

**UNITED CHEMICAL COMPANY  
URALCHEM OJSC**

**Condensed consolidated interim  
financial statements  
for the six months ended 30 June 2014  
(unaudited)**

# UNITED CHEMICAL COMPANY URALCHEM OJSC

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# UNITED CHEMICAL COMPANY URALCHEM OJSC

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

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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 OJSC and its subsidiaries (together, "the Group").

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of the Group as at 30 June 2014, 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 2014 were approved on 29 August 2014 by:

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Andrey Pakhomenkov  
Chief financial officer

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Dmitry Tatyatin  
Deputy chief executive officer

Moscow, Russia  
29 August 2014

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

### **To the Shareholders of United Chemical Company UralChem OJSC:**

We have reviewed the accompanying condensed consolidated interim statement of financial position of United Chemical Company UralChem OJSC and its subsidiaries (collectively, "the Group") as at 30 June 2014 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  
29 August 2014

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	Six months ended 30 June		Three months ended 30 June	
		2014	2013	2014	2013
<b>Revenue</b>					
Sales of goods	4	35,309,213	38,698,476	16,528,802	18,632,768
Other sales		1,227,642	1,363,829	600,391	653,987
<b>Total revenue</b>		<b>36,536,855</b>	<b>40,062,305</b>	<b>17,129,193</b>	<b>19,286,755</b>
Cost of sales	5	(15,337,583)	(16,917,360)	(7,150,878)	(8,098,307)
<b>Gross profit</b>		<b>21,199,272</b>	<b>23,144,945</b>	<b>9,978,315</b>	<b>11,188,448</b>
Selling and distribution expenses	6	(8,074,409)	(8,387,261)	(3,704,634)	(4,211,971)
General and administrative expenses	7	(2,505,124)	(2,410,620)	(1,208,315)	(1,244,853)
Other operating income		220,736	65,323	144,491	(63,033)
Other operating expenses		(1,135,754)	(194,873)	(773,578)	(122,739)
<b>Operating profit</b>		<b>9,704,721</b>	<b>12,217,514</b>	<b>4,436,279</b>	<b>5,545,852</b>
Interest and other finance income		25,083	465,110	13,781	439,137
Interest and other finance expense		(3,922,072)	(1,290,413)	(1,992,806)	(750,905)
Share of gain/(loss) of associates	9	231,147	(788)	243,964	4,369
Impairment of non-current assets		(15,983)	-	(15,983)	-
Foreign exchange (loss)/gain from financing activities		(4,011,770)	(1,841,788)	9,550,116	(1,437,508)
<b>Profit before tax</b>		<b>2,011,126</b>	<b>9,549,635</b>	<b>12,235,351</b>	<b>3,800,945</b>
Income tax expense		(1,488,314)	(1,531,809)	(2,812,386)	(621,044)
<b>Profit for the period</b>		<b>522,812</b>	<b>8,017,826</b>	<b>9,422,965</b>	<b>3,179,901</b>
Attributable to:					
Shareholders of the Company		500,297	8,052,596	9,410,642	3,191,680
Non-controlling interests		22,515	(34,770)	12,323	(11,779)
		<b>522,812</b>	<b>8,017,826</b>	<b>9,422,965</b>	<b>3,179,901</b>
<b>Earnings per share</b>					
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)		1.0	16.1	18.8	6.4

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

## UNITED CHEMICAL COMPANY URALCHEM OJSC

### CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014 (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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Profit for the period</b>	<b>522,812</b>	<b>8,017,826</b>	<b>9,422,965</b>	<b>3,179,901</b>
<i>Items to be subsequently reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations	858,872	509,134	(141,431)	534,818
<i>Items not to be subsequently reclassified to profit or loss:</i>				
Actuarial losses	-	(39,829)	-	(39,829)
<b>Total comprehensive income for the period</b>	<b><u>1,381,684</u></b>	<b><u>8,487,131</u></b>	<b><u>9,281,534</u></b>	<b><u>3,674,890</u></b>
Attributable to:				
Shareholders of the Company	1,359,169	8,521,901	9,269,211	3,686,669
Non-controlling interests	22,515	(34,770)	12,323	(11,779)
	<b><u>1,381,684</u></b>	<b><u>8,487,131</u></b>	<b><u>9,281,534</u></b>	<b><u>3,674,890</u></b>

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

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	<u>30 June 2014</u>	<u>31 December 2013</u>
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	8	29,956,989	29,764,042
Goodwill		10,501,400	10,501,400
Intangible assets		274,623	286,975
Investments in associates	9	124,849,907	125,575,900
Inventories	10	1,012,374	1,032,708
Available-for-sale investments	11	5,588,764	5,127,721
Other financial assets		30,258	34,192
Deferred tax assets		880,021	929,403
		<u><b>173,094,336</b></u>	<u><b>173,252,341</b></u>
<i>Current assets</i>			
Inventories	10	4,534,686	4,694,477
Trade and other receivables		3,869,678	3,942,981
Advances paid and prepaid expenses		1,085,850	1,157,622
Income tax receivable		258,634	430,717
Other taxes receivable		2,589,469	2,764,731
Other financial assets		79,169	40,160
Cash and cash equivalents		7,591,776	3,805,538
		<u><b>20,009,262</b></u>	<u><b>16,836,226</b></u>
<b>TOTAL ASSETS</b>		<u><b>193,103,598</b></u>	<u><b>190,088,567</b></u>
<b>EQUITY AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Share capital	12	2,000,000	2,000,000
Additional paid-in capital		2,291,705	2,228,220
Foreign currency translation reserve		1,449,692	590,820
Retained earnings		22,567,948	22,067,651
<b>Equity attributable to shareholders of the Company</b>		<u><b>28,309,345</b></u>	<u><b>26,886,691</b></u>
Non-controlling interests		237,016	213,432
<b>Total equity</b>		<u><b>28,546,361</b></u>	<u><b>27,100,123</b></u>
<i>Non-current liabilities</i>			
Loans and borrowings	13	135,419,277	127,941,704
Obligations under finance leases		2,018,828	2,265,881
Retirement benefit obligations		540,999	527,245
Deferred tax liabilities		1,605,559	1,630,536
		<u><b>139,584,663</b></u>	<u><b>132,365,366</b></u>
<i>Current liabilities</i>			
Loans and borrowings	13	20,542,798	21,779,882
Obligations under finance leases		892,713	815,271
Trade and other payables		2,729,142	6,337,187
Advances received		326,996	1,252,506
Income tax payable		215,979	215,995
Other taxes payable		264,946	222,237
		<u><b>24,972,574</b></u>	<u><b>30,623,078</b></u>
<b>Total liabilities</b>		<u><b>164,557,237</b></u>	<u><b>162,988,444</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>193,103,598</b></u>	<u><b>190,088,567</b></u>

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

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	<b>Six months ended 30 June 2014</b>	<b>Six months ended 30 June 2013</b>
<b>Operating activities</b>		
<b>Profit before tax</b>	<b>2,011,126</b>	<b>9,549,635</b>
Adjustments for:		
Depreciation of property, plant and equipment	1,815,124	1,753,822
Amortisation of intangible assets	49,171	40,543
Change in provisions and allowances	235,630	214,177
Write-down of inventory to net realisable value	90,056	46,179
Loss on disposal of property, plant and equipment	12,019	120,386
Loss on impairment of non-current assets	15,983	-
Foreign exchange loss, net	4,891,478	1,849,308
Share of (income)/loss of associates	(231,147)	788
Profit on disposal of subsidiaries	-	(35,074)
Share-based compensation	63,485	99,161
Interest and other finance income	(25,083)	(465,110)
Interest and other finance expense	3,922,072	1,290,413
<b>Operating cash flows before working capital changes</b>	<b>12,849,914</b>	<b>14,464,228</b>
Change in inventory	106,178	(98,675)
Change in trade and other receivables	1,048,809	(374,285)
Change in advances paid and prepaid expenses	71,546	(83,917)
Change in other taxes receivable	50,897	(354,306)
Change in retirement benefit obligations	13,754	(64)
Change in trade and other payables	(291,069)	387,406
Change in advances received	(925,510)	(841,424)
Change in other taxes payable	54,356	249,773
<b>Cash generated from operations</b>	<b>12,978,875</b>	<b>13,348,736</b>
Interest paid, net	(1,471,546)	(917,280)
Income tax paid	(1,299,635)	(2,592,192)
<b>Net cash generated from operating activities</b>	<b>10,207,694</b>	<b>9,839,264</b>

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

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	<b>Six months ended 30 June 2014</b>	<b>Six months ended 30 June 2013</b>
<b>Investing activities</b>		
Proceeds from disposal of subsidiaries, net	-	98,743
Acquisition of available-for-sale investments	(460,688)	-
Proceeds from disposal of available-for-sale investments	-	85,000
Payments for acquisition of property, plant and equipment	(1,758,494)	(2,209,145)
Proceeds from sale of property, plant and equipment	180,498	94,408
Payments for acquisition of intangible assets	(36,819)	(35,046)
Loans issued	(36,580)	(403,056)
Proceeds from repayment of loans issued	3,261	1,203,476
Dividends received	-	370,236
Interest received	21,769	47,393
<b>Net cash used in investing activities</b>	<b>(2,087,053)</b>	<b>(747,991)</b>
<b>Financing activities</b>		
Proceeds from short-term loans and borrowings	4,277,524	2,586
Proceeds from long-term loans and borrowings	7,247,467	6,690,163
Repayment of short-term loans and borrowings	(11,544,155)	(5,059)
Repayment of long-term loans and borrowings	(156,691)	(14,015,659)
Repayment of principal amounts of finance leases	(455,024)	(223,838)
Dividends paid to the shareholders	(3,475,000)	(4,200,000)
<b>Net cash used in financing activities</b>	<b>(4,105,879)</b>	<b>(11,751,807)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,014,762</b>	<b>(2,660,534)</b>
Cash and cash equivalents at the beginning of the period	3,805,538	5,392,432
Effect of exchange rate changes on the balance of cash held in foreign currencies	(228,524)	867,326
<b>Cash and cash equivalents at the end of the period</b>	<b>7,591,776</b>	<b>3,599,224</b>

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

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

	Notes	Attributable to shareholders of the Company				Total	Non-controlling interests	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings			
<b>Balance as at 1 January 2013</b>		<b>2,000,000</b>	<b>1,928,451</b>	<b>175,198</b>	<b>19,016,591</b>	<b>23,120,240</b>	<b>325,901</b>	<b>23,446,141</b>
<b>Dividends</b>		-	-	-	(1,600,000)	(1,600,000)	-	(1,600,000)
Profit/(loss) for the period		-	-	-	8,052,596	8,052,596	(34,770)	8,017,826
Other comprehensive income/(loss)		-	-	509,134	(39,829)	469,305	-	469,305
<b>Total comprehensive income/(loss) for the period</b>		-	-	<b>509,134</b>	<b>8,012,767</b>	<b>8,521,901</b>	<b>(34,770)</b>	<b>8,487,131</b>
Share-based payments	14	-	99,161	-	-	99,161	-	99,161
<b>Balance as at 30 June 2013</b>		<b>2,000,000</b>	<b>2,027,612</b>	<b>684,332</b>	<b>25,429,358</b>	<b>30,141,302</b>	<b>291,131</b>	<b>30,432,433</b>
<b>Balance as at 1 January 2014</b>		<b>2,000,000</b>	<b>2,228,220</b>	<b>590,820</b>	<b>22,067,651</b>	<b>26,886,691</b>	<b>213,432</b>	<b>27,100,123</b>
Profit for the period		-	-	-	500,297	500,297	22,515	522,812
Other comprehensive income		-	-	858,872	-	858,872	-	858,872
<b>Total comprehensive income for the period</b>		-	-	<b>858,872</b>	<b>500,297</b>	<b>1,359,169</b>	<b>22,515</b>	<b>1,381,684</b>
Share-based payments	14	-	63,485	-	-	63,485	-	63,485
Non-controlling interest arising on business combination		-	-	-	-	-	1,069	1,069
<b>Balance as at 30 June 2014</b>		<b>2,000,000</b>	<b>2,291,705</b>	<b>1,449,692</b>	<b>22,567,948</b>	<b>28,309,345</b>	<b>237,016</b>	<b>28,546,361</b>

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

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

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### 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 June 2014, the Company was 99.9999% owned by UralChem Holding P.L.C., incorporated in Cyprus. The remaining 0.0001% of the Company's shares was owned by CI-Chemical Invest Limited. The principal 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 2013 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 2013 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 2013 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.

### 3. SEGMENT INFORMATION

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

- Nitrogen Fertilisers: The nitrogen fertilisers segment comprises subsidiaries engaged in the production of nitrogen based fertilisers, complex fertilisers, ammonia, inorganic acids and other chemical products. The major subsidiaries and branches allocated to the nitrogen fertilisers segment are KCCW Mineral Fertiliser Plant OJSC ("KCCW"), located in the Kirov region of the Russian Federation, Azot branch of UralChem OJSC ("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.

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

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.

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

	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
<b>Six months ended 30 June 2014</b>			
Revenue from external customers	34,008,382	1,300,831	<b>35,309,213</b>
Inter-segment revenue	102,635	3,566	<b>106,201</b>
<b>Total segment revenue</b>	<b>34,111,017</b>	<b>1,304,397</b>	<b>35,415,414</b>
OIBDA	14,048,346	(415,285)	<b>13,633,061</b>
Net profit/(loss) for the period	9,796,134	(585,410)	<b>9,210,724</b>
<b>Six months ended 30 June 2013</b>			
Revenue from external customers	32,840,824	5,857,652	<b>38,698,476</b>
Inter-segment revenue	835,937	8,428	<b>844,365</b>
<b>Total segment revenue</b>	<b>33,676,761</b>	<b>5,866,080</b>	<b>39,542,841</b>
OIBDA	15,486,813	222,393	<b>15,709,206</b>
Net profit/(loss) for the period	10,984,712	(81,976)	<b>10,902,736</b>

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

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

<b>Six months ended 30 June 2014</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Segment OIBDA	14,048,346	(415,285)	<b>13,633,061</b>
Segment amortisation and depreciation	(1,648,815)	(81,732)	<b>(1,730,547)</b>
Segment income tax expense	(2,078,915)	(15,106)	<b>(2,094,021)</b>
Segment income/(expense) from impairment of non-current assets	3,000	(18,983)	<b>(15,983)</b>
Segment expense from financing activities, net	<u>(527,482)</u>	<u>(54,304)</u>	<b><u>(581,786)</u></b>
Segment profit/(loss) for the period	9,796,134	(585,410)	<b>9,210,724</b>
<b>Unallocated activities</b>			
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 operations			1,897,028
Unallocated income tax benefit			<u>605,707</u>
<b>Group profit for the period</b>			<b><u>522,812</u></b>
<b>Six months ended 30 June 2013</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
Segment OIBDA	15,486,813	222,393	<b>15,709,206</b>
Segment amortisation and depreciation	(1,428,044)	(289,726)	<b>(1,717,770)</b>
Segment income tax (expense)/benefit	(2,285,950)	42,332	<b>(2,243,618)</b>
Segment expense from financing activities, net	<u>(788,107)</u>	<u>(56,975)</u>	<b><u>(845,082)</u></b>
Segment profit/(loss) for the period	10,984,712	(81,976)	<b>10,902,736</b>
<b>Unallocated activities</b>			
Depreciation and amortisation			(76,595)
Corporate overheads			(1,443,931)
Other expenses			(1,312,779)
Interest and other finance income			429,209
Interest and other finance expense			(922,330)
Share of loss of associates			(788)
Foreign exchange loss from financing activities			(1,343,715)
Inter-segment operations			1,074,210
Unallocated income tax benefit			<u>711,809</u>
<b>Group profit for the period</b>			<b><u>8,017,826</u></b>

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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Total reportable segment assets are as follows:

<b>Total segment assets as at:</b>	<b>Nitrogen fertilisers</b>	<b>Phosphate fertilisers</b>	<b>Total</b>
<b>30 June 2014</b>	49,614,562	3,565,799	<b>53,180,361</b>
<b>31 December 2013</b>	46,800,420	5,157,490	<b>51,957,910</b>

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

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

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

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

#### 4. SALES OF GOODS

<b>Six months ended 30 June 2014</b>	<b>Total</b>	<b>Export</b>	<b>Russian Federation</b>	<b>Other CIS countries</b>
<b>Mineral fertilisers</b>				
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
<b>Ammonia</b>	5,839,967	5,527,969	291,409	20,589
<b>Explosive grade ammonium nitrate</b>	1,199,649	10,092	966,270	223,287
<b>Inorganic acids</b>	402,946	-	402,946	-
<b>Other chemical products</b>	892,013	169,839	673,185	48,989
<b>Total</b>	<b>35,309,213</b>	<b>26,126,053</b>	<b>7,859,326</b>	<b>1,323,834</b>
<b>Six months ended 30 June 2013</b>				
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	21,391,176	15,800,470	4,587,556	1,003,150
Complex fertilisers	4,418,476	2,921,056	751,075	746,345
Phosphate based fertilisers	4,130,143	2,316,790	667,867	1,145,486
<b>Ammonia</b>	6,087,582	4,814,826	1,191,143	81,613
<b>Explosive grade ammonium nitrate</b>	1,319,405	83,928	1,010,544	224,933
<b>Inorganic acids</b>	499,643	-	499,643	-
<b>Other chemical products</b>	852,051	214,396	619,105	18,550
<b>Total</b>	<b>38,698,476</b>	<b>26,151,466</b>	<b>9,326,933</b>	<b>3,220,077</b>

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Three months ended 30 June 2014	<u>Total</u>	<u>Export</u>	<u>Russian Federation</u>	<u>Other CIS countries</u>
<b>Mineral fertilisers</b>				
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
<b>Ammonia</b>	<b>3,086,524</b>	<b>2,916,682</b>	<b>169,842</b>	<b>-</b>
<b>Explosive grade ammonium nitrate</b>	<b>623,556</b>	<b>5,582</b>	<b>500,558</b>	<b>117,416</b>
<b>Inorganic acids</b>	<b>188,238</b>	<b>-</b>	<b>188,238</b>	<b>-</b>
<b>Other chemical products</b>	<b>497,509</b>	<b>101,405</b>	<b>360,944</b>	<b>35,160</b>
<b>Total</b>	<b><u>16,528,802</u></b>	<b><u>12,448,376</u></b>	<b><u>3,495,058</u></b>	<b><u>585,368</u></b>
<b>Three months ended 30 June 2013</b>				
<b>Mineral fertilisers</b>				
Nitrogen based fertilisers	10,517,617	8,025,796	1,704,025	787,796
Complex fertilisers	2,078,270	1,326,088	554,190	197,992
Phosphate based fertilisers	1,933,906	976,254	399,668	557,984
<b>Ammonia</b>	<b>2,657,232</b>	<b>2,146,601</b>	<b>475,772</b>	<b>34,859</b>
<b>Explosive grade ammonium nitrate</b>	<b>738,160</b>	<b>45,471</b>	<b>561,947</b>	<b>130,742</b>
<b>Inorganic acids</b>	<b>254,610</b>	<b>-</b>	<b>254,610</b>	<b>-</b>
<b>Other chemical products</b>	<b>452,973</b>	<b>112,465</b>	<b>324,025</b>	<b>16,483</b>
<b>Total</b>	<b><u>18,632,768</u></b>	<b><u>12,632,675</u></b>	<b><u>4,274,237</u></b>	<b><u>1,725,856</u></b>

### 5. COST OF SALES

	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Raw materials, including:				
Natural gas	6,976,065	6,047,343	3,510,744	2,867,984
Apatite	697,162	2,489,599	213,632	1,200,721
Potassium chloride	325,282	638,206	146,156	318,355
Sulphur	38,375	355,261	1,085	180,643
Other raw materials	1,004,342	953,522	467,472	479,682
Energy and utilities	2,428,320	2,382,300	1,232,337	1,222,911
Staff costs	1,787,626	1,922,843	844,273	944,269
Depreciation	1,321,774	1,277,134	665,271	624,210
Repairs and maintenance	96,679	86,910	53,643	44,057
Decrease/(increase) in inventory balance of work in progress and finished goods	180,612	339,711	(244,062)	(19,871)
Other	481,346	424,531	260,327	235,346
<b>Total</b>	<b><u>15,337,583</u></b>	<b><u>16,917,360</u></b>	<b><u>7,150,878</u></b>	<b><u>8,098,307</u></b>

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### 6. SELLING AND DISTRIBUTION EXPENSES

	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Transportation, including:				
Railway tariff	3,354,604	3,573,910	1,568,820	1,716,372
Freight and transshipment	2,420,761	2,450,687	1,030,066	1,373,575
Rail cars rent expenses	588,166	629,215	246,560	279,331
Other transportation expenses	193,008	307,476	98,691	171,482
Staff costs	581,910	515,025	274,524	250,371
Depreciation	380,216	367,375	190,281	178,476
Advertising and marketing	6,475	33,918	3,089	19,897
Other	549,269	509,655	292,603	222,467
<b>Total</b>	<b><u>8,074,409</u></b>	<b><u>8,387,261</u></b>	<b><u>3,704,634</u></b>	<b><u>4,211,971</u></b>

### 7. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Staff costs	1,568,437	1,432,855	707,305	740,943
Depreciation	113,134	109,313	57,126	53,611
Audit, legal and consulting services	222,360	267,208	114,012	164,808
Security	96,605	63,315	48,876	33,209
Rent	69,180	59,965	39,683	28,894
Bank charges	23,246	28,569	13,134	16,613
Fines and penalties	18,982	12,821	6,856	5,883
Other	393,180	436,574	221,323	200,892
<b>Total</b>	<b><u>2,505,124</u></b>	<b><u>2,410,620</u></b>	<b><u>1,208,315</u></b>	<b><u>1,244,853</u></b>

### 8. PROPERTY, PLANT AND EQUIPMENT

#### Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired property, plant and equipment with a cost of RUB 2,086,022 (six months ended 30 June 2013: RUB 3,309,059) including machinery, equipment and transport leased under a number of finance lease agreements for the amount of 262,822 (six months ended 30 June 2013: RUB 699,330 ). 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 2014, property, plant and equipment included advances paid for acquisition of property, plant and equipment in the amount of RUB 536,814 (31 December 2013: RUB 322,753).

The Group also disposed of certain of its machinery and tools with a carrying amount of RUB 130,868 (six months ended 30 June 2013: RUB 202,615).

#### Assets pledged as collateral

As at 30 June 2014, the carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group amounted to RUB 3,081,010 (31 December 2013: RUB 3,093,273) (refer to Note 13).

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

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### 9. 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 2014</u>	<u>31 December 2013</u>
Uralkali OJSC (i) (iii)	Production of mineral fertilisers	Perm region, Russian Federation	19.99	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

- (i) On 19 December 2013 the Group acquired 19.99% interest in Uralkali OJSC. Although the Group holds less than 20% in the share capital of the company and it has less than 20% of the voting power at shareholder meetings, the Group exercises significant influence by virtue of the presence of its related parties on the board of the directors of the company. The Group is entitled to appoint one or more than one members to the Board of Directors of Uralkali OJSC, depending on the quorum achieved at the Meeting of the shareholders. Members of the Board of Directors are subject to reelection on an annual basis. At 30 June 2014 two out of nine members of the Board of Directors of Uralkali OJSC were related to the Group.
- (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.
- (iii) As at 30 June 2014, the fair value of the Group's interest in Uralkali OJSC, which is listed on the stock exchanges of London and Moscow, was RUB 91,744,331 (31 December 2013: RUB 101,400,333) based on the quoted market prices available, which is a level 1 input in terms of IFRS 13.

Summarized financial information in respect of Uralkali OJSC 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 2014</u>	<u>31 December 2013</u>
Current assets	51,229,356	58,021,758
Non-current assets	867,148,367	875,874,595
Current liabilities	(50,282,000)	(70,952,422)
Non-current liabilities	(253,223,614)	(245,162,255)
<b>Net assets</b>	<b>614,872,109</b>	<b>617,781,676</b>
		<u>Six months ended 30 June 2014</u>
Revenue		60,371,956
Profit for the period		1,335,299
Other comprehensive income for the period		(96,249)
Total comprehensive income for the period		1,239,050
Dividends received from the associate during the period		(957,141)

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Net assets of the associate	614,872,109	617,781,676
Proportion of the Group's ownership interest in Uralkali OJSC	122,912,935	123,494,557
Goodwill	1,733,851	1,733,851
Other adjustments	(127,833)	-
Carrying amount of the Group's interest in Uralkali OJSC	<u><u>124,518,953</u></u>	<u><u>125,228,408</u></u>

### 10. INVENTORIES

	<u>30 June 2014</u>	<u>31 December 2013</u>
<b>Inventories expected to be utilised after twelve months</b>		
Catalytic agents	887,056	899,796
Other inventories	125,318	132,912
	<u><b>1,012,374</b></u>	<u><b>1,032,708</b></u>
<b>Inventories expected to be utilised in the next twelve months</b>		
Finished goods	2,426,685	2,590,797
Raw materials, net of allowance for obsolescence	1,890,051	1,869,229
Work in-progress	215,431	219,160
Goods for resale	2,519	15,291
	<u><b>4,534,686</b></u>	<u><b>4,694,477</b></u>
<b>Total</b>	<u><u><b>5,547,060</b></u></u>	<u><u><b>5,727,185</b></u></u>

During the six months ended 30 June 2014, the Group recognised a write down of RUB 90,056 to reduce the carrying value of inventories to net realisable value (year ended 31 December 2013: RUB 42,512).

At 30 June 2014, raw materials were presented net of an allowance for obsolescence of RUB 141,057 (31 December 2013: RUB 153,314). During the six months ended 30 June 2014, the Group recognised RUB 20,449 (six months ended 30 June 2013: RUB 6,427) and released RUB 32,706 (six months ended 30 June 2013: RUB 4,629) of allowance for obsolescence of raw materials.

### 11. AVAILABLE-FOR-SALE INVESTMENTS

In April 2014 the Company acquired three additional shares in Open Joint Stock Company Togliattiazot ("Togliattiazot"). Cash consideration on the transaction was RUB 460,687. Thus, at 30 June 2014, available-for-sale investments included a 9.7% investment (2013: 9.3%) in Togliattiazot of RUB 5,584,160 (2013: RUB 5,123,473) and other available-for-sale investments of RUB 4,604 (2013: RUB 4,248). The available-for-sale investments are accounted for at cost as their fair value cannot be reliably measured.

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### 12. 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 2014 and 2013 by the weighted average number of ordinary shares in issue during those years.

#### Share-based payments

A share-based payment transaction was made as a part of management remuneration based on shareholders' decision (Note 14). Settlements were performed by Uralchem Holding PLC, the shareholder of the Company.

### 13. LOANS AND BORROWINGS

	<u>30 June 2014</u>	<u>31 December 2013</u>
Loans denominated in USD	153,889,118	140,889,789
Loans denominated in EUR	2,070,447	8,828,125
Loans denominated in RUR	2,510	3,672
<b>Total</b>	<b><u>155,962,075</u></b>	<b><u>149,721,586</u></b>
Less: current portion repayable within twelve months and shown under current liabilities	(20,542,798)	(21,779,882)
<b>Long-term portion of loans and borrowings</b>	<b><u>135,419,277</u></b>	<b><u>127,941,704</u></b>

#### Loans denominated in USD

The loans denominated in USD had a weighted average annual interest rate of 4.7% during the six months ended 30 June 2014 (2013: 3.7%) and included the following borrowings:

- RUB 152,205,979 (31 December 2013: RUB 140,889,789) at fixed rates varying from 3.2% to 9.0% (31 December 2013: from 3.0% to 6.0%); and
- RUB 1,683,139 (31 December 2013: nil) at floating rate linked to Libor 3m of 3.2% (31 December 2013: nil) per annum.

The loans denominated in USD are due in the years 2014 to 2020. As at 30 June 2014 USD-denominated loans in the amount of RUB 138,479,003 (31 December 2013: RUB 125,572,210) were secured by 19.99% of Uralkali OJSC's (31 December 2013: 19.99%).

#### Loans denominated in EUR

The loans denominated in EUR had a weighted average annual interest rate of 2.3% during the six months ended 30 June 2014 (2013: 4.2%) and included the following borrowings:

- RUB 215,629 at a fixed rate of 3.6% per annum (31 December 2013: RUB 172,671); and

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- RUB 1,854,818 (31 December 2013: RUB 8,655,454) at floating rates linked to Euribor 3m varying from 3.0% to 3.7% (31 December 2013: from 2.7% to 3.7%) per annum.

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

As at 30 June 2014, EUR-denominated loans in the amount of RUB 1,854,818 (31 December 2013: RUB 1,933,839) were secured by 51.0% of SIA Riga Fertilisers Terminal's shares (31 December 2013: 51.0%) and certain property, plant and equipment.

Total loans and borrowings were repayable as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Due within three months	17,863,973	19,777,295
Due from three to six months	56,125	55,454
Due from six to twelve months	2,622,700	1,947,133
<b>Total current portion repayable within twelve months</b>	<b>20,542,798</b>	<b>21,779,882</b>
Due in the second year	2,234,135	2,910,909
Due in the third year	3,444,008	2,397,234
Due in the fourth year	5,445,786	3,949,779
Due in the fifth year	7,289,948	6,119,950
Due thereafter	117,005,400	112,563,832
<b>Total long-term portion of loans and borrowings</b>	<b>135,419,277</b>	<b>127,941,704</b>

As at 30 June 2014, the Group's bank loans were subject to restrictive covenants, including but not limited to:

- negative pledge for shares and property pledges;
- limits for material sale of assets and payment of dividends;
- limits for acquisitions of any companies or any shares or securities;
- limits for merger, consolidation or corporate reconstructions;
- limits for loans and quarantines given;
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks;
- set-up limits for the annualised "debt and net debt/EBITDA" ratio and other financial covenants.

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

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

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### 14. 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 2014</u>	<u>31 December 2013</u>
<b>Parent company</b>		
Other receivables	67	553,500
Loans and borrowings	(1,971,483)	(2,321,742)
Dividends payable	-	(3,475,000)
<b>Entities under common ownership and control</b>		
Long-term trade and other receivable	-	-
Trade and other receivables	1,111,187	185,573
Advances paid and prepaid expenses	-	65,921

The Group entered into the following transactions with related parties:

	<u>Six months ended 30 June 2014</u>	<u>Six months ended 30 June 2013</u>
<b>Parent company</b>		
Interest income	-	11,042
Interest expense	(69,040)	(55,588)
<b>Entities under common ownership and control</b>		
Sales of goods and services	941,716	832,063
Purchases of goods and services	(547,606)	(208,221)
Other income, net	4,776	2,832

#### Transactions with related parties

##### *Sale and purchases of goods*

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

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

##### *Dividends paid to shareholders*

During the six months ended 30 June 2014 the Group settled its liability to pay out dividends in the amount of RUB 3,475,000.

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

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### *Dividends received from associated company*

On 9 June 2014, it was resolved by the shareholders meeting of Uralkali OJSC 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 is RUB 957,141, including withholding tax of RUB 86,143. As at 30 June 2014, dividends of RUB 870,998 remained outstanding.

### **Compensation of key management personnel**

The compensation of key management personnel of the Group for the six months ended 30 June 2014 comprised salaries and cash bonuses in the amount of RUB 166,149 (six months ended 30 June 2013: RUB 208,808), including social taxes in the amount of RUB 14,565 (six months ended 30 June 2013: RUB 19,985) and share-based payment to management in the amount of RUB 63,485 (six months ended 30 June 2013: RUB 99,161).

## **15. 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 2014</u>	<u>31 December 2013</u>
Due in one year	15,355,074	15,578,809
Due from two to five years	33,944,988	41,215,039
<b>Total</b>	<b><u>49,300,062</u></b>	<b><u>56,793,848</u></b>

### **Capital commitments**

As at 30 June 2014, the Group's contractual capital commitments for the acquisition of property, plant and equipment amounted to RUB 535,485 (31 December 2013: RUB 479,572).

### **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 2014</u>	<u>31 December 2013</u>
Due in one year	311,273	1,164,242
Due from two to five years	1,001,499	664,123
<b>Total</b>	<b><u>1,312,772</u></b>	<b><u>1,828,365</u></b>

### **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.

# UNITED CHEMICAL COMPANY URALCHEM OJSC

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

All amounts are in thousands of Russian roubles unless otherwise stated

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### **Taxation contingencies in the Russian Federation**

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

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

### **Environmental matters**

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

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

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

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

### **Russian Federation risk**

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

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

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and E.U. on certain Russian officials, businessmen and companies. In addition, in April 2014 credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These events, including official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on the operations and financial position of the Company is at this stage difficult to predict.

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### 16. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

In July 2014 loans payable to Sberbank were refinanced with funds obtained under a credit line provided by VTB Capital PLC. The new loan in the amount of RUB 14,015,480, denominated in USD, matures in 2020, with the first repayment scheduled during December 2015. The interest rate is fixed at 4.65% per annum. Commission under the agreement was RUB 140,155. As at 30 June 2014 loans due to Sberbank in the amount of RUB 9,416,568 were classified within current liabilities.

In August 2014 a 55% subsidiary of the Group acquired a 100% share in SIA Ventamonjaks. Cash consideration on the transaction was RUB 2,647,788. Ventamonjaks is the largest liquid ammonia transshipment terminal in the Baltic Sea.