>71,217</u></b>
<b>Group's share of net assets disposed of</b>	<b>63,561</b>
Less: Loss on disposal	(8,271)
<b>Total net assets distributed to shareholders</b>	<b>55,290</b>
Deferred proceeds on disposal	(55,290)
<b>Net cash flow arising on disposal:</b>	
Cash and cash equivalents disposed of	(225)
<b>Net cash outflow on disposal</b>	<b><u>(225)</u></b>

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### Cash flows from discontinued operations

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

	<b>10 months ended 31 October 2007</b>
Net cash flows used in operating activities	(4,697)
Net cash flows generated from investing activities	5,135
Net cash flows used in financing activities	(368)
<b>Net cash flows</b>	<b>70</b>

During the ten months ended 31 October 2007, the Group spent USD 8,353 thousand for acquisition of property plant and equipment attributable to discontinued operations.

### Loss for the period from discontinued operations

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

	<b>10 months ended 31 October 2007</b>
<b>Revenue</b>	
Sales of goods	87,731
Other sales	22,300
<b>Total revenue</b>	<b>110,031</b>
Cost of sales	(106,237)
<b>Gross profit</b>	<b>3,794</b>
Selling and distribution expenses	(2,582)
General and administrative expenses	(9,739)
Other operating income	2,043
Other operating expenses	(2,727)
<b>Operating loss</b>	<b>(9,211)</b>
Interest income	758
Interest expense	(2,744)
Foreign exchange gain from financing activities	1,472
<b>Loss before tax</b>	<b>(9,725)</b>
Income tax benefit	1,870
<b>Loss for the period from discontinued operations</b>	<b>(7,855)</b>

### Deferred proceeds on disposal of subsidiaries

Management of the Group expects that deferred proceeds on disposal of subsidiaries will be settled before 30 June 2008 as follows: partially offset against promissory notes held by related parties (refer to note 24), and the remaining portion will be paid.

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

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

Deferred proceeds on disposal of subsidiaries recorded in the balance sheet as at 31 December 2007 consisted of the following:

	<b>Period ended 31 December 2007</b>
Recognised on disposal of subsidiaries	55,290
Interest income	936
Effect of translation to presentation currency	307
<b>Balance at end of the year</b>	<b>56,533</b>

#### 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings and structures</b>	<b>Machinery, equipment and transport</b>	<b>Other</b>	<b>Construction in-progress</b>	<b>Total</b>
<b>Cost</b>					
Acquired on business combinations	124,144	96,661	767	19,576	241,148
<b>Balance at 1 January 2007</b>	<b>124,144</b>	<b>96,661</b>	<b>767</b>	<b>19,576</b>	<b>241,148</b>
Additions	2,913	25,409	953	36,405	65,680
Acquired on business combinations	49,859	183,647	3,143	13,796	250,445
Transfers	3,958	36,783	252	(40,993)	-
Disposals	(867)	(1,890)	(586)	(1,504)	(4,847)
Eliminated on disposal of subsidiaries	(28,279)	(48,902)	(298)	(7,051)	(84,530)
Effect of translation to presentation currency	11,103	16,692	210	1,678	29,683
<b>Balance at 31 December 2007</b>	<b>162,831</b>	<b>308,400</b>	<b>4,441</b>	<b>21,907</b>	<b>497,579</b>
<b>Accumulated depreciation</b>					
<b>Balance at 1 January 2007</b>	-	-	-	-	-
Charge for the year	(10,489)	(27,435)	(400)	-	(38,324)
Eliminated on disposals	106	443	26	-	575
Eliminated on disposal of subsidiaries	1,770	5,878	36	-	7,684
Effect of translation to presentation currency	(423)	(1,091)	(15)	-	(1,529)
<b>Balance at 31 December 2007</b>	<b>(9,036)</b>	<b>(22,205)</b>	<b>(353)</b>	<b>-</b>	<b>(31,594)</b>
<b>Carrying value</b>					
<b>At 31 December 2006</b>	<b>124,144</b>	<b>96,661</b>	<b>767</b>	<b>19,576</b>	<b>241,148</b>
<b>At 31 December 2007</b>	<b>153,795</b>	<b>286,195</b>	<b>4,088</b>	<b>21,907</b>	<b>465,985</b>

Depreciation charge recognised in the income statement for the year ended 31 December 2007 consisted of USD 30,640 thousand related to continuing operations and USD 7,894 related to discontinued operations.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

At 31 December 2007, construction-in-progress included advances paid for acquisition of the property, plant and equipment in the amount of USD 6,622 thousand (2006: USD 709 thousand).

### 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 24):

	<u>31 December 2007</u>	<u>31 December 2006</u>
Buildings and structures	76,182	92,810
Machinery, equipment and transport	72,599	93,475
Other	36	35
<b>Total</b>	<b><u>148,817</u></b>	<b><u>186,320</u></b>

### 16. GOODWILL

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Balance at beginning of the period</b>	<b>26,600</b>	<b>-</b>
Acquired on business combinations	85,941	26,600
Eliminated on disposal of subsidiaries	(4,340)	-
Effect of translation to presentation currency	5,643	-
<b>Balance at end of the year</b>	<b><u>113,844</u></b>	<b><u>26,600</u></b>

The sale of the Group's polymers and associated operations to CI – Chemical Invest Limited was completed on 31 October 2007 (refer to note 14), and goodwill in the amount of USD 4,340 thousand was included in determination of net result from the disposal of discontinued operations.

### Allocation of goodwill to cash-generating units

The carrying amount of goodwill was allocated to the following cash-generating units:

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Fertilisers segment</b>		
Azot	89,681	-
Zavod Mineralnykh Udobreniy	24,163	22,525
<b>Polymers and fluoroplastics segment</b>		
Zavod Polymerov	-	4,075
<b>Total</b>	<b><u>113,844</u></b>	<b><u>26,600</u></b>

The recoverable amount of a separate cash generating unit is determined based on the value-in-use calculations. These calculations use pre-tax cash flow projections based on budgets approved by the Group and covering a five-year period. Cash flows beyond the five-year period are extrapolated by using the expected forecasts stated below.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

The summary of key assumptions used for value-in-use determination were as follows:

	<u>31 December 2007</u>
Gross margin	44-59%
Growth rate	3-13%
Discount rate	12%
Raw materials price inflation	9-18%

### 17. INVENTORIES

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Inventories expected to be used in production after twelve months</b>		
Catalytic agents	25,046	12,202
Mercury and other inventories	2,842	7,462
	<u>27,888</u>	<u>19,664</u>
<b>Inventories expected to be used in production in the next twelve months</b>		
Raw materials, net of allowance for obsolescence	39,326	30,949
Finished goods	24,223	8,552
Work in-progress	5,073	7,735
Goods for resale	237	260
	<u>68,859</u>	<u>47,496</u>
<b>Total</b>	<u>96,747</u>	<u>67,160</u>

At 31 December 2007, raw materials were presented net of allowance for obsolescence of USD 8,155 thousand (2006: USD 6,185 thousand).

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

	<u>31 December 2007</u>	<u>31 December 2006</u>
Carrying value of pledged inventories (refer to note 24)	27,583	14,193

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

#### 18. OTHER FINANCIAL ASSETS

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Non-current</b>		
Promissory notes issued by related parties, carried at amortised cost	988	-
Foreign currency forward contracts, carried at FVTPL	862	-
Other financial assets	349	14
	<u>2,199</u>	<u>14</u>
<b>Current</b>		
Loans issued, carried at amortised cost	26,156	59
Foreign currency forward contracts, carried at FVTPL	1,155	-
Other financial assets	15	-
	<u>27,326</u>	<u>59</u>
<b>Total</b>	<u>29,525</u>	<u>73</u>

At 31 December 2007 interest rates on loans issued varied from 10-11% (2006: 11-12%). The majority of loans issued were unsecured, RUR-denominated and receivable from related parties.

#### 19. TRADE AND OTHER RECEIVABLES

	<u>31 December 2007</u>	<u>31 December 2006</u>
Trade receivables	16,729	51,029
Other receivables	3,736	1,704
	<u>20,465</u>	<u>52,733</u>
Less: allowance for doubtful receivables	(440)	(1,156)
<b>Total</b>	<u>20,025</u>	<u>51,577</u>

The average credit period for the Group's customers varies from 20 to 60 days. During this period no interest is charged on the outstanding balances. The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are outstanding beyond 360 days are generally not recoverable. Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits available to customer is reviewed on an annual basis. As of 31 December 2007 the Group's three largest customers (individually exceeding 3% of the total receivables balance) represented 48% (2006: 93%) from the outstanding balance of accounts receivable.

Included in the Group's receivables balance are debtors of USD 1,291 thousand (2006: USD 785 thousand) which were past due but not impaired. The Group did not hold any collateral over these outstanding balances. The weighted average age of these receivables is 155 days (2006: 26 days).

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

The movement in the allowance for doubtful trade and other receivables was as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Balance at beginning of the period</b>	<b>1,156</b>	-
Acquired on business combinations	205	1,156
Eliminated on disposal of subsidiaries	(166)	-
Recognised in the income statement	(122)	-
Amounts written-off	(172)	-
Amount recovered during the year	(518)	-
Effect of translation to presentation currency	57	-
<b>Balance at end of the year</b>	<b>440</b>	<b>1,156</b>

### 20. ADVANCES PAID AND PREPAID EXPENSES

	<u>31 December 2007</u>	<u>31 December 2006</u>
Advances paid for supply of natural gas	24,656	8,237
Advances for transportation services	16,678	692
Other advances and prepaid expenses	13,872	3,001
<b>Total</b>	<b>55,206</b>	<b>11,930</b>

### 21. OTHER TAXES RECEIVABLE

	<u>31 December 2007</u>	<u>31 December 2006</u>
Value added tax reimbursable	38,095	23,289
Other taxes	237	28
<b>Total</b>	<b>38,332</b>	<b>23,317</b>

### 22. CASH AND CASH EQUIVALENTS

	<u>31 December 2007</u>	<u>31 December 2006</u>
Current accounts, including:		
- RUR-denominated	14,991	573
- USD-denominated	3,435	157
USD-denominated bank deposits maturing in January 2008	10,407	-
Other cash and cash equivalents	14	38
<b>Total</b>	<b>28,847</b>	<b>768</b>

At 31 December 2007, interest rates on deposits at HSBC bank and Sberbank of the Russian Federation varied from 3% to 4% (2006: n/a).

### 23. SHARE CAPITAL

#### Authorised, issued and fully paid share capital

At 22 October 2007 (the date when the Company was established) and 31 December 2007, the share capital of the Company consisted of 100,000,000 authorised, issued and fully paid ordinary shares with a par value of RUR 20, carrying one vote per share and a right to dividends.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### Retained earnings and dividends

The statutory financial statements of the Group entities are the basis for the profit distribution and other appropriations. For the year ended 31 December 2007, loss for the year recorded in the statutory financial statements of the parent company amounted to USD 788 thousand (unaudited).

### Earnings per share

Earnings per share were calculated by dividing net profit attributable to shareholders of the Company for the year ended 31 December 2007 by weighted average number of ordinary shares in issue during the year. Weighted average number of shares in issue was calculated based on the assumption that the number of shares issued on 22 October 2007 was outstanding from the 29 December 2006, the date on which the fertilisers, polymers and fluoroplastics operations, comprising KCCW, were acquired by CI – Chemical Invest Limited.

## 24. LOANS AND BORROWINGS

	Currency	Rate	31 December 2007	Rate	31 December 2006
			Outstanding balance		Outstanding balance
<b>Secured bank loans</b>					
Sberbank (i)	RUR	8.0-9.5%	212,714	9.0%	4,739
VTB Moscow (ii)	USD	8.9%	65,207	-	-
MDM bank	USD	12.0%	56,621	-	-
VTB North-West	USD	9.0-9.9%	38,583	9.3%	41,049
VTB North-West	RUR	10.0-10.8%	2,613	9.8-11.5%	4,521
VTB North-West	EURO	8.5%	881	-	-
Uralsib	USD	9.8%	1,100	-	-
Rosbank	USD	-	-	11.0%	28,119
Petrocommerts Bank of Russia (iii)	USD	-	-	10.9%	25,000
Sberbank	USD	-	-	8.0%	5,507
Sberbank	EURO	-	-	7.6%	3,170
<b>Unsecured bank loans</b>					
Sberbank	RUR	8.0-9.0%	20,046	8.0-9.0%	476
Rosbank	USD	11.0-11.4%	17,831	-	-
Uralsib	USD	9.8%	3,200	-	-
MDM bank	RUR	-	-	10.0%	5,135
Sberbank	USD	-	-	8.0%	308
Other loans	vary	vary	88	vary	184
Promissory notes (iv)	USD/RUR	10.0%	41,858	11.0%	36,550
Obligations under finance leases	RUR	vary	1,013	vary	101
<b>Total</b>			<b>461,755</b>		<b>154,859</b>
<b>Less: current portion repayable within twelve months and shown under current liabilities</b>			<b>(149,531)</b>		<b>(129,511)</b>
<b>Long-term portion of loans and borrowings</b>			<b>312,224</b>		<b>25,348</b>

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

The loans and borrowings are repayable as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Due within three months	28,308	4,032
Due from three to six months	21,854	23,003
Due from six to twelve months	<u>99,369</u>	<u>102,476</u>
<b>Total current portion repayable within twelve months</b>	<b><u>149,531</u></b>	<b><u>129,511</u></b>
Due in the second year	160,590	25,000
Due in the third year	85,897	-
Due in the fourth year	54,057	-
Due in the fifth year	11,680	-
Due thereafter	<u>-</u>	<u>348</u>
<b>Total long-term portion of loans and borrowings</b>	<b><u>312,224</u></b>	<b><u>25,348</u></b>

- (i) *Secured loans from Sberbank.* RUR-denominated loans at a fixed rate of 8.0% – 9.5% per annum. The loans are repayable quarterly starting from 20 March 2009 with the final installment due on 26 July 2012. The loans are secured by 77.6% of Azot shares held by the Group.
- (ii) *Secured loans from VTB Moscow.* USD-denominated loans at a floating rate Libor + 4.2% per annum. The loans are repayable in one installment due on 4 June 2009. The loans are secured by 25%+1 KCCW shares held by the Group.
- (iii) *Secured loans from Petrocommerts Bank of Russia.* A USD-denominated loan at a floating rate Libor + 5.5% per annum. The loan was repaid in December 2007.
- (iv) *Promissory notes.* USD and RUR-denominated promissory notes payable on demand were issued in 2004 by KCCW and as at 31 December 2007 and 2006 were held by related parties. The promissory notes bear interest at rates 10.0% (2006: 11.0%). Management expects to settle promissory notes during six months ended 30 June 2008.

Certain bank loans are subject to the restrictive covenants, including but not limited to:

- set-up limits for total amount of borrowings of certain Group subsidiaries;
- prohibition of issuance of additional promissory notes and other Group's debentures;
- pre-approval of guarantees issued; and
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks.

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

The following items of property, plant and equipment, inventories and accounts receivable were pledged to secure loans and borrowings:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Property, plant and equipment (refer to note 15)	148,817	186,320
Inventories (refer to note 17)	<u>27,583</u>	<u>14,193</u>
<b>Total</b>	<b><u>176,400</u></b>	<b><u>200,513</u></b>

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 25. RETIREMENT BENEFIT OBLIGATIONS

#### Defined contribution plan

The total expense recognised in the income statement of USD 11,607 thousand (2006: nil) represents contributions payable to the State Pension Fund, of which USD 3,356 thousand related to discontinued operations.

At 31 December 2007, an outstanding contribution to the State Pension Fund amounted to USD 1,140 thousand (2006: USD 970 thousand).

#### Defined benefit plans

The Group operates an unfunded defined benefit plan for qualifying employees of subsidiaries located in the Russian Federation. The actuarial valuation of defined benefit obligations as at 31 December 2007 was performed by an independent actuary.

The principle assumptions used for the purposes of the actuarial valuations were as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Discount rate	6.6%	6.6%
Expected salary increase	9.2%	9.2%
Expected pension increase	5.0%	5.0%
Employee turnover rate	5.0%	5.0%
Age of retirement		
Male	53 years	53 years
Female	50 years	50 years
Average life expectancy of members from date of retirement		
Male	20 years	20 years
Female	31 years	31 years

Amounts recognised in the income statement in respect of these defined benefit plans were as follows:

	<u>31 December 2007</u>
Actuarial losses	1,628
Interest on obligation	276
Current service cost	129
<b>Total pension costs recognised in the income statement</b>	<b><u>2,033</u></b>
<b>Pension costs included in continuing operations</b>	<b><u>1,287</u></b>
<b>Pension costs included in discontinued operations</b>	<b><u>746</u></b>

Amounts included in the balance sheet in respect of defined benefit plans were as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Present value of unfunded defined benefit obligations	8,385	1,903

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

Movements in the present value of the unfunded defined benefit obligations were as follows:

	<u>Year ended</u> <u>31 December 2007</u>	<u>Year ended</u> <u>31 December 2006</u>
<b>Balance at beginning of the year</b>	<b>1,903</b>	-
Liabilities assumed in a business combination	5,533	1,903
Actuarial losses	1,628	-
Interest expense	276	-
Current service cost	129	-
Liabilities eliminated on disposal of subsidiaries	(1,426)	-
Benefits paid	(93)	-
Effect of translation to presentation currency	435	-
<b>Balance at end of the year</b>	<b>8,385</b>	<b>1,903</b>

### 26. DEFERRED TAXES

	<u>31 December</u> <u>2006</u>	<u>Acquired on</u> <u>business</u> <u>combinations</u>	<u>Disposed of</u> <u>on disposal</u> <u>of</u> <u>subsidiaries</u>	<u>Recognised</u> <u>in the</u> <u>income</u> <u>statement</u>	<u>Effect of</u> <u>translation</u> <u>to</u> <u>presentation</u>	<u>31 December</u> <u>2007</u>
Property, plant and equipment	27,527	34,803	(5,243)	(2,459)	2,654	57,282
Inventories	6,097	1,656	(1,499)	(931)	462	5,785
Trade and other receivables	(267)	(518)	-	1,361	17	593
Trade and other payables	264	1	-	(940)	(20)	(695)
Tax loss carryforward	(3,875)	-	1,422	(2,128)	(361)	(4,942)
Other	(1,359)	(257)	-	1,864	(30)	218
Provision	7,003	-	-	(1,353)	451	6,101
	<b>35,390</b>	<b>35,685</b>	<b>(5,320)</b>	<b>(4,586)</b>	<b>3,173</b>	<b>64,342</b>

Amounts recognised in the income statement for the year ended 31 December 2007 were the following: USD 2,595 related to continuing operations and USD 1,991 related to discontinued operations.

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax assets have not been recognised are attributable to the following:

	<u>31 December 2007</u>
Russian subsidiaries	205,943
Foreign subsidiaries	1,036
	<b>206,979</b>

## OPEN JOINT STOCK COMPANY URALCHEM

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

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

	<u>31 December 2007</u>	<u>31 December 2006</u>
Deferred tax assets	(1,915)	-
Deferred tax liabilities	66,257	35,390
	<u><b>64,342</b></u>	<u><b>35,390</b></u>

At 31 December 2007, the Group recognised deferred tax asset of USD 1,915 thousand (2006: nil) in respect of tax losses carried forward that are available indefinitely for offset against future taxable profit of the Company.

#### 27. TRADE AND OTHER PAYABLES

	<u>31 December 2007</u>	<u>31 December 2006</u>
Trade and other payables	25,205	11,239
Unpaid salaries	4,840	2,531
Provision for unused vacations	2,888	1,979
Accrued expenses	2,561	1,152
Payables for property, plant and equipment	1,559	846
<b>Total</b>	<u><b>37,053</b></u>	<u><b>17,747</b></u>

The average credit period on the purchase of inventories and services in the Russian Federation is 30 days.

The table below summarises the maturity profile of the Group's trade and other payables based on contractual undiscounted payments:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Due within three months	29,432	14,264
Due from three to six months	20	603
Due from six to twelve months	7,601	2,880
<b>Total</b>	<u><b>37,053</b></u>	<u><b>17,747</b></u>

#### 28. OTHER TAXES PAYABLE

	<u>31 December 2007</u>	<u>31 December 2006</u>
Value added tax	1,984	2,134
Unified social tax	1,481	1,261
Property tax	911	1,046
Other taxes	1,681	850
<b>Total</b>	<u><b>6,057</b></u>	<u><b>5,291</b></u>

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 29. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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

As at 31 December 2007 and 2006 the Group had the following outstanding balances with related parties:

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Shareholders of the Group</b>		
Other financial assets	20,286	-
<b>Entities under common ownership and control with the Group</b>		
Deferred sales proceeds on disposal of subsidiaries	56,533	-
Other financial assets	7,315	-
Trade and other receivables	11,864	4,156
Deferred consideration on acquisition of subsidiaries	-	(123,225)
Loans and borrowings	(41,544)	(36,264)
Trade and other payables	(9,814)	-

During the year ended 31 December 2007 the Group entered into the following transactions with related parties:

	<u>Year ended 31 December 2007</u>
<b>Entities under common ownership and control with the Group</b>	
Sales of goods and services	77,589
Purchases of goods and services	(28,462)
Interest expense on loans and borrowings	(3,997)
Loans issued	27,997
Proceeds from repayment of loans issued	(3,284)

The amounts outstanding were unsecured and expected to be settled in cash, except for promissory notes held by related parties as described in note 14. No expense has been recognised in the year ended 31 December 2007 for bad or doubtful debts in respect of amounts owed by related parties.

Sales of goods to related parties were made on the terms similar to those that were used in the third parties transactions, including average discounts of 3% to 5% applicable to the largest Group's customers.

Other sales, mainly consisted of sales of electricity and heat energy, were made at the 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 insignificant premium (1% to 2%) to cover operating expenses of those entities.

Loans to related parties were issued at market terms.

#### Compensation of key management personnel

The remuneration of key management personnel of the Group for the year ended 31 December 2007 comprised salaries and bonuses in the amount of USD 4,457 thousand, including unified social tax in amount of USD 920 thousand.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 30. COMMITMENTS AND CONTINGENCIES

#### Purchase of natural gas

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

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

	<u>31 December 2007</u>
Due in one year	163,253
Due from one to five years	<u>760,378</u>
<b>Total</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>31 December 2007</u>	<u>31 December 2006</u>
Acquisition of property, plant and equipment	1,074	6,122
Fulfilment of finance lease agreements	<u>2,176</u>	<u>481</u>
<b>Total</b>	<b><u>3,250</u></b>	<b><u>6,603</u></b>

#### Operating leases: Group as a lessee

The Group leases certain machinery and equipment. The respective lease agreements have an average life of 1 to 5 years with no renewal option at the end of the lease term.

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

	<u>31 December 2007</u>	<u>31 December 2006</u>
Due in one year	381	1,230
Due from one to five years	<u>115</u>	<u>416</u>
<b>Total</b>	<b><u>496</u></b>	<b><u>1,646</u></b>

#### Guarantees issued

As at 31 December 2007 and 2006 the Group issued financial guarantees in respect of loans obtained by a number of related and third parties. Total amount of outstanding guarantees issued by the Group were as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Related parties	52,528	6,397
Third parties	<u>28</u>	<u>44,164</u>
<b>Total</b>	<b><u>52,556</u></b>	<b><u>50,561</u></b>

Guarantees given to related parties were secured by 25%+1 KCCW shares held by the Group, which at the same time were pledged to secure loans obtained from VTB Moscow (refer to note 24).

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 31 December 2007, management assessed the risk of non-performance by parties to these financial guarantees as remote.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

---

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

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

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

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

### **Environmental matters**

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

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

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

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

### **Russian Federation risk**

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

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Management believes that the carrying values of all significant financial assets (refer to notes 18, 19 and 22) and financial liabilities (refer to notes 24 and 27) recorded at amortised cost in the consolidated financial statements approximated their fair values.

### 32. FINANCIAL RISK MANAGEMENT

#### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

#### Major categories of financial instruments

The Group's principle financial liabilities comprise loans and borrowings and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans issued, cash and cash equivalents, promissory notes and foreign currency forward contracts.

	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Financial assets</b>		
Loans issued and accounts receivable, including deferred proceeds on disposal of subsidiaries	102,714	51,636
Cash and cash equivalents	28,847	768
Promissory notes held by related parties, carried at amortised cost	988	-
Foreign currency forward contracts, carried at FVTPL	2,017	-
<b>Total financial assets</b>	<u><b>134,566</b></u>	<u><b>52,404</b></u>
<b>Financial liabilities</b>		
Loans and borrowings	461,755	154,859
Accounts payable, including deferred consideration on acquisition of subsidiaries	37,053	140,972
<b>Total financial liabilities</b>	<u><b>498,808</b></u>	<u><b>295,831</b></u>

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

### Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group uses derivatives to manage foreign currency risk exposure (see below).

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date were as follows:

	<u>US Dollar - denominated</u>		<u>EURO - denominated</u>	
	<u>31 December 2007</u>	<u>31 December 2006</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
<b>Assets</b>				
Trade and other receivables	7,254	43,403	-	1,393
Other financial assets	-	40	-	-
Cash and cash equivalents	<u>13,842</u>	<u>157</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b><u>21,096</u></b>	<b><u>43,600</u></b>	<b><u>-</u></b>	<b><u>1,393</u></b>
<b>Liabilities</b>				
Loans and borrowings	191,574	108,331	602	2,406
Trade and other payables	<u>9,498</u>	<u>610</u>	<u>365</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>201,072</u></b>	<b><u>108,941</u></b>	<b><u>967</u></b>	<b><u>2,406</u></b>
<b>Total net position</b>	<b><u>179,976</u></b>	<b><u>65,341</u></b>	<b><u>967</u></b>	<b><u>1,013</u></b>

The table below details the Group's sensitivity to the strengthening of the Russian Rouble against the US Dollar and the EURO by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in the respective currencies.

	<u>US Dollar - impact</u>		<u>EURO - impact</u>	
	<u>31 December 2007</u>	<u>31 December 2006</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
Profit	17,998	6,534	97	101

### Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts in respect of its export revenues. As at and for the year ended 31 December 2007, no foreign currency exchange contracts were designated as cash flow hedges, accordingly, net income in the amount of USD 1,936 (refer to note 11) relating to a change in fair value of derivative instruments was included in other operating income within the income statement.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

The following table details the forward foreign currency contracts outstanding as at 31 December 2007:

	Weighted average exchange rate	31 December 2007	
		Contract value	Fair value
<b>Sell USD</b>			
Less than three months	24.56	65,158	269
From three to six months	24.63	57,038	286
From six to twelve months	24.77	115,062	600
<b>Total current</b>		<b>237,258</b>	<b>1,155</b>
Due in the second year	25.33	89,856	862
<b>Total</b>		<b>327,114</b>	<b>2,017</b>

### Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure. The majority of the Group's financial liabilities are at fixed rates and, accordingly, interest rate risk is limited.

The table below details the Group's sensitivity to increase of floating rate by 1%. The analysis was applied to loans and borrowings based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

	LIBOR - impact	
	31 December 2007	31 December 2006
Loss	650	250

### Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group in time, leading to financial losses to the Group.

Revenue from the five largest customers constitutes over 50% of total Group's revenues, however, management believes that there is no concentration of credit risk. The Group is not dependent on the largest customers because of the existence of liquid commodity market for majority of fertilisers and its by-products.

At 31 December 2007 amounts receivable from the five largest customers were USD 6,824, which represented approximately 34% of the total outstanding balance of accounts receivable.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The summaries of maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual payments are presented in notes 24 and 27.

# OPEN JOINT STOCK COMPANY URALCHEM

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of US Dollars unless otherwise stated

---

### 33. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

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

##### ***KCCW***

In February and March 2008, the Group acquired through a number of transactions an additional 0.2% interest in KCCW for a cash consideration of USD 1,255 thousand, increasing its ownership in this company to 77.6%.

On 13 May 2008 the Group acquired an additional 11.4% interest in KCCW for USD 59,573 thousand, increasing its ownership in this company to 89.0%. As a result of this transaction the Group became the owner of 95% of voting shares of KCCW. In accordance with the Russian legislation the Group has the right to buyout the remaining shares of KCCW from minority shareholders. Management of the Group intends to exercise this right during 2008.

##### ***Azot***

During January-April 2008, the Group acquired through a number of transactions an additional 3.1% interest in Azot for a cash consideration of USD 11,616 thousand, increasing its ownership in this company to 81.8%.

On 8 May 2008, the Group acquired additional 2% of Azot shares for a cash consideration of USD 7,783 thousand increasing its ownership in this company to 83.8%.

On 13 May 2008, the Group acquired an additional 11.2% interest in Azot for a cash consideration of USD 43,561 thousand increasing its ownership in this company to 95%. In accordance with the Russian legislation the Group has the right to buyout the remaining shares of Azot from minority shareholders. Management of the Group intends to exercise this right during 2008.

#### **Loans issued**

In the first quarter of 2008 the Company issued loans to one of the shareholders in the amount of USD 11,331 thousand.

#### **Guarantees issued**

In the first quarter of 2008 the Group's subsidiaries issued guarantees to one of the shareholders of USD 223,852 thousand and to the other related parties in the amount of USD 28,200 thousand.