

URALCHEM OJSC

**Condensed consolidated interim
financial statements
for the nine months ended 30 September 2013
(unaudited)**

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

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 UralChem OJSC and its subsidiaries (the "Group").

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group as at 30 September 2013, and the results of its operations, cash flows and changes in equity for the nine 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 nine months ended 30 September 2013 were approved on 3 December 2013 by:

Andrey Pakhomenkov
Chief financial officer

Dmitry Konyaev
Chief executive officer

Moscow, Russia
3 December 2013

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CONSOLIDATED INTERIM INCOME STATEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2013	2012	2013	2012
Revenue					
Sales of goods	5	54,208,210	53,925,872	15,509,734	16,585,391
Other sales		2,056,115	2,029,736	692,286	734,739
Total revenue		56,264,325	55,955,608	16,202,020	17,320,130
Cost of sales	6	(26,408,803)	(23,689,419)	(9,456,360)	(7,821,823)
Gross profit		29,855,522	32,266,189	6,745,660	9,498,307
Selling and distribution expenses	7	(12,264,784)	(11,373,178)	(3,863,373)	(3,616,247)
General and administrative expenses	8	(3,425,488)	(3,091,815)	(1,064,101)	(1,072,756)
Other operating income		558,327	395,851	221,527	235,713
Other operating expenses		(98,674)	(1,102,732)	96,199	(437,103)
Operating profit		14,624,903	17,094,315	2,135,912	4,607,914
Interest and other finance income		558,602	364,886	93,492	20,562
Interest and other finance expense		(1,745,974)	(1,870,864)	(455,561)	(628,785)
Share of profit of associates		17,937	12,248	18,725	18,070
Gain from change in fair value of previously held interest		-	4,940,755	-	-
Foreign exchange (loss)/gain from financing activities		(1,628,335)	1,254,865	213,669	1,670,776
Profit before tax		11,827,133	21,796,205	2,006,237	5,688,537
Income tax expense		(1,744,246)	(2,977,918)	(212,437)	(765,639)
Profit for the period		10,082,887	18,818,287	1,793,800	4,922,898
Attributable to:					
Shareholders of the Company		10,121,134	18,561,513	1,797,277	4,915,686
Non-controlling interests		(38,247)	256,774	(3,477)	7,212
		10,082,887	18,818,287	1,793,800	4,922,898
Earnings per share					
Weighted average number of ordinary shares in issue during the period		500,000,000	500,000,000	500,000,000	500,000,000
Basic and diluted earnings per share (Russian Roubles per share)		20.2	37.1	3.6	9.8

The notes on pages 9 to 18 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Nine months ended		Three months ended	
	30 September		30 September	
	2013	2012	2013	2012
Profit for the period	10,082,887	18,818,287	1,793,800	4,922,898
<i>Items to be subsequently reclassified to profit or loss:</i>				
Exchange differences on translating to the presentation currency	259,658	178,594	(259,938)	121,097
<i>Items not to be subsequently reclassified to profit or loss:</i>				
Actuarial losses	(40,171)	-	(342)	-
Total comprehensive income for the period	10,302,374	18,996,881	1,533,520	5,043,995
Total comprehensive income for the period attributable to:				
Shareholders of the Company	10,340,621	18,740,107	1,536,997	5,036,783
Non-controlling interests	(38,247)	256,774	(3,477)	7,212
	10,302,374	18,996,881	1,533,520	5,043,995

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CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Notes	30 September 2013	31 December 2012
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	9	32,470,075	29,916,425
Goodwill		10,501,400	10,501,400
Intangible assets		272,579	290,289
Investments in associates		359,959	340,105
Inventories	10	1,149,677	1,113,227
Available-for-sale investments		5,123,848	5,211,225
Other financial assets		214,658	222,058
Deferred tax assets		869,459	845,297
		50,961,655	48,440,026
<i>Current assets</i>			
Inventories	10	4,195,367	4,356,866
Trade and other receivables		2,737,336	2,889,127
Advances paid and prepaid expenses		973,061	1,362,395
Income tax receivable		1,282,542	223,250
Other taxes receivable		2,918,745	2,399,615
Other financial assets		41,907	824,156
Cash and cash equivalents		3,549,722	5,392,432
		15,698,680	17,447,841
TOTAL ASSETS		66,660,335	65,887,867
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital		2,000,000	2,000,000
Additional paid-in capital		2,027,612	1,928,451
Foreign currency translation reserve		434,856	175,198
Retained earnings		27,497,554	19,016,591
Equity attributable to shareholders of the Company		31,960,022	23,120,240
Non-controlling interests		287,654	325,901
Total equity		32,247,676	23,446,141
<i>Non-current liabilities</i>			
Loans and borrowings	11	19,258,461	25,820,813
Obligations under finance leases		2,076,927	1,459,224
Retirement benefit obligations		444,912	402,564
Deferred tax liabilities		2,148,025	2,270,526
		23,928,325	29,953,127
<i>Current liabilities</i>			
Loans and borrowings	11	5,009,209	3,235,917
Obligations under finance leases		736,015	535,391
Trade and other payables		3,191,070	6,471,835
Advances received		606,826	1,407,579
Income tax payable		535,647	588,851
Other taxes payable		405,567	249,026
		10,484,334	12,488,599
Total liabilities		34,412,659	42,441,726
TOTAL EQUITY AND LIABILITIES		66,660,335	65,887,867

The notes on pages 9 to 18 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Operating activities		
Profit before tax	11,827,133	21,796,205
Adjustments for:		
Depreciation of property, plant and equipment	2,609,083	2,401,322
Amortisation of intangible assets	81,040	54,344
Change in provisions and allowances	297,038	297,884
Write-down of inventory to net realisable value	43,362	41,029
Loss on disposal of property, plant and equipment	124,528	153,195
Foreign exchange loss/(gain), net	1,914,380	(920,549)
Share of profit of associates	(17,937)	(12,248)
(Profit)/loss on disposal of subsidiaries	(35,074)	12,448
Share-based compensation	99,161	-
Gain from change in fair value of previously held interest	-	(4,940,755)
Interest and other finance income	(558,602)	(364,886)
Interest and other finance expense	1,745,974	1,870,864
Operating cash flows before working capital changes	18,130,086	20,388,853
Change in inventory	118,087	(41,106)
Change in trade and other receivables	283,998	1,073,022
Change in advances paid and prepaid expenses	212,391	(39,807)
Change in other taxes receivable	(325,105)	557,482
Change in retirement benefit obligations	4,342	21,066
Change in trade and other payables	(198,817)	(675,658)
Change in advances received	(797,812)	(1,569,361)
Change in other taxes payable	191,075	37,889
Cash generated from operations	17,618,245	19,752,380
Interest paid	(1,304,944)	(1,710,127)
Income tax paid	(3,172,340)	(3,330,116)
Net cash generated from operating activities	13,140,961	14,712,137

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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (CONTINUED) (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(5,995,318)
Repayment of liability to the parent company for acquisition-related activity	-	(933,588)
Proceeds from disposal of subsidiaries	98,743	12,332
Proceeds from disposal of available-for-sale investments	85,000	-
Payments for property, plant and equipment	(4,519,577)	(3,148,834)
Proceeds from sale of property, plant and equipment	572,552	149,853
Payments for intangible assets	(63,956)	(55,940)
Loans issued	(414,938)	(3,817,088)
Proceeds from repayment of loans issued	1,237,439	3,425,982
Dividends received	411,116	262,162
Dividends received from associates	-	4,971
Interest received	55,647	88,829
Net cash used in investing activities	(2,537,974)	(10,006,639)
Financing activities		
Proceeds from short-term loans and borrowings	902,299	4,337,863
Proceeds from long-term loans and borrowings	16,197,637	1,679,786
Repayment of short-term loans and borrowings	(5,744,334)	(10,217,536)
Repayment of long-term loans and borrowings	(18,133,920)	(21,644)
Repayment of principal amounts of finance leases	(361,744)	(164,338)
Dividends paid to the shareholders	(5,800,000)	(2,500,000)
Distribution of dividends received from associate to the parent company	-	(413,994)
Increase of ownership in subsidiaries	-	(2,322,150)
Net cash used in financing activities	(12,940,062)	(9,622,013)
Net decrease in cash and cash equivalents	(2,337,075)	(4,916,515)
Cash and cash equivalents at the beginning of the period	5,392,432	8,127,002
Effect of exchange rate changes on the balance of cash held in foreign currencies	494,365	(188,930)
Cash and cash equivalents at the end of the period	3,549,722	3,021,557

The notes on pages 9 to 18 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

	Notes	Attributable to shareholders of the Company					Non-controlling interests	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (Accumulated deficit)	Total		
Balance as at 1 January 2012		2,000,000	1,928,451	(82,074)	6,038,393	9,884,770	349,104	10,233,874
Dividends		-	-	-	(2,500,000)	(2,500,000)	-	(2,500,000)
Profit for the period		-	-	-	18,561,513	18,561,513	256,774	18,818,287
Other comprehensive income		-	-	178,594	-	178,594	-	178,594
Total comprehensive income for the period		-	-	178,594	18,561,513	18,740,107	256,774	18,996,881
Increase of ownership in subsidiaries		-	-	-	(1,004,059)	(1,004,059)	(271,488)	(1,275,547)
Balance as at 30 September 2012		2,000,000	1,928,451	96,520	21,095,847	25,120,818	334,390	25,455,208
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
Dividends	12	-	-	-	(1,600,000)	(1,600,000)	-	(1,600,000)
Profit/(loss) for the period		-	-	-	10,121,134	10,121,134	(38,247)	10,082,887
Other comprehensive income/(loss)		-	-	259,658	(40,171)	219,487	-	219,487
Total comprehensive income/(loss) for the period		-	-	259,658	10,080,963	10,340,621	(38,247)	10,302,374
Share-based payments		-	99,161	-	-	99,161	-	99,161
Balance as at 30 September 2013		2,000,000	2,027,612	434,856	27,497,554	31,960,022	287,654	32,247,676

The notes on pages 9 to 18 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 NINE MONTHS ENDED 30 SEPTEMBER 2013 (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 30 September 2013, 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 Company and its subsidiaries ("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.

These condensed consolidated interim financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2012 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures in these condensed consolidated interim financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Group's annual consolidated financial statements for 2012 prepared in accordance with IFRS.

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 2012.

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

IFRS 7 Financial Instruments (amendments)
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IAS 1 Presentation of Financial Statements (amendments)
IAS 16 Property, Plant and Equipment (amendments)
IAS 19 Employee benefits (revised)
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 32 Financial Instruments (amendments relating to presentation of tax effect of equity distributions)

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS.

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

3. CHANGE IN COMPOSITION OF THE GROUP

Disposal of subsidiary in 2013

During the nine months ended 30 September 2013 the Group sold 100% interest in LLC Upravleniye Avtomobilnogo Transporta LLC for a total cash consideration of RUR 150,000 thousand. The amount of cash disposed of equaled to RUR 51,257 thousand. Net assets of the subsidiary at the date of disposal amounted to RUR 114,926 thousand. As a result of this disposal, the Group recognized gain of RUR 35,074 thousand, which was included in other operating income in the condensed consolidated interim income statement.

Acquisition of a controlling interest in Mineral Fertilisers OJSC ("PMF") in 2012

On 19 January 2012, the Group acquired an additional 41.2% of PMF's shares for cash consideration of RUR 7,762,894 thousand, increasing its ownership in PMF to 87.7%. As at 31 December 2011, the original 46.5% investment in PMF was recorded as an investment in associate in the amount of RUR 2,486,641 thousand. Upon obtaining control over PMF a gain from change in fair value of previously held interest was recognised in the condensed consolidated interim income statement in the amount of RUR 4,940,755 thousand, being the difference between the acquisition date fair value of the previously held equity interest in PMF and the previous carrying amount accounted for under IAS 28, Investments in Associates.

During the nine months ended 30 September 2012 the Group acquired, through a number of transactions with non-controlling shareholders, an additional 11.2% of PMF's shares for a total cash consideration of RUR 2,108,473 thousand, increasing its ownership to 98.9%. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of RUR 1,189,349 thousand. The excess of the consideration paid over the Group's share in net assets acquired of RUR 919,124 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings. The Group acquired the remaining interest of 1.1% in PMF in September 2012.

4. SEGMENT INFORMATION

Segment information provided to the chief operating decision maker for the reportable segments for the nine months ended 30 September 2013 was as follows:

	Nitrogen fertilisers	Phosphate fertilisers	Total
Nine months ended 30 September 2013			
Revenue from external customers	45,695,725	8,512,485	54,208,210
Inter-segment revenue	1,207,333	34,553	1,241,886
Total segment revenue	46,903,058	8,547,038	55,450,096
OIBDA	19,245,927	382,166	19,628,093
Profit/(loss) for the period	13,544,096	(62,533)	13,481,563
	Nitrogen fertilisers	Phosphate fertilisers	Total
Nine months ended 30 September 2012			
Revenue from external customers	45,080,332	8,845,540	53,925,872
Inter-segment revenue	1,130,620	50,031	1,180,651
Total segment revenue	46,210,952	8,895,571	55,106,523
OIBDA	19,940,608	1,028,708	20,969,316
Profit for the period	15,987,682	482,108	16,469,790

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SELECTIVE NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (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:

Nine months ended 30 September 2013	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	19,245,927	382,166	19,628,093
Segment amortisation and depreciation	(2,137,186)	(440,155)	(2,577,341)
Segment income tax	(2,571,084)	77,539	(2,493,545)
Segment expense from financing activities	(993,561)	(82,083)	(1,075,644)
Segment profit/(loss) for the period	13,544,096	(62,533)	13,481,563
Unallocated activities			
Depreciation and amortisation			(112,782)
Corporate overheads			(1,910,270)
Other expenses			(2,176,035)
Interest income			504,339
Interest expense			(1,212,304)
Share of profit of associates			17,937
Foreign exchange loss from financing activities			(1,122,556)
Inter-segment operations, net			1,863,696
Unallocated income tax			749,299
Group profit for the period			10,082,887
Nine months ended 30 September 2012	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	19,940,608	1,028,708	20,969,316
Segment amortisation and depreciation	(1,978,098)	(375,833)	(2,353,931)
Segment income tax	(1,821,120)	(149,468)	(1,970,588)
Segment expense from financing activities	(153,708)	(21,299)	(175,007)
Segment profit for the period	15,987,682	482,108	16,469,790
Unallocated activities			
Depreciation and amortisation			(101,735)
Corporate overheads			(1,084,860)
Other expenses			(1,465,374)
Interest income			300,156
Interest expense			(1,362,152)
Gain from change in fair value of previously held interest			4,940,755
Share of profit of associates			12,248
Foreign exchange gain from financing activities			846,748
Inter-segment operations, net			1,270,041
Unallocated income tax			(1,007,330)
Group profit for the period			18,818,287

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 NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

All amounts are in thousands of Russian Roubles unless otherwise stated

Total reportable segment assets are as follows:

Total segment assets:	Nitrogen fertilisers	Phosphate fertilisers	Total
30 September 2013	45,105,274	7,827,855	52,933,129
31 December 2012	46,297,703	8,538,999	54,836,702

5. SALES OF GOODS

Nine months ended 30 September 2013	Total	Export	Russian Federation	Other CIS countries
Mineral fertilisers				
Nitrogen based fertilisers	30,023,076	22,809,956	5,995,879	1,217,241
Complex fertilisers	6,358,470	3,991,999	1,458,712	907,759
Phosphate based fertilisers	5,751,958	3,105,006	873,957	1,772,995
Ammonia	8,220,144	6,616,388	1,468,232	135,524
Explosive grade ammonium nitrate	1,897,880	91,129	1,454,414	352,337
Inorganic acids	719,242	-	719,242	-
Other chemical products	1,237,440	274,458	929,007	33,975
Total	54,208,210	36,888,936	12,899,443	4,419,831
Nine months ended 30 September 2012				
Mineral fertilisers				
Nitrogen based fertilisers	29,763,935	22,610,713	5,650,966	1,502,256
Complex fertilisers	6,325,772	4,150,390	1,398,933	776,449
Phosphate based fertilisers	6,120,461	3,315,603	968,859	1,835,999
Ammonia	7,855,115	6,472,123	1,262,514	120,478
Explosive grade ammonium nitrate	1,938,043	212,933	1,476,575	248,535
Inorganic acids	731,461	-	727,228	4,233
Other chemical products	1,191,085	243,958	929,230	17,897
Total	53,925,872	37,005,720	12,414,305	4,505,847

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All amounts are in thousands of Russian Roubles unless otherwise stated

Three months ended 30 September 2013	<u>Total</u>	<u>Export</u>	<u>Russian Federation</u>	<u>Other CIS countries</u>
Mineral fertilisers				
Nitrogen based fertilisers	8,631,900	7,009,486	1,408,323	214,091
Complex fertilisers	1,939,994	1,070,943	707,637	161,414
Phosphate based fertilisers	1,621,815	788,216	206,090	627,509
Ammonia	2,132,562	1,801,562	277,089	53,911
Explosive grade ammonium nitrate	578,475	7,201	443,870	127,404
Inorganic acids	219,599	-	219,599	-
Other chemical products	385,389	60,062	309,902	15,425
Total	<u>15,509,734</u>	<u>10,737,470</u>	<u>3,572,510</u>	<u>1,199,754</u>
Three months ended 30 September 2012				
Mineral fertilisers				
Nitrogen based fertilisers	8,789,312	7,623,319	986,206	179,787
Complex fertilisers	2,345,671	1,326,930	816,973	201,768
Phosphate based fertilisers	1,243,249	525,730	253,666	463,853
Ammonia	2,929,203	2,668,006	261,197	-
Explosive grade ammonium nitrate	622,099	80,986	448,315	92,798
Inorganic acids	260,162	-	260,162	-
Other chemical products	395,695	59,162	330,043	6,490
Total	<u>16,585,391</u>	<u>12,284,133</u>	<u>3,356,562</u>	<u>944,696</u>

6. COST OF SALES

	<u>Nine months ended 30 September</u>		<u>Three months ended 30 September</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Raw materials, including:				
Natural gas	9,114,722	7,970,656	3,067,379	2,544,565
Apatite	3,417,268	3,445,299	927,669	1,152,314
Potassium chloride	940,621	1,099,774	302,415	462,244
Sulphur	536,981	543,668	181,720	174,171
Other raw materials	1,659,738	1,509,065	706,216	557,542
Energy and utilities	4,032,759	3,295,209	1,650,459	1,217,329
Wages and salaries	2,977,109	2,674,532	1,054,266	879,435
Depreciation	1,880,605	1,842,504	568,388	651,098
Repairs and maintenance	179,763	179,701	92,853	70,561
Decrease/(increase) in inventory balance	682,266	553,957	342,555	(110,501)
Other	986,971	575,054	562,440	223,065
Total	<u>26,408,803</u>	<u>23,689,419</u>	<u>9,456,360</u>	<u>7,821,823</u>

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7. SELLING AND DISTRIBUTION EXPENSES

	Nine months ended 30 September		Three months ended 30 September	
	2013	2012	2013	2012
Transportation, including:				
Railway tariff	5,117,355	4,817,680	1,543,445	1,385,056
Freight and transshipment	3,668,610	3,416,299	1,217,923	1,205,729
Rail cars rent expenses	795,580	993,432	166,365	353,421
Other transportation expenses	391,673	337,720	84,197	114,013
Wages and salaries	895,571	637,824	380,546	229,747
Depreciation	411,715	351,653	154,258	109,917
Advertising and marketing	208,510	214,449	50,524	78,934
Customs clearance charges	10,160	48,737	2,787	5,464
Other	765,610	555,384	263,328	133,966
Total	12,264,784	11,373,178	3,863,373	3,616,247

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September		Three months ended 30 September	
	2013	2012	2013	2012
Wages and salaries	1,972,750	1,765,064	539,895	588,923
Depreciation	316,763	207,165	132,616	70,452
Audit, legal and consulting services	181,693	161,442	38,553	33,824
Security	136,273	83,603	72,958	27,221
Rent	98,205	82,623	38,240	31,572
Bank charges	42,117	47,855	35,824	9,732
Fines and penalties	19,346	59,364	6,525	5,949
Other	658,341	684,699	199,490	305,083
Total	3,425,488	3,091,815	1,064,101	1,072,756

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the nine months ended 30 September 2013, the Group acquired property, plant and equipment with a cost of RUR 3,412,318 thousand (nine months ended 30 September 2012: RUR 5,480,402 thousand) including machinery, equipment and transport leased under a number of finance lease agreements for the amount of 1,113,262 thousand (nine months ended 30 September 2012: 0). 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 30 September 2013, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of RUR 499,242 thousand (31 December 2012: RUR 624,934 thousand).

The Group also disposed of certain of its machinery and tools with a carrying amount of RUR 508,634 thousand (nine months ended 30 September 2012: RUR 183,381 thousand).

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Assets pledged as collateral

As at 30 September 2013, the carrying value of property, plant and equipment pledged to secure loans and borrowings granted to the Group in the amount of RUR 2,900,372 thousand (31 December 2012: RUR 1,730,335 thousand)

10. INVENTORIES

	<u>30 September 2013</u>	<u>31 December 2012</u>
Inventories expected to be recovered after twelve months		
Catalytic agents	1,012,363	909,535
Other inventories	137,314	203,692
	<u>1,149,677</u>	<u>1,113,227</u>
Inventories expected to be recovered in the next twelve months		
Raw materials, net of allowance for obsolescence	2,158,342	1,941,320
Finished goods	1,765,660	2,171,188
Work in-progress	256,951	227,934
Goods for resale	14,414	16,424
	<u>4,195,367</u>	<u>4,356,866</u>
Total	<u>5,345,044</u>	<u>5,470,093</u>

During the nine months ended 30 September 2013, the Group recognised a write down of RUR 43,362 thousand to reduce the carrying value of inventories to net realisable value (the year ended 31 December 2012: RUR 40,281 thousand).

At 30 September 2013, raw materials were presented net of an allowance for obsolescence of RUR 98,309 thousand (31 December 2012: RUR 102,958 thousand). During the nine months ended 30 September 2013, the Group recognised RUR 6,427 thousand (nine months ended 30 September 2012: RUR 9,758 thousand) and released RUR 11,076 thousand (nine months ended 30 September 2012: RUR 37,871 thousand) of allowance for obsolescence of raw materials.

11. LOANS AND BORROWINGS

	<u>30 September 2013</u>	<u>31 December 2012</u>
Loans denominated in USD	15,576,056	21,385,685
Loans denominated in EUR	8,688,293	7,667,225
Loans denominated in RUR	3,321	3,820
	<u>24,267,670</u>	<u>29,056,730</u>
Less: current portion repayable within twelve months and shown under current liabilities	<u>(5,009,209)</u>	<u>(3,235,917)</u>
Long-term portion of loans and borrowings	<u>19,258,461</u>	<u>25,820,813</u>

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Loans denominated in USD

The loans denominated in USD had a weighted average annual interest rate 4.6% during the nine months ended 30 September 2013 (during the nine months ended 30 September 2012: 5.2%) and included the following borrowings:

- RUR 11,711,791 thousand (31 December 2012: RUR 458,309 thousand) at a fixed rate varying from 3.0% to 6.0% (31 December 2012: from 6.0% to 9.0%) per annum; and
- RUR 3,864,265 thousand (31 December 2012: RUR 20,927,376 thousand) at floating rates linked to Libor of 4.2% (31 December 2012: from 4.3% to 5.3%) per annum.

In July 2013 the Group reached an agreement with Sberbank to commence repayment of the part of the loan in the amount of RUR 9,056,628 thousand in October 2015, rather than October 2013. In addition annual interest rate on this borrowing was decreased from a floating interest rate linked to Libor 3m + 4.31% to a fixed annual interest rate of 4.25%. The commission for loan restructuring amounted to RUR 53,116 thousand.

Loans denominated in EUR

The loans denominated in EUR consist of loans of RUR 8,688,293 thousand (31 December 2012: RUR 7,549,040 thousand) at floating interest rates linked to Euribor 1m and 3m varying from 3.6% to 3.6% (31 December 2012: from 3.7% to 4.4%). As at 30 September 2013, EUR-denominated loans in the amount of RUR 1,868,718 thousand were secured by certain fixed assets (refer to Note 9).

Total loans and borrowings were repayable as follows:

	<u>30 September 2013</u>	<u>31 December 2012</u>
Due within three months	574,232	170,554
Due from three to six months	441,631	386,002
Due from six to twelve months	3,993,346	2,679,361
Total current portion repayable within twelve months	<u>5,009,209</u>	<u>3,235,917</u>
Due in the second year	5,326,290	9,941,653
Due in the third year	10,686,681	7,007,451
Due in the fourth year	1,784,044	6,890,547
Due in the fifth year	599,286	1,580,374
Due thereafter	862,160	400,788
Total long-term portion of loans and borrowings	<u>19,258,461</u>	<u>25,820,813</u>

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

- negative pledge for shares and property pledges;
- limits for material sale of assets and payment of dividends;
- 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 the creditors to request early repayment of outstanding amounts in the event of non-compliance with these covenants.

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12. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

The Group had the following outstanding balances with related parties:

	<u>30 September 2013</u>	<u>31 December 2012</u>
Parent company		
Other financial assets	-	751,993
Loans and borrowings	(2,744,308)	(454,724)
Other payables	(65)	(4,200,000)
Entities under common ownership and control		
Long-term trade and other receivable	44,834	-
Trade and other receivables	126,153	131,409
Advances paid and prepaid expenses	284	9,130
Loans issued, at amortised cost	-	300
Promissory notes of related parties, at amortised cost	-	10,625
Trade and other payables	(54,135)	(58,473)
Advances received	(2,788)	(1,486)

The Group entered into the following transactions with related parties:

	<u>Nine months ended 30 September 2013</u>	<u>Nine months ended 30 September 2012</u>
Parent company		
Interest income	11,329	55,710
Interest expense	(75,135)	(5,035)
Entities under common ownership and control		
Sales of goods and services	1,330,895	1,214,471
Purchases of goods and services	(347,841)	(297,824)
Other income	4,799	4,538
	<u>Three months ended 30 September 2013</u>	<u>Three months ended 30 September 2012</u>
Parent company		
Interest income	289	14,305
Interest expense	(19,546)	(2,075)
Entities under common ownership and control		
Sales of goods and services	498,832	454,430
Purchases of goods and services	(139,621)	(112,691)
Other income	1,967	1,712

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Transactions with related parties

Dividends paid

On 28 June 2013 the Company declared a final dividend of 3.2 Roubles per one ordinary share (to the total amount of RUR 1,600,000 thousand) to be distributed out of profits retained from the year 2012. The total amount of dividends paid out of profits generated in 2012 equalled RUR 8,300,000 thousand. As at 30 September 2013 the liability on the payment of dividend was fully settled.

Loans received from related parties

As at 30 September 2013, loans received from related parties included a loan received from the parent company at a fixed interest rate of 3.0% annually. As at 30 September 2013 amortized cost of the loan was RUR 1,096,677 thousand at the effective annual interest rate of 5.2%.

Compensation of key management personnel

The compensation of key management personnel of the Group for the nine months ended 30 September 2013 comprised salaries and cash bonuses in the amount of RUR 251,775 thousand (nine months ended 30 September 2012: RUR 248,293 thousand), including social taxes in the amount of RUR 22,479 thousand (nine months ended 30 September 2012: RUR 28,574 thousand) and share-based compensation in the amount of RUR 99,505 thousand (nine months ended 30 September 2012: 0).

13. 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>30 September 2013</u>	<u>31 December 2012</u>
Due in one year	13,964,876	11,861,466
Due from two to five years	41,523,614	45,413,766
Total	<u>55,488,490</u>	<u>57,275,232</u>

Capital commitments

As at 30 September 2013, the Group's contractual capital commitments for acquisition of property, plant and equipment amounted to RUR 992,773 thousand (31 December 2012: RUR 906,037 thousand).

Operating leases: Group as a lessee

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

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

	<u>30 September 2013</u>	<u>31 December 2012</u>
Due in one year	588,835	1,513,079
Due from two to five years	620,785	858,019
Total	<u>1,209,620</u>	<u>2,371,098</u>

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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.

14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Loans received

In November 2013 the Group refinanced its syndicated loan facility in the amount of RUR 6,469,020 thousand (USD 200,000 thousand). The new loan matures in November 2018, in addition, the interest was decreased from Libor 1m + 4.25% to Euribor 3m + 2.5%. This syndicated facility was arranged by Nordea Bank AB, HSBC Bank PLC, Raiffeisenbank and Rosbank.