OAO Silvinit

Consolidated Financial Statements for the year ended 31 December 2010

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Independent Auditors' Report

To the managment of OAO "Silvinit"

We have audited the accompanying consolidated financial statements of OAO Silvinit (the "Company") and its subsidiaries (the "Group")), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
01 April 2011

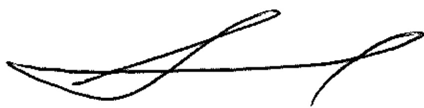
ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Mln RUB	**Note**	**2010**	**2009**
Revenue	7	39,025	33,994
Cost of sales	8	(11,070)	(8,691)
Gross profit		**27,955**	**25,303**
Distribution expenses	9	(6,395)	(3,198)
Export duties		-	(260)
Administrative expenses	10	(1,935)	(1,526)
Other income	12	365	128
Other expenses	12	(4,901)	(2,027)
Results from operating activities		**15,089**	**18,420**
Finance income	13	278	151
Finance costs	13	(1,374)	(3,991)
Share of profit of equity accounted investees (net of tax)	17	10	62
Profit before income tax		**14,003**	**14,642**
Income tax expense	14	(2,471)	(4,124)
Profit for the year		**11,532**	**10,518**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB	Note	2010	2009
Profit attributable to:			
Owners of the Company		11,532	10,517
Non-controlling interest		-	1
Profit for the year		**11,532**	**10,518**
Basic and diluted earnings per share			
Preference shares	25	RUB 1,114	RUB 1,016
Ordinary shares	25	RUB 1,114	RUB 1,016

These consolidated financial statements were approved by management on 1 April 2011 and were signed on its behalf by:



Vladimir V. Vaulin
General Director

Alexander F. Sharabaiko
Acting Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	15	36,696	40,044
Intangible assets	16	57,819	53,660
Investments in equity accounted investees	17	322	482
Other investments	18	552	625
Prepayments for acquisition of investments	21	-	1,539
Long-term trade and other receivables	22	138	160
Deferred tax assets	19	323	214
Total non-current assets		**95,850**	**96,724**
Current assets			
Trade and other receivables	22	3,259	3,630
Cash and cash equivalents	23	3,961	3,483
Irrevocable bank deposits		2,328	1,007
Inventories	20	1,941	1,568
Other investments	18	2,917	29
Income tax receivable		54	25
Assets classified as held for sale	4	2,507	-
Total current assets		**16,967**	**9,742**
Total assets		**112,817**	**106,466**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity	24		
Share capital		201	201
Additional paid-in capital		1	1
Treasury shares		(475)	(446)
Retained earnings		58,336	48,958
Total equity attributable to equity holders of the Company		**58,063**	**48,714**
Non-controlling interest		-	7
Total equity		**58,063**	**48,721**
Non-current liabilities			
Loans and borrowings	26	31,272	45,386
Provisions	27	1,885	2,213
Deferred tax liabilities	19	3,380	3,728
Total non-current liabilities		**36,537**	**51,327**
Current liabilities			
Loans and borrowings	26	14,274	3,633
Trade and other payables	28	1,818	1,703
Provisions	27	1,739	881
Income tax payable		-	109
Dividends payable		62	92
Liabilities classified as held for sale	4	324	-
Total current liabilities		**18,217**	**6,418**
Total liabilities		**54,754**	**57,745**
Total equity and liabilities		**112,817**	**106,466**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB	Attributable to shareholders of the Company					Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Reserve for own shares	Retained earnings	Total		
Balance at 31 December 2008	**201**	**63**	**(446)**	**40,603**	**40,421**	**7**	**40,428**
Total comprehensive income for the year							
Profit for the year	-	-	-	10,517	10,517	1	10,518
	-	-	-	10,517	10,517	1	10,518
Transactions with owners, recorded directly in equity							
Dividends to shareholders	-	-	-	(2,162)	(2,162)	(1)	(2,163)
Contributions by shareholders	-	429	-	-	429	-	429
Distributions to shareholders	-	(491)	-	-	(491)	-	(491)
	-	(62)	-	(2,162)	(2,224)	(1)	(2,225)
Balance at 31 December 2009	**201**	**1**	**(446)**	**48,958**	**48,714**	**7**	**48,721**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB	**Attributable to shareholders of the Company**					**Non-controlling interest**	**Total equity**
	Share capital	**Additional paid-in capital**	**Reserve for own shares**	**Retained earnings**	**Total**		
Balance at 1 January 2010	**201**	**1**	**(446)**	**48,958**	**48,714**	**7**	**48,721**
Total comprehensive income for the year							
Profit for the year	-	-	-	11,532	11,532	-	11,532
	-	-	-	11,532	11,532	-	11,532
Transactions with owners, recorded directly in equity							
Dividends to shareholders	-	-	-	(2,161)	(2,161)	-	(2,161)
Own shares acquired	-	-	(29)	-	(29)	-	(29)
Acquisition of non-controlling interest	-	-	-	7	7	(7)	-
	-	-	(29)	(2,154)	(2,183)	(7)	(2,190)
Balance at 31 December 2010	**201**	**1**	**(475)**	**58,336**	**58,063**	**-**	**58,063**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB

	2010	2009
OPERATING ACTIVITIES		
Profit for the year	11,532	10,518
Adjustments for:		
Depreciation and amortisation	3,246	2,877
Foreign exchange loss	635	1,764
Loss from disposal of property, plant and equipment	305	90
Impairment of property, plant and equipment	479	(27)
Change in provision for loans issued	386	-
Legal provision	847	-
Settlement of receivables previously written-off	(262)	-
Impairment of goodwill	2,655	-
Discounting long-term debt instruments	-	(6)
Dividend income	(18)	(36)
Interest expense on loans and borrowings	177	258
Unwinding of discount	(30)	27
Interest income	(230)	(109)
Change in provision for site restoration	(291)	(50)
Interest expense on lease payable	1	4
Income tax expense	2,471	4,124
Change in provision for guarantees	4	(75)
Change in allowance for trade and other receivables	400	96
Loss from disposal of equity accounted investees	188	-
Share of profit of equity accounted investees (net of income tax)	(10)	(62)
Expenses related to early repayment of loans	-	1,686
Operating profit before changes in working capital	22,485	21,089
(Increase)/decrease in inventories	(101)	248
(Increase)/decrease in trade and other receivables	(140)	1,599
Increase in payables and provisions	115	575
Cash flows from operations before income taxes and interest paid	22,359	23,511
Income tax paid	(3,066)	(2,964)
Dividends paid	(2,191)	(2,427)
Interest paid	(4,185)	(5,332)
Cash flows from operating activities	**12,917**	**12,788**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

Mln RUB

	2010	2009
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	51	246
Acquisition of property, plant and equipment	(3,796)	(5,430)
Acquisition of intangible assets, including development costs	(194)	(115)
Proceeds from sale of investments	1,507	1,412
Acquisition of investments	(6,195)	(2,548)
Acquisition of subsidiaries	(408)	-
Proceeds from sale of subsidiaries	201	-
Interest received	230	109
Dividends received	18	36
Return of advance for investment/(advance for acquisition of investment)	80	(1,539)
Cash flows utilised by investing activities	**(8,506)**	**(7,829)**
FINANCING ACTIVITIES		
Acquisition of own shares	(29)	-
Proceeds from borrowings	120	48,604
Repayment of borrowings	(4,037)	(53,102)
Expenses related to early repayment of loans	-	(1,007)
Cash flows utilized by financing activities	**(3,946)**	**(5,505)**
Net increase/(decrease) in cash and cash equivalents	465	(546)
Cash and cash equivalents at beginning of the year	3,483	3,991
Effect of exchange rate fluctuations on cash and cash equivalents	13	38
Cash and cash equivalents at the end of the year (note 23)	**3,961**	**3,483**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 69.

1 Background

(a) Organisation and operations

OAO Silvinit (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation. The Company was formerly a part of Solikamsk Potassium Plant, which was founded in 1934. The Company was privatised as an open joint stock company on 1 July 1992 as part of the Russian Federation privatisation program. The Company's shares are traded on the Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX).

The Company's registered office is 14 Mira Street, Solikamsk, Permsky Krai, 618540, Russian Federation.

The Group's principal activities are mining and the production of fertilizers and salts at plants located in the city of Solikamsk. These products are sold in the Russian Federation and abroad.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of

accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 3(h)(ii) – determination of cash generating units of mining assets
- Note 19 – deferred tax assets

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 27 – provisions
- Note 29(b)(v) – allowance for impairment in respect of trade and other receivables and investments; and
- Note 31 – contingencies

(e) Changes in accounting policies

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations;
- accounting for leases of land; and
- distribution of non-cash assets to owners of the Company

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

the fair value of the consideration transferred plus the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For the measurement of goodwill prior to 1 January 2010, refer note 3(f)(i) of the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

(ii) Accounting for leases of land

The amendment to International Financial Reporting Standard IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed.

(iii) Accounting policies for new transactions and events

Distributions of non-cash assets to owners of the Company

From 1 January 2010 the Group has applied IFRIC 17 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

3 Significant accounting policies

The accounting policies set out below have been consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies. Certain comparative amounts have been reclassified to conform with the current year's presentation (refer note 3(q)).

(a) Basis of consolidation

(i) Business combinations

The group has changed its accounting policy with respect to accounting of business combinations. Refer to note 2(e)(i) for further details.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date of acquisition by the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the aquiree's financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a

transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group’s investments in equity securities and certain debt securities are classified as available-for-sale

financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer note 3(h)(i)) and foreign currency differences on available-for-sale equity instruments (refer note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unquoted equity investments whose fair value cannot reliably be measured are carried at cost.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment of the Group at 1 January 2006, the Group's date of transition to IFRSs, was determined by reference to its fair value at that date, except for the Company which had already been determined due to the earlier adoption of IFRS on a standalone basis. The Company transitioned to IFRS on 1 January 2005.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income or other expense in profit or loss.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets is accounted for in accordance with the accounting policy applicable to that asset.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the individual assets, except for depreciation of the mining structures which is charged to the income statement using the units of production method, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 15 to 50 years
- Plant and equipment 3 to 25 years
- Transport 3 to 25 years
- Other 4 to 30 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer note 2 (e)(i).

Acquisitions prior to 1 January 2005

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2005. In respect of acquisitions prior to 1 January 2005, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions between 1 January 2005 and 1 January 2010

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Exploration and evaluation expenditure

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Exploration and evaluation assets" within intangible assets. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within intangible assets to "Development costs".

(iii) Development expenditure

Once exploration and evaluation activities have been completed and technical feasibility and commercial viability has been determined, the expenditure in respect to development of mineral resources is capitalised and classified as development costs within intangible assets. The development expenditure which is capitalised within intangible assets includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine's landscape. Other development costs are recognised in the income statement as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to property, plant and equipment.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(v) Other intangible assets

Other intangible assets, including mining licenses, that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(vi) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(vii) Amortisation

Amortization is calculated over the cost of the asset or other amount substituted the cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use, except for mining licenses which are amortised using the unit of production method, since this most closely reflects the expected pattern of consumption of the economic benefits embodied in the asset. The estimated useful lives are as follows for the current and comparable periods:

- Software and licenses (other than mining licenses) 1 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the losses that have accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Employee benefits

(i) State pension fund

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by the employees.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

In accordance with the applicable legal requirements, a provision for site restoration in respect of earth extracted from the mine in the process of mining activities is recognised in full when the earth is extracted, and there is a legal or constructive obligation to replace it in accordance with the plan of site restoration works agreed with the state mine supervisory body.

Provisions for estimated costs are recognised when environmental remedial efforts are probable and the costs can be reasonably estimated. In determining these provisions, the Group uses the most current information available, including similar past experiences, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. Changes to the provision are recognized in profit or loss.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfer of risks and rewards for export sales vary depending on the individual terms of the contract for sale. For domestic sales, transfer usually occurs based on FCA Incoterms.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses on the disposal of available for sale financial assets, and foreign currency losses. All borrowing costs are recognized in profit or loss using the effective interest method, except for borrowing costs related to the acquisition or construction of qualifying assets which are recognized as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary and preference shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary and preference shareholders and the weighted average number of ordinary and preference shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares. As at 31 December 2010 and 31 December 2009 the Group had no dilutive potential ordinary or preferences shares.

(q) Reclassifications

Certain amounts in the Group's previously issued consolidated financial statements have been reclassified to conform to the current year's presentation; such reclassifications had no effect on profit for the year or shareholders' equity.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the executive management board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (refer note 6).

(s) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Group has not yet determined the potential effect of the amendment.

- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.
- Amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010. The Group has not yet determined the potential effect of the amendment.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Non-current assets held for sale

During 2010, following a change in management, the Group's management committed to dispose of certain non-core assets including a titanium foam plant, vessels, a ship-building plant (OOO Verkhnekamsky Sudostroitelny Komplex "VSK") and other non-core production assets. As at the reporting date management were in the process of negotiating the sale of these assets.

Mln RUB	31 December 2010
Assets classified as held for sale	
Property, plant and equipment	2,470
Investments in equity accounted investees	37
	2,507

Mln RUB	31 December 2010
Liabilities classified as held for sale	
Trade and other payables	(324)
	(324)

5 Acquisitions and disposals of subsidiaries

(a) Acquisition of subsidiary

On 23 July 2010 the Group obtained control of VSK by acquiring a 100% ownership interest in the company from shareholder-controlled related parties.

The following identifiable assets acquired and the liabilities assumed were recognised on the date of acquisition:

Mln RUB	Recognised fair values on acquisition
Non-current assets	
Vessel under construction	152
Property, plant and equipment	220
Current liabilities	
Trade and other payables	(294)
Advances received	(854)
Loans payable	(270)
Net identifiable liabilities	**(1,046)**
Consideration paid	480
Goodwill	**1,526**

It has not been practicable to disclose the carrying amount of the subsidiary's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiaries financial statements were prepared in accordance with Russian accounting principles which are significantly different from IFRS.

Goodwill arising on acquisition of VSK was fully impaired and recognised in profit or loss.

Subsequent to the acquisition of VSK, a decision was made to dispose the company and the Group classified VSK as held for sale (refer note 4).

In 2010 VSK did not generate significant revenue or profit or loss.

(b) Acquisition and disposal of OAO Solikamsky Magnieviy Zavod

In September 2010 the Group obtained control of OAO Solikamsky Magnieviy Zavod (SMZ) by acquiring a further 39% ownership interest in the company from shareholder-controlled related parties for RUB 1,387 million. As a result, the Group's equity interest in SMZ increased from 25% to 64%.

The net assets of the company were provisionally assessed by management resulting in goodwill of RUB 1,129 million which was fully impaired and recognised in profit or loss.

During November and December 2010 the Group disposed of its 64 % ownership interest in SMZ for its carrying value.

The company did not contribute significant revenue or profit or loss to the Group.

6 Operating segments

(i) Minerals segment

The Group identifies the segment in accordance with the criteria set forth in IFRS 8, and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as the Board of Directors.

The Group has one reportable segment, comprising a strategic business unit, which is involved in the extraction, processing and sales of potassium chloride, carnallite and salt. The executive management board reviews internal management reports on at least a quarterly basis.

(ii) Segment results

Information regarding the Group's reportable segment is included below. For the purposes of assessing segment performance the Group's executive management board monitors the operating result on the basis of revenue less cost of sales, distribution and administrative expenses as determined under Russian accounting principles, which differs in a number of respects from IFRSs.

	2010	**2009**
Management accounts - Minerals segment (Potassium Chloride, Carnallite, Salt)	**Mln RUB**	**Mln RUB**
Revenue	38,131	32,853
Cost of sales, distribution and administrative expenses	(16,772)	(11,252)
Operating profit	**21,359**	**21,601**

Reconciliation of reportable segment revenue

	2010	**2009**
	Mln RUB	**Mln RUB**
Revenue for reportable segment	**38,131**	**32,853**
Inclusion of export duty not recognised in management accounts	-	260
Revenue generated by subsidiaries	139	112
Revenue from other operations	755	769
Consolidated revenue	**39,025**	**33,994**

Reconciliation of reportable segment result

	2010	2009
	Mln RUB	Mln RUB
Operating profit for reportable segment	**21,359**	**21,601**
Segment profit generated by subsidiaries	11	112
Loss from other operations	(187)	(97)
Differences in timing of revenue and cost recognition in management accounts	(371)	-
Change in site restoration provision not recognised in management accounts	291	50
Change in allowance for impairment of trade receivables not recognised in management accounts	(188)	32
Change in other provisions not recognised in management accounts	(54)	(71)
Difference in depreciation resulting from different basis of measurement of property, plant and equipment in management accounts and under IFRS	(493)	(631)
Expenses excluded from the measure of operating profit in the management accounts, but included in costs of sales, distribution and administrative expenses under IFRS	(819)	(720)
Other income	365	128
Other expenses	(4,901)	(2,027)
Finance income	278	151
Finance costs	(1,374)	(3,991)
Share of profit of equity accounted investees	10	62
Other differences	76	43
Consolidated profit before income tax	**14,003**	**14,642**

(iii) Geographical information

The Group sells products to domestic and foreign traders. An analysis of revenue based on the ultimate destination of products sold by the Group is included in note 7(b).

All significant assets, production and management/administrative facilities are located in Solikamsk.

Revenue from customers whose revenue contributes 10% or more of total revenue of the Group is disclosed in note 29(b)(ii).

7 Revenue

(a) Revenue by product

	2010	2009
	Mln RUB	**Mln RUB**
Export		
Potassium Chloride	32,220	27,850
Domestic		
Potassium Chloride	4,640	4,123
Salt	824	775
Carnallite	495	414
Services	645	492
Other	201	340
	39,025	**33,994**

(b) Revenue by ultimate destination

	2010	2009
	Mln RUB	**Mln RUB**
Russia	6,805	6,144
Latin America, China, India, Asia	23,107	25,207
USA, Europe	8,159	1,422
Other	954	1,221
	39,025	**33,994**

8 Cost of sales

	2010	2009
	Mln RUB	**Mln RUB**
Materials	2,385	2,020
Depreciation	2,745	2,164
Personnel costs	2,714	2,107
Repairs	1,306	762
Services	241	283
Electricity	1,198	837
Gas	508	324
Mineral extraction tax	198	123
Change in provision for site restoration	(291)	(50)
Other expenses	66	121
	11,070	**8,691**

9 Distribution expenses

	2010 Mln RUB	2009 Mln RUB
Railway tariff	3,675	1,467
Freight	152	23
Transshipment	273	161
Services	93	58
Repair	512	418
Rent of wagons	66	33
Depreciation	283	237
Materials	245	181
Sales commissions	360	172
Personnel costs	324	222
Customs	100	43
Other	312	183
	6,395	**3,198**

10 Administrative expenses

	2010 Mln RUB	2009 Mln RUB
Personnel costs	570	483
Services	481	383
Insurance	53	103
Depreciation	187	182
Materials	33	45
Property tax	279	231
Business trips	29	24
Rent	6	12
Repairs	39	20
Bad debts and change in allowance for impairment of trade receivables	188	(32)
Other	70	75
	1,935	**1,526**

11 Personnel costs

	2010 Mln RUB	2009 Mln RUB
Personnel costs – Cost of sales		
Wages and salaries	2,196	1,744
Payroll and social taxes	518	363
Personnel costs – Administrative expenses		
Wages and salaries	462	401
Payroll and social taxes	108	82
Personnel costs – Distribution expenses		
Wages and salaries	258	177
Payroll and social taxes	66	45
Personnel costs – Other expenses		
Wages and salaries	-	17
Payroll and social taxes	-	4
Personnel costs – capitalised		
Wages and salaries	247	167
Payroll and social taxes	105	60
	3,960	**3,060**

12 Other income and expenses

	2010 Mln RUB	2009 Mln RUB
Other income		
Rental income	12	23
Repayment of receivables previously written-off	262	-
Change in provision for guarantees issued	-	78
Reverse of impairment of construction in progress	-	27
Other income	91	-
	365	**128**

	2010	2009
	Mln RUB	Mln RUB
Other expenses		
Abnormal labour and other production costs	-	345
Loss on disposal of property, plant and equipment	305	90
Impairment of property plant and equipment	479	-
Impairment of goodwill (refer note 5(a))	2,655	-
Bank fees	56	33
Charity	34	12
Fines and penalties	6	78
Incremental charge of mineral extraction tax	-	171
Write-off of inventory	-	88
Change in allowance for impairment of other receivables	212	128
Change in provision for guarantees issued	4	-
Donation for railway construction	-	1,000
Legal provision (refer note 27 (c))	847	-
Other expenses	303	82
	4,901	**2,027**

13 Finance income and finance costs

	2010	2009
	Mln RUB	Mln RUB
Recognised in profit or loss		
Finance income		
Interest income	230	109
Unwinding of discount on site restoration provision	30	-
Dividend income	18	36
Discounting of long-term loans (investments)	-	6
Finance income	278	151
Finance costs		
Foreign exchange loss	622	2,016
Change in provision for loans issued	386	-
Loss from disposal of equity accounted investees	188	-
Interest expense on loans and borrowings	177	258

	2010 Mln RUB	2009 Mln RUB
Expenses incurred due to early repayment of loans	-	1,686
Unwinding of discount on site restoration provision	-	27
Interest expenses on lease payable	1	4
Finance costs	1,374	3,991
Net finance costs recognised in profit or loss	**1,096**	**3,840**

14 Income tax expense

	2010 Mln RUB	2009 Mln RUB
Current tax expense		
Current year	3,142	3,073
Adjustment for prior years	(214)	-
	2,928	3,073
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(457)	1,013
Derecognition of deductible temporary differences	-	38
	2,471	**4,124**

In 2010 and 2009 the Company's applicable tax rate was 15.5%. The reduction of the tax rate from the standard rate was granted to the Company by the Perm region in 2006 as a tax incentive. The Group has applied the applicable tax rate for the purpose of determining deferred tax assets and liabilities.

(a) Reconciliation of effective tax rate:

	2010 Mln RUB	%	2009 Mln RUB	%
Profit before income tax	14,003	100	14,642	100
Income tax at applicable tax rate	(2,170)	15.5	(2,270)	15.5
Current year losses for which no deferred tax asset was recognised	(289)	2.1	(1,451)	9.9
Non-deductible/non-taxable expenses	(226)	1.6	(403)	2.8
Over provided in prior years	214	(1.5)	-	-
	(2,471)	**17.7**	**(4,124)**	**28.2**

15 Property, plant and equipment

Mln RUB	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost/Deemed cost					
Balance at 1 January 2009	10,079	26,394	203	8,653	45,329
Additions	95	167	8	5,300	5,570
Transfers	920	8,089	(8)	(9,001)	-
Disposals	-	(307)	(29)	(220)	(556)
Balance at 31 December 2009	11,094	34,343	174	4,732	50,343
Additions	531	609	11	2,645	3,796
Acquisitions through business combinations	-	220	-	152	372
Transfers	243	2,543	18	(2,804)	-
Elimination of advances due to business combinations	-	-	-	(724)	(724)
Disposals	(12)	(839)	(10)	(5)	(866)
Transfer to assets held for sale	-	(3,133)	-	(152)	(3,285)
Balance at 31 December 2010	11,856	33,743	193	3,844	49,636
Depreciation and impairment losses					
Balance at 1 January 2009	(1,267)	(6,077)	(98)	(109)	(7,551)
Depreciation charge	(252)	(2,727)	(16)	-	(2,995)
Impairment loss reversal	-	-	-	27	27
Disposals	-	190	30	-	220
Balance at 31 December 2009	(1,519)	(8,614)	(84)	(82)	(10,299)
Depreciation charge	(332)	(3,116)	(39)	-	(3,487)
Impairment loss	-	(454)	-	(25)	(479)
Disposals	2	500	8	-	510
Transfer to assets held for sale	-	815	-	-	815
Balance at 31 December 2010	(1,849)	(10,869)	(115)	(107)	(12,940)
Net book value					
At 1 January 2009	8,812	20,317	105	8,544	37,778
At 31 December 2009	9,575	25,729	90	4,650	40,044
At 31 December 2010	10,007	22,874	78	3,737	36,696

(a) Depreciation

Depreciation was allocated to statement of comprehensive income as follows:

	2010 Mln RUB	2009 Mln RUB
Cost of sales	2,745	2,164
Distribution expenses	283	237
Administrative expenses	187	182
Other expenses	-	272
	3,215	**2,855**

During the reporting period the Group capitalized depreciation amounting to RUB 272 million (2009: RUB 140 million) which was directly related to the construction of non-current assets.

(b) Security

Property, plant and equipment with a carrying amount of RUB 17,331 million (2009: RUB 16,600 million) is pledged as security for bank loans (refer to note 26(a)).

(c) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements. At the end of each lease agreement the Group has an option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased plant and machinery was Nil (31 December 2009: RUB 73 million). The leased equipment secures lease obligations (refer to note 26(b)).

(d) Fully depreciated assets still in use

Property, plant and equipment includes fully depreciated assets with the cost of RUB 2,484 million (31 December 2009: RUB 1,434 million) that are still in use.

16 Intangible assets

Mln RUB	Mining licenses	Development costs	Other intangible assets	Total
Cost				
Balance at 1 January 2009	49,165	-	196	49,361
Additions	-	74	37	111
Capitalised borrowing costs	4,361	-	-	4,361
Disposals	-	-	(4)	(4)
Balance at 31 December 2009	53,526	74	229	53,829
Additions	-	151	43	194
Capitalised borrowing costs	3,996	-	-	3,996
Balance at 31 December 2010	57,522	225	272	58,019
Amortisation				
Balance at 1 January 2009	-	-	(137)	(137)
Amortisation	-	-	(32)	(32)
Balance at 31 December 2009	-	-	(169)	(169)
Amortisation	-	-	(31)	(31)
Balance at 31 December 2010	-	-	(200)	(200)
Net book value				
At 1 January 2009	49,165	-	59	49,224
At 31 December 2009	53,526	74	60	53,660
At 31 December 2010	57,522	225	72	57,819

Mining licenses are mainly represented by the license for the exploration and development of potassium ore extraction in the Polovodsky, Novo-Solikamsky and Ostalnoy sections of the Verkhnekamskoyoe deposit, acquired by OAO Kamskaya Gornaya Kompaniya (“KGK”) in 2008. The license expires on 1 July 2028 and is renewable.

Development costs include capitalised expenses on geological prospecting works performed pertaining to the ore deposit related to this mining licence.

17 Equity accounted investees

The Group has the following significant investments in equity accounted investees:

	Country of incorporation	Ownership/Voting 2010	Ownership/Voting 2009
ZAO Mezhdunarodnaya Kaliynaya Kompaniya	Russia	-	33%
OAO Galurgiya	Russia	23%	23%
OOO Depo	Russia	25%	25%
IPC UK Limited	Great Britain	-	33%
OAO Solikamsky Magnieviy Zavod	Russia	-	25%
OAO Solikamsiy Stroitelniy Trest	Russia	24%	8%

The Group's share of profit in its equity accounted investees for the year was RUB 10 million (2009: RUB 62 million). In 2010 the Group received Nil dividends from equity accounted investees (2009: RUB 7 million).

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

	2010 Mln RUB	2009 Mln RUB
Total assets	306	5,261
Total liabilities	(249)	(3,219)
Revenue	1,571	22,867
Profit for the year	777	361

18 Other investments

	31 December 2010 Mln RUB	31 December 2009 Mln RUB
Non-current		
Available-for-sale investments:		
Equity investments measured at cost	494	565
Loans and receivables:		
Non-interest bearing loans to related parties	-	28
Non-interest bearing loans to third parties	-	16
Non-interest bearing loans granted to employees	58	43
Non-interest bearing promissory notes	64	65
Provisions	(64)	(92)
	552	**625**

	31 December 2010 Mln RUB	31 December 2009 Mln RUB
Current		
Loans and receivables:		
Non-interest bearing loans to related parties	669	604
Non-interest bearing promissory notes of related parties	398	63
Bank promissory notes (RUB; interest rate 5.5 % p.a.)	2,900	-
Other investments	2	
Provisions	(1,052)	(638)
	2,917	**29**

19 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUB	**Assets**		**Liabilities**		**Net**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	207	31	(2,845)	(2,881)	(2,638)	(2,850)
Intangible assets	-	-	(2,321)	(1,413)	(2,321)	(1,413)
Trade and other receivables	282	254	(11)	(43)	271	211
Investments	42	15	(35)	(94)	7	(79)
Inventories	87	-	(123)	-	(36)	-
Trade and other payables	21	16	(18)	(22)	3	(6)
Loans and borrowings	-	5	(48)	(2)	(48)	3
Provisions	471	381	-	-	471	381
Tax loss carry-forwards	1,234	239	-	-	1,234	239
Tax assets/(liabilities)	2,344	941	(5,401)	(4,455)	(3,057)	(3,514)
Set off of tax	(2,021)	(727)	2,021	727	-	-
Net tax liabilities	**323**	**214**	**(3,380)**	**(3,728)**	**(3,057)**	**(3,514)**

Recognized tax losses carried forward will expire in 2018-2020.

(b) Unrecognised deferred tax assets

As at 31 December 2010 deferred tax assets have not been recognized in respect to tax losses incurred in 2008 and 2009 by OAO Kamskaya Gornaya Kompaniya (“KGK”) in the amount of RUB 21,600 million (31 December 2009: RUB 21,600 million) as it is not expected that sufficient taxable profits will be generated prior to the expiry of the tax losses. Additionally, deferred tax assets have not be recognized for tax losses of RUB 1,864 million arising from the disposal of SMZ shares (refer note 5(b)) as there is significant uncertainty as to whether taxable profit from the sale

of other securities will be generated through which the losses can be utilized. Management are considering the merger of entities of the Group which may enable the recognition of these tax losses in future periods. Unrecognised tax losses will expire in 2018 to 2020.

(c) Unrecognised deferred tax liability

A temporary difference of RUB 47 million (31 December 2009: RUB 30 million) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(d) Movement in temporary differences during the year

	1 January 2010	Recognized in profit or loss	31 December 2010
Property, plant and equipment	(2,850)	212	(2,638)
Intangible assets	(1,413)	(908)	(2,321)
Trade and other receivables	211	60	271
Investments	(79)	86	7
Inventories	-	(36)	(36)
Trade and other payables	(6)	9	3
Loans and borrowings	3	(51)	(48)
Provisions	381	90	471
Tax loss carry-forwards	239	995	1,234
	(3,514)	**457**	**(3,057)**

	1 January 2009	Recognized in profit or loss	31 December 2009
Property, plant and equipment	(2,738)	(112)	(2,850)
Intangible assets	(465)	(948)	(1,413)
Trade and other receivables	188	23	211
Investments	(32)	(47)	(79)
Inventories	(21)	21	-
Trade and other payables	2	(8)	(6)
Loans and borrowings	20	(17)	3
Provisions	386	(5)	381
Tax loss carry-forwards	197	42	239
	(2,463)	**(1,051)**	**(3,514)**

20 Inventories

	31 December 2010 Mln RUB	31 December 2009 Mln RUB
Raw materials and consumables	1,211	1,243
Finished goods and goods for resale	716	301
Work in progress	14	24
	1,941	**1,568**

As at 31 December 2010 the Group had inventories pledged in a total amount of RUB 161 million as a security against loans and borrowings (31 December 2009: RUB 231 million) (refer note 26(a)).

21 Prepayments for acquisition of investments

In 2009 the Group entered into agreements with related parties to acquire a further 39% interest in SMZ and a 100% interest in VSK for RUB 1,387 million and RUB 480 million, respectively. As at 31 December 2009 the Group extended advances for the acquisition of these shares in the amounts of RUB 1,363 million and RUB 96 million, respectively. These ownership interests of 39% of SMZ and 100% in VSK was transferred to the Group during 2010.

As at 31 December 2010 the Group disposed of its entire ownership interest of 64% in SMZ and classified VSK as held for sale (refer to notes 4 and 5).

22 Trade and other receivables

	31 December 2010 Mln RUB	31 December 2009 Mln RUB
Non-current		
Receivables under finance leases from related parties	99	152
Trade accounts receivable	30	-
Other receivables - third parties	9	8
	138	**160**
Current		
Trade accounts receivable - third parties	1,801	1,064
Trade accounts receivable – related parties	1,168	1,730
Advances paid – third parties	411	105
Advances paid – related parties	1	141
VAT receivable	847	1,333
Receivables under finance leases from related parties	119	196
Other receivables – third parties	88	45
Other receivables – related parties	358	150
Allowance for impairment of trade and other receivables	(1,534)	(1,134)
	3,259	**3,630**

As at 31 December 2010 and 31 December 2009 the Group had no pledged accounts receivable.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

23 Cash and cash equivalents

	31 December 2010 Mln RUB	31 December 2009 Mln RUB
Bank accounts in:		
RUB	972	1,593
USD	1,870	1,810
EUR	984	79
Petty cash	1	1
Term bank deposits	134	-
Cash and cash equivalents, total	**3,961**	**3,483**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

24 Equity

(a) Share capital

	Number of preference shares In thousand	Number of ordinary shares In thousand	Preference shares Mln RUB	Ordinary shares Mln RUB	Treasury shares Mln RUB
At 1 Jan 2009	2,608	7,741	50	151	(446)
At 31 Dec 2009	2,608	7,741	50	151	(446)
At 1 Jan 2010	2,608	7,741	50	151	(446)
At 31 Dec 2010	2,608	7,740	50	151	(475)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the greater of 10% of net statutory profit and the dividend attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation of the Company.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(b) Reserve for own shares

The reserve for own shares comprises the cost of the Company's shares held by the Group. At the reporting date, the Company held 86 thousand ordinary and 1 thousand preference (31 December 2009: 85 thousand ordinary and 1 thousand preference) of its own shares.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Company had retained earnings, including the profit for the current year, of RUB 56,782 million (2009: RUB 51,015 million).

As at 31 December 2010 and 31 December 2009 all dividends recommended by the directors during the year have been approved at a shareholders' meeting.

	31 December 2010	31 December 2009
	Mln RUB	Mln RUB
65 Roubles per ordinary share (for the year ended 31 December 2009: 50)	502	546
638 Roubles per preference share (for the year ended 31 December 2009: 680)	1,659	1,616
	2,161	**2,162**

25 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

The following is a reconciliation of the weighted average number of shares:

	2010		2009	
In thousands of shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
Issued shares at 1 January	2,609	7,826	2,609	7,826
Effect of own shares held	(1)	(86)	(1)	(85)
Weighted average number during the year	**2,608**	**7,740**	**2,608**	**7,741**

The following is a reconciliation of the profit attributable to ordinary and preference shareholders:

	2010	2009
	Mln RUB	Mln RUB
Dividends declared during the year:		
Preference shares	502	546
Ordinary shares	1,659	1,616

Profit remaining undistributed:		
Preference shares	2,404	2,106
Ordinary shares	6,967	6,249
	11,532	**10,517**
Attributable to preference shareholders	2,906	2,652
Attributable to ordinary shareholders	8,626	7,865
	11,532	**10,517**

26 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer note 29.

	2010	**2009**
	Mln RUB	**Mln RUB**
Non-current liabilities		
Third parties		
Secured bank loans	31,272	45,359
Unsecured bank loans	-	23
	31,272	**45,382**
Related parties		
Finance lease liabilities	-	4
	-	4
	31,272	**45,386**
Current liabilities		
Third parties		
Secured bank loans	3,048	808
Current portion of secured bank loans	11,185	2,732
Current portion of unsecured bank loans	-	31
Interest accrued	41	52
	14,274	**3,623**
Related parties		
Finance lease liabilities	-	10
	-	10
	14,274	**3,633**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	2010		2009	
Mln RUB	**Year of maturity**	**Carrying amount**	**Year of maturity**	**Carrying amount**
Third parties				
Secured bank loans – fixed rate				
RUB, 19.5%-20%		-	2010	89
RUB, 19.5%		-	2011-2012	41
USD, 7.65% (effective rate 8.9%)	2011-2014	42,389	2010-2014	45,005
USD, 7%		-	2010	756
Secured bank loans – variable rate				
USD, LIBOR+4% (3.6%)	2011	3,048	2011	3,008
RUB, MOSPRIME+5.2%		-	2010	31
RUB, MOSPRIME+5.2%		-	2011	23
RUB, MOSPRIME+5.0%		68	2012	-
Interest accrued	2011	41	2010	52
		45,546		49,005
Related parties				
Finance lease liabilities				
RUB		-	2010	10
RUB		-	2011	4
		-		14
		45,546		49,019

As at 31 December 2010 bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUB 17,331 million (31 December 2009: RUB 16,600 million) – refer note 15(b);
- inventory with a carrying amount of RUB 161 million (31 December 2009: RUB 231 million) – refer note 20;
- the pledge of 10,000 shares of OAO Kamskaya Gornaya Kompaniya, which represents 100% of shares of KGK's share capital (31 December 2009: 100%) - refer note 16.

(b) Finance lease liabilities

Finance lease liabilities are payable as follows:

	2010			2009		
Mln RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	-	-	-	11	1	10
Between one and five years	-	-	-	5	1	4
	-	**-**	**-**	**16**	**2**	**14**

The finance lease liabilities are secured by the leased assets with a net book value of RUB Nil (31 December 2009: RUB 73 million) – refer note 15(c).

27 Provisions

Mln RUB	**Site restoration**	**Guarantees**	**Legal provision**	**Total**
Balance at 1 January 2009	2,492	952	-	3,444
Provisions made during the year	197	-	-	197
Unwinding of discount	27	-	-	27
Change in estimate	124	-	-	124
Provisions reversed during the year	-	(78)	-	(78)
Provisions used during the year	(371)	(249)	-	(620)
Balance at 31 December 2009	**2,469**	**625**	**-**	**3,094**
Provisions made during the year	268	4	847	1,119
Unwinding of discount	(30)	-	-	(30)
Change in estimate	(203)	-	-	(203)
Provisions used during the year	(356)	-	-	(356)
Balance at 31 December 2010	**2,148**	**629**	**847**	**3,624**

Mln RUB	Site restoration	Guarantees	Legal provision	Total
Current – 31 December 2010	263	629	847	1,739
Non-current – 31 December 2010	1,885	-	-	1,885
	2,148	**629**	**847**	**3,624**
Current – 31 December 2009	258	623	-	881
Non-current – 31 December 2009	2,211	2	-	2,213
	2,469	**625**	**-**	**3,094**

(a) Site restoration

A provision of RUB 2,148 million (31 December 2009: RUB 2,469 million) has been established for the Group's obligation to replace the earth extracted from the mines.

A technical program for mining operations was agreed with the local state mine supervisory body in 1997-1998. Based on this framework program the Group prepares annual mining plans, which are also agreed with the local state mine supervisory body. These plans set out the extent of restoration work carried out and form the basis for the site restoration provision made in these consolidated financial statements.

The balance of the provision at the reporting date equals the total of expected future discounted cash outflows associated with replacing the earth extracted from the mine in accordance with the plan of site restoration work agreed with the state mine supervisory body. The relevant cash flows are discounted at a rate reflecting the time value of money.

Major uncertainties surrounding the amount and timing of the cash outflows related to the site restoration works and assumptions management made in respect of these uncertainties are as follows:

- The extent of the site restoration works which will have to be performed in future may vary depending on the actual environmental situation. Management believes that the actual and constructive obligation to replace the earth in the mines is consistent with the site restoration plan agreed with the state mine supervisory body.
- The future unit cost of replacing one cubic meter of the earth in the mines may vary depending on the technology and the cost of resources used. Management assumes that the unit cost of replacing a cubic meter of earth in future years, during the period for which the current site restoration plan is in place, if adjusted for the effect of inflation, will not be materially different from the actual cost incurred in 2010.
- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the site restoration works, reflecting the time value of money. In 2010 management applied real discounts rates of between 0.9% (negative) - 1.5% (positive) depending on the expected timing of individual cash outflows (2009: between 1.2% (negative) - 1.8% (positive))

At the end of each year the provision is reassessed to account for the amount of earth removed and replaced during the year. Expenditure incurred in replacing the earth is charged against the provision whilst the increase or decrease in the estimated future cost of replacing the earth is charged to profit or loss.

(b) Guarantees

Management has established a provision of RUB 629 million against guarantees issued to a related party of the Group (31 December 2009: RUB 625 million) (refer note 32(d)).

(c) Legal provision

In January 2011 a minority shareholder of the Company filed a legal claim against the Company and its third party registrar, ZAO "Computershare Registrator", demanding compensation for damages resulting from the fraudulent sale of shares during 2010 from the shareholder account which was maintained by the registrar. The amount of claim of RUB 1,285 million is based on the market value of shares as at the date of the claim and should be recalculated on the date of the court decision. Management believe that there is a significant risk that the Company will be held joint and severally liable for the loss incurred by the minority shareholder for the irreversible sale of shares, and estimate that 50 percent of the loss may be allocated to the Company. Management consider it unlikely that insurance held by the registrar will enable them to recover any loss allocated to the Company and have accordingly recognised a provision for 50 percent of the amount of the claim calculated based on the market value of the shares as at the reporting date.

28 Trade and other payables

	2010 Mln RUB	2009 Mln RUB
Trade accounts payable, third parties	403	171
Trade accounts payable, related parties	114	238
Taxes payable	153	141
Accounts payable for acquisition of property, plant and equipment, third parties	-	19
Accounts payable for acquisition of property, plant and equipment, related parties	73	65
Payables to employees	352	183
Advances received, third parties	473	737
Advances received, related parties	8	-
Payables to state-owned funds	88	61
Other payables	154	88
	1,818	**1,703**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

29 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are not formalised. The General director carries out day-to-day monitoring of risks based on analysis of management reports regularly prepared by the Economics Department containing a wide range of data on various aspects of the Group's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, irrevocable deposits, bank promissory notes, receivables from customers, loans and guarantees issued.

(i) Cash, cash equivalents, irrevocable deposits and bank promissory notes

The table below illustrates the credit quality of the Group's cash, cash equivalents, irrevocable deposits and bank promissory notes as at the reporting date. Management does not expect any counterparty to fail to meet its obligations.

		Cash and cash equivalents		Irrevocable deposits		Bank promissory notes	
Rating	**Rating Agency**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
BBB-	S&P	3	773	-	-	-	-
BAA1	Moody's	1,268	422	35	-	-	-
BBB	S&P	130	-	2,133	-	-	-
BAA3	Moody's	-	-	-	-	2,900	-
Unrated	-	2,560	2,288	160	1,007	-	-
		3,961	**3,483**	**2,328**	**1,007**	**2,900**	**-**

As at 31 December 2010 the Group held a cash and cash equivalents balance of RUB 2,694 million (31 December 2009: RUB 3,274 million) with an unrated bank, in which it controlled 19.9% of shareholder voting power (31 December 2009: 19.9%).

(ii) Trade and other receivables

The majority of Group's sales are performed through a network of traders, who have worked with the Group for many years and have established a credit history with the Group and losses have occurred infrequently. The Group does not require collateral in respect of trade and other receivables. Credit evaluations, which include external ratings, when available, and in some cases bank references, are performed for all new customers, other than related parties, requiring credit over a certain amount. Purchase limits are established for each customer.

Approximately 58% (2009: 60%) or RUB 22,636 million (2009: RUB 20,397 million) of the Group's revenue is attributable to sales transactions with four export customers (2009: two export customers) with sales in excess of 10% of total revenue of the Group, of RUB 9.814 million, RUB 4,638 million, RUB 4,305 million and RUB 3,880 million, respectively (2009: RUB 15,001 and 5,397, respectively). The net accounts receivable from these customers as at 31 December 2010 is RUB 673 million (31 December 2009: net advance received of RUB 679 million).

In monitoring customer credit risk, credit characteristics of each customer are considered individually as regards aging profile, maturity and existence of previous financial difficulties.

(iii) Investments

Investments consist of loans granted to and promissory notes issued by related and third parties of the Group, investments in available-for-sale securities and bank deposits with an original maturity of greater than 3 months. The Group does not have a formal investment policy. Each material transaction is subject to specific consideration by the Management Committee. Most of the Group's investments are made for operational reasons rather than for the purpose of generating investment income.

(iv) Guarantees

The Group provides guarantees to banks on behalf of related parties. As at 31 December 2010 the amount of guarantees outstanding amounted to RUB 629 million (31 December 2009: RUB 884 million). The Group does not have a formal policy in respect to issuing guarantees, and considers the issuance of guarantees on a case by case basis. The Group recognised a provision for guarantees in the amount of RUB 629 million (31 December 2009: RUB 625 million) (refer note 27(b)).

(v) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
Mln RUB	**2010**	**2009**
Cash and cash equivalents	3,961	3,483
Irrevocable deposits	2,328	1,007
Available-for-sale investments	494	565
Bank promissory notes	2,900	-
Trade and other receivables	2,138	2,211
Loans issued	73	89
	11,894	**7,355**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
Mln RUB	**2010**	**2009**
Russia	1,536	1,501
Europe	374	418
China	423	528
India	666	347
Allowance for impairment (relating to Russia)	(1,168)	(980)
	1,831	**1,814**

Impairment losses

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The aging profile of trade receivables and related impairment losses as at the reporting date are as follows:

Mln RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	1,855	56	781	-
Not past due (resulting from extension of credit terms)	-	-	446	-
Past due 0-30 days	71	57	577	38
Past due 31-180 days	237	219	277	229
Past due 181-365 days	220	220	172	172
More than one year	616	616	541	541
	2,999	**1,168**	**2,794**	**980**

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of receivables not past due or past due by up to 30 days. As at the reporting date past due trade receivables of RUB 1,168 million relate to sales of carnallite to a related party of the Group.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 Mln RUB	2009 Mln RUB
Balance at 1 January	980	1,012
Provisions made during the year	538	437
Provisions reversed during the year	(350)	(469)
Balance at 31 December	**1,168**	**980**

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

	2010 Mln RUB	2009 Mln RUB
Balance at 1 January	154	26
Provisions made during the year	219	143
Provisions reversed during the year	(7)	(15)
Balance at 31 December	**366**	**154**

Impairment losses related to loans granted and promissory notes as at the reporting date were as follows:

	Gross	Impairment	Gross	Impairment
Mln RUB	**2010**	**2010**	**2009**	**2009**
Loans provided	727	640	691	618
Promissory notes	3,362	476	128	112
	4,089	**1,116**	**819**	**730**

As at the reporting date an impairment loss of RUB 1,052 million (31 December 2009: RUB 730 million) in respect of loans granted and promissory notes receivable was recognised due to significant financial difficulties being experienced by related party borrowers of the Group. The Group has no collateral in respect of these investments.

The movement in the allowance for impairment during the year was as follows:

	2010	2009
	Mln RUB	**Mln RUB**
Balance at 1 January	730	478
Increase in allowance	638	252
Reversal of allowance	(252)	-
Balance at 31 December	**1,116**	**730**

As at 31 December 2010 the Group had granted loans and guarantees of RUB 549 million and RUB 629 million, respectively (2009: RUB 262 million and RUB 625 million, respectively) to and on behalf of a single domestic customer, which is a related party of the Group, and has outstanding trade and other receivables of RUB 1,165 million and RUB 358 million, respectively (31 December 2009: RUB 977 million and RUB 141 million, respectively) from sales to the customer over several years. The Group established a 100% provision against the amount of loans granted, trade and other receivables and the Group’s exposure under guarantees issued to this customer as at 31 December 2010 and 31 December 2009 (refer note 27(b)). The customer has substantial net liabilities, negative operating cashflows, and there is a low prospect of it being able to settle its liabilies to the Group or repay the borrowings the Group has guaranteed when they fall due.

The allowance accounts in respect of trade and other receivables and loans and promissory notes are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2010 the Group does not have any collective impairments on its trade receivables or its loans and promissory notes (31 December 2009: Nil).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table illustrates the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

2010 **Mln RUB**	**Carrying Value**	**Contractual cash flows**	**0-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**
Non-derivative financial liabilities							
Third parties							
Secured bank loans, fixed rate	42,389	50,418	13,865	13,041	12,203	11,309	-
Secured bank loans, variable rate	3,116	3,186	3,166	20	-	-	-
Trade and other payables	798	798	798	-	-	-	-
Interest accrued	41	41	41	-	-	-	-
	46,344	**54,443**	**17,870**	**13,061**	**12,203**	**11,309**	**-**
Related parties							
Trade and other payables	187	187	187	-	-	-	-
Guarantees issued	629	629	629	-	-	-	-
	816	816	816	-	-	-	-
	47,160	**55,259**	**18,686**	**13,061**	**12,203**	**11,309**	**-**

2009 **Mln RUB**	**Carrying value**	**Contractual cash flows**	**0-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities								-
Third parties								-
Secured bank loans, fixed rate	45,891	59,060	7,721	14,323	13,335	12,347	11,334	-
Secured bank loans, variable rate	3,008	3,222	128	3,094	-	-	-	-
Unsecured bank loans, variable rate	54	62	37	25	-	-	-	-
Trade and other payables	461	461	461	-	-	-	-	-
Interest accrued	52	52	52	-	-	-	-	-
	49,466	**62,857**	**8,399**	**17,442**	**13,335**	**12,347**	**11,334**	**-**
Related parties								
Finance lease liabilities, fixed rate	14	16	11	5	-	-	-	-
Trade and other payables	303	303	303	-	-	-	-	-
Guarantees issued	884	884	884	-	-	-	-	-
	1,201	1,203	1,198	5	-	-	-	-
	50,667	**64,060**	**9,597**	**17,447**	**13,335**	**12,347**	**11,334**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Market risk includes interest rate risk and foreign currency risk.

(i) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian rouble. The currencies giving rise to this risk are primarily the United States dollar (USD) and Euro (EUR).

The Group does not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Mln RUB	USD-denominated 2010	EUR-denominated 2010	USD-denominated 2009	EUR-denominated 2009
Current assets				
Cash and cash equivalents	1,870	984	1,810	79
Irrevocable deposits	2,133	-	-	-
Receivables	981	674	808	-
Current liabilities				
Payables	(325)	(82)	(35)	-
Loans and borrowings	(14,248)	-	(3,452)	-
Non-current liabilities				
Loans and borrowings	(31,230)	-	(45,317)	-
	(40,819)	**1,576**	**(46,186)**	**79**

The following significant exchange rates applied during the year:

	1 USD equals 2010	1 EUR equals 2010	1 USD equals 2009	1 EUR equals 2009
RUB	30.4769	40.3331	30.2442	43.3883

(e) Sensitivity analysis

A 10% strengthening/(weakening) of the RUB against the above mentioned currencies based on the Group's exposure at the reporting date would have increased/(decreased) profit or loss for the year by RUB 3,924 million (31 December 2009: RUB 4,619 million), on the basis that all other variables, in particular interest rates, remain constant. There would have been no impact directly on equity. The analysis was performed on the same basis for 2009.

(i) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
Mln RUB	**2010**	**2009**
Fixed rate instruments		
Cash and cash equivalents	3,961	3,483
Irrevocable deposits	2,328	1,007
Bank promissory notes	2,900	-
Bank loans	(42,389)	(45,891)
Finance lease liabilities	-	(14)
	(33,200)	**(41,415)**
Variable rate instruments		
Bank loans	(3,116)	(3,062)
	(3,116)	**(3,062)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates based on the Group's exposure as at the reporting date would not have a material effect on the equity or profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase/(decrease) of 100 basis points in interest rates based on the Group's exposure as at the reporting date would have (decreased) / increased the profit or loss for the year by RUB 31 million (2009: RUB 31 million). There would have been no impact directly on equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

(f) Fair values versus carrying amounts

Management believes that the fair value of the Group's financial assets and liabilities are not materially different from their carrying values. The fair value of available-for-sale investments (unless measured at cost less amortisation and impairment losses) was determined based on their quoted bid prices as at the reporting date. For promissory notes, loans and borrowings and all other financial instruments of the Group fair value is determined based on discounted future principal and interest cash flows at the market rate of interest as at the reporting date. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group's net debt to capital ratio and the level of dividends to shareholders of the Group.

The Group determines the appropriate capital structure based on the risk of investment in assets owned by the Group and reassesses its capital structure at the time of making a new investment decision, or when economic conditions or risk characteristics of an underlying asset change. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares, or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

A loan with a carrying amount of RUB 42,424 million (31 December 2009: RUB 45,005 million) imposes a requirement that the combined debt of certain companies of the Group and a trader of the Group should not exceed combined annual EBITDA of these entities by more than 3 times. Both EBITDA and debt are calculated on the basis of statutory financial statements. The loan agreement also imposes a restriction on the distribution of dividends to 10% of the profit for the year disclosed in the statutory financial statements, as well as certain restrictions on obtaining new borrowings and issuing additional shares.

30 Capital commitments

As at 31 December 2010, the Group had outstanding capital commitments in relation to acquisition of property, plant and equipment for an aggregate amount of RUB 234 million (31 December 2009: RUB 244 million).

In 2008 the Group acquired a licence to develop a new ore deposit (refer note 16). In accordance with the terms of the license agreement the Group is to develop the deposit and construct relevant production facilities in accordance with the timeline outlined in the license agreement. Should the

Group fail to adhere to the timeline, the license may be revoked by the state authorities. Management estimates that cash outflows associated with the full development and construction of the mine will be approximately RUB 68,940 million over the period to 2015.

31 Contingencies

(a) Taxation contingencies

(i) Tax environment

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(ii) Transfer pricing

The Russian transfer pricing rules provide for the Russian tax authorities to assess additional tax liabilities and late-payment interest where the transaction price of a controllable transaction differs from its market price by more than 20%. Controllable transactions include transactions with related parties, all cross border transactions, barter transactions, and transactions where the price applied by the taxpayer for goods or services differs by more than 20% within a short period of time.

The Group has significant sale and purchase transactions with entities over which the Group has the ability to exercise significant influence. In some instances, transaction prices for the sale of similar goods to its customers vary by more than 20%.

Court decisions in respect to transfer pricing are often contradictory, and the Russian taxation authorities have not challenged the Group's transfer prices to date. However, with the continuing evolution of the interpretation of transfer pricing rules and developments in the approach of the tax authorities to such transactions (including application of permanent establishment and unjustified tax benefit concepts), these transactions may be challenged by the Russian taxation authorities. If the Russian taxation authorities were to successfully challenge these transactions the impact on the consolidated financial statements of the Group could be material.

Management believes that the Group's transfer pricing policies are defensible in the event of a challenge by the Russian tax authorities in the future. No provision for potential additional taxation, penalties and late-payment interest has been recognised because management believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle the obligation. Management believes that the amount of the contingent liability cannot be quantified.

(b) Guarantees issued

The Group issued guarantees amounting to RUB 629 million (31 December 2009: RUB 884 million) to banks on behalf of related parties of the Group. Management has established a provision of RUB 629 million (31 December 2009: RUB 625 million) against guarantees issued to certain related parties of the Group (refer note 32(d)).

(c) Environmental matters

Environmental regulations and their enforcement in Russia are receiving greater attention and more comprehensive regulations are being considered by governmental authorities. The Group periodically evaluates its obligations related to such regulations and such obligations are recognized as they accrue (refer note 27). The outcome of environmental liabilities under future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated at present. Based on current levels of enforcement, management believes there are no significant exposures which have not been provided for that may have a material adverse effect on the financial position or operations of the Group.

(d) Legal contingencies

During 2008 a class action law suit was filed in the United States District Court of Illinois against Silvinit and other producers of potash. The plaintiffs are various corporations and individuals who have filed the suit on behalf of the purchasers of potash in the United States from one or more of the defendants. The plaintiffs allege price fixing violations under the US Sherman Act since 1 July 2003. The legal proceedings are at an early stage and management is unable to determine the likely outcome. No provision has been recognised in connection with this lawsuit because management believes that it is not probable that an outflow of resources will be required to settle the obligation. Management believes the amount of continigent liabilities could not be quantified.

In 2009 the Group was subject to an inspection by the Federal Antimonopoly Authority of Russia which concluded the Group was selling potash on the territory of Russia at prices exceeding a deemed fair price of RUB 3,755 per ton. The fine imposed by the decision of the Federal Antimonopoly Authority was RUB 143 million.

As a consequence of the decision of the Federal Antimonopoly Authority, at the end of 2009 a number of the Group’s domestic customers filed legal claims amounting to RUB 244 million against the Group demanding reimbursement of the difference between the actual price paid and the deemed fair price determined by the Federal Antimonopoly Authority.

Management believes the decision of the Federal Antimonopoly Authority has no legal validity and took legal action against the decision of the Federal Antimonopoly Authority. In December 2010 the arbitration court of appeal passed judgement in favour of the Group. No provision has been recognised for the claims brought against the Group by certain domestic customers, because management believes that it is not probable that an outflow of resources will be required to settle the obligation.

Additionally, the Group has recognised a legal provison of RUB 847 million against a claim of RUB 1,285 million relating to losses incurred by a minority shareholder arising from fraudulent sale of shares of the Company (refer note 27(c)). The Company estimates the amount of claim based on the market value of the shares as at the reporting date to be RUB 1,694 million.

32 Related party transactions

Related parties are defined in IAS 24 *Related Party Disclosures*. Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Key management and close family members are also related parties.

(a) Control relationship

In 2010 and 2009 the Company had neither a parent company nor an ultimate controlling party.

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs in administrative expenses (refer note 11).

Mln RUB	2010	2009
Salaries and bonuses	50	31
Taxes and related social contributions	24	3
	74	**34**

In addition, management received dividends of RUB 149 mln (2009: RUB 155 mln) on their shareholdings in the Company.

(c) Transactions and outstanding balances with other related parties

The Group had related party relationships with associates of the Group and entities over which the controlling shareholders of the Group are able to exercise significant influence.

On 13 August 2010 there was a substantial change in the shareholders of the Group. As a result, several of the shareholder-controlled entities ceased to be related parties of the Group. The below mentioned related party transactions include transactions up to 13 August 2010 when the related party relationship ceased to exist.

The Group's related party transactions and outstanding balances are disclosed below:

Mln RUB	**2010**		**2009**	
	Associates	**Shareholder-controlled entities**	**Associates**	**Shareholder-controlled entities**
Transactions				
Sale of goods	1,883	2,904	2,426	5,274
Services provided	241	231	-	19
Lease income	9	-	13	54
Dividends received	-	-	7	-
Interest income	-	3	-	-
Other income	33	25	-	-
Purchases of goods and services	364	2,936	375	3,086
Purchases of equipment and other assets	121	904	127	4,006
Purchases of shares	-	-	-	6
Other expenses	1	37	5	27
Loans provided to related parties	-	471	90	965
Loans repaid by related parties	91	6	90	926
Promissory notes purchased	-	35	-	-
Promissory notes redeemed	-	262	-	366
Prepayments for the acquisition of investments	-	383	-	1,459
Proceeds from disposal of subsidiaries	-	239	-	-
Outstanding balances				
Trade and other receivables	-	1,526	1,119	761
Provision for doubtful debts	-	(1,526)	(1,118)	(9)
Receivables under finance lease	218	-	82	266
Available-for-sale equity investments	-	-	-	73
Trade and other payables	(110)	(4)	-	(271)
Accounts payable for acquisition of property, plant and equipment	(73)	-	(26)	(39)
Advances received	-	8	-	-
Advances issued	1	-	-	141
Lease liabilities	-	-	-	(14)
Loans granted/promissory notes receivable	-	1,052	262	433
Provision for loans and promissory notes issued	-	(1,052)	(262)	(404)

All outstanding balances with related parties excluding long-term loans are to be settled in cash within a year of the reporting date. None of the balances are secured.

(d) Guarantees issued on behalf of related parties

As at the reporting date the Group had issued guarantees to related parties in the amount of RUB 629 million (31 December 2009: RUB 884 million). The Group recognised a provision for these guarantees of RUB 629 million (31 December 2009: RUB 625 million).

33 Significant subsidiaries

		2010	**2009**
	Country of incorporation	**Ownership/voting**	**Ownership/voting**
OOO Predpriyatie MTS OAO Silvinit	Russia	100%	100%
OOO Silvinit Transport	Russia	100%	100%
OOO IK "Silvinit-Resurs	Russia	100%	100%
OOO Vodokanal	Russia	100%	100%
OOO Kama-Mineral	Russia	100%	51%
OOO Silvinit-Capital	Russia	100%	100%
OAO Kamskaya Gornaya Kompaniya (“KGK”)	Russia	100%	100%
OOO Verkhnekamsky Sudostroitelny Komplex	Russia	100%	-

34 Subsequent events

Combination of Silvinit and OAO Uralkali

On 20 December 2010 the board of directors of Silvinit recommended the shareholders of Silvinit to vote in favour of a proposed combination of Silvinit with OAO Uralkali (“Uralkali”).

The proposed combination will be effected through the acquisition of 1,565,151 Silvinit ordinary shares, representing approximately 20 per cent of its ordinary share capital, for USD 894.5 per ordinary Silvinit share, or a total cash consideration of USD 1.4 billion, and implementation of a statutory merger of Uralkali and Silvinit, through the issuance of Uralkali ordinary shares for the remaining ordinary and preferred share capital of Silvinit. As a result of the proposed merger, Silvinit will cease to exist and Silvinit’s shareholders, other than Uralkali, will receive 133.4 Uralkali ordinary shares for each 1 ordinary share in Silvinit and 51.8 Uralkali ordinary shares for each 1 preferred share in Silvinit.

On 4 February 2011, at an extraordinary general meeting of shareholders, the proposed acquisition and merger was approved.