

URALCHEM HOLDING P.L.C.

**Condensed consolidated interim
financial statements
for the six months ended 30 June 2011
(unaudited)**

URALCHEM HOLDING P.L.C.

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The following statement, which should be read in conjunction with the independent auditors' report on review of condensed consolidated interim financial statements set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the condensed consolidated interim financial statements of UralChem Holding P.L.C. and its subsidiaries ("the Group").

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of the Group as at 30 June 2011, the results of its operations for the six months ended 30 June 2011, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 Interim Financial Reporting.


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

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

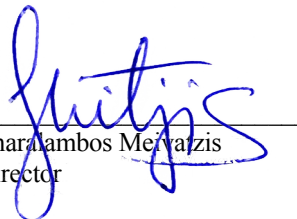
Management, within its competencies, is also responsible for:

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

The condensed consolidated interim financial statements for the six months ended 30 June 2011 were approved and signed on 1 August 2011 by:



Victor Zorkin
Director



Charalambos Mervazis
Director

Limassol, Cyprus
1 August 2011

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

To the shareholders and Board of Directors of UralChem Holding P.L.C.:

We have reviewed the accompanying condensed consolidated interim statement of financial position of UralChem Holding P.L.C. and its subsidiaries (collectively – “the Group”) as at 30 June 2011 and the related condensed consolidated interim statements of income, comprehensive income, cash flows and changes in equity for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The Group was unable to account for its investment in Open Joint Stock Company Perm Mineral Fertilisers using the equity method of accounting in accordance with IAS 28 Investments in Associates. As a result we were unable to satisfy ourselves as to the carrying value of investment in this associate as at 30 June 2011 stated at USD 24,952 thousand and the Group's share of profits of this associate for the six months ended 30 June 2011.

Qualified Conclusion

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



Moscow, Russia
1 August 2011

URALCHEM HOLDING P.L.C.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Six months ended 30 June		Three months ended 30 June	
		2011	2010	2011	2010
Revenue					
Sales of goods	6	993,316	630,773	448,562	322,585
Other sales		42,160	32,680	20,465	16,185
Total revenue		1,035,476	663,453	469,027	338,770
Cost of sales	7	(458,752)	(360,861)	(208,907)	(186,887)
Gross profit		576,724	302,592	260,120	151,883
Selling and distribution expenses	8	(228,821)	(158,118)	(109,922)	(76,916)
General and administrative expenses	9	(58,405)	(57,974)	(28,598)	(30,378)
Other operating income		11,293	3,149	7,100	2,485
Other operating expenses		(12,775)	(7,105)	(665)	(3,387)
Operating profit		288,016	82,544	128,035	43,687
Interest income		1,162	706	173	214
Interest expense		(63,606)	(78,680)	(30,343)	(38,105)
Share of gain/(loss) of associates		332	(1,165)	369	(371)
Foreign exchange gain/(loss) from financing activities		84,237	(29,823)	11,760	(59,332)
Profit/(loss) before tax		310,141	(26,418)	109,994	(53,907)
Income tax		(66,160)	12,937	(27,070)	21,795
Profit/(loss) for the period		243,981	(13,481)	82,924	(32,112)
Attributable to:					
Shareholders of the parent		239,924	(9,502)	80,160	(30,755)
Non-controlling interests		4,057	(3,979)	2,764	(1,357)
		243,981	(13,481)	82,924	(32,112)
Earnings/(loss) per share					
Weighted average number of ordinary shares in issue during the period		175,000,000	175,000,000	175,000,000	175,000,000
Basic and diluted earnings/(loss) per share (US dollars per share)		1.37	(0.05)	0.46	(0.18)

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Profit/(loss) for the period	243,981	(13,481)	82,924	(32,112)
Other comprehensive income/(loss):				
Effect of translation to presentation currency	5,921	(3,486)	(159)	(5,222)
Other comprehensive income/(loss)	5,921	(3,486)	(159)	(5,222)
Total comprehensive income/(loss) for the period	249,902	(16,967)	82,765	(37,334)
Total comprehensive income/(loss) for the period attributable to:				
Shareholders of the parent	242,855	(10,893)	79,500	(31,781)
Non-controlling interests	7,047	(6,074)	3,265	(5,553)
	249,902	(16,967)	82,765	(37,334)

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

URALCHEM HOLDING P.L.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	30 June 2011	31 December 2010
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	670,581	638,073
Goodwill		182,724	168,329
Intangible assets		14,361	11,426
Investments in associates		36,157	34,715
Inventories	11	35,956	32,704
Available-for-sale investments		191,628	176,530
Long-term accounts receivable		3,186	3,072
Other financial assets		4,955	4,833
Deferred tax assets		55,638	72,305
		1,195,186	1,141,987
<i>Current assets</i>			
Assets held for sale		7,073	9,274
Inventories	11	120,125	112,938
Trade and other receivables		88,650	103,115
Advances paid and prepaid expenses		31,524	33,776
Income tax receivable		6,726	5,482
Other taxes receivable		61,163	54,788
Other financial assets		2,009	1,689
Cash and cash equivalents		84,192	46,410
		401,462	367,472
TOTAL ASSETS		1,596,648	1,509,459
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital		1,374	1,374
Additional paid-in capital		152,223	152,223
Foreign currency translation reserve		(65,921)	(68,852)
Accumulated deficit		(16,227)	(262,630)
Equity attributable to shareholders of the parent		71,449	(177,885)
Non-controlling interests		711	33,639
Total equity		72,160	(144,246)
<i>Non-current liabilities</i>			
Loans and borrowings	12	743,626	881,043
Obligations under finance leases		34,825	37,543
Trade and other payables		22,347	8,936
Retirement benefit obligations		9,620	8,655
Deferred tax liabilities		51,236	43,627
		861,654	979,804
<i>Current liabilities</i>			
Loans and borrowings	12	528,918	473,263
Obligations under finance leases		10,558	10,604
Trade and other payables		65,352	114,911
Non-controlling interest liability	3	34,009	-
Advances received		15,284	56,041
Income tax payable		1,779	13,782
Other taxes payable		6,934	5,300
		662,834	673,901
Total liabilities		1,524,488	1,653,705
TOTAL EQUITY AND LIABILITIES		1,596,648	1,509,459

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Six months ended 30 June 2011	Six months ended 30 June 2010
Operating activities		
Profit/(loss) before tax	310,141	(26,418)
Adjustments for:		
Depreciation of property, plant and equipment	46,991	53,553
Amortisation of intangible assets	1,836	811
Change in provisions and allowances	(5,369)	185
Write-down of inventory to net realisable value	1,356	2,615
Loss on disposal of property, plant and equipment	4,126	1,102
Foreign exchange (gain)/loss, net	(76,342)	32,290
Share of (gain)/loss of associates	(332)	1,165
Loss on disposal of subsidiaries	380	-
Interest income	(1,162)	(706)
Interest expense	63,606	78,680
Operating cash flows before working capital changes	345,231	143,277
Increase in inventory	(1,373)	(16,481)
Decrease in trade and other receivables	6,655	2,269
Decrease in advances paid and prepaid expenses	4,102	11,409
(Increase)/decrease in other taxes receivable	(797)	14,312
Increase in retirement benefit obligations	221	371
Decrease in trade and other payables	(7,915)	(11,645)
Decrease in advances received	(44,396)	(15,765)
Increase in other taxes payable	1,283	1,496
Cash generated from operations	303,011	129,243
Interest paid	(55,061)	(69,653)
Income tax paid	(54,416)	(14,507)
Net cash generated from operating activities	193,534	45,083
Investing activities		
Acquisition of short-term promissory note	-	(35,000)
Payments for property, plant and equipment	(33,649)	(18,812)
Proceeds from disposal of property, plant and equipment	6,555	3,762
Payments for intangible assets	(3,979)	(2,404)
Loans issued	(640)	(27,696)
Proceeds from repayment of loans issued	471	47,807
Interest received	152	15,973
Net cash used in investing activities	(31,090)	(16,370)

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (CONTINUED) (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Six months ended 30 June 2011	Six months ended 30 June 2010
Financing activities		
Proceeds from short-term loans and borrowings	220,068	109,141
Proceeds from long-term loans and borrowings	9,083	66,031
Repayment of short-term loans and borrowings	(335,765)	(198,282)
Distribution of dividends received from the associate to parent company	(15,778)	-
Increase of ownership in subsidiaries	(6)	(459)
Proceeds from issue of shares by a subsidiary	526	-
Repayment of principal amounts of finance leases	(3,020)	(2,932)
Net cash used in financing activities	(124,892)	(26,501)
Net increase in cash and cash equivalents	37,552	2,212
Cash and cash equivalents at the beginning of the period	46,410	53,658
Effect of exchange rate changes on the balance of cash held in foreign currencies	230	(2,535)
Cash and cash equivalents at the end of the period	84,192	53,335

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Attributable to shareholders of the company					Non-controlling interest	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total		
Balance as at 1 January 2010		1,374	152,223	(66,636)	(259,386)	(172,425)	73,121	(99,304)
Loss for the period		-	-	-	(9,502)	(9,502)	(3,979)	(13,481)
Other comprehensive loss		-	-	(1,391)	-	(1,391)	(2,095)	(3,486)
Total comprehensive loss for the period		-	-	(1,391)	(9,502)	(10,893)	(6,074)	(16,967)
Increase of ownership in a subsidiary		-	-	-	(16)	(16)	(443)	(459)
Balance as at 30 June 2010		1,374	152,223	(68,027)	(268,904)	(183,334)	66,604	(116,730)
Balance as at 1 January 2011		1,374	152,223	(68,852)	(262,630)	(177,885)	33,639	(144,246)
Profit for the period		-	-	-	239,924	239,924	4,057	243,981
Other comprehensive income		-	-	2,931	-	2,931	2,990	5,921
Total comprehensive income for the period		-	-	2,931	239,924	242,855	7,047	249,902
Increase in non-controlling interests due to additional share issue by a subsidiary		-	-	-	-	-	519	519
Increase of ownership in subsidiaries		-	-	-	2	2	(8)	(6)
Non-controlling interest liability	3	-	-	-	6,477	6,477	(40,486)	(34,009)
Balance as at 30 June 2011		1,374	152,223	(65,921)	(16,227)	71,449	711	72,160

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

1. GENERAL INFORMATION

Organisation

UralChem Holding P.L.C. ("the Company") is a public limited company which was incorporated in Cyprus on 4 May 2006. As at 30 June 2011, the Company was 95.5% owned by CI-Chemical Invest Limited, incorporated in Cyprus. The remaining 4.5% of the Company's shares were held by management. The principal beneficial shareholder of the Company is Mr. Dmitry A. Mazepin. The Company's main office is located at 249, 28th Oktovriou Street, Lophitis Business Center, 1st floor, Office 101, P.C. Limassol 3035, Cyprus.

Principal business activities

The principal business activities of the Group are the production and distribution of mineral fertilisers. The main products of the Group are nitrogen based, phosphate based and complex fertilisers. The major production facilities of the Group are located in the Moscow, Perm and Kirov regions of the Russian Federation.

Market conditions

During the six months ended 30 June 2011, the development of global economic environment provided significant price mostly growth for all fertilisers and part processed products.

The upward price trend in the ammonia market was due to both a supply deficit and stable demand growth in Europe, USA, Asia and North Africa. As a result ammonia prices increased by 46.8% for the six months 2011 as compared to the six months 2010. Ammonium nitrate prices increased significantly during the six months 2011, being 41.9% higher compared to the six months 2010. The urea market also showed strong price growth during the six months 2011, being 49.9% higher compared to the six months 2010 because of the unbalance between high demand growth in Asia, Latin America and Africa markets and limited supply. Prices for phosphate fertilisers continued the positive trend which started in 2010 and were approximately 35.7% higher during the six months 2011 as compared to the six months 2010.

As at 30 June 2011, the Group had a working capital deficiency of USD 261,372 thousand (2010: USD 306,429 thousand). The primary cause of the working capital deficit relates to the Group's short-term loans and borrowings in the amount of USD 528,918 thousand (2010: USD 473,263 thousand) which are repayable within twelve months from the end of the reporting period.

Management believes based on the information discussed above, that the Group will be able to meet its borrowing obligations and that the Group will continue to generate positive operating cash flows.

2. BASIS OF PREPARATION

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

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

These condensed consolidated interim financial statements are prepared based on the accounting policies applied in the annual consolidated financial statements of the Group for the year ended 31 December 2010, and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Group's consolidated financial statements for the year ended 31 December 2010.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

3. BUSINESS COMBINATIONS

Non-controlling interest liability

During the six months ended 30 June 2011, the Group made offers to acquire the remaining non-controlling interests in the two Group subsidiaries. At the date of approval of these condensed consolidated interim financial statements, the Group has already received acceptance from several non-controlling shareholders, and the management assess the probability of the future outflow of economic benefits as highly probable. In accordance with IFRS, the Group recognised a liability in the amount equal to the fair value of the ultimate cash obligation. The difference between the carrying value of the non-controlling interest derecognised in the statement of changes in equity and the fair value of liability was recognised as an increase in retained earnings. The maximum amount of obligation which the Group could potentially face under these offers amounts to USD 34,009 thousand.

4. DISPOSAL OF SUBSIDIARY

In June 2011, the Group sold its 100.0% interest in a subsidiary for a total consideration of USD 26 thousand, net of cash disposed. The total amount of the consideration receivable was outstanding as of 30 June 2011 and was recorded as other receivables in these condensed consolidated interim financial statements. The amount of cash disposed equalled USD 10 thousand. At the date of disposal the net assets of this company amounted to USD 416 thousand.

As a result of this disposal, the Group recognised a loss on disposal of subsidiary in the amount of USD 380 thousand, which was recorded as other expenses in the income statement in these condensed consolidated interim financial statements.

5. SEGMENT INFORMATION

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

- Nitrogen Fertilisers: The nitrogen fertilisers segment comprises subsidiaries engaged in the production of nitrogen based fertilisers, complex fertilisers, ammonia, inorganic acids and other chemical products. The major subsidiaries and branches allocated to the nitrogen fertilisers segment are KCCW Mineral Fertiliser Plant OJSC (“KCCW MFP”), located in the Kirov region of the Russian Federation, and Azot branch of Uralchem OJSC (“Azot branch”), located in the Perm region of the Russian Federation; and
- Phosphate Fertilisers: The phosphate fertilisers segment comprises subsidiaries engaged in the production of phosphate based fertilisers, complex fertilisers and inorganic acids. The major subsidiary allocated to the phosphate fertilisers segment is Voskresensk Mineral Fertilisers OJSC (“VMF”), located in the Moscow region of the Russian Federation.

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

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

Segment information provided to the chief operating decision maker for the reportable segments for the six months ended 30 June 2011 is as follows:

	Nitrogen fertilisers	Phosphate fertilisers	Total
Six months ended 30 June 2011			
Revenue from external customers	779,175	214,141	993,316
Inter-segment revenue	17,817	906	18,723
Total segment revenue	796,992	215,047	1,012,039
OIBDA	<u>310,626</u>	<u>47,667</u>	<u>358,293</u>
	Nitrogen fertilisers	Phosphate fertilisers	Total
Six months ended 30 June 2010			
Revenue from external customers	502,166	128,607	630,773
Inter-segment revenue	14,658	428	15,086
Total segment revenue	516,824	129,035	645,859
OIBDA	<u>148,901</u>	<u>7,349</u>	<u>156,250</u>

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

	Nitrogen fertilisers	Phosphate fertilisers	Total
Six months ended 30 June 2011			
Segment OIBDA	310,626	47,667	358,293
Unallocated operating activity			
Depreciation and amortisation			(48,827)
Corporate overheads			(28,903)
Other			(16,762)
Inter-segment operations			24,215
Group operating profit			288,016
Interest income			1,162
Interest expense			(63,606)
Share of gain of associates			332
Foreign exchange gain from financing activities			84,237
Group profit before tax			<u>310,141</u>

The notes on pages 9 to 22 are an integral part of these condensed consolidated interim financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

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

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

Total reportable segment assets are as follows:

Total segment assets as at:	Nitrogen fertilisers	Phosphate fertilisers	Total
30 June 2011	872,100	351,792	1,223,892
31 December 2010	793,932	355,022	1,148,954

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

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

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

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

All amounts are in thousands of US Dollars unless otherwise stated

6. SALES OF GOODS

Six months ended 30 June 2011	Total	Export	Russia	CIS
Mineral fertilisers				
Nitrogen based fertilisers	501,497	317,160	132,405	51,932
Phosphate based fertilisers	177,800	132,699	15,963	29,138
Complex fertilisers	139,097	106,026	25,487	7,584
Ammonia	102,770	87,294	11,711	3,765
Explosive grade ammonium nitrate	35,947	3,458	29,018	3,471
Inorganic acids	13,956	-	13,950	6
Other chemical products	22,249	3,810	18,004	435
Total	993,316	650,447	246,538	96,331
Six months ended 30 June 2010				
Mineral fertilisers				
Nitrogen based fertilisers	340,643	189,582	106,462	44,599
Phosphate based fertilisers	101,492	71,248	14,188	16,056
Complex fertilisers	73,399	46,691	18,778	7,930
Ammonia	71,591	70,401	1,190	-
Explosive grade ammonium nitrate	21,831	2,099	17,799	1,933
Inorganic acids	7,769	-	7,769	-
Other chemical products	14,048	971	12,715	362
Total	630,773	380,992	178,901	70,880
Three months ended 30 June 2011				
Mineral fertilisers				
Nitrogen based fertilisers	234,882	177,826	49,756	7,300
Phosphate based fertilisers	63,427	51,801	7,951	3,675
Complex fertilisers	63,086	38,577	20,168	4,341
Ammonia	51,651	45,002	5,557	1,092
Explosive grade ammonium nitrate	17,719	1,530	14,276	1,913
Inorganic acids	6,654	-	6,653	1
Other chemical products	11,143	2,232	8,732	179
Total	448,562	316,968	113,093	18,501
Three months ended 30 June 2010				
Mineral fertilisers				
Nitrogen based fertilisers	170,555	95,782	40,427	34,346
Phosphate based fertilisers	61,652	42,968	7,769	10,915
Complex fertilisers	33,771	13,682	14,909	5,180
Ammonia	32,834	32,219	615	-
Explosive grade ammonium nitrate	12,193	1,135	10,028	1,030
Inorganic acids	4,076	-	4,076	-
Other chemical products	7,504	707	6,518	279
Total	322,585	186,493	84,342	51,750

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7. COST OF SALES

	Six months ended 30 June		Three months ended 30 June	
	2011	2010	2011	2010
Raw materials, including:				
Natural gas	150,443	125,218	74,742	60,196
Apatite	74,096	61,785	36,319	30,817
Sulphur	13,657	7,285	7,731	3,836
Potassium chloride	13,253	9,146	8,636	4,580
Other raw materials	23,113	24,133	12,376	15,030
Energy and utilities	72,097	52,541	34,031	26,190
Wages and salaries	37,881	33,872	19,028	17,218
Depreciation	37,766	42,653	17,914	21,191
Social taxes	12,371	8,404	6,241	4,293
Repairs and maintenance	2,498	1,143	1,448	662
Decrease/(increase) in inventory balance of work in progress and finished goods	11,500	(13,211)	(14,479)	(1,314)
Other	10,077	7,892	4,920	4,188
Total	458,752	360,861	208,907	186,887

8. SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2011	2010	2011	2010
Transportation, including:				
Railway tariff	105,033	69,727	44,932	32,081
Freight and transshipment	64,121	42,973	36,328	22,953
Rail cars rent expenses	18,563	9,842	8,407	4,846
Other transportation expenses	8,233	6,494	4,333	2,218
Wages and salaries	9,275	6,227	5,256	3,009
Depreciation	5,701	5,785	2,585	2,822
Advertising and marketing	3,902	4,687	2,049	2,416
Social taxes	1,947	1,111	702	469
Customs clearance charges	1,386	1,323	700	580
Other	10,660	9,949	4,630	5,522
Total	228,821	158,118	109,922	76,916

9. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2011	2010	2011	2010
Wages and salaries	29,625	24,597	13,918	11,948
Social taxes	5,446	4,097	2,250	1,623
Depreciation	3,524	5,115	1,722	2,389
Audit, legal and consulting services	2,674	4,846	1,459	1,870
Rent	1,668	1,797	841	904
Security	1,546	1,928	788	1,041
Fines and penalties	1,247	637	255	445
Bank charges	775	933	485	607
Other	11,900	14,024	6,880	9,551
Total	58,405	57,974	28,598	30,378

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10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery, equipment and transport	Other	Construction in-progress	Total
Cost					
Balance at 1 January 2010	296,251	486,309	32,300	111,379	926,239
Additions	1,310	1,901	856	16,285	20,352
Transfers	1,961	18,016	296	(20,273)	-
Disposals	(31)	(1,329)	(456)	(3,834)	(5,650)
Effect of translation to presentation currency	(10,530)	(15,325)	(27)	(2,588)	(28,470)
Balance at 30 June 2010	288,961	489,572	32,969	100,969	912,471
Balance at 1 January 2011	302,522	523,515	31,222	81,719	938,978
Additions	2,282	17,897	593	14,968	35,740
Transfers	(110)	294	835	(1,019)	-
Disposals	(249)	(2,153)	(9,133)	(287)	(11,822)
Effect of translation to presentation currency	24,350	44,991	4,318	7,054	80,713
Balance at 30 June 2011	328,795	584,544	27,835	102,435	1,043,609
Accumulated depreciation					
Balance at 1 January 2010	(53,088)	(144,965)	(5,248)	-	(203,301)
Charge for the period	(13,835)	(37,762)	(1,956)	-	(53,553)
Disposals	26	572	188	-	786
Effect of translation to presentation currency	2,100	5,386	35	-	7,521
Balance at 30 June 2010	(64,797)	(176,769)	(6,981)	-	(248,547)
Balance at 1 January 2011	(78,971)	(213,720)	(8,214)	-	(300,905)
Charge for the period	(13,911)	(31,200)	(1,880)	-	(46,991)
Disposals	28	1,347	564	-	1,939
Effect of translation to presentation currency	(7,032)	(19,007)	(1,032)	-	(27,071)
Balance at 30 June 2011	(99,886)	(262,580)	(10,562)	-	(373,028)
Carrying value					
At 1 January 2011	223,551	309,795	23,008	81,719	638,073
At 30 June 2011	228,909	321,964	17,273	102,435	670,581

As at 30 June 2011, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of USD 61,171 thousand (31 December 2010: USD 45,914 thousand).

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements with third parties. As at 30 June 2011, the net book value of leased machinery, equipment and transport was USD 45,200 thousand (31 December 2010: USD 45,065 thousand).

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Assets pledged as collateral

The carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group were as follows (refer to note 12):

	<u>30 June 2011</u>	<u>31 December 2010</u>
Machinery, equipment and transport	148,793	136,300
Buildings and structures	20,983	21,433
Other	1,339	1,276
Total	<u>171,115</u>	<u>159,009</u>

11. INVENTORIES

	<u>30 June 2011</u>	<u>31 December 2010</u>
Inventories expected to be recovered after twelve months		
Catalytic agents	34,710	29,983
Other inventories	1,246	2,721
	<u>35,956</u>	<u>32,704</u>
Inventories expected to be recovered in the next twelve months		
Raw materials, net of allowance for obsolescence	65,219	51,556
Finished goods	44,236	54,287
Work in progress	9,238	6,785
Goods for resale	1,432	310
	<u>120,125</u>	<u>112,938</u>
Total	<u>156,081</u>	<u>145,642</u>

During the six months ended 30 June 2011, the Group recognised a write down of USD 1,356 thousand to reduce the carrying amount of inventories to net realisable value (six months ended 30 June 2010: USD 2,615 thousand). At 30 June 2011, inventories in the amount of USD 1,791 thousand were stated at net realisable value (31 December 2010: USD 5,526 thousand).

At 30 June 2011, raw materials were presented net of allowance for obsolescence of USD 5,116 thousand (31 December 2010: USD 4,902 thousand). During the six months ended 30 June 2011, the Group recognised USD 806 thousand (six months ended 30 June 2010: USD 49 thousand) and released USD 592 thousand (six months ended 30 June 2010: USD 972 thousand) allowance for obsolescence of raw materials.

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
Carrying value of pledged inventories (refer to note 12)	19,405	38,981

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12. LOANS AND BORROWINGS

	30 June 2011	31 December 2010
Loans denominated in USD	1,091,544	1,163,365
Loans denominated in RUR	181,000	190,941
Total	1,272,544	1,354,306
Less: current portion repayable within twelve months and shown under current liabilities	(528,918)	(473,263)
Long-term portion of loans and borrowings	743,626	881,043

Loans denominated in USD

In January 2011, the Group reached an agreement with Raiffeisen Bank to partly extend the repayment of a short-term loan denominated in USD in the amount of USD 57,000 thousand from 2011 to February – May 2012. The agreement requires early partial repayment of the amount extended in the event of an IPO or bond offering made by the Group. The average interest rate on the loan remained unchanged.

In February 2011, the Group reached an agreement with UniCredit Bank to extend the repayment of short-term loans in the amount of USD 190,000 thousand from February 2011 to February - May 2012. The annual interest rate on these facilities decreased from Libor 1m + 5.9% - 6.15% to Libor 1m + 5.8% per annum.

In October 2010, the Group obtained a credit facility from Promsvyazbank in the amount of USD 65,000 thousand. In June 2011, the Group drew down USD 20,600 thousand under this facility and USD 44,400 thousand was not drawn as at 30 June 2011. The facility matures in April 2012. The annual interest rate on this facility is settled at 8.5% per annum.

The loans denominated in USD had a weighted average annual interest rate of 7.2% during the six months ended 30 June 2011 (during the year ended 31 December 2010: 8.1%) and included the following borrowings:

- USD 101,912 thousand (31 December 2010: USD 84,797 thousand) at fixed rate varying from 6.2% to 8.5% (31 December 2010: from 7.0% to 9.0%) per annum; and
- USD 989,632 thousand (31 December 2010: USD 1,002,118 thousand) at floating rates linked to Libor varying from 6.0% to 7.7% (31 December 2010: linked to Libor 1m and Libor 3m, varying from 6.2% to 7.7%) per annum.

The loans denominated in USD are due in the years 2011 to 2013. As at 30 June 2011, USD-denominated loans in the amount of USD 1,067,677 thousand (31 December 2010: USD 1,144,504 thousand) were secured by 100.0% of OJSC Uralchem's shares (31 December 2010: 100.0%), 74.8% of VMF's shares (31 December 2010: 74.8%), 87.4% of KCCW MFP's shares (31 December 2010: 87.4 %) and 44.3% of OJSC Perm Mineral Fertilisers' ("PMF") shares (31 December 2010: 44.3%) held by the Group and certain fixed assets and inventories (refer to notes 10 and 11).

Loans denominated in RUR

In June 2011, the Group obtained a credit facility from Sberbank in the amount of USD 35,622 thousand, of which USD 26,361 thousand has not been drawn yet. The facility matures in June 2012. The annual interest rate on this facility is settled at MosPrime rate + 3.9% per annum.

Loans denominated in RUR consist of a loan of USD 171,735 thousand (31 December 2010: USD 158,080 thousand) that bears interest at a fixed rate of 13.0% (31 December 2010: 13.0%) per annum and is repayable in quarterly instalments starting from 20 June 2012 with the final instalment due on 24 June 2013 and a loan of USD 9,265 thousand (31 December 2010: nil) that bears interest at floating rate linked to MosPrime and equals 8.1% (31 December 2010: nil) per annum and is due in June 2013.

The loans are secured by 100.0% of OJSC Uralchem's shares (31 December 2010: 100.0%), 74.8% of VMF's shares (31 December 2010: 74.8%), 87.4% of KCCW MFP's shares (31 December 2010: 87.4 %) and 44.3% of

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PMF's shares (31 December 2010: 44.3%) held by the Group and certain fixed assets and inventories (refer to notes 10 and 11).

Total loans and borrowings were repayable as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Due within three months	77,138	268,756
Due from three to six months	17,639	37,399
Due from six to twelve months	434,141	167,108
	<u>528,918</u>	<u>473,263</u>
Due in the second year	507,764	414,988
Due in the third year	235,862	466,055
	<u>743,626</u>	<u>881,043</u>

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

- set-up limits for the total amount of borrowings of certain Group subsidiaries;
- set-up limit for the Group total amount of loans and borrowings not exceeding USD 1,400,000 thousand;
- bank approval for any transfer of pledged property;
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks;
- set-up limit for the annualised "net debt/EBITDA" ratio not exceeding 4.5; and
- set-up limits for disposal of assets with a carrying value of more than USD 3,206 thousand for OJSC Uralchem.

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

13. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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

The Group had the following outstanding balances with related parties:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Parent company of the Group		
Loans and borrowings	(15,358)	(18,754)
Other payables	(30,633)	(51,323)
Entities under common ownership and control with the Group		
Trade and other receivables	4,486	5,070
Promissory notes of related parties, at amortised cost	378	349
Trade and other payables	(1,890)	(1,621)

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The Group entered into the following transactions with related parties:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Parent company of the Group		
Proceeds from repayment of loans issued	-	35,124
Interest income	924	74
Interest expense	(1,424)	(52)
Entities under common ownership and control with the Group		
Sales of goods and services	27,325	20,140
Purchases of goods and services	(5,765)	(4,314)
Interest income	40	78
Other income	137	329

Transactions with related parties

Sales and purchases of goods

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

Purchases from related parties which primarily included purchases of inventories for production of nitrogen fertilisers were made at market prices plus an insignificant premium of 1.0% to 2.0% as reimbursement for operating expenses of those entities.

Loans received from parent company

As at 30 June 2011, the USD-denominated loan received from parent company in the amount of USD 15,358 thousand (31 December 2010: USD 18,754 thousand) bears interest at a fixed rate of 6.2% (31 December 2010: 7.0%) per annum.

Dividends received from related parties

During the year ended 31 December 2010, the Group received dividends from PMF in the amount of USD 16,423 thousand, of which the Group was obliged to transfer USD 15,638 thousand to its parent company in accordance with the original purchase agreement. This amount has been recorded in other payables in the consolidated statement of financial position as at 31 December 2010 and shown as a distribution to shareholders in the consolidated statement of changes in equity for the year then ended. During the six months ended 30 June 2011, the Group repaid this liability to its parent company in the amount of USD 15,778 thousand.

Compensation of key management personnel

The compensation of key management personnel of the Group for the six months ended 30 June 2011 comprised salaries and cash bonuses in the amount of USD 8,847 thousand (six months ended 30 June 2010: USD 3,469 thousand), including social taxes in the amount of USD 200 thousand (six months ended 30 June 2010: USD 489 thousand).

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14. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

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

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
Due in one year	301,526	271,899
Due from two to five years	134,860	248,471
Total	<u>436,386</u>	<u>520,370</u>

Purchase of apatite concentrate

In October 2010, the Group entered into purchase agreement with Apatit, to purchase defined volumes of apatite concentrate.

Future minimum costs under non-cancellable purchase agreement were as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Due in one year	111,449	103,577
Due from two to five years	56,218	103,577
Total	<u>167,667</u>	<u>207,154</u>

Purchase of potassium chloride

In November 2010, the Group entered into purchase agreements with Uralkali, to purchase defined volumes of potassium chloride.

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
Due in one year	21,402	17,585
Due from two to five years	38,402	46,550
Total	<u>59,804</u>	<u>64,135</u>

Capital commitments

	<u>30 June 2011</u>	<u>31 December 2010</u>
Acquisition of property, plant and equipment	12,927	4,684
Finance lease	18,073	-
Total	<u>31,000</u>	<u>4,684</u>

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Operating leases: Group as a lessee

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

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
Due in one year	29,432	29,280
Due from two to five years	38,885	46,082
Total	<u>68,317</u>	<u>75,362</u>

Litigation

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

Taxation contingencies in the Russian Federation

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

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

Environmental matters

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

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

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

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

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Russian Federation risk

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

15. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Loan from UniCredit Bank

Up to the date of approval of these condensed consolidated interim financial statements, the Group repaid the loan to UniCredit Bank in the amount of USD 40,000 thousand (refer to note 12). The loan bears an interest rate of Libor 1m + 5.8% per annum.

Loan from Promsvyazbank

Up to the date of approval of these condensed consolidated interim financial statements, the Group repaid the loan to Promsvyazbank in the amount of USD 20,600 thousand (refer to note 12). The loan bore a fixed interest rate of 8.5% per annum.

Disposal of subsidiaries

In July 2011, the Group sold its 100.0% interest in two subsidiaries for a total consideration of USD 2,271 thousand, net of cash disposed. The total consideration receivable was outstanding as of the date of the approval of these condensed consolidated interim financial statements. The amount of cash disposed equalled USD 265 thousand. At the dates of disposal the total net assets of the companies amounted to USD 2,828 thousand.

As a result of these transactions, the Group will recognise the loss on disposal of subsidiaries in the amount of USD 292 thousand.

Increase of ownership interest in VMF by the Group

In July 2011, the Group acquired, through a transaction with non-controlling shareholder, an additional 10.0% of VMF's shares for a total cash consideration of USD 22,660 thousand, increasing its ownership in the company to 99.9%. The carrying value of VMF's net assets at the dates when the shares were acquired was USD 279,008 thousand.