

**UNITED CHEMICAL COMPANY
URALCHEM JSC**

**Condensed consolidated interim
financial statements
for the six months ended 30 June 2015
(unaudited)**

UNITED CHEMICAL COMPANY URALCHEM JSC

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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 2015 (UNAUDITED)

The following statement, which should be read in conjunction with the independent auditor's report on review of the 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 auditor in relation to the condensed consolidated interim financial statements of United Chemical Company UralChem JSC 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 30 June 2015, and the results of its operations, 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 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 2015 were approved on 28 August 2015 by:

Andrey Pakhomenkov
Chief financial officer

Dmitry Tatyatin
Deputy chief executive officer

Moscow, Russia
28 August 2015

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of United Chemical Company UralChem JSC:

We have reviewed the accompanying condensed consolidated interim statement of financial position of United Chemical Company UralChem JSC and its subsidiaries (collectively, "the Group") as at 30 June 2015 and the related condensed consolidated interim statements of profit or loss and other 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.

Conclusion

Based on our review, 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
28 August 2015

UNITED CHEMICAL COMPANY URALCHEM JSC

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | Notes | Six months ended 30 June | | Three months ended 30 June | |
|-----------------------------------------------------------------------------|-------|--------------------------|-------------------|----------------------------|-------------------|
| | | 2015 | 2014 | 2015 | 2014 |
| Revenue | | | | | |
| Sales of goods | 5 | 53,355,197 | 35,309,213 | 24,194,240 | 16,528,802 |
| Other sales | | 1,241,541 | 1,227,642 | 529,742 | 600,391 |
| Total revenue | | 54,596,738 | 36,536,855 | 24,723,982 | 17,129,193 |
| Cost of sales | 6 | (18,199,783) | (15,337,583) | (9,759,056) | (7,150,878) |
| Gross profit | | 36,396,955 | 21,199,272 | 14,964,926 | 9,978,315 |
| Selling and distribution expenses | 7 | (9,871,625) | (8,074,409) | (4,800,559) | (3,704,634) |
| General and administrative expenses | 8 | (2,785,370) | (2,505,124) | (1,335,420) | (1,208,315) |
| Other operating income | | 190,693 | 207,110 | 54,007 | 138,819 |
| Other operating expenses | | (1,923,003) | (1,122,128) | (1,093,126) | (767,906) |
| Operating profit | | 22,007,650 | 9,704,721 | 7,789,828 | 4,436,279 |
| Interest and other finance income | | 415,185 | 25,083 | 171,817 | 13,781 |
| Interest and other finance expense | 9 | (11,270,861) | (3,922,072) | (3,708,408) | (1,992,806) |
| Share of gain of associates | 11 | 3,961,585 | 231,147 | 2,135,663 | 120,265 |
| Impairment of non-current assets | | - | (15,983) | - | (15,983) |
| Foreign exchange gain/(loss) from financing activities | | 3,204,004 | (4,011,770) | 12,862,170 | 9,550,116 |
| Profit before tax | | 18,317,563 | 2,011,126 | 19,251,070 | 12,111,652 |
| Income tax expense | | (4,589,807) | (1,488,314) | (3,412,999) | (2,812,386) |
| Profit for the period | | 13,727,756 | 522,812 | 15,838,071 | 9,299,266 |
| Attributable to: | | | | | |
| Shareholders of the Company | | 13,646,720 | 500,297 | 15,793,181 | 9,286,943 |
| Non-controlling interests | | 81,036 | 22,515 | 44,890 | 12,323 |
| | | 13,727,756 | 522,812 | 15,838,071 | 9,299,266 |
| 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) | | 27.3 | 1.0 | 31.6 | 18.6 |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM JSC

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | <u>Six months ended 30 June</u> | | <u>Three months ended 30 June</u> | |
|-----------------------------------------------------------------|---------------------------------|------------------|-----------------------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Profit for the period | 13,727,756 | 522,812 | 15,838,071 | 9,299,266 |
| <i>Items to be subsequently reclassified to profit or loss:</i> | | | | |
| Exchange differences on translating foreign operations | 716,815 | 858,872 | 1,037,767 | (141,431) |
| Total comprehensive income for the period | 14,444,571 | 1,381,684 | 16,875,838 | 9,157,835 |
| Attributable to: | | | | |
| Shareholders of the Company | 14,363,535 | 1,359,169 | 16,830,948 | 9,145,512 |
| Non-controlling interests | 81,036 | 22,515 | 44,890 | 12,323 |
| | 14,444,571 | 1,381,684 | 16,875,838 | 9,157,835 |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM JSC

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | Notes | 30 June 2015 | 31 December 2014 |
|------------------------------------------------------------|-------|---------------------|---------------------|
| ASSETS | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 10 | 32,270,316 | 33,301,180 |
| Goodwill | | 12,899,552 | 12,899,552 |
| Intangible assets | | 290,281 | 295,017 |
| Investments in associates | 11 | 117,835,792 | 113,869,768 |
| Inventories | 12 | 1,184,478 | 1,056,677 |
| Available-for-sale investments | | 5,586,185 | 5,586,236 |
| Other financial assets | | 328,921 | 2,681,723 |
| Deferred tax assets | | 15,186,300 | 17,197,669 |
| | | 185,581,825 | 186,887,822 |
| <i>Current assets</i> | | | |
| Inventories | 12 | 5,594,925 | 5,550,573 |
| Trade and other receivables | | 6,299,535 | 6,498,154 |
| Advances paid and prepaid expenses | | 1,212,029 | 1,442,694 |
| Income tax receivable | | 933,941 | 204,206 |
| Other taxes receivable | | 2,707,674 | 2,445,097 |
| Other financial assets | | 2,264,024 | 94,039 |
| Cash and cash equivalents | | 18,052,874 | 11,089,860 |
| | | 37,065,002 | 27,324,623 |
| TOTAL ASSETS | | 222,646,827 | 214,212,445 |
| EQUITY AND LIABILITIES | | | |
| <i>Capital and reserves</i> | | | |
| Share capital | 13 | 2,000,000 | 2,000,000 |
| Additional paid-in capital | | 2,291,706 | 2,291,706 |
| Foreign currency translation reserve | | 2,237,255 | 1,520,440 |
| Accumulated deficit | | (44,256,657) | (57,903,377) |
| Deficit attributable to shareholders of the Company | | (37,727,696) | (52,091,231) |
| Non-controlling interests | | 1,579,674 | 1,498,638 |
| Total equity | | (36,148,022) | (50,592,593) |
| <i>Non-current liabilities</i> | | | |
| Loans and borrowings | 14 | 244,244,119 | 249,629,447 |
| Obligations under finance leases | | 2,809,876 | 3,161,134 |
| Retirement benefit obligations | | 335,680 | 327,098 |
| Deferred tax liabilities | | 1,415,723 | 1,335,381 |
| | | 248,805,398 | 254,453,060 |
| <i>Current liabilities</i> | | | |
| Loans and borrowings | 14 | 4,827,456 | 3,786,100 |
| Obligations under finance leases | | 1,014,676 | 1,185,659 |
| Trade and other payables | | 2,589,927 | 2,466,718 |
| Advances received | | 1,114,377 | 1,960,826 |
| Income tax payable | | 5,512 | 676,127 |
| Other taxes payable | | 437,503 | 276,548 |
| | | 9,989,451 | 10,351,978 |
| Total liabilities | | 258,794,849 | 264,805,038 |
| TOTAL EQUITY AND LIABILITIES | | 222,646,827 | 214,212,445 |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM JSC

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | Six months ended 30 June 2015 | Six months ended 30 June 2014 |
|------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Operating activities | | |
| Profit before tax | 18,317,563 | 2,011,126 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 2,041,463 | 1,815,124 |
| Amortisation of intangible assets | 52,142 | 49,171 |
| Change in provisions and allowances | 298,379 | 235,630 |
| Write-down of inventory to net realisable value | 89,273 | 90,056 |
| Loss on disposal of property, plant and equipment | 28,585 | 12,019 |
| Loss on impairment of non-current assets | - | 15,983 |
| Foreign exchange (gain)/loss, net | (1,509,139) | 4,891,478 |
| Share of gain of associates | (3,961,585) | (231,147) |
| Share-based compensation | - | 63,486 |
| Interest and other finance income | (415,185) | (25,083) |
| Interest and other finance expense | 11,270,861 | 3,922,072 |
| Operating cash flows before working capital changes | 26,212,357 | 12,849,915 |
| Change in inventory | (261,429) | 106,178 |
| Change in trade and other receivables | 692,312 | 1,048,809 |
| Change in advances paid and prepaid expenses | 230,499 | 71,546 |
| Change in other taxes receivable | (262,577) | 50,897 |
| Change in retirement benefit obligations | 8,582 | 13,754 |
| Change in trade and other payables | (948,231) | (291,069) |
| Change in advances received | (847,390) | (925,510) |
| Change in other taxes payable | 158,478 | 54,356 |
| Cash generated from operations | 24,982,601 | 12,978,876 |
| Interest paid, net | (6,381,578) | (1,471,546) |
| Income tax paid | (3,921,357) | (1,299,635) |
| Net cash generated from operating activities | 14,679,666 | 10,207,695 |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM JSC

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | Six months ended 30 June 2015 | Six months ended 30 June 2014 |
|--------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Investing activities | | |
| Acquisition of available-for-sale investments | (14,500) | (460,688) |
| Payments for acquisition of property, plant and equipment | (1,670,694) | (1,758,494) |
| Proceeds from sale of property, plant and equipment | 45,003 | 180,498 |
| Payments for acquisition of intangible assets | (47,406) | (36,819) |
| Loans issued | (6,796,604) | (36,580) |
| Proceeds from repayment of loans issued | 3,034,840 | 3,261 |
| Dividends received from associates | 9,943 | - |
| Interest received | 309,452 | 21,769 |
| Net cash used in investing activities | (5,129,966) | (2,087,053) |
| Financing activities | | |
| Proceeds from short-term loans and borrowings | 110,078 | 4,277,524 |
| Proceeds from long-term loans and borrowings | 33,389 | 7,247,467 |
| Repayment of short-term loans and borrowings | (208,108) | (11,544,155) |
| Repayment of long-term loans and borrowings | (538,869) | (156,691) |
| Repayment of principal amounts of finance leases | (387,415) | (455,024) |
| Dividends paid to the shareholders | - | (3,475,000) |
| Net cash used in financing activities | (990,925) | (4,105,879) |
| Net increase in cash and cash equivalents | 8,558,775 | 4,014,763 |
| Cash and cash equivalents at the beginning of the period | 11,089,860 | 3,805,538 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | (1,595,761) | (228,525) |
| Cash and cash equivalents at the end of the period | 18,052,874 | 7,591,776 |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

| | Attributable to shareholders of the Company | | | | | | | |
|----------------------------------------------------------|---------------------------------------------|------------------|----------------------------|--------------------------------------|------------------------------------------|---------------------|---------------------------|---------------------|
| | Notes | Share capital | Additional paid-in capital | Foreign currency translation reserve | Retained earnings/ (Accumulated deficit) | Total | Non-controlling interests | Total |
| Balance as at 1 January 2014 | | 2,000,000 | 2,228,220 | 590,820 | 22,067,651 | 26,886,691 | 213,432 | 27,100,123 |
| Profit for the period | | - | - | - | 500,297 | 500,297 | 22,515 | 522,812 |
| Other comprehensive income | | - | - | 858,871 | - | 858,871 | - | 858,871 |
| Total comprehensive income for the period | | - | - | 858,871 | 500,297 | 1,359,168 | 22,515 | 1,381,683 |
| Share-based payments | | - | 63,486 | - | - | 63,486 | - | 63,486 |
| Non-controlling interest arising on business combination | | - | - | - | - | - | 1,069 | 1,069 |
| Balance as at 30 June 2014 | | 2,000,000 | 2,291,706 | 1,449,691 | 22,567,948 | 28,309,345 | 237,016 | 28,546,361 |
| Balance as at 1 January 2015 | | 2,000,000 | 2,291,706 | 1,520,440 | (57,903,377) | (52,091,231) | 1,498,638 | (50,592,593) |
| Profit for the period | | - | - | - | 13,646,720 | 13,646,720 | 81,036 | 13,727,756 |
| Other comprehensive income | | - | - | 716,815 | - | 716,815 | - | 716,815 |
| Total comprehensive income for the period | | - | - | 716,815 | 13,646,720 | 14,363,535 | 81,036 | 14,444,571 |
| Balance as at 30 June 2015 | | 2,000,000 | 2,291,706 | 2,237,255 | (44,256,657) | (37,727,696) | 1,579,674 | (36,148,022) |

The notes on pages 9 to 24 are an integral part of these condensed consolidated interim financial statements.

UNITED CHEMICAL COMPANY URALCHEM JSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

1. GENERAL INFORMATION

Organisation

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

As at 30 June 2015, 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 controlling shareholder of the Company is Mr. Dmitry A. Mazepin.

The Company’s main office is located at Presnenskaya Naberezhnaya, 6/2, 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

These financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

These 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 2014 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. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Company’s annual consolidated financial statements for 2014 prepared in accordance with IFRS. Management believes that the disclosures in these interim consolidated financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Company’s annual consolidated financial statements for 2014 prepared in accordance with IFRS. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the Group’s financial position, results of operations, statements of changes in shareholders’ equity and cash flows for the interim reporting periods.

Exchange rates for the currencies in which the Group transacts were as follows:

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|-------------------------------------|----------------------------|----------------------------|
| Closing exchange rates - RUB | | |
| 1 U.S. Dollar | 55.52 | 56.26 |
| 1 Euro | 61.52 | 68.34 |
| | Six months ended | Six months ended |
| | <u>30 June 2015</u> | <u>30 June 2014</u> |
| Average exchange rates | | |
| 1 U.S. Dollar | 57.71 | 34.99 |
| 1 Euro | 64.31 | 48.00 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2014, except for the impact of the adoption of the following amended standards:

- Amendments to IAS 19 - Defined Benefit Plans: Employee contributions;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle;

Amendments to IAS 19 - Defined Benefit Plans: Employee contributions

The amendments to IAS 19 Employee Benefits clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. There is no impact of these amendments on the financial statements as the Group's defined benefit plans do not stipulate contributions from employees.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

There is no significant effect of these amendments on the consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

There is no significant effect of these amendments on the consolidated financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

4. 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 Mineral Fertiliser Plant OJSC (“KCCW”), located in the Kirov region of the Russian Federation, Azot branch of UralChem JSC (“Azot branch”) and Mineral Fertilisers OJSC (“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 Voskresensk Mineral Fertilisers OJSC (“VMF”), located in the Moscow region of the Russian Federation. During the six months ended 30 June 2014 there has been a significant change in operational activities in the phosphate segment of the Group. VMF ceased production of inorganic acids and reduced production of phosphate based fertilizers. VMF produces phosphate based fertilizers, complex fertilizers and develops of new products.

The chief operating decision maker 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, 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

Segment information provided to the chief operating decision maker for the reportable segments for the six months ended 30 June 2015 and 2014 is as follows:

| | Nitrogen fertilisers | Phosphate fertilisers | Total |
|--------------------------------------|---------------------------------|----------------------------------|-------------------|
| Six months ended 30 June 2015 | | | |
| Revenue from external customers | 49,445,497 | 3,909,700 | 53,355,197 |
| Inter-segment revenue | 152,354 | 7,982 | 160,336 |
| Total segment revenue | 49,597,851 | 3,917,682 | 53,515,533 |
| OIBDA | 25,582,249 | 176,951 | 25,759,200 |
| Net profit for the period | 19,404,557 | 93,467 | 19,498,024 |
| Six months ended 30 June 2014 | | | |
| Revenue from external customers | 34,008,382 | 1,300,831 | 35,309,213 |
| Inter-segment revenue | 102,635 | 3,566 | 106,201 |
| Total segment revenue | 34,111,017 | 1,304,397 | 35,415,414 |
| OIBDA | 14,048,346 | (415,285) | 13,633,061 |
| Net profit/(loss) for the period | 9,796,134 | (585,410) | 9,210,724 |

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

| | Nitrogen fertilisers | Phosphate fertilisers | Total |
|-------------------------------------------------|---------------------------------|----------------------------------|--------------------|
| Six months ended 30 June 2015 | | | |
| Segment OIBDA | 25,582,249 | 176,951 | 25,759,200 |
| Segment amortisation and depreciation | (1,903,092) | (121,600) | (2,024,692) |
| Segment income tax (expense)/benefit | (4,342,349) | 21,720 | (4,320,629) |
| Segment benefit from financing activities, net | 67,749 | 16,396 | 84,145 |
| Segment profit for the period | 19,404,557 | 93,467 | 19,498,024 |
| Unallocated activities | | | |
| Depreciation and amortisation | | | (68,913) |
| Corporate overheads | | | (1,237,925) |
| Other expenses | | | (1,811,567) |
| Interest and other finance income | | | 166,490 |
| Interest and other finance expense | | | (10,719,981) |
| Share of gain of associates | | | 3,961,585 |
| Foreign exchange gain from financing activities | | | 2,758,521 |
| Inter-segment income, net | | | 1,450,700 |
| Unallocated income tax expense | | | (269,178) |
| Group profit for the period | | | 13,727,756 |

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| Six months ended 30 June 2014 | Nitrogen fertilisers | Phosphate fertilisers | Total |
|-------------------------------------------------------------------|---------------------------------|----------------------------------|-------------------------|
| Segment OIBDA | 14,048,346 | (415,285) | 13,633,061 |
| Segment amortisation and depreciation | (1,648,815) | (81,732) | (1,730,547) |
| Segment income tax expense | (2,078,915) | (15,106) | (2,094,021) |
| Segment income/(expense) from impairment of non-current assets | 3,000 | (18,983) | (15,983) |
| Segment expense from financing activities, net | <u>(527,482)</u> | <u>(54,304)</u> | <u>(581,786)</u> |
| Segment profit/(loss) for the period | 9,796,134 | (585,410) | 9,210,724 |
| Unallocated activities | | | |
| Depreciation and amortisation | | | (133,748) |
| Corporate overheads | | | (2,022,212) |
| Other expenses | | | (1,860,469) |
| Interest and other finance expense | | | (3,556,674) |
| Share of income of associates | | | 231,147 |
| Foreign exchange loss from financing activities | | | (3,848,691) |
| Inter-segment income, net | | | 1,897,028 |
| Unallocated income tax benefit | | | <u>605,707</u> |
| Group profit for the period | | | <u>522,812</u> |

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:

| | Nitrogen fertilisers | Phosphate fertilisers | Total |
|-------------------------|---------------------------------|----------------------------------|-------------------|
| 30 June 2015 | 63,144,306 | 5,196,927 | 68,341,233 |
| 31 December 2014 | 60,321,911 | 4,939,494 | 65,261,405 |

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.

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5. SALES OF GOODS

| Six months ended 30 June 2015 | <u>Total</u> | <u>Export</u> | <u>Russian Federation</u> | <u>Other CIS countries</u> |
|-----------------------------------------|--------------------------|--------------------------|---------------------------|----------------------------|
| Mineral fertilisers | | | | |
| Nitrogen based fertilisers | 32,023,192 | 23,119,821 | 7,688,462 | 1,214,909 |
| Complex fertilisers | 7,010,967 | 5,899,928 | 1,060,998 | 50,041 |
| Phosphate based fertilisers | 797,595 | 464,579 | 184,823 | 148,193 |
| Ammonia | 10,843,441 | 9,575,813 | 1,266,840 | 788 |
| Explosive grade ammonium nitrate | 1,348,580 | 16,369 | 1,188,322 | 143,889 |
| Inorganic acids | 401,246 | - | 401,246 | - |
| Other chemical products | 930,176 | 85,950 | 801,664 | 42,562 |
| Total | <u>53,355,197</u> | <u>39,162,460</u> | <u>12,592,355</u> | <u>1,600,382</u> |
| Six months ended 30 June 2014 | | | | |
| Mineral fertilisers | | | | |
| Nitrogen based fertilisers | 22,732,216 | 17,189,520 | 4,946,518 | 596,178 |
| Complex fertilisers | 3,483,597 | 2,939,476 | 269,530 | 274,591 |
| Phosphate based fertilisers | 758,825 | 289,157 | 309,468 | 160,200 |
| Ammonia | 5,839,967 | 5,527,969 | 291,409 | 20,589 |
| Explosive grade ammonium nitrate | 1,199,649 | 10,092 | 966,270 | 223,287 |
| Inorganic acids | 402,946 | - | 402,946 | - |
| Other chemical products | 892,013 | 169,839 | 673,185 | 48,989 |
| Total | <u>35,309,213</u> | <u>26,126,053</u> | <u>7,859,326</u> | <u>1,323,834</u> |
| Three months ended 30 June 2015 | | | | |
| Mineral fertilisers | | | | |
| Nitrogen based fertilisers | 12,937,766 | 9,567,227 | 3,037,016 | 333,523 |
| Complex fertilisers | 4,216,820 | 3,476,903 | 714,883 | 25,034 |
| Phosphate based fertilisers | 332,393 | 233,356 | 97,832 | 1,205 |
| Ammonia | 5,167,391 | 4,383,806 | 782,797 | 788 |
| Explosive grade ammonium nitrate | 870,035 | 7,095 | 759,796 | 103,144 |
| Inorganic acids | 225,545 | - | 225,545 | - |
| Other chemical products | 444,290 | 43,991 | 371,397 | 28,902 |
| Total | <u>24,194,240</u> | <u>17,712,378</u> | <u>5,989,266</u> | <u>492,596</u> |
| Three months ended 30 June 2014 | | | | |
| Mineral fertilisers | | | | |
| Nitrogen based fertilisers | 10,253,725 | 7,966,963 | 2,015,265 | 271,497 |
| Complex fertilisers | 1,722,626 | 1,425,849 | 160,348 | 136,429 |
| Phosphate based fertilisers | 156,624 | 31,895 | 99,863 | 24,866 |
| Ammonia | 3,086,524 | 2,916,682 | 169,842 | - |
| Explosive grade ammonium nitrate | 623,556 | 5,582 | 500,558 | 117,416 |
| Inorganic acids | 188,238 | - | 188,238 | - |
| Other chemical products | 497,509 | 101,405 | 360,944 | 35,160 |
| Total | <u>16,528,802</u> | <u>12,448,376</u> | <u>3,495,058</u> | <u>585,368</u> |

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6. COST OF SALES

| | <u>Six months ended 30 June</u> | | <u>Three months ended 30 June</u> | |
|--------------------------------------------------|---------------------------------|--------------------------|-----------------------------------|-------------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Raw materials, including: | | | | |
| Natural gas | 7,129,439 | 6,976,065 | 3,451,363 | 3,510,744 |
| Apatite | 1,821,619 | 697,162 | 1,042,986 | 213,632 |
| Potassium chloride | 966,833 | 325,282 | 645,733 | 146,156 |
| Sulphur | 241,305 | 38,375 | 149,616 | 1,085 |
| Other raw materials | 1,226,738 | 1,004,342 | 626,306 | 467,472 |
| Energy and utilities | 2,379,409 | 2,428,320 | 1,163,196 | 1,232,337 |
| Staff costs | 1,939,549 | 1,787,626 | 971,294 | 844,273 |
| Depreciation | 1,345,523 | 1,321,774 | 673,082 | 665,271 |
| Repairs and maintenance | 119,020 | 96,679 | 83,520 | 53,643 |
| Change in work in progress and finished goods | 326,324 | 180,612 | 639,181 | (244,062) |
| Other | 704,024 | 481,346 | 312,779 | 260,327 |
| Total | <u>18,199,783</u> | <u>15,337,583</u> | <u>9,759,056</u> | <u>7,150,878</u> |

7. SELLING AND DISTRIBUTION EXPENSES

| | <u>Six months ended 30 June</u> | | <u>Three months ended 30 June</u> | |
|-------------------------------|---------------------------------|-------------------------|-----------------------------------|-------------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Transportation, including: | | | | |
| Railway tariff | 4,997,662 | 3,532,121 | 2,454,500 | 1,655,647 |
| Freight and transshipment | 2,306,840 | 2,420,761 | 1,110,509 | 1,030,066 |
| Rail cars rent expenses | 204,350 | 410,649 | 86,194 | 159,733 |
| Other transportation expenses | 362,147 | 193,008 | 192,310 | 98,691 |
| Staff costs | 678,884 | 581,910 | 315,078 | 274,524 |
| Depreciation | 546,512 | 380,216 | 259,808 | 190,281 |
| Advertising and marketing | 16,035 | 6,475 | 9,474 | 3,089 |
| Other | 759,195 | 549,269 | 372,686 | 292,603 |
| Total | <u>9,871,625</u> | <u>8,074,409</u> | <u>4,800,559</u> | <u>3,704,634</u> |

8. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>Six months ended 30 June</u> | | <u>Three months ended 30 June</u> | |
|--------------------------------------|---------------------------------|-------------------------|-----------------------------------|-------------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Staff costs | 1,693,130 | 1,568,437 | 792,974 | 707,305 |
| Audit, legal and consulting services | 331,220 | 222,360 | 170,811 | 114,012 |
| Depreciation | 149,428 | 113,134 | 74,326 | 57,126 |
| Security | 98,843 | 96,605 | 49,439 | 48,876 |
| Rent | 26,904 | 69,180 | 15,745 | 39,683 |
| Bank charges | 17,586 | 23,246 | 8,018 | 13,134 |
| Fines and penalties | 7,507 | 18,982 | 3,767 | 6,856 |
| Other | 460,752 | 393,180 | 220,340 | 221,323 |
| Total | <u>2,785,370</u> | <u>2,505,124</u> | <u>1,335,420</u> | <u>1,208,315</u> |

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9. INTEREST AND OTHER FINANCE EXPENSE

| | <u>Six months ended 30 June</u> | | <u>Three months ended 30 June</u> | |
|------------------------------------------------------|---------------------------------|-------------------------|-----------------------------------|-------------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Interest on loans and borrowings | 6,278,989 | 3,731,740 | 2,915,954 | 1,895,238 |
| Interest on obligations under finance leases | 205,630 | 190,332 | 101,167 | 97,568 |
| Impairment of financial assets (refer to Note 15) | 4,785,636 | - | 690,681 | - |
| Other | 606 | - | 606 | - |
| Total | <u>11,270,861</u> | <u>3,922,072</u> | <u>3,708,408</u> | <u>1,992,806</u> |

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired property, plant and equipment with a cost of RUB 1,656,934 (six months ended 30 June 2014: RUB 2,086,022) including machinery, equipment and transport leased under a number of finance lease agreements for the amount of RUB nil (six months ended 30 June 2014: RUB 262,822). Acquisitions under finance lease agreements represent a non-cash investing and financing activity which is not reflected in the condensed consolidated statement of cash flows.

As at 30 June 2015, property, plant and equipment included advances paid for acquisition of property, plant and equipment in the amount of RUB 803,038 (31 December 2014: RUB 486,982).

The Group also disposed of certain of its machinery and tools with a carrying amount of RUB 103,497 (six months ended 30 June 2014: RUB 130,868).

Assets pledged as collateral

As at 30 June 2015, the carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group amounted to RUB 4,619,114 (31 December 2014: RUB 5,355,499) (refer to Note 14).

11. INVESTMENTS IN ASSOCIATES

| <u>Name of associate</u> | <u>Principal activity</u> | <u>Principal place of business</u> | <u>Effective ownership, %</u> | |
|--------------------------|-----------------------------------|--------------------------------------|-------------------------------|-------------------------|
| | | | <u>30 June 2015</u> | <u>31 December 2014</u> |
| Uralkali JSC (i) (iii) | Production of mineral fertilisers | Perm region, Russian Federation | 26.37 | 19.99 |
| NPK Karbon-Shungit (ii) | Mining and processing | Karelia, Russian Federation | 49.70 | 49.70 |
| ZhDTsekh (ii) | Other services | Moscow region, Russian Federation | 50.00 | 50.00 |
| Promkanal-Techno (iv) | Other services | Perm region, Russian Federation | 32.50 | - |

(i) On 19 December 2013 the Group acquired 19.99% interest in Uralkali JSC. Although the Group held less than 20% in the share capital of the company and it had less than 20% of the voting power at shareholder meetings, the Group exercised significant influence by virtue of the presence of its related parties on the board of the directors of the company. Members of the Board of Directors are subject to reelection on an annual basis. In May 2015 as a result of share buy-back program carried out by Uralkali JSC, effective ownership of the Company in the share capital of Uralkali JSC increased to 26.37%.

(ii) Pursuant to a shareholder agreement, the Company has the right to cast 49.7% and 50.0% of the votes at shareholder meetings of NPK Karbon-Shungit and ZhDTsekh respectively. The Company does not have the power to exercise joint control over ZhDTsekh.

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- (iii) As at 30 June 2015, the fair value of the Group's interest in Uralkali JSC, which is listed on the stock exchanges of London and Moscow, was RUB 84,570,471 (31 December 2014: RUB 76,633,016) based on the quoted market prices available, which is a level 1 input in terms of IFRS 13.
- (iv) In June 2015 the Company acquired a 32.5% share in OOO "Promkanal-Techno".

Summarized financial information in respect of Uralkali JSC is set out below. It represents amounts shown in the associate's financial statements prepared in accordance with IFRSs and adjusted by the Group for equity accounting purposes:

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|---------------------------------------------------------|------------------------------------------|------------------------------------------|
| Current assets | 185,168,000 | 181,222,000 |
| Non-current assets | 837,932,015 | 857,145,378 |
| Current liabilities | (65,909,000) | (50,478,000) |
| Non-current liabilities | (431,942,849) | (428,431,000) |
| Net assets | <u>525,248,166</u> | <u>559,458,378</u> |
| | <u>Six months ended 30 June 2015</u> | <u>Six months ended 30 June 2014</u> |
| Revenue | 89,668,295 | 60,371,956 |
| Profit for the period | 20,015,560 | 1,260,610 |
| Other comprehensive income for the period | (113,557) | (96,249) |
| Total comprehensive income for the period | 19,902,003 | 1,164,361 |
| Dividends received from the associate during the period | - | (957,141) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Uralkali JSC recognised in the consolidated interim financial statements:

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|----------------------------------------------------------------|---------------------------|---------------------------|
| Net assets of the associate | 525,248,166 | 559,458,378 |
| Non-controlling interests | (391,347) | (882,115) |
| Proportion of the Group's ownership interest in Uralkali JSC | 138,408,155 | 111,714,694 |
| Effect of buyback | (22,713,062) | - |
| Goodwill | 1,824,004 | 1,824,004 |
| Carrying amount of the Group's interest in Uralkali JSC | <u>117,519,096</u> | <u>113,538,698</u> |

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12. INVENTORIES

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|----------------------------------------------------------------------|---------------------|-------------------------|
| Inventories expected to be utilised after twelve months | | |
| Catalytic agents | 1,082,892 | 954,057 |
| Other inventories | 101,586 | 102,620 |
| | <u>1,184,478</u> | <u>1,056,677</u> |
| Inventories expected to be utilised in the next twelve months | | |
| Finished goods | 3,029,851 | 3,484,074 |
| Raw materials, net of allowance for obsolescence | 2,176,663 | 1,805,987 |
| Work in-progress | 366,917 | 259,839 |
| Goods for resale | 21,494 | 673 |
| | <u>5,594,925</u> | <u>5,550,573</u> |
| Total | <u>6,779,403</u> | <u>6,607,250</u> |

During the six months ended 30 June 2015, the Group recognised a write down of RUB 89,273 to reduce the carrying value of inventories to net realisable value (year ended 31 December 2014: RUB 58,959).

At 30 June 2015, raw materials were presented net of an allowance for obsolescence of RUB 120,225 (31 December 2014: RUB 153,954). During the six months ended 30 June 2015, the Group recognised RUB 14,881 (six months ended 30 June 2014: RUB 20,449) and released RUB 48,610 (six months ended 30 June 2014: RUB 32,706) of allowance for obsolescence of raw materials.

13. EQUITY

Share capital of the Company amounts to RUB 2,000,000 and is divided into 500,000,000 ordinary shares of the nominal value of 4 Russian roubles each.

Dividends

The statutory financial statements of the Group entities are the basis for the profit distribution and other appropriations.

Earnings per share

Earnings per share were calculated by dividing net profit attributable to shareholders of the Company for the six months ended 30 June 2015 and 2014 by the weighted average number of ordinary shares in issue during those years.

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14. LOANS AND BORROWINGS

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|------------------------------------------------------------------------------------------|---------------------|-------------------------|
| Loans denominated in USD | 244,549,981 | 248,166,802 |
| Loans denominated in EUR | 4,519,247 | 5,245,959 |
| Loans denominated in RUR | 2,347 | 2,786 |
| Total | 249,071,575 | 253,415,547 |
| Less: current portion repayable within twelve months and shown under current liabilities | (4,827,456) | (3,786,100) |
| Long-term portion of loans and borrowings | 244,244,119 | 249,629,447 |

Loans denominated in USD

The loans denominated in USD had a weighted average annual interest rate of 5.0% during the six months ended 30 June 2015 (2014: 4.8%) and included the borrowings in the amount of RUB 244,549,981 (31 December 2014: RUB 248,166,802) at fixed rates varying from 3.2% to 6.0% (31 December 2014: from 3.1% to 9.0%).

The loans denominated in USD are due in the years 2015 to 2020. As at 30 June 2015 USD-denominated loans in the amount of RUB 243,236,643 (31 December 2014: RUB 245,763,498) were secured by 19.99% of Uralkali JSC's (31 December 2014: 19.99%).

Loans denominated in EUR

The loans denominated in EUR had a weighted average annual interest rate of 4.1% during the six months ended 30 June 2015 (2014: 2.9%) and included the following borrowings:

- RUB 4,233,882 (31 December 2014: RUB 4,872,405) at floating rates linked to Euribor 3m and Euribor 6m varying from 2.7% to 3.7% (31 December 2014: from 2.7% to 3.7%) per annum and
- other loans in the amount of RUB 285,365 (31 December 2014: 373,554) at fixed rates varying from 3.5% to 5.5% (31 December 2014: 3.5%).

In March 2014 the Group reached an agreement with ABLV Bank to obtain a loan in the amount of RUB 1,597,563 (exchange rate of the Central Bank of Russia as at 14 August 2014) denominated in EUR, which matures in March 2019 and with the first repayment scheduled in August 2015 to partially finance the purchase of 55.0% share in Ventamonjaks. The interest rate is linked to Euribor 6m. Commission under the agreement was RUB 13,071 (exchange rate of the Central Bank of Russia as at 14 August 2014).

As at 30 June 2015, EUR-denominated loans in the amount of RUB 4,233,882 (31 December 2014: RUB 4,872,404) were secured by 51.0% of SIA Riga Fertilisers Terminal's shares (31 December 2014: 51.0%) and certain property, plant and equipment.

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Total loans and borrowings were repayable as follows:

| | 30 June 2015 | 31 December 2014 |
|-------------------------------------------------------------|---------------------|-------------------------|
| Due within three months | 44,146 | 832,546 |
| Due from three to six months | 70,025 | 947,542 |
| Due from six to twelve months | 4,713,285 | 2,006,012 |
| Total current portion repayable within twelve months | 4,827,456 | 3,786,100 |
| Due in the second year | 6,838,401 | 5,151,746 |
| Due in the third year | 9,749,513 | 7,879,698 |
| Due in the fourth year | 14,429,463 | 12,198,361 |
| Due in the fifth year | 14,449,032 | 15,664,617 |
| Due thereafter | 198,777,710 | 208,735,025 |
| Total long-term portion of loans and borrowings | 244,244,119 | 249,629,447 |

As at 30 June 2015, the Group's bank loans were subject to restrictive covenants, including but not limited to:

- positive net-assets requirement;
- 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 guarantees 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.

The Group anticipated that the financial covenant on the loans received from VTB Capital PLC providing for the assets of the Company to exceed its liabilities would be breached at 30 June 2015. The Company received waiver letter from VTB Capital PLC, that no Event of Default would have occurred.

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15. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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

The Group had the following outstanding balances with related parties:

| | <u>30 June 2015</u> | <u>31 December 2014</u> |
|----------------------------------------------------------------------------------------------------|---------------------|-------------------------|
| Parent company | | |
| Other receivables | 111 | 112 |
| Loans issued, at amortised cost | 1,666,781 | 2,419,164 |
| Loans and borrowings | (1,268,892) | (1,659,405) |
| Entities under common ownership and control with the Group and key management personnel | | |
| Trade and other receivables | 197,482 | 202,012 |
| Advances paid and prepaid expenses | 89,907 | 34,891 |
| Loans issued, at amortised cost | 530,066 | - |
| Loans and borrowings | (56,264) | (57,983) |

The Group entered into the following transactions with related parties:

| | <u>Six months ended 30 June 2015</u> | <u>Six months ended 30 June 2014</u> |
|----------------------------------------------------|------------------------------------------|------------------------------------------|
| Parent company | | |
| Interest income | 18,654 | - |
| Interest expense | (28,414) | (69,040) |
| Entities under common ownership and control | | |
| Sales of goods and services | 1,281,113 | 941,716 |
| Purchases of goods and services | (1,114,873) | (547,606) |
| Interest expense | (40,812) | (365) |
| Interest income | 17,161 | 1,855 |
| Other income, net | 4,079 | 4,776 |

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 Tariff Service, 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.

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Loan given to a related party

During the six months ended 30 June 2015 the Group granted a loan to a related party. The management believes that it is not probable that the loan will be recovered. In these condensed consolidated interim financial statements the loan was fully provided for with the impairment of RUB 4,785,636 recognized in the statement of profit or loss.

Dividends received from associated company

On 9 June 2014, it was resolved by the shareholders meeting of Uralkali JSC to approve payment of a final dividend for the year 2013 of 1.63/8.15 RUB per one Ordinary Share/GDR. The total amount of dividends payable to the Company was RUB 957,141 including withholding tax of RUB 86,143.

Compensation of key management personnel

The compensation of key management personnel of the Group for the six months ended 30 June 2015 comprised salaries and cash bonuses in the amount of RUB 293,352 (six months ended 30 June 2014: RUB 166,149), including social taxes in the amount of RUB 46,158 (six months ended 30 June 2014: RUB 14,565) and share-based payment to management in the amount of 0 RUB (six months ended 30 June 2014: RUB 63,486).

16. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

In December 2012, 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 2015</u> | <u>31 December 2014</u> |
|----------------------------|--------------------------|--------------------------|
| Due in one year | 13,807,391 | 14,913,462 |
| Due from two to five years | 19,114,155 | 28,069,330 |
| Total | <u>32,921,546</u> | <u>42,982,792</u> |

Capital commitments

As at 30 June 2015, the Group's contractual capital commitments for the acquisition of property, plant and equipment amounted to RUB 1,320,319 (31 December 2014: RUB 692,596).

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 2015</u> | <u>31 December 2014</u> |
|----------------------------|-------------------------|-------------------------|
| Due in one year | 487,935 | 725,634 |
| Due from two to five years | 954,880 | 1,095,944 |
| Total | <u>1,442,815</u> | <u>1,821,578</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.

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Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. [Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities]. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Environmental matters

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

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

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

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

Russian Federation risk

Emerging markets such as Russia 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 the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the 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. Because 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.

Starting from March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook.

During 2015 the economic situation is more stable, although the above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 30 June 2015, management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortized cost in the condensed consolidated interim financial statements approximated their fair value, except for the following borrowings:

| | 30 June 2015 | | |
|-------------------------------|-------------------------|-------------------------|----------------------|
| | Book value | Fair value | Difference |
| Other financial assets | | | |
| Loans issued | <u>2,618,903</u> | <u>2,592,945</u> | <u>25,958</u> |
| Total | <u>2,618,903</u> | <u>2,592,945</u> | <u>25,958</u> |

As at 31 December 2014, management believed that the carrying value of financial assets, payables and EUR denominated loans approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates approximated market rates for similar instrument.

Given the high degree of uncertainty existing on Russian capital markets at 31 December 2014 the Group could not determine what the market rate for the USD denominated loan from VTB would be in current economic environment and therefore the fair value disclosure for it is not provided at 31 December 2014.