

**UNITED CHEMICAL COMPANY
URALCHEM OJSC**

**Condensed consolidated interim
financial statements
for the three months ended 31 March 2014
(unaudited)**

UNITED CHEMICAL COMPANY URALCHEM OJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014

The following statement is made with a view to stipulate the responsibilities of management in relation to the unaudited condensed consolidated interim financial statements of United Chemical Company UralChem OJSC and its subsidiaries (together, 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 31 March 2014, and the results of its operations, cash flows and changes in equity for the three 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 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 three months ended 31 March 2014 were approved on 29 May 2014 by:

Andrey Pakhomenkov
Chief financial officer

Dmitry Tatyatin
Deputy chief executive officer

Moscow, Russia
29 May 2014

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CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenue			
Sales of goods	4	18,780,411	20,065,708
Other sales		627,251	709,842
Total revenue		19,407,662	20,775,550
Cost of sales	5	(8,186,705)	(8,819,053)
Gross profit		11,220,957	11,956,497
Selling and distribution expenses	6	(4,369,775)	(4,175,290)
General and administrative expenses	7	(1,296,809)	(1,165,767)
Other operating income		76,245	128,356
Other operating expenses		(362,176)	(72,134)
Operating profit		5,268,442	6,671,662
Interest and other finance income		11,302	25,973
Interest and other finance expense		(1,929,266)	(539,508)
Share of loss of associates		(12,817)	(5,157)
Foreign exchange loss from financing activities		(13,561,886)	(404,280)
(Loss)/profit before tax		(10,224,225)	5,748,690
Income tax benefit/(expense)		1,324,072	(910,765)
(Loss)/profit for the period		(8,900,153)	4,837,925
Attributable to:			
Shareholders of the Company		(8,910,345)	4,860,916
Non-controlling interests		10,192	(22,991)
		(8,900,153)	4,837,925
Earnings per share			
Weighted average number of ordinary shares in issue during the period		500,000,000	500,000,000
Basic and diluted earnings per share (Russian roubles per share)		(17.8)	9.7

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Three months ended 31 March 2014	Three months ended 31 March 2013
(Loss)/profit for the period	(8,900,153)	354,154
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations, net of income tax	<u>1,000,303</u>	<u>76,197</u>
Total comprehensive (loss)/income for the period	<u>(7,899,850)</u>	<u>430,351</u>
Attributable to:		
Shareholders of the Company	(7,910,042)	423,364
Non-controlling interests	<u>10,192</u>	<u>6,987</u>
	<u>(7,899,850)</u>	<u>430,351</u>

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UNITED CHEMICAL COMPANY URALCHEM OJSC

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	31 March 2014	31 December 2013
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	8	29,987,257	29,764,042
Goodwill		10,501,400	10,501,400
Intangible assets		276,953	286,975
Investments in associates		125,563,084	125,575,900
Inventories	9	1,016,478	1,032,708
Available-for-sale investments		5,127,722	5,127,721
Other financial assets		32,448	34,192
Deferred tax assets		3,227,701	929,403
		175,733,043	173,252,341
<i>Current assets</i>			
Inventories	9	4,148,874	4,694,477
Trade and other receivables		4,879,444	3,942,981
Advances paid and prepaid expenses		1,172,088	1,157,622
Income tax receivable		201,008	430,717
Other taxes receivable		2,372,837	2,764,731
Other financial assets		87,159	40,160
Cash and cash equivalents		4,966,514	3,805,538
		17,827,924	16,836,226
TOTAL ASSETS		193,560,967	190,088,567
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital		2,000,000	2,000,000
Additional paid-in capital		2,291,705	2,228,220
Foreign currency translation reserve		1,591,123	590,820
Retained earnings		13,157,306	22,067,651
Equity attributable to shareholders of the Company		19,040,134	26,886,691
Non-controlling interests		224,693	213,432
Total equity		19,264,827	27,100,123
<i>Non-current liabilities</i>			
Loans and borrowings	10	146,057,077	127,941,704
Obligations under finance leases		2,412,112	2,265,881
Retirement benefit obligations		534,122	527,245
Deferred tax liabilities		1,961,474	1,630,536
		150,964,785	132,365,366
<i>Current liabilities</i>			
Loans and borrowings	10	18,798,600	21,779,882
Obligations under finance leases		806,234	815,271
Trade and other payables		2,273,596	6,337,187
Advances received		570,345	1,252,506
Income tax payable		549,182	215,995
Other taxes payable		333,398	222,237
		23,331,355	30,623,078
Total liabilities		174,296,140	162,988,444
TOTAL EQUITY AND LIABILITIES		193,560,967	190,088,567

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM OJSC

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Three months ended 31 March 2014	Three months ended 31 March 2013
Operating activities		
(Loss)/profit before tax	(10,224,225)	5,748,690
Adjustments for:		
Depreciation of property, plant and equipment	902,446	897,525
Amortisation of intangible assets	24,219	19,083
Change in provisions and allowances	282,386	113,710
Write-down of inventory to net realisable value	77,659	57,960
Loss on disposal of property, plant and equipment	15,052	24,763
Share-based compensation	63,485	-
Foreign exchange loss, net	14,757,286	319,753
Share of loss of associates	12,817	5,157
Interest and other finance income	(11,302)	(25,973)
Interest and other finance expense	1,929,266	539,508
Operating cash flows before working capital changes	7,829,089	7,700,176
Change in inventories	617,060	194,335
Change in trade and other receivables	(615,817)	(675,313)
Change in advances paid and prepaid expenses	(14,700)	298,232
Change in other taxes receivable	391,894	(93,747)
Change in retirement benefit obligations	6,877	1,054
Change in trade and other payables	(1,458,246)	(326,672)
Change in advances received	(682,161)	(695,611)
Change in other taxes payable	91,693	142,740
Cash generated from operations	6,165,689	6,545,194
Interest paid	(379,501)	(441,820)
Income tax paid	(228,763)	(1,046,242)
Net cash generated from operating activities	5,557,425	5,057,132

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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Three months ended 31 March 2014	Three months ended 31 March 2013
Investing activities		
Proceeds from disposal of available-for-sale investments	-	85,000
Payments for acquisition of property, plant and equipment	(872,636)	(1,135,530)
Proceeds from sale of property, plant and equipment	105,864	142,422
Payments for acquisition of intangible assets	(14,197)	(23,584)
Loans issued	(36,580)	(367,987)
Proceeds from repayment of loans issued	3,261	1,146,338
Interest received	8,747	29,975
Net cash used in investing activities	(805,541)	(123,366)
Financing activities		
Proceeds from short-term loans and borrowings	3,164,790	1,354
Proceeds from long-term loans and borrowings	7,304,973	6,420,382
Repayment of short-term loans and borrowings	(9,636,048)	(320,956)
Repayment of long-term loans and borrowings	(730,175)	(3,824,769)
Repayment of principal amounts of finance leases	(163,321)	(143,398)
Dividends paid to the shareholders	(3,475,000)	(4,200,000)
Net cash used in financing activities	(3,534,781)	(2,067,387)
Net increase in cash and cash equivalents	1,217,103	2,866,379
Cash and cash equivalents at the beginning of the period	3,805,538	5,392,432
Effect of exchange rate changes on the balance of cash held in foreign currencies	(56,127)	344,551
Cash and cash equivalents at the end of the period	4,966,514	8,603,362

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	Attributable to shareholders of the Company				Total	Non-controlling interests	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)			
Balance as at 1 January 2013		2,000,000	1,928,451	175,198	19,016,591	23,120,240	325,901	23,446,141
Profit/(loss) for the period		-	-	-	4,860,916	4,860,916	(22,991)	4,837,925
Other comprehensive loss		-	-	(25,684)	-	(25,684)	-	(25,684)
Total comprehensive (loss)/income for the period		-	-	(25,684)	4,860,916	4,835,232	(22,991)	4,812,241
Balance at 31 March 2013		2,000,000	1,928,451	149,514	23,877,507	27,955,472	302,910	28,258,382
Balance at 1 January 2014		2,000,000	2,228,220	590,820	22,067,651	26,886,691	213,432	27,100,123
(Loss)/ profit for the period		-	-	-	(8,910,345)	(8,910,345)	10,192	(8,900,153)
Other comprehensive income		-	-	1,000,303	-	1,000,303	-	1,000,303
Total comprehensive income/(loss) for the period		-	-	1,000,303	(8,910,345)	(7,910,042)	10,192	(7,899,850)
Non-controlling interest arising on business combination		-	-	-	-	-	1,069	1,069
Share-based payments	11	-	63,485	-	-	63,485	-	63,485
Balance at 31 March 2014		2,000,000	2,291,705	1,591,123	13,157,306	19,040,134	224,693	19,264,827

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

1. GENERAL INFORMATION

Organisation

United Chemical Company "UralChem" ("the Company") is an open joint stock company which was incorporated in Moscow on 22 October 2007.

As at 31 March 2014, the Company was 99.9999% owned by UralChem Holding P.L.C., incorporated in Cyprus. The remaining 0.0001% of the Company's shares was owned by CI-Chemical Invest Limited. The principal beneficial shareholder of the Company is Mr. Dmitry A. Mazepin.

The Company's main office is located at Presnenskaya naberezhnaya, 10, block B, Moscow, Russia.

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.

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 the accounting for the investment in Uralkali OJSC. The Group does not have any information related to the financial position of Uralkali OJSC as at 31 March 2014 and its financial results for the three months then ended. Thus, it is impracticable for the Group to account for this investment applying equity method in accordance with IAS 28. The Group has continued to account for this investment at the fair value of its share in the net assets of Uralkali OJSC at the date of acquisition.

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 2013, 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 2013.

3. SEGMENT INFORMATION

For management purposes the Group is organised in two segments, Nitrogen Fertilisers and Phosphate Fertilisers. Operating results for these segments are reviewed by the Chief Executive Officer ("the chief operating decision maker") in order to assess performance and allocate resources.

- 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, located in the Kirov region of the Russian Federation, Azot branch of UralChem OJSC ("Azot branch") and PMF, 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 VMF, located in the Moscow region of the Russian Federation.

The chief operating decision maker (CEO of the Group) does not regularly review the operating results of other operations, which include smaller subsidiaries which are engaged in a variety of businesses, such as electricity and heat energy generation, construction, repairs and maintenance and processing of waste water. Accordingly, these operations are not reported as separate operating segments.

The profitability of the two operating segments is primarily measured based on OIBDA (operating profit adjusted for depreciation and amortisation) and net profit for the period. Since OIBDA is not a standard IFRS measure,

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All amounts are in thousands of Russian roubles unless otherwise stated

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. Other income and expenses of the Group not incorporated in calculation of the operating profit are also allocated to operating segments.

Segment information provided to the chief operating decision maker for the reportable segments for the three months ended 31 March 2014 is as follows:

Three months ended 31 March 2014	Nitrogen fertilisers	Phosphate fertilisers	Total
Revenue from external customers	17,903,839	876,572	18,780,411
Inter-segment revenue	88,712	3,566	92,278
Total segment revenue	17,992,551	880,138	18,872,689
OIBDA	7,736,858	10,382	7,747,240
Net profit/(loss) for the period	5,189,035	(69,370)	5,119,665
Three months ended 31 March 2013	Nitrogen fertilisers	Phosphate fertilisers	Total
Revenue from external customers	17,042,463	3,023,245	20,065,708
Inter-segment revenue	446,040	8,428	454,468
Total segment revenue	17,488,503	3,031,673	20,520,176
OIBDA	8,193,891	14,984	8,208,875
Net profit/(loss) for the period	6,418,166	(90,349)	6,327,817

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

The total reportable segment OIBDA and segment profit for the period are reconciled to consolidated profit as follows:

Three months ended 31 March 2014	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	7,736,858	10,382	7,747,240
Segment amortisation and depreciation	(811,807)	(48,731)	(860,538)
Segment income tax (expense)/benefit	(635,082)	7,092	(627,990)
Segment expense from financing activities	(1,100,934)	(38,113)	(1,139,047)
Segment profit/(loss) for the period	5,189,035	(69,370)	5,119,665
Unallocated activities			
Depreciation and amortisation			(66,127)
Corporate overheads			(1,486,522)
Other expenses			(893,856)
Interest and other finance income			950
Interest and other finance expense			(1,730,171)
Share of loss of associates			(12,817)
Foreign exchange loss from financing activities			(12,648,600)
Inter-segment operations			865,263
Unallocated income tax benefit			1,952,062
Group loss for the period			(8,900,153)
Three months ended 31 March 2013	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	8,193,891	14,984	8,208,875
Segment amortisation and depreciation	(749,300)	(124,761)	(874,061)
Segment income tax (expense)/benefit	(875,192)	41,778	(833,414)
Segment expense from financing activities	(151,233)	(22,350)	(173,583)
Segment profit/(loss) for the period	6,418,166	(90,349)	6,327,817
Unallocated activities			
Depreciation and amortisation			(42,547)
Corporate overheads			(330,905)
Other expenses			(619,375)
Interest and other finance income			4,541
Interest and other finance expense			(317,846)
Share of loss of associates			(5,157)
Foreign exchange loss from financing activities			(477,920)
Inter-segment operations			376,668
Unallocated income tax expense			(77,351)
Group profit for the period			4,837,925

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

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

Total reportable segment assets are as follows:

Total segment assets as at:	Nitrogen fertilisers	Phosphate fertilisers	Total
31 March 2014	49,300,664	4,593,830	53,894,494
31 December 2013	46,800,420	5,157,490	51,957,910

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. Non-current assets located in other countries, including Cyprus, are not significant.

Information about 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.

4. SALES OF GOODS

Three months ended 31 March 2014	Total	Export	Russian Federation	Other CIS countries
Mineral fertilisers				
Nitrogen based fertilisers	12,478,491	9,222,557	2,931,253	324,681
Complex fertilisers	1,760,971	1,513,627	109,182	138,162
Phosphate based fertilisers	602,201	257,262	209,605	135,334
Ammonia	2,753,443	2,611,287	121,567	20,589
Explosive grade ammonium nitrate	576,093	4,510	465,712	105,871
Inorganic acids	214,708	-	214,708	-
Other chemical products	394,504	68,434	312,241	13,829
Total	<u>18,780,411</u>	<u>13,677,677</u>	<u>4,364,268</u>	<u>738,466</u>
Three months ended 31 March 2013				
Mineral fertilisers				
Nitrogen based fertilisers	10,873,559	7,774,674	2,883,531	215,354
Complex fertilisers	2,340,206	1,594,968	196,885	548,353
Phosphate based fertilisers	2,196,237	1,340,536	268,199	587,502
Ammonia	3,430,350	2,668,225	715,371	46,754
Explosive grade ammonium nitrate	581,245	38,457	448,597	94,191
Inorganic acids	245,033	-	245,033	-
Other chemical products	399,078	101,931	295,080	2,067
Total	<u>20,065,708</u>	<u>13,518,791</u>	<u>5,052,696</u>	<u>1,494,221</u>

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

5. COST OF SALES

	Three months ended 31 March 2014	Three months ended 31 March 2013
Raw materials, including:		
Natural gas	3,465,321	3,179,359
Apatite	483,530	1,288,878
Potassium chloride	179,126	319,851
Sulphur	37,290	174,618
Other raw materials	536,870	473,840
Energy and utilities	1,195,983	1,159,389
Staff costs	943,353	978,574
Depreciation	656,503	652,924
Repair and maintenance	43,036	42,853
Change in work in progress and finished goods	424,674	359,582
Other	221,019	189,185
Total	8,186,705	8,819,053

6. SELLING AND DISTRIBUTION EXPENSES

	Three months ended 31 March 2014	Three months ended 31 March 2013
Transportation, including:		
Railway tariff	1,785,784	1,857,538
Freight and transshipment	1,390,695	1,077,112
Rail cars rent expenses	341,606	349,884
Other transportation expenses	94,317	135,994
Staff costs	307,386	264,654
Depreciation	189,935	188,899
Advertising and marketing	3,386	14,021
Other	256,666	287,188
Total	4,369,775	4,175,290

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March 2014	Three months ended 31 March 2013
Staff costs	861,132	691,912
Audit, legal and consulting services	108,348	102,400
Depreciation	56,008	55,702
Security	47,729	30,106
Rent	29,497	31,071
Fines and penalties	12,126	6,938
Bank charges	10,112	11,956
Other	171,857	235,682
Total	1,296,809	1,165,767

8. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the three months ended 31 March 2014, the Group acquired property, plant and equipment with a cost of RUB 975,324 thousand (three months ended 31 March 2013: RUB 1,530,349 thousand) including machinery, equipment and transport leased under a number of finance lease agreements for the amount of 210,844 thousand (three months ended 31 March 2013: RUB 351,000 thousand). The acquisition under a finance lease agreements represents a non-cash investing and financing activity which is not reflected in the condensed consolidated statement of cash flows.

As at 31 March 2014, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of RUB 559,526 thousand (31 December 2013: RUB 322,753 thousand).

The Group also disposed of certain of its machinery and tools with a carrying amount of RUB 55,537 thousand (three months ended 31 March 2013: RUB 104,240 thousand).

Assets pledged as collateral

As at 31 March 2014, the carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group amounted to RUB 3,290,887 thousand (31 December 2013: RUB 3,093,273 thousand) (refer to Note 10).

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

9. INVENTORIES

	<u>31 March 2014</u>	<u>31 December 2013</u>
Inventories expected to be recovered after twelve months		
Catalytic agents	883,344	899,796
Other inventories	133,134	132,912
	<u>1,016,478</u>	<u>1,032,708</u>
Inventories expected to be recovered within twelve months		
Finished goods	2,175,926	2,590,797
Raw materials, net of allowance for obsolescence	1,748,599	1,869,229
Work in-progress	208,898	219,160
Goods for resale	15,451	15,291
	<u>4,148,874</u>	<u>4,694,477</u>
Total	<u><u>5,165,352</u></u>	<u><u>5,727,185</u></u>

During the three months ended 31 March 2014, the Group recognised a write down of RUB 77,659 thousand to reduce the carrying value of inventories to net realisable value (year ended 31 December 2013: RUB 42,512 thousand).

At 31 March 2014, raw materials were presented net of an allowance for obsolescence of RUB 136,264 thousand (31 December 2013: RUB 153,314 thousand). During the three months ended 31 March 2014, the Group recognised RUB 8,246 thousand (three months ended 31 March 2013: RUB 4,494 thousand) and released RUB 25,296 thousand (three months ended 31 March 2013: RUB 1,821 thousand) of allowance for obsolescence of raw materials.

10. LOANS AND BORROWINGS

	<u>31 March 2014</u>	<u>31 December 2013</u>
Loans denominated in USD	162,587,101	140,889,789
Loans denominated in EUR	2,266,002	8,828,125
Loans denominated in RUR	2,574	3,672
	<u>164,855,677</u>	<u>149,721,586</u>
Less: current portion repayable within twelve months and shown under current liabilities	<u>(18,798,600)</u>	<u>(21,779,882)</u>
Long-term portion of loans and borrowings	<u><u>146,057,077</u></u>	<u><u>127,941,704</u></u>

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Loans denominated in USD

The loans denominated in USD had a weighted average annual interest rate of 4.6% during the three months ended 31 March 2014 (2013: 3.7%) and included the following borrowings:

- RUB 160,800,882 thousand (31 December 2013: RUB 140,889,789 thousand) at a fixed rates varying from 3.0% to 9.0% (31 December 2013: from 3.0% to 6.0%); and
- RUB 1,786,219 thousand (31 December 2013: nil) at floating rates linked to Libor 3m, at 3.2% (31 December 2013: nil) per annum.

The loans denominated in USD are due in the years 2015 to 2020. As at 31 March 2014 USD-denominated loans in the amount of RUB 146,006,934 thousand (31 December 2013: RUB 125,572,210 thousand) were secured by 19.99% of Uralkali OJSC's (31 December 2013: 19.99%) .

Loans denominated in EUR

The loans denominated in EUR had a weighted average annual interest rate of 3.0% during the three months ended 31 March 2014 (2013: 4.2%) and included the following borrowings:

- RUB 216,998 thousand at a fixed rate of 3.5% per annum (31 December 2013: RUB 172,671 thousand); and
- RUB 2,049,004 thousand (31 December 2013: RUB 8,655,454 thousand) at floating rates linked to Euribor 3m and Euribor 1m varying from 3.6% to 3.7% (31 December 2013: from 2.7% to 3.7%) per annum.

In February 2014 the loan payable to Nordea Bank was refinanced with funds obtained under the credit line provided by VTB Capital PLC. The new loan in the amount of RUB 6,920,880 thousand, denominated in USD, matures in the year 2020, with first payment scheduled at December 2015. The interest rate is fixed at 4.65% per annum. Commission under the agreement was RUB 69,457 thousand.

As at 31 March 2014, EUR-denominated loans in the amount of RUB 2,049,004 thousand (31 December 2013: RUB 1,933,839 thousand) were secured by 51.0% of SIA Riga Fertilisers Terminal's shares (31 December 2013: 51.0%) and certain property, plant and equipment.

Total loans and borrowings were repayable as follows:

	<u>31 March 2014</u>	<u>31 December 2013</u>
Due within three months	14,303,978	19,777,295
Due from three to six months	750,697	55,454
Due from six to twelve months	3,743,925	1,947,133
Current portion of loans and borrowings	<u>18,798,600</u>	<u>21,779,882</u>
Due in the second year	3,332,457	2,910,909
Due in the third year	2,728,055	2,397,234
Due in the fourth year	4,510,336	3,949,779
Due in the fifth year	7,010,214	6,119,950
Due thereafter	128,476,015	112,563,832
Long-term portion of loans and borrowings	<u>146,057,077</u>	<u>127,941,704</u>

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As at 31 March 2014, the Group's bank loans were subject to restrictive covenants, including but not limited to:

- negative pledge for shares and property pledges;
- limits for material sale of assets and payment of dividends;
- limits for acquisitions of any companies or any shares or securities;
- limits for merger, consolidation or corporate reconstructions;
- limits for loans and quarantines given;
- 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 limits for the annualised "debt and net debt/EBITDA" ratio and other financial covenants.

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

As at 31 March 2014, financial covenants on the loans received from Sberbank were not observed, thus in the consolidated statement of financial position these loans in the amount of RUB 11,959,016 thousand were classified within current liabilities. The Group has a credit line with VTB Capital that can be used to refinance these loans if early payment is required by Sberbank. Up to the date of approval of these condensed consolidated financial statements early repayment has not been requested.

11. 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>31 March 2014</u>	<u>31 December 2013</u>
Parent company		
Other receivables	603,522	553,500
Loans and borrowings	(2,371,003)	(2,321,742)
Dividends payable	-	(3,475,000)
Entities under common ownership and control with the Group		
Trade and other receivables	189,691	185,573
Advances paid and prepaid expenses	54,552	65,921

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The Group entered into the following transactions with related parties:

	<u>Three months ended 31 March 2014</u>	<u>Three months ended 31 March 2013</u>
Parent company		
Interest expense	(46,988)	(22,538)
Interest income	-	10,892
Entities under common ownership and control with the Group		
Sales of goods and services	447,986	430,135
Purchases of goods and services	(304,640)	(102,484)
Other income	1,145	1,471

Transactions with related parties

Sale 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 raw materials 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.

Dividends paid to shareholders

During the three months ended 31 March 2014 the Group settled its liability to pay out dividends in the amount of RUB 3,475,000 thousand.

Compensation of key management personnel

The compensation of key management personnel of the Group for the three months ended 31 March 2014 comprised salaries and cash bonuses in the amount of RUB 124,288 thousand (three months ended 31 March 2013: RUB 119,050 thousand), including social taxes in the amount of RUB 14,565 thousand (three months ended 31 March 2013: RUB 13,137 thousand) and share-based payment to management in the amount of RUB 63,485 thousand (three months ended 31 March 2013: nil).

12. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

In December 2012, the Group entered into the 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>31 March 2014</u>	<u>31 December 2013</u>
Due in one year	15,580,535	15,578,809
Due from two to five years	37,466,774	41,215,039
Total	<u>53,047,309</u>	<u>56,793,848</u>

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Capital commitments

As at 31 March 2014, the Group's contractual capital commitments for acquisition of property, plant and equipment amounted to RUB 636,155 thousand (31 December 2013: RUB 479,572 thousand).

Operating leases: Group as a lessee

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

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

	<u>31 March 2014</u>	<u>31 December 2013</u>
Due in one year	585,253	1,513,079
Due from two to five years	990,054	858,019
Total	<u>1,575,307</u>	<u>2,371,098</u>

Litigation

The Group has a number of claims and litigations 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, including VAT, corporate income tax, social taxes and other. 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

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on future operations and financial position of the Company is at this stage difficult to determine.

13. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

In April 2014 the Group reached an agreement with VTB Capital to extend commitment to provide the credit line that can be used to refinance loans received from Sberbank up to 23 July 2014.