



JSC Uralkali

(an open joint stock company organised under the laws of Russia)

Application for Admission to Listing on the Official List and to Trading on the London Stock Exchange of Global Depository Receipts

This document, including the financial information and the appendices included therein (the “**Prospectus**”), comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive (2003/71/EC) in connection with an admission to listing on the Standard Listing segment of the official list (the “**Official List**”) of the United Kingdom Listing Authority (“**UKLA**”), a division of the United Kingdom Financial Services Authority (the “**FSA**”), in its capacity as competent authority under the Financial Services and Markets Act 2000, and to trading on the regulated part of the International Order Book of the London Stock Exchange plc (the “**London Stock Exchange**”), a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the “**Regulated Market**”), of global depository receipts (“**GDRs**”), with one GDR representing an interest in five ordinary shares of JSC Uralkali (“**Uralkali**” or the “**Company**”), each with a nominal value of RUR 0.50 per share (each a “**Share**” and, together, the “**Shares**”). Admission to the Official List and the Regulated Market is referred to in this Prospectus as “**Admission**”. This Prospectus does not constitute an offer of the GDRs in any jurisdiction.

The Current Admission, the Combination with Silvinit and the New Application for Admission

The current Admission: On 19 October 2007, Uralkali obtained Admission of up to 424,878,000 GDRs, comprising (i) GDRs issued to investors outside the United States (the “**Regulation S GDRs**”) in offshore transactions in reliance on Regulation S (“**Regulation S**”) under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and (ii) GDRs issued to Qualified Institutional Buyers (“**QIBs**”), as defined in and in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A under the U.S. Securities Act, in the United States (the “**Rule 144A GDRs**”). As at the date of this Prospectus, 95,081,113 Regulation S GDRs have been issued (the “**Existing Regulation S GDRs**”) and 448,196 Rule 144A GDRs have been issued (the “**Existing Rule 144A GDRs**”).

The Combination with Silvinit: On 20 December 2010, Uralkali announced a proposed combination (the “**Combination**”) with OJSC Silvinit (“**Silvinit**”) to be effected through the acquisition of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital (the “**Acquisition**”), 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 (the “**Merger**”). The Acquisition was completed on 28 February 2011, and the Merger completed on 17 May 2011. As a result of the Merger, Silvinit has ceased to exist and Uralkali is the surviving entity. No new GDRs are being issued in connection with the Combination, and all offers of Shares to shareholders of Silvinit in connection with the Merger have been made pursuant to an exemption under the Prospectus Directive (2003/71/EC), as implemented in member states of the EEA, from the requirement to produce a prospectus (within the meaning of Prospectus Directive (2003/71/EC)). See “The Combination of Uralkali and Silvinit”.

The new application for Admission: The Combination is classified as a reverse takeover for the purposes of the FSA’s Listing Rules and, consequently, will result in the cancellation by the UKLA and London Stock Exchange of the existing Admission. Uralkali is therefore making the following new applications for Admission: (i) to the UKLA for admission to the Standard Listing segment of the Official List of up to 618,927,581 GDRs, representing Shares all of which are issued and registered at the date of this Prospectus, including the Existing Regulation S GDRs, the Existing Rule 144A GDRs and, subject to the limitations and requirements of Russian law, up to 523,398,272 additional GDRs that may be issued by the Depositary (as defined below) from time to time; and (ii) to the London Stock Exchange for those GDRs to be admitted to trading on the Regulated Market. Uralkali expects that the cancellation of the current Admission and the re-admission of the GDRs to the Official List and to trading on the Regulated Market pursuant to this new application will each become effective on or around 21 June 2011. Only Shares that are in existence as at the date of Admission of the GDRs to the Official List and the Regulated Market can be deposited with the Depositary; Shares issued after the date of this Prospectus (“**New Shares**”) cannot be used as deposits for GDRs. For GDRs to be issued against any such New Shares, the Company will produce a prospectus approved by the UKLA to enable New Shares to be deposited against GDRs.

Risk Factors

Investment in the GDRs involves a high degree of risk. For a discussion of certain risk factors that should be considered in connection with an investment in the GDRs, see “Risk Factors”.

The GDRs

The GDRs are issued pursuant to an agreement, dated 15 August 2006 (the “**Deposit Agreement**”), between Uralkali and The Bank of New York (now known as The Bank of New York Mellon), as Depositary (the “**Depositary**”), and comprise (i) a tranche of Rule 144A GDRs and (ii) a tranche of Regulation S GDRs. See “Terms and Conditions of the Global Depository Receipts”. The GDRs are currently in global form and are evidenced by a Master Rule 144A GDR (in respect of the Rule 144A GDRs) registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”), and, in respect of the Regulation S GDRs, a Master Regulation S GDR (which, together with the Master Rule 144A GDR, are referred to as the “**Master GDRs**”), registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream**”).

Dated 16 June 2011

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Uralkali accepts responsibility for the information contained in this Prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the knowledge of Uralkali, in accordance with the facts and contains no omission likely to affect its import.

SRK Consulting (UK) Limited (“**SRK**”) accepts responsibility for the information provided in the Mineral Expert’s Report on the Mineral Resources and Ore Reserves of Uralkali’s Mining Assets set out in Appendix 1 to this Prospectus (the “**SRK Uralkali Report**”) and the Mineral Expert’s Report on the Mineral Resources and Ore Reserves of Silvinit’s Mining Assets set out in Appendix 2 to this Prospectus (the “**SRK Silvinit Report**”). Having taken all reasonable care to ensure that such is the case, SRK declares that the information contained in each of the SRK Uralkali Report and the SRK Silvinit Report contained in this Prospectus is, to the best of the knowledge of SRK, in accordance with the facts and contains no omission likely to affect its import.

This Prospectus does not constitute an offer for sale of GDRs in any jurisdiction. Investors in GDRs must rely on their own examination of the group resulting from the Combination (the “**Combined Group**”), including the merits and risks involved. Investors in GDRs should rely only on the information contained in this Prospectus. Uralkali has not authorised any other person to provide any investors in GDRs with information regarding the GDRs, other than the information contained herein. If anyone provides any investor in GDRs with different or inconsistent information, such investor in GDRs should not rely on it. Each investor in GDRs should assume that the information appearing in this Prospectus is accurate as at the date on the front cover of this Prospectus only. The business, financial condition, results of operations and the information about the Combined Group set forth in this Prospectus may have changed since that date.

Investors in GDRs should not consider any information in this Prospectus to be investment, legal or tax advice. Each investor in GDRs should consult its own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding the GDRs.

This Prospectus includes (i) in the “Industry Overview” section, market data that Uralkali has obtained from, and attributed to, the industry and other sources specified therein; (ii) in the section entitled “Business – Competition”, data sourced from information published by the companies referred to in that section; and (iii) Russian macroeconomic data obtained from information published by the Central Bank of the Russian Federation (“**CBR**”). Uralkali accepts responsibility for having correctly reproduced such information, and, as far as Uralkali is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Combined Group operates and the position of the Combined Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of Uralkali based upon information obtained from trade and business organisations and associations and other contacts within the fertiliser industry. This information from the internal estimates and surveys of the Combined Group has not been verified by any independent sources.

None of the contents of the website of Uralkali, Silvinit or any other member of the Combined Group form part of this Prospectus.

This Prospectus does not constitute an invitation to subscribe for or otherwise acquire or dispose of any GDRs. This Prospectus is not for publication or distribution, directly or indirectly, in or into any jurisdiction in which the same would be unlawful. This Prospectus is for information purposes only and does not constitute an offer or invitation to acquire or dispose of GDRs in the United States or any other jurisdiction. Neither the Shares nor the GDRs have been nor will be registered under the U.S. Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Uralkali does not currently plan to register or make a public offering of Shares or GDRs in the United States. The distribution of this Prospectus may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required

to inform themselves about, and to observe, any such restrictions. No action has been taken by Uralkali that would permit an offering of the GDRs or the possession or distribution of this Prospectus or any other offering or publicity material relating to the GDRs in any jurisdiction where action for that purpose is required.

The GDRs have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Notice to Investors in the UK and EEA

This Prospectus is being made available only to persons in member states of the European Economic Area (“**EEA**”) who are “qualified investors” within the meaning of Article 2(1)(e) of Directive 2003/71/EC (“**Qualified Investors**”). In addition, in the United Kingdom, this Prospectus is being made available only to Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). This Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. The GDRs are only available to, and any investment or investment activity to which this Prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and Uralkali will only engage with such persons in relation to the GDRs.

Notice to Investors in the Russian Federation

This Prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any of the GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been registered with the Federal Service for Financial Markets of the Russian Federation (the “**FSFM**”) and are not intended for “placement” or “public circulation” in the Russian Federation. Any information on the GDRs in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation.

Currencies and Exchange Rates

In this Prospectus, references to “U.S. dollars” or “US\$” are to the currency of the United States of America (the “**United States**”), references to “roubles” or “RUR” are to the currency of the Russian Federation and references to “**GBP**”, “**£**” or “**pounds sterling**” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the “**United Kingdom**” or “**UK**”).

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of the Uralkali Financial Statements and the Silvinit Financial Statements (each as defined below) and other financial information appearing in this Prospectus.

For each year from 2006 to 2010	Roubles per U.S. dollar			
	High	Low	Average⁽¹⁾	Period end
2006	28.48	26.18	27.18	26.33
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.98	29.38
2009	36.43	28.67	31.72	30.24
2010	31.78	28.93	30.37	30.48

1. The average of the exchange rate for the relevant period, based on the rates in such period for each Russian business day (quoted by the CBR for that day) and each Russian non-business day (which is equal to the rate quoted by the CBR for the preceding Russian business day).

For each month from January 2011 to June 2011	Roubles per U.S. dollar	
	High	Low
January.....	30.63	29.67
February.....	29.80	28.94
March.....	28.90	28.16
April.....	28.52	27.50
May.....	28.48	27.26
June (up to and including 15 June 2011).....	28.04	27.68

The exchange rate between the rouble and the U.S. dollar on 15 June 2011 as published by the CBR was RUR 27.90 per US\$ 1.00.

No representation is made that the rouble or U.S. dollar amounts in this Prospectus could have been converted into U.S. dollars or roubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

References to Defined Terms

In this Prospectus, references to “Uralkali” or the “Company” are to JSC Uralkali, and references to the “Uralkali Group” are to Uralkali and its consolidated subsidiaries. References to “Silvinit” are to OJSC Silvinit, and references to the “Silvinit Group” are to Silvinit and its consolidated subsidiaries. References to the “Combined Group” are to the group resulting from the Combination of Uralkali and Silvinit (see “The Combination of Uralkali and Silvinit”). Certain selected industry and technical terms used in this Prospectus are defined in “Glossary of Technical Terms”.

Limitation on Enforcement of Civil Liabilities

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. There is no treaty between either the United Kingdom or the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Deposit Agreement provides for actions brought against Uralkali under such agreements to be settled by arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the relative inexperience of Russian courts in enforcing international arbitral awards;
- legal grounds (for example, the concept of “public order”) and/or technical grounds (for example, the lack of capacity of the parties or the invalidity of an arbitral clause); and
- the Russian courts’ inability or unwillingness to enforce such orders.

Most of the Directors of Uralkali and all members of the management board of Uralkali named in this Prospectus reside outside the United Kingdom and the United States. A substantial portion of the assets of

those Directors and members of the management board are located outside the United Kingdom and the United States, principally in the Russian Federation. Accordingly, it may not be possible for GDR holders to:

- effect service of process within the United Kingdom or the United States upon the Directors and members of the management board of Uralkali named in this Prospectus; or
- enforce, in the United Kingdom or the United States, court judgments obtained in courts of the United Kingdom or the United States, as the case may be, against Uralkali or the Directors and members of the management board of Uralkali named in this Prospectus in any action, including actions under the civil liability provisions of the laws of the United Kingdom or federal securities laws of the United States.

In addition, it may be difficult for GDR holders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or the United States, liabilities predicated upon UK or U.S. securities laws.

Presentation of Financial Information

Uralkali

Uralkali's audited consolidated financial statements in respect of the financial years ended 31 December 2008, 2009 and 2010 (the "**Uralkali Financial Statements**"), which are incorporated by reference into this Prospectus, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Uralkali Financial Statements have been audited by ZAO PricewaterhouseCoopers Audit ("**PWC**").

The audit opinion of PWC on the Uralkali Financial Statements for each of the financial years ended 31 December 2008 and 2009 includes an emphasis of matter in relation to management's estimates of compensations resulting from the flooding of the Uralkali Group's Mine 1 in October 2006. See "Risk Factors – Risks Associated with the Potash Industry – The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1".

Silvinit

Silvinit's audited consolidated financial statements in respect of the financial years ended 31 December 2008, 2009 and 2010 (the "**Silvinit Financial Statements**"), which are included in this Prospectus, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Silvinit Financial Statements have been audited by ZAO KPMG ("**KPMG**").

As disclosed elsewhere in this Prospectus, in connection with the preparation of its audited consolidated financial statements for the year ended 31 December 2009, Silvinit restated the comparative 2008 information included in such 2009 consolidated financial statements for the following changes in accounting policy: the adoption by Silvinit of IAS 23 Borrowing Costs (2007) and revised IAS 1 Presentation of Financial Statements (2007). As a result of this restatement, the comparative information for 2008 included in the audited consolidated financial statements as at and for the year ended 31 December 2009 is not comparable in all respects to the consolidated financial statements of Silvinit as at and for the year ended 31 December 2008. The 2008 financial information of Silvinit included in "Summary", "Selected Financial and Operating Information", "Operating and Financial Review" and "Transactions with Related Parties" has been derived from the comparative 2008 information in the audited consolidated financial statements of Silvinit as at and for the year ended 31 December 2009 and not the previously published 2008 financial statements.

The audit opinion of KPMG on the Silvinit consolidated financial statements for the year ended 31 December 2008 included the qualification that KPMG were unable to obtain sufficient appropriate audit evidence to confirm that, in 2008 and 2007, Silvinit did not have a parent company or ultimate controlling party as disclosed in the notes to such financial statements. The audit opinion for such financial statements also included an emphasis of matter indicating a material uncertainty as to Silvinit's ability to continue as a going concern in connection with the repayment of principal of RUR 22.3 billion due in July 2009 under a

loan with a carrying value of RUR 43.8 billion as of 31 December 2008 and the breach by Silvinit of certain covenants which had resulted in that loan becoming payable on demand by the lender. Silvinit refinanced the loan in 2009. See “Operating and Financial Review – Liquidity and Capital Resources” for a summary of Silvinit’s borrowings.

Pro Forma Net Assets Statement

This Prospectus contains an unaudited pro forma statement of net assets which has been prepared to illustrate the effect of the Combination as if it had occurred on 31 December 2010 (the “**Unaudited Pro Forma Net Assets**”). The Unaudited Pro Forma Net Assets of the Combined Group has been prepared using the Uralkali Financial Statements for the year ended 31 December 2010 and the Silvinit Financial Statements for the year ended 31 December 2010 and on the basis of the notes set out in “Unaudited Pro Forma Net Assets Statement of the Combined Group as at 31 December 2010”. The Unaudited Pro Forma Net Assets should be read in conjunction with (i) the Uralkali Financial Statements for the year ended 31 December 2010 and (ii) Silvinit Financial Statements for the year ended 31 December 2010, in each case together with the accompanying notes thereto. The Unaudited Pro Forma Net Assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Combined Group’s actual financial position or results.

Differences in IFRS accounting policies of Uralkali and Silvinit

Both Uralkali and Silvinit have prepared their consolidated financial statements in accordance with IFRS. IFRS may allow for various options for the recognition, measurement and presentation of transactions, events or conditions in the financial statements. Management also exercises its judgment in developing and applying an accounting policy in the absence of a standard that specifically applies to a transaction, event or condition. Accordingly, the IFRS accounting principles applied by Uralkali may differ in certain significant respects from those applied by Silvinit.

The discussion below summarises certain differences between the IFRS accounting principles applied by Uralkali and Silvinit based on an analysis of their consolidated financial statements for the years ended 31 December 2010, 2009, 2008, which may have an impact on the measurement or presentation of the consolidated financial statements of the Combined Group following the Combination.

Following the Combination, Uralkali will apply its IFRS accounting policies in the preparation of consolidated financial statements for the Combined Group.

Presentation of financial statements

IAS 1 *Presentation of Financial Statements* requires the presentation of certain specific items on the face of financial statements. However, the standard allows entities to present additional line items, headings and subtotals when such presentation is relevant to an understanding of the entities’ financial statements. In addition, IAS 1 and other standards allow for various alternatives regarding the presentation of transactions, events or conditions in the financial statements.

Income Statement

IAS 1 requires entities to present an analysis of expenses in the income statement using a classification based on either their nature or their function within the entity. Entities are also required to disclose separately the nature and amount of material items of income or expense. Both Uralkali and Silvinit present an analysis of expenses in the income statement based on the function of the expense.

IAS 1 allows entities to present its comprehensive income in a single statement of comprehensive income or in two separate statements – a statement of income displaying components of profit or loss and a statement of comprehensive income that begins with profit or loss and displays components of other comprehensive income.

Uralkali prepares two separate statements – a statement of income and a statement of comprehensive income, whereas Silvinit presents its comprehensive income in a single statement of comprehensive income.

Uralkali presents the following main subtotals in its statement of income:

- Gross profit, presenting the difference between revenues, net of discounts and export duties, and cost of sales.
- Operating profit, presenting the difference between gross profit and distribution costs, general and administrative expenses, taxes other than income tax and other operating income and expenses. Other operating expenses generally comprise social costs and charitable donations and net loss on disposal of property, plant and equipment.
- Profit before income tax, which is stated after finance income and expenses and mine flooding costs.

In its statement of comprehensive income, Silvinit presents a subtotal equivalent to Uralkali's gross profit, although Silvinit's revenues are not decreased by the amount of export duties, which are shown in a separate line below gross profit. Regardless of the effect of any differences in accounting principles, Silvinit's line item, "Operating profit" approximates the line item, "Operating profit" in Uralkali's statement of income, after deduction of export duties.

Statement of cash flows

IAS 7 *Statement of Cash flows* allows for various classifications for the reporting of cash flows from certain transactions, such as interest paid or received.

Uralkali prepares its statement of cash flows starting from profit before income tax. Silvinit begins its statement of cash flows with net profit for the period and adjusting it for income tax expense in the determination of operating cash flows before working capital changes.

Dividends paid to shareholders are shown within the cash flows used in financing activities in Uralkali's statement of cash flows and within operating cash flows in Silvinit's statement.

Judgments in applying accounting policies

In the process of applying accounting policies, management makes various judgments that may significantly affect the financial information presented in the financial statements. The judgments exercised by each company may differ, which may significantly affect the financial information disclosed in their financial statements.

The judgments which may significantly affect the Uralkali Financial Statements and Silvinit Financial Statements relate mainly to the assessment of whether the conditions to apply hedge accounting are met and the identification of commodity purchase and sale "own use" contracts as defined by IAS 39, concession contracts (IFRIC 12), the classification of arrangements which contain a lease (IFRIC 4 and IAS 17), the evaluation of levels of control and influence (IAS 27, IAS 31, IAS 28 and SIC 12) and the identification of elements to be separately disclosed in the income statement.

Property, plant and equipment

Uralkali and Silvinit adopted different accounting policies in calculating depreciation rates and estimated useful lives for different groups of property, plant and equipment.

Under Uralkali's accounting policy, depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives for all groups of property, plant and equipment.

Under Silvinit's accounting, policy, depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives for all groups of property, plant and equipment, except for the group of mine infrastructure items that are connected with mine production. The depreciation for these items is calculated proportionally to extracted tonnes of ore.

The table below shows the comparison of estimated useful lives in years of various asset classes for both companies.

<u>Asset</u>	<u>Uralkali</u>	<u>Silvinit</u>
Buildings.....	10 to 50	15 to 50
Mine development costs	10 to 30	proportionally to extracted tonnes of ore
Plant and equipment	2 to 30	4 to 25
Transport.....	5 to 15	3 to 25
Others.....	2 to 15	4 to 30
Land	Not depreciated	Not depreciated

If Silvinit had applied Uralkali’s accounting policy in respect of depreciation on property, plant and equipment, Uralkali estimates that the net profit of Silvinit would have been lower by 3% in the year ended 31 December 2010, 3% in the year ended 31 December 2009 and by 2% in the year ended 31 December 2008.

Forward-Looking Statements

This Prospectus, including any information included or incorporated by reference, may contain “forward-looking statements” concerning the Combined Group. Generally, the words “will”, “may”, “should”, “could”, “would”, “can”, “continue”, “opportunity”, “believes”, “expects”, “intends”, “anticipates”, “estimates” or similar expressions identify forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Combined Group’s operations and potential synergies resulting from any transaction, including the Combination; and (iii) the effects of government regulation on the businesses of the Combined Group. Many of these risks and uncertainties relate to factors that are beyond the Combined Group’s abilities to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this Prospectus. Uralkali assumes no obligation in respect of, and does not intend to update, these forward-looking statements, except as required pursuant to under the FSA’s Listing Rules, Prospectus Rules or Disclosure Rules and Transparency Rules or other applicable law.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs should be based on a consideration of this Prospectus as a whole.

Following the implementation of the relevant provisions of Directive 2003/71/EC in each member state of the EEA, no civil liability will attach to Uralkali in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff investor may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Overview

On 20 December 2010, the Board of Directors of Uralkali announced the proposed combination of Uralkali with Silvinit to create one of the largest potash companies in the world. The proposal to combine Uralkali and Silvinit comprised the following two steps: (1) the acquisition by Uralkali on 28 February 2011 of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital and (2) the 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. Uralkali is the surviving entity following the Merger.

The mining operations of the Combined Group are located at five mines at the Verkhnekamskoe deposit of potassium and magnesium salts in the Perm region of the Urals in Russia, which is the world's second largest deposit in terms of ore reserves.

Uralkali operates two mines of potassium and magnesium salts at the Verkhnekamskoe deposit with proved and probable reserves of silvinit, reported in accordance with the JORC Code, of 506.9 million tonnes of ore at 1 January 2011. In 2010, Uralkali accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. Uralkali also has a licence for the Ust-Yaivinsky field, which is estimated to contain approximately 1,291 million tonnes of potash resources. Uralkali has a major distribution platform, including its joint venture interest in JSC Belarusian Potash Company ("**BPC**"), and holds a 100% interest in JSC Baltic Bulker Terminal ("**JSC BBT**"), which operates cargo and warehousing facilities at the port of St. Petersburg. Over 86% of Uralkali's potash sales volumes was exported in 2010, including to its principal export markets of China, Brazil and India.

The three mines that Silvinit operated are located at the Verkhnekamskoe deposit, in close proximity to Uralkali's operations. Silvinit's proved and probable reserves of silvinit, reported in accordance with the JORC Code, were 497.0 million tonnes of ore as at 1 January 2011. In 2010, Silvinit accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. In addition, OJSC Kamskaya Mining Company ("**Kamskaya Mining**"), a wholly-owned subsidiary of the Combined Group, has a licence to develop the Polovodovsky field, which is located adjacent to the three Silvinit mines. In 2010, export sales accounted for 79% of Silvinit's total volume of sales. The principal export markets for Silvinit's products are India, China, other Asian countries and Brazil. In 2010, Silvinit sold the majority of its products under commission and sales contracts with trading firms, including International Potash Company ("**IPC**") and Agrifert S.A.

The Combined Group produces two main potash products: Granular and Standard MOP, each of which is derived from potash ores comprising potassium chloride (KCl) mixed with other minerals.

Uralkali's total consolidated revenues for the year ended 31 December 2010 were RUR 51,592 million. Uralkali's net profit for the year ended 31 December 2010 was RUR 16,654 million. Silvinit's total consolidated revenues for the year ended 31 December 2010 were RUR 39,025 million. Silvinit's net profit for the year ended 31 December 2010 was RUR 11,532 million.

Competitive strengths

Uralkali believes the Combined Group will benefit from the following key strengths:

- the Combined Group will form one of the largest potash companies worldwide, with leading levels of production and production capacity, and one of the largest mining companies in Russia in terms of expected market capitalisation;
- the Combined Group will benefit from a global sales reach, with 83% of its combined 2010 sales going to export markets, of which 71% was exported to Brazil, India, China and Southeast Asia;
- the Combined Group is expected to have cash costs amongst the lowest in the potash industry worldwide, based on historical financial information and expected synergies from the Combination;
- Uralkali's and Silvinit's mining and processing operations are in close proximity to each other, which Uralkali believes will allow the Combined Group to achieve sizeable operational efficiencies; and
- the Combined Group will own an attractive portfolio of development opportunities to sustain organic long-term growth, including existing brownfield development projects at BKPRU-4 (Uralkali) and SKRU-3 (Silvinit) and greenfield projects at the Ust-Yaivinsky field (Uralkali) and Polovodovsky field (Silvinit).

Strategy

Uralkali's objective for the Combined Group is to create the leading global potash producer. Uralkali intends to pursue this objective through the implementation of the strategies set out below:

- leveraging the operational and financial strength of the Combined Group;
- promoting organic growth through a value accretive investment programme, to include the development of brownfield projects and greenfield development opportunities in the Combined Group's portfolio;
- pursuing improvements in operational efficiency to maintain and enhance the Combined Group's competitive cost position and profitability;
- optimizing sales and marketing channels;
- realizing the considerable synergy potential that exists through the Combination in an expedited timeframe to increase shareholder value;
- delivering shareholder value whilst operating in a socially responsible manner and positioning the Combined Group as the employer of choice in the Russian mining industry; and
- continued commitment to ongoing enhancements to Uralkali's corporate governance standards.

Selected Financial and Operating Information

Uralkali

The following table shows selected financial and operating information for Uralkali as of and for the years ended 31 December 2010, 2009 and 2008. Financial information as of and for the years ended 31 December 2010, 2009 and 2008 has been extracted without adjustment from the Uralkali Financial Statements incorporated by reference in this Prospectus and should be read in conjunction with "Operating and Financial Review", "Presentation of Financial Information" and the Uralkali Financial Statements, including the notes thereto.

Consolidated statement of income data

	Year ended 31 December		
	2010	2009	2008
	(RUR millions, except earnings per share)		
Revenues	51,592	33,809	62,798
Cost of sales	(11,830)	(8,878)	(9,410)
Gross profit	39,762	24,931	53,388
Distribution costs	(12,819)	(6,075)	(9,840)
General and administrative expenses	(4,937)	(3,838)	(3,204)
Taxes other than income tax	(639)	(502)	(402)
Other operating expenses	(917)	(1,328)	(1,109)
Operating profit	20,450	13,188	38,833
Mine flooding costs	(28)	(1,060)	(8,294)
Finance income	214	456	856
Finance expense	(887)	(1,350)	(1,860)
Profit before income tax	19,749	11,234	29,535
Income tax expense	(3,095)	(2,139)	(7,592)
Net profit for the year	16,654	9,095	21,943
Profit is attributable to:			
Owners of the Company	16,650	9,089	21,937
Non-controlling interests	4	6	6
Net profit for the year	16,654	9,095	21,943
Earnings per share – basic and diluted (in RUR)⁽¹⁾	7.93	4.33	10.45

Consolidated statement of cash flows data

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Net cash generated from operating activities	21,218	4,472	32,604
Net cash used in investing activities	(4,719)	(15,369)	(12,910)
Net cash used in financing activities	(5,981)	(1,154)	(11,357)

Consolidated balance sheet data

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Total non-current assets	49,290	47,348	36,519
Total assets	74,806	62,628	62,323
Total current liabilities	7,864	9,876	16,995
Total non-current liabilities	10,145	9,037	10,708
Total liabilities	18,009	18,913	27,703
Non-controlling interest	23	27	21
Total equity	56,797	43,715	34,620
Total liabilities and equity	74,806	62,628	62,323

Selected Operating Data

	Year ended 31 December		
	2010	2009	2008
EBITDA (RUR millions)⁽²⁾	24,271	15,315	33,055
EBITDA margin ⁽³⁾	60%	52%	61%
Adjusted EBITDA (RUR millions)⁽⁴⁾	24,299	16,375	41,349
Adjusted EBITDA margin ⁽⁵⁾	60%	56%	76%
Capital expenditure (RUR millions)	10,257	14,105	14,341
Number of employees (annual average)	12,688	13,016	12,453
Available Production (thousand tonnes)⁽⁶⁾	5,500	5,500	5,400
Actual Production (thousand tonnes)⁽⁶⁾	5,061	2,621	4,793

- (1) Basic earnings per share are calculated by dividing the net profit attributable to equity holders of Uralkali by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. Uralkali has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.
- (2) EBITDA means net profit adjusted for income tax expense, finance income, finance expense, share of net (loss)/profit of investments accounted for using the equity method, depreciation and amortisation expenses. Depreciation is reported through cost of sales, distribution costs, transshipment costs, general and administrative expenses depending on the function of the assets being depreciated. Amortisation is reported through general and administrative expenses. The following table shows a calculation of EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Net profit	16,654	9,095	21,943
<i>plus income tax expense</i>	3,095	2,139	7,592
<i>plus finance expense</i>	887	1,350	1,860
<i>plus depreciation</i>	3,793	3,131	2,445
<i>plus amortisation</i>	56	57	71
<i>less finance income</i>	(214)	(456)	(856)
EBITDA	24,271	15,315	33,055

- (3) EBITDA margin means (1) EBITDA divided by (2) revenues less railway tariff, freight and transshipment costs. Uralkali believes that this calculation provides a better reflection of margins because it adjusts for the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the EBITDA margins expressed by many of Uralkali's competitors. The following table shows a calculation of revenues less railway tariff, freight and transshipment costs for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Revenues	51,592	33,809	62,798
<i>less railway tariff</i>	(4,631)	(1,628)	(3,203)
<i>less freight costs</i>	(5,882)	(2,611)	(4,960)
<i>less transshipment costs</i>	(476)	(340)	(282)
Revenues less railway tariff, freight and transshipment costs	40,603	29,230	54,353

- (4) Adjusted EBITDA means EBITDA plus mine flooding costs. The following table shows a calculation of Adjusted EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
EBITDA	24,271	15,315	33,055
<i>plus mine flooding costs</i>	28	1,060	8,294
Adjusted EBITDA	24,299	16,375	41,349

- (5) Adjusted EBITDA margin means (1) Adjusted EBITDA divided by (2) revenues less railway tariff, freight and transshipment costs. Uralkali believes that this calculation provides a better reflection of margins because it neutralises the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the Adjusted EBITDA margins expressed by many of Uralkali's competitors.
- (6) Potash only.

Silvinit

The following table shows selected financial and operating information for Silvinit as of and for the years ended 31 December 2010, 2009 and 2008. The following selected financial and operating information for Silvinit should be read in conjunction with "Operating and Financial Review", "Presentation of Financial Information" and the Silvinit Financial Statements, including the notes thereto, included elsewhere in this Prospectus.

In connection with the preparation of its audited consolidated financial statements as at and for the year ended 31 December 2009, Silvinit restated the comparative 2008 information included in such 2009 consolidated financial statements for the following changes in accounting policy: the adoption by Silvinit of IAS 23 Borrowing Costs (2007) and revised IAS 1 Presentation of Financial Statements (2007). As a result of this restatement, the comparative information for 2008 included in the audited consolidated financial statements as at and for the year ended 31 December 2009 is not comparable in all respects to the consolidated financial statements of Silvinit as at and for the year ended 31 December 2008. The 2008 financial information presented below has been derived from the comparative 2008 information in the audited consolidated financial statements of Silvinit as at and for the year ended 31 December 2009 and not the previously published 2008 financial statements.

Consolidated statement of comprehensive income data

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions, except earnings per share)		
Revenue	39,025	33,994	55,402
Cost of sales.....	(11,070)	(8,691)	(10,203)
Gross profit	27,955	25,303	45,199
Distribution costs.....	(6,395)	(3,198)	(5,412)
Export duties.....	–	(260)	(2,013)
Administrative expenses.....	(1,935)	(1,526)	(1,711)
Other income	365	128	167
Other expenses.....	(4,901)	(2,027)	(1,177)
Results from operating activities	15,089	18,420	35,053
Finance income.....	278	151	148
Finance costs.....	(1,374)	(3,991)	(10,440)
Share of profit of equity accounted investees (net of tax)	10	62	49
Profit before income tax	14,003	14,642	24,810
Income tax expense	(2,471)	(4,124)	(7,127)
Profit for the year	11,532	10,518	17,683
Profit attributable to:			
Owners of the Company	11,532	10,517	17,685
Non-controlling interest.....	–	1	(2)
Profit for the year	11,532	10,518	17,683
Basic and diluted earnings per share (in RUR)			
Preference shares	1,114	1,016	1,709
Ordinary shares.....	1,114	1,016	1,709

Consolidated statement of cash flows data

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Cash flows from operating activities.....	12,917	12,788	22,033
Cash flows utilised by investing activities	(8,506)	(7,829)	(54,660)
Cash flows (utilised by)/from financing activities	(3,946)	(5,505)	35,833

Consolidated statement of financial position data

	As at 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Total assets	112,817	106,466	99,591
Total current liabilities.....	18,217	6,418	32,838
Total non-current liabilities	36,537	51,327	26,325
Total liabilities	54,754	57,745	59,163
Non-controlling interest.....	–	7	7
Total equity	58,063	48,721	40,428
Total liabilities and equity	112,817	106,466	99,591

The following table sets forth selected operating data for Silvinit for the periods indicated.

Selected Operating Data

	Year ended 31 December		
	2010	2009	2008 (Restated)
EBITDA⁽¹⁾ (RUR millions)	18,335	21,307	37,231
EBITDA margin ⁽²⁾	53%	66%	74%
Capital expenditure (RUR millions).....	4,168	5,570	7,472
Capital expenditure in intangible assets, excluding capitalised borrowing costs (RUR millions)	194	111	47,024
Borrowing costs, capitalised in intangible assets (RUR millions)	3,996	4,361	2,207
Number of employees – OJSC Silvinit (annual average).....	10,859	10,892	11,301
Actual KCI Production (thousand tonnes)	5,120	3,518	5,082

(1) The following table sets forth a calculation of EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Net profit	11,532	10,518	17,683
<i>plus income tax expenses</i>	2,471	4,124	7,127
<i>plus finance expense</i>	1,374	3,991	10,440
<i>less share of net (loss)/profit of investments accounted for using the equity method</i>	(10)	(62)	(49)
<i>plus depreciation</i>	3,215	2,855	2,116
<i>plus amortisation</i>	31	32	62
<i>less finance income</i>	(278)	(151)	(148)
EBITDA	18,335	21,307	37,231

(2) EBITDA margin means (1) EBITDA divided by (2) revenues less export duties, railway tariff, freight and transshipment costs. The following table shows a calculation of revenues less export duties, railway tariff, freight and transshipment costs for the periods indicated:

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Revenues	39,025	33,994	55,402
<i>less export duties</i>	–	260	2,013
<i>less railway tariff</i>	3,675	1,467	2,477
<i>less freight costs</i>	152	23	161
<i>less transshipment costs</i>	273	161	257
Revenues less export duties, railway tariff, freight and transshipment costs	34,925	32,083	50,494

Risk Factors

An investment in the GDRs involves a high degree of risk, including:

- ***Risks Associated with the Potash Industry:***

- The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1.
- Demand for potash may be volatile in response to macroeconomic factors.
- Prices for potash are affected significantly by the levels of supply and expansion of available production or structural capacity of potash producers.
- Changes in agricultural markets or commodities prices may adversely affect the demand for potash.
- Government policies can adversely affect the market for the Combined Group's products.
- Consumer or regulatory concerns about fertiliser use may decrease demand for potash.
- The Combined Group's inability to predict future seasonal fertiliser demand accurately could result in excess inventory, potentially at costs in excess of market value, or product shortages.
- Production of compound nitrogen, phosphorus and potassium ("NPK") fertilisers may shift from higher priced markets to lower priced markets, resulting in a decrease in the prices the Combined Group is able to charge for its products.
- The potash market is highly competitive.

- The stated resources and reserves of the Combined Group may be materially different from mineral quantities that the Combined Group may actually recover.
- ***Risks Relating to the Combination:***
 - The Combined Group may be unable to realise the perceived benefits of the Combination.
 - The Combined Group faces legal challenges to the Combination.
- ***Risks Relating to Operations of the Combined Group:***
 - Uralkali relies on BPC for the generation of revenues.
 - The Combined Group may not be able to execute or fund its capital expenditure, available production and structural capacity expansion programmes.
 - The Combined Group must observe certain financial and other restrictive covenants under the terms of its indebtedness.
 - The Combined Group is not insured against all potential losses and liabilities and could be seriously harmed by natural disasters, catastrophes or other risks that are not covered by its insurance policies.
 - The Combined Group sells its products to a limited number of customers.
 - Sustained periods of high inflation could increase the Combined Group's costs and decrease its operating margins.
 - Fluctuations in the value of the rouble against the U.S. dollar or euro may have an adverse effect on the Combined Group's business.
 - It may not be economically, technically or otherwise feasible to develop the Combined Group's exploration assets, and any such development involves significant risks.
 - The Combined Group's production costs could increase as a result of increases in energy prices.
 - The Combined Group relies on the Russian railroad network and its own rail cars for the transportation of its ore and products.
 - The Combined Group depends on a limited number of suppliers for some of the equipment necessary to produce its products.
 - The Combined Group and BPC rely on key employees.
 - JSC BBT faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex.
 - If transactions that the companies of the Combined Group have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities imposed.
- Risks related to regulations, including competition laws, protective trade restrictions, environmental controls and licensing requirements.
- Economic, legal and taxation risks relating to the Russian Federation.
- ***Risks relating to the GDRs:***
 - Future sales of Uralkali's Shares or GDRs may affect the market price of the GDRs.
 - The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of Uralkali's shares.

- Because the Depositary may be considered the owner of the Shares represented by the GDRs, such Shares may be seized or arrested in legal proceedings in Russia against the Depositary, and the Depositary may be subject to various requirements of Russian law.
- Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Russian law.
- The number of shares that can be deposited into the GDR programme is limited.
- GDR holders may be unable to repatriate distributions made on the Shares.
- Non-Russian resident holders of GDRs may not be able to benefit from double tax treaties in relation to dividend income.
- Capital gains from the sale of GDRs by non-Russian resident holders of GDRs may be subject to Russian income tax potentially with no double tax treaty relief.

The new application for admission of GDRs

The Combination is classified as a reverse takeover for the purposes of the FSA's Listing Rules on the basis of class tests set out in Listing Rule 10. Consequently, the Combination results in the cancellation by the UKLA and London Stock Exchange of the existing Admission. Uralkali is therefore making a new application for admission of the GDRs to the Official List and to trading on the Regulated Market. Uralkali expects that the cancellation of the current Admission and the re-admission of the GDRs to the Official List and to trading on the Regulated Market pursuant to this new application will each become effective on or around 21 June 2011.

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Potential investors should carefully consider the following information about these risks together with the information contained in this document before making any investment decision in respect of GDRs. If any of the following risks actually occur, the Combined Group's business, results of operations, financial condition and prospects could be materially adversely affected. In that case, the value of the GDRs could decline and potential investors could lose all or part of their investment.

This section describes the risks and uncertainties that Uralkali's management believes are material, but these risks and uncertainties may not be the only ones that the Combined Group faces. Additional risks and uncertainties, including those that Uralkali currently does not know about or deems immaterial, may also result in decreased revenues, assets and cash inflows, increased expenses, liabilities or cash outflows, or other events that could result in a decline in the value of the GDRs or could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Risks Associated with the Potash Industry

The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1.

The Combined Group's mining operations are subject to hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. In particular, hazards associated with the Combined Group's underground mining operations include those relating to geological anomalies or other geological characteristics and also include:

- potential flooding;
- cave-ins or ground falls, including through the use of yielding pillars in mines;
- underground fires and explosions, including those caused by flammable gas;
- discharges of gases;
- sinkhole formation and ground subsidence;
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine; and
- seismic activity.

The Combined Group is at risk of experiencing any or all of these hazards. For example, flooding has forced Uralkali to abandon permanently operations at two of its mines, Mine 3 (in 1986) and Mine 1 (in 2006). The consequences of the flooding at Mine 1 included the permanent loss of production and ore reserves at Mine 1 (which had represented 13% of the pre-flooding reserves of Uralkali) and damage to property, both of Uralkali and third parties, and to the environment associated with an accelerated and increased ground subsidence exacerbated by the flooding. In addition to its impact on Uralkali's operations, the subsidence resulted in the re-location of part of the population of the nearby City of Berezniki at the expense of the state budget and the construction by Russian Railways of an additional section of rail track of 6-kilometre to bypass the subsided area. Russian Railways has also constructed a longer 53-kilometre bypass to the Perm-Berezniki-Solikamsk line since the original route of the track passes over ground located above cavities in Mine 1.

Following an initial inquiry into the accident by a commission with the participation of the Russian Federal Service for Environmental, Technological and Nuclear Supervision ("**Rostekhnadzor**"), which concluded that causes of the flooding of Mine 1 were "extraordinary and unavoidable", a second state inquiry reported in January 2009 that the accident was attributable to "a combination of geological and

technological causes”. In February 2009, Uralkali decided voluntarily to compensate expenses incurred by state authorities as a result of the flood in Mine 1, including expenses for resettlement of citizens and construction of new railway track, for a total amount of RUR 7.8 billion, and, in 2009, Uralkali agreed to pay a further RUR 1.0 billion to Russian Railways in connection with the financing of the new 53-kilometre rail track.

The procedure for calculating and compensating for mineral deposits lost as a result of mine flooding is not established by Russian law. In the appendices to the report of the second commission, there is a calculation of the value of lost mineral resources (from RUR 25,380 million to RUR 84,602 million) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from RUR 964 million to RUR 3,215 million). Uralkali analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as “remote”.

There can be no assurance that Uralkali may not face additional liabilities for damages to the property and environment caused by the flooding of Mine 1. For example, Uralkali received a claim from the power generation company OJSC TGK-9 (“**TGK-9**”) for RUR 3.2 billion to compensate TGK-9 for costs incurred in the construction of a reserve energy supply in Berezniki. Uralkali believes that only the expenses that are directly caused by the flooding of the mine may be considered appropriate for compensation, and, consequently, Uralkali and TGK-9 agreed to establish a technical commission to determine whether these expenses were directly connected to the consequence of the flooding of Mine 1. In July 2010, while the technical commission was still in process, Uralkali received an amended claim from TGK-9 in the amount of RUR 995 million. On 1 April 2011, TGK-9 filed a new claim against Uralkali for RUR 2.7 billion to compensate for costs incurred in the elimination of consequences of the flooding, and a preliminary hearing has been scheduled for 21 June 2011. Uralkali’s current insurance agreements do not cover such risks of damage to property of third parties resulting from Uralkali’s underground activities. Following an audit by the Russian tax authorities of the 2005–2006 tax year, Uralkali has also contested a claim for RUR 782 million, comprising mineral extraction taxes that the authorities allege Uralkali should have paid in relation to the deposits lost in the flood, together with associated penalties and fines. Uralkali successfully appealed the decision in 2010 and the appeal court’s ruling was upheld in January 2011 following a challenge by the tax authorities. See “Operating and Financial Review – Liquidity and Capital Resources – Contingent liabilities” and “Business – Litigation – Claims relating to Uralkali and Silvinit”. The audit opinion of PWC on the Uralkali Financial Statements for each of the financial years ended 31 December 2009 and 2008 includes an emphasis of matter in relation to management’s estimates of compensations resulting from the flooding of Mine 1 in October 2006 on the basis that the ultimate outcome of this matter could not be determined as at the audit date and costs in excess of those provided for could be significant for Uralkali in the future.

Any such additional liabilities, or the occurrence of any of these hazards in the future, could have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Demand for potash may be volatile in response to macroeconomic factors.

A number of macroeconomic factors, including changes in world population and income growth, drive demand for potash. The relationship between population and demand for potash is closely linked. Rising population numbers increase demand for food, including crops and meat. To the extent that the higher demand for food is not met by an increase in arable landmass per capita through forest clearances or the cultivation of undeveloped land, such demand will generally result in increased sales of potash since potash can help increase yield from available arable land. Increased demand for meat drives demand for grain to provide animal feed, which in turn drives demand for potash. Population levels in certain markets that are important to the Combined Group, such as China, India, Brazil and Southeast Asia, have been growing. However, population levels in Russia have been declining. In 2010, sales to Russia represented 13% and 20% of the sales volumes of potash of Uralkali and Silvinit, respectively, and the population trends in Russia could have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Rising income levels also help drive potash demand. Rising income levels enable people to afford better diets, which are more likely to include meat. Increased demand for meat generally drives demand for grain and therefore potash, as explained above, and, conversely, an economic downturn may lead to reduced demand for potash. For example, the global demand for potash declined substantially in 2009 to a large extent as a result of financial and economic uncertainties created by the global financial crisis which began in 2008. In 2009, Uralkali and Silvinit reduced production levels as compared with 2008 by 45.3% and 30.8%, respectively, and, as a result of the decrease in sales volumes and falling global potash prices, the revenues of Uralkali and Silvinit in 2009 decreased by 46.2% and 38.6%, respectively, as compared with 2008. Any future prolonged global economic downturn could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Prices for potash are affected significantly by the levels of supply and expansion of available production or structural capacity of potash producers.

The dynamics associated with supply are a crucial factor in determining potash prices, which in turn have a significant effect on the Combined Group's business. The participants in Canpotex and Uralkali's BPC joint-venture, which comprise the two main potash export traders, have generally appeared to follow a strategy of "swing" production, changing production volumes in response to perceived demand. When demand levels have been high, these participants have typically produced at the maximum available production levels. When demand levels have fallen, production has been slowed down, and sometimes even suspended for a period. For example, Uralkali and Silvinit reduced their volumes of potash production by 45.3% and 30.8%, respectively, in 2009 as compared with 2008, representing only 48.0% and 69.0% of their respective annual production capacities, in response to reduced demand. If any of the participants of Canpotex or BPC changes its supply strategy and continues production despite lower demand, there could be a severe impact on prices and a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Industry-wide capacity also has a key impact on potash prices. The greater the available production or the structural capacity, the greater the potential for downward pressure on potash prices. During the 1990s, following the collapse of the Soviet Union the potash industry suffered from overcapacity and prices fell significantly as a result. The number of capacity and production expansion projects in the industry, including those of the Combined Group, have the potential to depress prices if demand does not grow to meet the supply that may come on line. Although greenfield expansion projects are regarded as being very expensive, brownfield expansion projects are less expensive, and expansion projects that involve removing production bottlenecks are generally the least expensive. Global incremental capacity through 2015 is estimated at 18.1 million tonnes of KCl. In addition, technological changes could result in large potash reserves, which are currently not cost effective to mine, being exploited economically, resulting in an increase in supply. Increases in the global available production or structural capacity could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Changes in agricultural markets or commodities prices may adversely affect the demand for potash.

The Combined Group's business depends significantly on the businesses of customers for its products and the strength of those businesses. The principal use for the Combined Group's potash is, directly or indirectly, in agriculture as fertiliser for crops. Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on farmers and other participants in the agricultural industry. Unfavourable growing conditions caused by these or other factors can reduce both crop size and crop quality. These factors could result in lower sales as well as increased costs to the Combined Group's customers.

Other key factors that affect agriculture include:

- *Field conditions.* If field conditions deteriorate for farmers, their business could be adversely affected, which would affect their income and decrease demand for potash. In addition, as the

availability of potassium in soils is a key driver for demand for potash, a move by farmers to soils that are naturally richer in potassium could adversely impact demand for potash.

- *Current and projected grain inventories and crops prices.* Supply and demand dynamics for crops will affect their prices and therefore the businesses of customers for potash.
- *Changes in the types of crops being grown.* Consumer demand, government regulation or economics may lead farmers to a shift from the production of crops that typically require high levels of potash fertilisation (such as sugar beet, carrots and potatoes) to those that require lower levels of potash fertilisation (such as cereals and green feed crops).

In addition, economic conditions affect the Combined Group's agricultural customers, which in turn impacts the demand for potash. For example, the global economic downturn which began in 2008 resulted in significant volatility in prices for agricultural commodities and limited the availability of credit for agricultural producers in some markets. In response to these uncertain market conditions, many agricultural producers substantially reduced their application of fertilisers, including, in particular, potash. The level of application of potash in 2009 was approximately 20% lower as compared with 2007, and, in the United States, potash use declined by 40% in 2009 from 2007 levels. Potash distributors responded to falling demand by seeking to de-stock existing inventories rather than commit to substantial new purchases from potash producers. As a result of these factors, global potash sales declined to their lowest levels since the early 1970s, decreasing by 42% compared to 2008. The price for potash declined significantly in response to the substantial decrease in global demand, with prices falling from an average US\$ 853 FOB Vancouver in January 2009 to an average US\$ 399 FOB Vancouver in December 2009. Any or all of the factors described above may decrease world potash demand, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Government policies can adversely affect the market for the Combined Group's products.

Government policies, including subsidies and commodity support programmes, influence potash demand through, for example, restricting the number of acres planted, requiring a particular mix of crops to be planted and limiting the use of fertilisers for particular agricultural applications. In a number of markets, the Combined Group is the beneficiary of governmental policies that support agriculture and therefore potash demand. For example, potash demand in China and India, where the governments of those countries have been involved in the purchase of potash by local customers, has historically been heavily dependent on government policy, and Uralkali expects this trend to continue. Government policies can also influence market conditions in markets with indirect government subsidies, such as the EEA and the United States.

Government policies towards the Combined Group's products, or products sold through BPC, in those and other countries could change in a way that is adverse to Uralkali's business for a number of reasons including:

- a change in government;
- a move towards more protectionist policies to help local fertiliser producers;
- closer political or economic ties with countries other than Russia;
- preference for other fertiliser products;
- nutrient management that gives preference to potassium-enriched manure over chemical fertilisers;
- a desire to encourage competition;
- a rotation of suppliers from period to period to maintain bargaining position; or
- the maintenance of greater inventories to strengthen bargaining position.

In particular, Uralkali believes that the following current trends in governmental policies and regulation may have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs:

- *Potential decreases in agricultural subsidies.* Governments may reduce or eliminate agricultural subsidies. For example, the European Union has adopted a proposal to reform the Common Agricultural Policy (“CAP”), which provides for the form and size of subsidies paid to EU farmers for production and export of their crops and products. CAP reform primarily involves a reduction in the number of payments made to farmers for sustaining certain levels of production. Agricultural activity may decline as reduced subsidies make agriculture less economically attractive, which may, in turn, reduce the demand for fertilisers, such as potash. CAP reform also includes set-aside policies that could contribute to increases in arable land, which may further reduce demand for fertilisers such as potash by reducing the pressure to increase crop yields from existing farmed land. The current CAP reform proposal also extends to the ten Central and Eastern European countries that joined the European Union in 2004. It is unclear how Western European producers will be affected in the long-term by the expansion of the European Union. The expansion could, for instance, result in a shift in agricultural activity that would be disruptive to established fertiliser markets and distribution systems and that could allow new entrants to gain market share from existing fertiliser suppliers, including suppliers of potash.
- *WTO agricultural negotiations.* These negotiations are also expected ultimately to lead to a reduction of agriculture tariff barriers, domestic support and export subsidies. A wide range of countries, including the United States and many other developing countries, is advocating implementation of the EU CAP reform in these negotiations. Any additional CAP reform arising from WTO commitments will likely lead to a substantial reduction in production-linked payments to farmers and export subsidies to farmers selling to export markets. These reductions may also materially adversely affect fertiliser demand, including demand for potash.
- *Regulatory changes with respect to chemical fertilisers.* A number of jurisdictions, including EEA jurisdictions, which represent a significant market for the Combined Group's products, are considering limitations on the use and application of “inorganic straight primary nutrient fertilisers”, such as potash, due to concerns about the impact of these products on the environment. Statutory limitations on fertiliser use would materially adversely affect fertiliser demand, including demand for potash.
- *The imposition of export duties.* In April 2008, the Russian government introduced a duty of 5% on the export of potassium chloride outside the CIS customs union for a period of one year. The export duty was in place from April 2008 until the end of April 2009. However, in 2010, the Russian government again raised the issue of reinstating duties in response to complaints from producers of compound mineral fertilisers. Although the government decided not to introduce an export duty for potash producers in 2010, there can be no assurance that the Russian government will not seek to impose such measures in the future.

To the extent that the Combined Group's pricing policy or operations are influenced by regulatory or political considerations, the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs may be materially adversely affected.

Consumer or regulatory concerns about fertiliser use may decrease demand for potash.

A further growth in organic farming could have an adverse effect on the Combined Group's business because it discourages the use of muriate of potash. Organic farming has been growing due, in large part, to agricultural subsidies and consumer pressure related to pesticides, food scares, health, environment and animal welfare. Organic farming generally makes use of manure or other organic materials. While limited use of some fertilisers of low solubility is permitted under applicable guidelines, the use of muriate of potash is prohibited. If organic farming increases substantially in Western Europe, demand for potash may decrease. In addition, EU legislation such as the Water Framework Directive restricts heavy use of nitrogen and phosphate fertilisers. As a result, demand for nitrogen and phosphate products, such as NPK fertilisers, may

decline in the Western European market, and, if the demand for nitrogen and phosphate products falls, demand for potash may fall as well to the extent fixed ratios are used to determine nitrogen, phosphate and potash application rates. Markets where organic farming is growing most, for example the European Union, are markets where the Combined Group's products attract comparatively high margins. A decrease in demand due to a shift to organic farming could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group's inability to predict future seasonal fertiliser demand accurately could result in excess inventory, potentially at costs in excess of market value, or product shortages.

The Combined Group's revenues are affected by seasonality in each market in which it operates. To date, Uralkali and Silvinit have attempted to manage seasonality by selling to different markets at different times of the year, depending on planting, growing and harvesting cycles, to keep sales at relatively constant levels throughout the year. See "Operating and Financial Review". However, if in any given period seasonal demand exceeds the Combined Group's projections and the Combined Group limits its production in that period, then its customers may acquire products from its competitors, and the Combined Group's revenues may be negatively impacted. If in any given period seasonal demand is less than the Combined Group has forecasted, it will be left with excess inventory, and, since potash products degrade easily and are susceptible to moisture, they do not generally have a shelf life of more than twelve months. Any such failure to predict demand could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Production of compound NPK fertilisers may shift from higher priced markets to lower priced markets, resulting in a decrease in the prices the Combined Group is able to charge for its products.

Compound fertiliser producers are key customers for the Combined Group's potash in certain markets, including the EEA, and those producers typically export their compound fertiliser products to Asian countries such as China and Malaysia. Import demand for NPK in China or other markets could fall to the extent they commission local capacity for NPK. Any such trend towards increased local production could result in an increase in direct purchases by China or such other markets of the Combined Group's potash to increase local production of NPK, and a decrease in demand for potash from some of the Combined Group's other markets which currently purchase potash from Uralkali for export to China or other markets in the form of compound NPK fertilisers. The resulting shift in demand may further increase the Combined Group's exposure to certain key markets such as China and may have a negative impact on revenues, since some compound fertiliser producers operate in higher price markets, including Europe. The occurrence of any of these events could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The potash market is highly competitive.

The Combined Group has a number of powerful competitors in its key markets. See "Business – Competition" for a brief description of these competitors. The Combined Group's competitors, some of which are large multinational corporations, may have certain advantages over the Combined Group, including the following:

- *Creating strategic relationships with the Combined Group's important customers.* PotashCorp, one of the Combined Group's competitors, has acquired a 22% stake in Sinofert, Sinochem's Hong Kong listed fertiliser operations. Sinochem is an important customer of the Combined Group, and the strategic relationships created by this investment may result in Sinochem purchasing less potash from BPC in the long-term. See "Business – Key markets and customers".
- *The ability to obtain more and cheaper sources of capital than Uralkali.* For example, PotashCorp is a U.S. SEC registered company, which may be able to raise capital more inexpensively than the Combined Group.
- *Access to more established markets with higher prices, such as the European Union.* In order to benefit from an exemption from anti-dumping duties granted by the European Commission, the Combined Group must sell into the European Union at or above a minimum price, and may not

export into the European Union above a set limitation, referred to as a quantitative ceiling. Exports to the European Union sold at prices below the minimum prices or in quantities above the level of the quantitative ceiling are subject to an anti-dumping duty of 12.3% See “–Risks Related to Regulations – The Combined Group is subject to protective trade restrictions applicable to its exports of potash products to the European Union”.

- *Higher available production levels and increases in structural capacity.* For example, PotashCorp reported that it had structural capacity of approximately 13.3 million tonnes of potash in 2010, 25% higher than the Combined Group, and produced 8.1 million tonnes of potash in 2010. Structural capacity and available production of the Combined Group’s competitors are important to the Combined Group’s business as the ability to increase world production levels affects the price the Combined Group can charge for its products. See “–Prices for potash are affected significantly by the levels of supply and expansion of available production or structural capacity of potash producers”.
- *More potash reserves and the ability to extract them more cheaply than the Combined Group.* The comparative level of potash reserves of the Combined Group and its competitors, and the comparative costs involved in extracting them, is important for the long-term sustainability of the Combined Group’s business. The Combined Group’s competitors’ reserves may be closer to key markets, have higher concentrations of potash than the Combined Group’s reserves, be shallower (and therefore less expensive to mine) or otherwise be superior to those of the Combined Group, giving the competitors a further advantage.
- *Logistical advantages with respect to certain markets for potash.* For example, PotashCorp, Mosaic and Agrium have logistical advantages for supply to Canada and the United States, because of their proximity to those markets.

Any of the foregoing advantages and potential advantages of the Combined Group’s competitors over the Combined Group could have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The stated resources and reserves of the Combined Group may be materially different from mineral quantities that the Combined Group may actually recover.

There are numerous uncertainties inherent in estimating quantities of resources and reserves and in projecting potential future rates of mineral production, including many factors beyond the Combined Group’s control, such as potential flooding of a particular mine. For example, the resources and reserves at Uralkali’s Mine 1 were lost as a result of the 2006 flooding. In addition, resource and reserve estimation is a subjective process and notably the exact amount of material present and the quality of such material cannot be calculated or measured in an exact manner, and the accuracy of any estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Estimates produced by different engineers may vary, and the results of the Combined Group’s mining and production subsequent to the date of an estimate may justify revision of estimates. Resource and reserve estimates may also require revision based on actual production experience and other factors. For example, fluctuations in the market price of minerals, reduced recovery rates, increased production costs due to inflation or other factors or failure to obtain licence extensions may render proved and probable reserves containing relatively lower grades of mineralisation uneconomic to exploit and may ultimately result in a restatement of resources and reserves which could have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Risks Relating to the Combination

The Combined Group may be unable to realise the perceived benefits of the Combination.

The Combined Group may not realise the expected benefits and synergies of the Combination or may encounter difficulties in achieving these anticipated benefits in the time expected or at all. Following completion of the Combination, it will be necessary to integrate Silvinit’s operations with Uralkali. The successful implementation of this programme of integration will require a significant amount of management

time and, as a result, may affect or impair management's ability to run the business effectively during the period of implementation. In addition, the Combined Group may not have, or be able to retain, personnel with the appropriate skill sets for the tasks associated with the integration programme, which could adversely affect the implementation of the Combined Group's plans. This integration may take longer than expected or difficulties relating to the integration, of which management are not yet aware, may arise. No assurance can be given that the management or reporting systems of Uralkali and Silvinit will be integrated successfully or on a timely basis to permit efficient decision making by management of the Combined Group, which may have an adverse affect on the Combined Group's operating performance. Moreover, there can be no assurance that minority shareholders of Uralkali or Silvinit will not continue to challenge the implementation of the Combination. See "–The Combined Group faces legal challenges to the Combination". Any failure to achieve the expected benefits of the Combination could have a negative impact on the Combined Group's business, prospects, financial condition and results of operations or the trading price of the GDRs.

The Combined Group faces legal challenges to the Combination.

Prior to completion of the Combination, legal proceedings were instigated by OJSC Acron ("Acron") and others against Uralkali and Silvinit seeking to invalidate shareholder and board decisions taken in respect of the Combination (the "Acron Claims") based on the allegation that the share conversion ratios used to effect the Merger (See "The Combination of Uralkali and Silvinit") were unfair. See "Business – Litigation". Uralkali has continued to believe that the Acron Claims are entirely without merit and that the Merger is in the best interests of shareholders of both Uralkali and Silvinit, which have approved the Merger by overwhelming majorities. As a result, Uralkali and Silvinit have been forcefully contesting the Acron claims, and, at appeal hearings held on 18 March 2011, 13 April 2011 and 11 May 2011, respectively, they succeeded in obtaining the removal of all injunctive measures relating to the Combination and, at a court hearing held on 27 May 2011 to consider the merits of the Acron claims, the Perm Territory Arbitration Court rejected such claims. In addition, a preliminary court hearing is scheduled for 26 July 2011 to consider a further claim by Acron seeking to invalidate the additional issuance of Uralkali shares registered by the FSFM under the terms of the Merger and the registration of the Merger by the Russian tax authorities.

In the event that such hearing were to find in favour of the claimants, Uralkali believes that, although Acron and its co-claimants have not to date claimed for a specified amount of damages, they would likely seek monetary damages from the Combined Group since damages would constitute the most practicable remedy. In theory, as an alternative to claiming monetary damages, Acron and its co-claimants could seek to apply to unwind the Combination, although Uralkali considers that such risk is extremely remote given that such a course of action is without precedent in Russia and would be wholly impracticable to execute. If, notwithstanding the absence of an established procedure to implement such a course of action, the Combination were to be unwound, it is expected that Uralkali would no longer hold the business units and assets that were formerly part of Silvinit while retaining the business that it operated prior to the Combination. In such circumstances, Uralkali would not be able to realise the potential benefits of the Combination and the failure to implement the Combination could negatively affect investor attitudes to Uralkali. To the extent that the Acron claims are adjudged in favour of the claimants, or if other legal proceedings are instigated against the Combined Group in respect of the Combination, the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs could be materially adversely affected.

Risks Relating to Operations of the Combined Group

Uralkali relies on BPC for the generation of revenues.

BPC is a joint venture between Uralkali and Belaruskali (a potash producer located in Belarus, which is owned by the Republic of Belarus), which serves as a joint sales and distribution platform for the potash products of both companies. BPC undertakes all of Uralkali's export sales, other than rail deliveries to China ("China Rail Sales"), sales in the EEA countries, sales in the USA and sales of products by units which were formerly operated by Silvinit. Approximately 47% of Uralkali's export sales volumes in 2010 were undertaken as BPC sales. Uralkali believes that the use of BPC sales channels results in increased distribution efficiencies.

BPC undertakes all negotiations relating to BPC sales of Uralkali's production, and, as a result, Uralkali relies heavily on BPC for the maintenance of relationships with its customers. If BPC were to mishandle relationships with customers, Uralkali may not be able to repair such relationships. Uralkali also relies on BPC to comply with the applicable laws of the jurisdictions in which it operates. Furthermore, since BPC takes title to the potash Uralkali sells to it, the potash or proceeds from its sale could be used in satisfaction of BPC's liabilities to its creditors. Although Uralkali as a shareholder of BPC enjoys limited liability from BPC creditor claims and, in the ordinary course of business, it should not be held liable for any action, omission or liability of BPC, Uralkali may be held liable for BPC in certain limited circumstances under Belarusian law. For example, if BPC were declared insolvent and Uralkali could be shown to be directly responsible for such insolvency, Uralkali may be held liable for the unsatisfied debts of BPC.

Uralkali holds only a 50% stake in BPC (Belaruskali, Belarusian Railways and GrodnoAzot hold stakes of 44.999%, 5.0% and 0.001%, respectively) and is unable to cause BPC's management to affirmatively act in one way or another without the agreement of its joint venture partners. Furthermore, the BPC Charter contains no contingencies for the resolution of deadlocks in decision-making. If there is a disagreement between Uralkali and Belaruskali, export sales through BPC could be disrupted or the BPC joint venture may ultimately be terminated. In the event of disagreement with Belaruskali, Uralkali may not be able to withdraw unilaterally from BPC due to the terms of the BPC Charter and by virtue of BPC's status under Belorussian law as a joint stock company. There could be contractual or other adverse consequences for Uralkali if it were to try to cease selling its products for export through BPC.

Due to the importance of BPC to the Combined Group's operations, any failure or liabilities with respect to BPC could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. Uralkali is not aware of any material current or impending problems in its relations with its partners in BPC.

The Combined Group may not be able to execute or fund its capital expenditure, available production and structural capacity expansion programmes.

A key element of the Combined Group's strategy is to increase its available production levels and structural capacity. See "Business – Principal Investments". In December 2009, the Uralkali Board of Directors approved the investment programme for 2010–2012, which set the annual level of investment for that period at approximately RUR 12.5 billion, which excludes any costs that may be incurred in the development the Ust-Yaivinsky field and investment in social projects. Of these funds, approximately RUR 6.7 billion is allocated for capacity expansion, and nearly RUR 5.8 billion for capacity maintenance. The total cost of Silvinit's investment programme to increase capacity to 6.0 million tonnes is estimated at approximately RUR 0.6 billion, and, in addition, Silvinit typically invests approximately RUR 4.5 billion each year on capacity maintenance. As part of the Combined Group's strategy, planned capital expenditures are expected to be funded primarily from cash flows from operating activities, as well as potentially from debt financing. It is possible that these sources of financing may not be available in the future in the amounts the Combined Group requires or on commercially reasonable terms. The unavailability or high cost of financing could have a material adverse effect on the Combined Group's ability to make its anticipated capital expenditures to implement key elements of its strategy. Furthermore, the Combined Group may be required to devote substantial resources to the maintenance and repair of its existing plant. As at 31 December 2010, 5.6% and 4.9% of the gross book value of the fixed assets of Uralkali and Silvinit, respectively, were assets that have been fully depreciated. If the Combined Group decides to develop its development assets at the Ust-Yaivinsky and Polovodosky fields, it will require substantial additional sources of funding, although Uralkali is not able at present to estimate the levels of required funding since the development plans have yet to be formulated in detail. See "Business – Principal Investments – Ust-Yaivinsky and Polovodosky". To the extent the Combined Group seeks to obtain such additional funding through debt financing, its ability to incur additional indebtedness would be subject to the financial covenants under the terms of its current borrowings. See "–The Combined Group must observe certain financial and other restrictive covenants under the terms of its indebtedness".

Any disruption of operations due to the failure to perform necessary repair and maintenance works, or any diversion of resources from planned capital expenditures focused on growth for use on capital

expenditures to maintain existing available production, could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. Uralkali believes that it will be able to obtain sufficient funds from operating cash flows and external sources of financing to fund the Combined Group's current investment programmes to expand capacity at its existing facilities. "Business – Principal Investments – Brownfield projects".

The Combined Group must observe certain financial and other restrictive covenants under the terms of its indebtedness.

As of 31 December 2010, Uralkali and Silvinit had total borrowings of RUR 11,805 million and RUR 45,546 million, respectively. In addition, on 25 February 2011, Uralkali issued rouble-denominated bonds in a total amount of RUR 30,000 million (the "**Rouble Bonds**") and entered into a rouble-denominated 2 year loan in a total amount of RUR 12,000 million in order to fund the Acquisition. Upon the completion of the Combination, the obligations of Silvinit under its borrowings were assumed by Uralkali. The terms of the borrowings impose certain financial and other restrictive covenants that may limit the Combined Group's ability to, among other things:

- borrow money;
- create liens;
- issue new shares or bonds or exercise the conversion of shares or a share split;
- give guarantees;
- make acquisitions;
- sell or otherwise dispose of assets;
- engage in mergers, acquisitions or consolidations;
- declare and pay dividends; and
- make changes in shareholding structure.

The terms of the Combined Group's indebtedness also require it to operate within financial ratios. For example, under the loan agreement between Uralkali, Uralkali Trading SA ("**Uralkali Trading**") and Société Générale, Uralkali is required to maintain a consolidated net worth of not less than US\$500 million and the ratio of Uralkali's consolidated total finance debt to EBITDA may not exceed 2.5:1. Consequently, the Combined Group is able to incur additional indebtedness only to the extent that its total amount of debt will remain compliant with such indebtedness ratios. Although the Combined Group currently has the ability to increase its borrowings within the framework of its ratio covenants, the need to observe financial ratios and other restrictions could hinder the Combined Group's ability to carry out its business strategy, and a breach of the terms of the Combined Group's indebtedness could cause a default under the terms of its indebtedness causing all of its indebtedness to become due and payable. The Combined Group's ability to meet its interest and principal payment obligations under its borrowings could be affected in the event that demand for potash were to decrease substantially in the future. For example, as a result of the sharp decrease in Silvinit's volume of its sales and prices which began in the fourth quarter of 2008 and continued until the third quarter of 2009 due to the decrease in global demand for potash, the audit opinion of KPMG on the Silvinit Financial Statements for the year ended 31 December 2008 included an emphasis of matter indicating a material uncertainty as to Silvinit's ability to continue as a going concern in connection with the repayment of principal of RUR 22.3 billion due in July 2009. Silvinit refinanced this indebtedness and has not experienced any subsequent difficulties in meeting its borrowings obligations.

As of 31 December 2010, Uralkali had granted security for its loans over assets with a carrying value of RUR 3,987 million, and indebtedness of Silvinit and its subsidiaries was secured by a pledge over real property assets, land and equipment with a carrying value of RUR 17,331 million. The loans of Silvinit's subsidiary Kamskaya Mining were guaranteed by Silvinit and secured by a pledge of Silvinit's property and the shares it holds in Kamskaya Mining. In the event of a default by Kamskaya Mining or the guarantor under such borrowing, the pledges of the guarantor's property and its Kamskaya Mining shares may become

enforceable, resulting in a foreclosure of the pledged assets. Moreover, the terms of Uralkali's indebtedness include a cross default provision which would result in a default under such indebtedness if, upon completion of the Merger, Kamskaya Mining defaults under the terms of its borrowing obligations. In addition, on 25 February 2011, Uralkali entered in a currency swap in respect of payments under the Rouble Bonds. Uralkali's obligations under the currency swap are secured by a pledge over corporate and sovereign bonds owned by Uralkali. Such pledges and security may become enforceable in the event of a default under the relevant borrowings or swap.

Consequently, any default by a member of the Combined Group under the terms of its indebtedness could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. See "Operating and Financial Review – Liquidity and Capital Resources – Borrowings".

The Combined Group is not insured against all potential losses and liabilities and could be seriously harmed by natural disasters, catastrophes or other risks that are not covered by its insurance policies.

Many of the Combined Group's business activities involve substantial investments in complex mining and production facilities, warehouses and transportation equipment. In addition, certain raw materials, finished products, by-products and process water located within these facilities are potentially destructive and dangerous in uncontrolled or catastrophic circumstances, including fires, explosions, accidents, and major equipment failures. The insurance that the Combined Group currently maintains does not cover it against certain risks or exclude certain risks as *force majeure*. Such risks include liabilities for environmental pollution, interruption of certain business activities, liabilities for damages resulting from land subsidence caused by extraction of minerals or from underground flooding, or liabilities for damages to the property of third parties resulting from Combined Group's underground activities. Similarly, some property may not be insurable, such as potash ore reserves which are considered to be government property under Russian law. Furthermore, the Combined Group may not be able to secure insurance at reasonable costs in the future for those risks currently covered. The Combined Group could incur uninsured losses and liabilities arising from such events, including damage to its reputation, or suffer substantial losses in its operations, any or all of which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. See "–Risks Associated with the Potash Industry – The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1".

The Combined Group sells its products to a limited number of customers.

Uralkali expects that a significant portion of the Combined Group's revenues will continue to be derived from a small number of customers. In 2010, 10 customers accounted for 40.7% of Uralkali total volume of sales of potash, and Silvinit has historically sold a substantial majority of its products through a limited number of independent trading companies. In 2010, Silvinit sold 42% and 38%, respectively, of its total volume of exported potash products to two trading firms, IPC and Agrifert S.A. The Combined Group's customers make purchase decisions based on a combination of price, product quality, government policies, planting schedules and their desired inventory levels. The Combined Group's customers may face adverse economic conditions that may have a material impact on their operations and their purchases. A delay in finalising contract negotiations with large customers, particularly in China or India, may lead to a substantial reduction in sales of the Combined Group. Furthermore, the customers may act in concert during negotiations and may resist higher prices or request large discounts on their purchases. Changes in customer strategies or deteriorating economic conditions could result in the loss of one or all of the Combined Group's major customers or the termination of their contracts. In addition, it may not be possible to reach agreement on contract terms with customers on a timely basis, particularly if such customers are able to rely on existing inventories of potash, and any such delay could have a direct effect on the negotiation of contracts with other key customers. Any failure to retain key customers could lead to a decrease in sales volumes, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Sustained periods of high inflation could increase the Combined Group's costs and decrease its operating margins.

The Combined Group's production activities are located in Russia, and the majority of the Combined Group's direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% that year. More recently, the inflation rate was 13.3% in 2008 and 8.8% in each of 2009 and 2010. The Combined Group is exposed to inflation-driven increases in certain of its costs, such as salaries, that are linked to general price levels in Russia. However, the Combined Group may not be able to increase the prices for its products sufficiently in order to preserve operating margins, particularly for its export sales, when such inflation is accompanied by real appreciation of the rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase the Combined Group's costs and decrease its operating margins, which could have a material adverse effect on the Combined Group's business, prospects, financial condition and results of operations or on the price of the GDRs.

Fluctuations in the value of the rouble against the U.S. dollar or euro may have an adverse effect on the Combined Group's business.

The Combined Group's products are typically priced in roubles for Russian sales and in U.S. dollars or euros for international sales, while the Combined Group's direct costs, including raw materials, labour and rail transportation costs, are largely incurred in roubles. Any significant and sustained appreciation of the rouble against the U.S. dollar or euro could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. The rouble had appreciated relative to the U.S. dollar in years prior to the global economic crisis that began in 2008, although the exchange rate has since been volatile. See "Currencies and Exchange Rates" for historic exchange rate information.

Furthermore, if the U.S. dollar appreciates against currencies used in the local markets in which the Combined Group's products are sold, particularly the Brazilian real, the Chinese yuan and the Indian rupee, the Combined Group's products may become less affordable to local customers in those markets, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

It may not be economically, technically or otherwise feasible to develop the Combined Group's exploration assets, and any such development involves significant risks.

If the Combined Group plans to develop its main exploration assets, the Ust-Yaivinsky and Polovodovsky fields, these projects will be subject to significant risks. There are currently no businesses in Russia who have deep and longstanding experience in constructing and developing potash mines, and the costs of developing the mine might materially exceed expectations. Furthermore, the Combined Group could incur material liabilities as a result of the poor construction or development of the mines, for example, due to accidents or collapsing of the mine, or because of the environmental impact of the mine, if it is proven to be the Combined Group's responsibility. If the Combined Group is successful in developing these assets, it may not be able to economically extract potash from either of those mines. These risks regarding the development of these assets could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group's production costs could increase as a result of increases in energy prices.

The Combined Group's operations rely on its electricity suppliers, and electricity fees comprise a significant proportion of its total operating costs. The availability of electricity is influenced by a number of factors, many of which are beyond the Combined Group's control, including supply interruptions, price fluctuations and natural disasters, and, during periods of peak usage, supplies of energy may be curtailed. In recent years, the Russian power sector has undergone substantial reform aimed at the introduction of competition among power generating companies, liberalising the wholesale electricity market and shifting to a market-based pricing system. To the extent the Combined Group is required to pay higher prices for electricity in the future, or if its supplies of electricity are suspended or curtailed, the Combined Group's business, prospects, financial condition and results of operations or on the price of the GDRs could be

materially adversely affected. To reduce exposure to potential price fluctuations, Uralkali has been implementing a programme to construct its own generation assets. There can be no assurance that Uralkali will be able to implement fully the power generation programme, and the internal power generation facilities will in any event increase the Combined Group's reliance on supplies of natural gas.

The Combined Group's operations require significant amounts of natural gas, primarily for the production of heat energy, from subsidiaries of OAO Gazprom ("**Gazprom**"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. A shortage of gas supplies or a sharp rise in gas prices could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. Natural gas prices in Russia are generally regulated by the government, and have been rising over the last few years in accordance with a restructuring plan for the gas sector aimed at achieving a comparable level of gas prices on the domestic and international markets. Gazprom supplies gas to the Combined Group at the regulated, below-market, price for industrial customers for an agreed "limit" quotas. If the volume of gas supplied pursuant to these quotas does not rise, an increasingly smaller proportion of the Combined Group's gas supplies will be provided at these regulated, below-market prices, which may increase its overall fuel costs. The Combined Group may be unable to access gas from other suppliers since Gazprom controls Russia's only gas pipeline network.

If any of these scenarios materialise, the Combined Group may face a shortage in electricity or gas supplies or a rise in energy and fuel costs, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group relies on the Russian railroad network and its own rail cars for the transportation of its ore and products.

The Combined Group is heavily reliant on railway transportation for China Rail Sales and sales to European countries for delivery by rail and also for deliveries for onward transportation by sea. In addition, the Combined Group's domestic customers rely on transportation of potash by railway from the Perm region, where the Combined Group's production facilities are situated. Currently, the Russian government sets railway tariffs and may further increase these tariffs, as it has done in the past. In such circumstances, there could be no assurance that the Combined Group would be able to pass along such price increases to its customers, and, consequently, an increase in railway transport costs could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

In addition, a disruption in the rail transportation of the Combined Group's products for any other reason, including due to seasonal weather changes, poor maintenance of rail tracks or signalling equipment, could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group depends on a limited number of suppliers for some of the equipment necessary to produce its products.

The Combined Group is only able to purchase certain key mining and production equipment from a limited number of contractors. Any interruption in the operations of its suppliers, or the inability to obtain timely delivery of key equipment of acceptable quality or any significant increases in the prices of such equipment, could result in material production delays, increased costs and reductions in shipments of the Combined Group's products, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group and BPC rely on key employees.

Uralkali believes the continued success of the Combined Group depends on the collective abilities and efforts of senior management of the Combined Group and BPC. The Combined Group is reliant on a number of its key employees, as well as key employees of BPC who are responsible for the negotiation of most of the Combined Group's export sales, other than sales of products made by units formerly operated by Silvinit.

The loss of the services of key personnel could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

JSC BBT faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex.

The Combined Group's wholly-owned subsidiary, JSC BBT, operates a universal mineral fertiliser shipping complex that provides valuable sea transportation services to the Combined Group. JSC BBT faces the following risks and uncertainties in respect of property rights essential for the operation of the complex, and, should any of the risks indicated below materialise, it may disrupt the Combined Group's downstream activities through JSC BBT:

- *The acquisition of material rights to real estate by JSC BBT is dependent on the performance by St. Petersburg Sea Port under the agreements between the two parties.* JSC BBT's ability to acquire title for the shipping complex and lease rights for the underlying land plot depends on the performance by St. Petersburg Sea Port under the agreements relating to construction of the shipping complex. Any failure of St. Petersburg Sea Port to perform under, or any successful challenge in respect of, these agreements could have a material adverse effect on JSC BBT and the Combined Group's business.
- *Lack of Long-Term Registered Lease Rights to the Land Plot Underlying the Shipping Complex.* The written lease agreement in respect of the original land plot of approximately 15 hectares between St. Petersburg Sea Port and the City Property Management Committee of St. Petersburg expired on 31 December 2003. Upon expiration of this initial term, the lease was extended for an unidentified period of time by virtue of applicable Russian law. Given the unidentified term of the lease, the relevant state authorities have the ability to unilaterally terminate the lease for the original land plot upon a three-month notice. Certain buildings constituting the shipping complex were built on the additional land of approximately 8 hectares that was not covered by the written lease agreement with the City Property Management Committee of St. Petersburg. In December 2004, the St. Petersburg Government expanded the original land plot to 23 hectares. St. Petersburg Sea Port is seeking to consolidate the land plot leased under the written lease agreement with the additional land to form one land plot underlying the entire shipping complex, which is a prerequisite to the registration of title to the shipping complex and the execution of a long-term lease agreement with the relevant state authorities. A failure of St. Petersburg Sea Port to perform all legal formalities with respect to the consolidation of the land plot, registration of title to the shipping complex and the execution of a long-term lease for such land plot may prevent JSC BBT from securing its rights in the shipping complex, which would adversely affect JSC BBT's operations. JSC BBT's title to certain parts or all shipping complex could even be impaired or lost, or third parties may claim that JSC BBT uses the underlying land plot unlawfully.
- *A portion of JSC BBT's railway track, loading equipment and other infrastructure is located on a land plot to which it does not have any rights.* Part of a dam owned by Mobile Optima Ltd, and some water area adjacent to the dam, were used for back-filling followed by a construction of a railway track on such back-filled land. An additional land plot behind berths No. 106 and No. 107 has also been back-filled but has been registered as a real estate unit with the relevant state authorities. JSC BBT does not have any registered title or lease rights in respect of either back-filled land plot. JSC BBT is currently considering various options relating to the formalisation of its rights of use regarding the portion of the dam and the back-filled land plots. If JSC BBT fails to acquire such rights with respect to the dam and the land plots, JSC BBT may be forced to dismount a portion of its railway track or other properties located there, which may lead to additional expenses, and may be subject to claims from Mobile Optima Ltd or the state authorities for the unauthorised use of land. In addition, there is a risk that JSC BBT may be subject to environmental liability as a result of the unauthorised use of a water area. Sanctions may include fines or a suspension of JSC BBT's activities.
- *Congestion in and around the St. Petersburg port may impact upon the Combined Group's operations.* Traffic congestion in the waters surrounding the north west of Russia, specifically in the

vicinity of St. Petersburg, or a lack of available vessels, may result in significant congestion at the St. Petersburg port. This congestion may have an impact on the Combined Group's operations from JSC BBT, and may restrict its ability to meet its shipping obligations or expansion plans.

If any of the foregoing risks were to take place, the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs could be materially adversely affected.

If transactions that the companies of the Combined Group have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities imposed.

Uralkali, Silvinit and their respective Russian subsidiaries took in the past a variety of actions relating to share issuances, share and asset disposals and acquisitions, charter capital increases and decreases, valuation of property, interested party transactions, major transactions, currency control and anti-monopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction, seizure of the relevant assets or the imposition of liabilities on the Combined Group. Moreover, since many provisions of Russian law are open to many different interpretations, it may not be able to defend successfully any challenge in respect of such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interrelated major transactions" are subject to different interpretations and there is no assurance that such transactions will not be challenged in the future. BPC may be subject to similar risks under Belarusian law. The invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Risks related to Regulations

The Combined Group and BPC are subject to competition law regulations in various jurisdictions.

The Combined Group may be subject to anti-monopoly enforcement in various jurisdictions, including, in respect of BPC. In addition, mere allegations of the violation of anti-monopoly legislation in any jurisdiction in which its goods are sold may lead to the Combined Group or BPC being the subject of investigation and charges under anti-monopoly regulation.

In respect of BPC, Uralkali and Belaruskali have agreed to sell a substantial portion of their export sales through BPC. BPC purchases potash from the Combined Group and Belaruskali pursuant to sale and purchase agreements at the sales price BPC agrees with its customers, less a fixed margin agreed by Uralkali and Belaruskali intended to cover the costs of operating BPC and less certain other costs. See "Business – Sales and Marketing – Uralkali – BPC" and "Material Contracts – Material contracts establishing BPC" for more information on BPC.

BPC, the Combined Group or Belaruskali may be subject to the enforcement of anti-monopoly laws in the countries in which BPC sells potash or in respect of which budgets are agreed, as a result of BPC jointly selling the Combined Group's and Belaruskali's potash on behalf of the Combined Group and its competitor, Belaruskali. A competition regulator could also conclude that there is scope for coordination between Uralkali and Belaruskali to spill over into other areas of commercial strategy, as information may be shared or a tacit understanding reached in respect of matters other than those that are referred to above. The Combined Group sells into over 20 other countries, including member states of the European Union. Within the European Union, Article 101(1) TFEU prohibits agreements that may appreciably restrict competition and affect trade between Member States. Other jurisdictions, including the United States, have similar anti-monopoly laws. Any agreement that is contrary to Article 101(1) TFEU is prohibited unless it meets one of the specified exemptions. These exemptions include requirements that the agreement result in economic benefits that are passed on to consumers, any restrictions on competition are indispensable to the achievement of these benefits, and competition is not eliminated. The European Commission may determine that these exemptions are not available in the case of BPC. It is possible that BPC may not benefit from equivalent exemptions in the anti-monopoly laws of other jurisdictions, including the United States.

Uralkali can therefore give no assurance that the BPC joint venture or any other matters relating to the Combined Group would not be determined to be in breach of Article 101(1) TFEU or anti-monopoly laws in other jurisdictions, including the United States. Moreover, Uralkali can give no assurance that the European Commission, or other competition regulators, would not require the Combined Group and Belaruskali to cease joint selling through BPC, or would not impose fines in such circumstances for breaches of anti-monopoly laws. The European Commission, for example, may impose fines for an infringement of Article 101(1) TFEU of up to maximum of 10% of the total group turnover of the undertakings concerned. Fines in other jurisdictions, such as the United States, could conceivably be higher. In 2008, various class action lawsuits were filed in U.S. federal district courts in the United States alleging price fixing violations since 2003 of the U.S. Sherman Act by various potash producers and sellers, including Uralkali and BPC, although the plaintiffs in the suits have not claimed any specific amount in damages. See “Business – Litigation”. Anti-trust enforcement, or the mere allegations of anti-monopoly breaches by regulators or other persons, could have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

As part of the preparation for the Combination, Uralkali analysed the merger control regime in various jurisdictions where the Combined Group will operate and applied for anti-monopoly clearance in China, Poland, Turkey, Brazil and Ukraine, as well as FAS approval. To date, clearances have been received in Brazil, Turkey, Ukraine and Poland without any conditions attached, and FAS approval has also been granted. See “–The FAS may increase the level of control it exerts over the Combined Group’s operations”.

Uralkali also obtained approval from the anti-monopoly authorities in China. In connection with this approval, Uralkali made certain voluntary undertakings to the Chinese Anti-Monopoly Bureau of the Ministry of Commerce (“MOFCOM”), including that the Combined Group following the Merger will continue to follow its current process and procedures relating to sales of potassium chloride (MOP) to China; that it will continue to offer supply of all traditional types of product to China, both in categories and in volume, including MOP with 60% and 62% K₂O; and that it will continue to follow the traditional negotiation procedures and take into account the historical and current trading situation with respect to Chinese customers, as well as the unique characteristics of the Chinese market. Uralkali also agreed to report to MOFCOM on a half-yearly basis on its implementation of these undertakings.

The FAS may increase the level of control it exerts over the Combined Group’s operations.

The Combined Group’s operations in Russia are subject to anti-monopoly laws enforced by the FAS. In March 2011, in order to obtain anti-monopoly clearance of the Combination by the FAS, Uralkali agreed to observe a number of special conditions set by the FAS, aimed at maintaining competition in the Russian domestic market. In particular, the Combined Group will be required to regulate its potash sales across various consumer categories in Russia, including agricultural producers, compound fertiliser manufacturers and industrial customers, and it must also maintain consistent pricing and other policies applicable to each consumer group to ensure that potash shipments are made to domestic customers. During a transition period until the end of 2012, the Combined Group is obliged to deliver potash to Russian agricultural producers at preferential prices which are below the world market potash price. Russian compound fertiliser manufacturers will be charged a price calculated in accordance with an established formula based on the minimal export price. Upon the expiration of the transition period, these pricing arrangements may be amended.

In addition, for the period of the next five years, the Combined Group will be required to comply with specific disclosure and reporting obligations, including reporting to the FAS on the following matters:

- any decisions to dispose of its assets or other actions resulting in a decrease of the Combined Group’s production capacity;
- any increase in export sales of more than 5% at the expense of domestic potash sales;
- any increase in prices for domestic sales of more than 5%;
- any transactions or other actions with competitors, which may result in an increase in the Combined Group’s dominant position in the Russian or foreign markets;

- any changes in distribution policy;
- any changes in the composition of the Uralkali Group; and
- quarterly reporting on current prices and delivery volumes to Russian and export markets.

If the Combined Group's activities are found to be in violation of anti-monopoly legislation and special regulations imposed by the FAS, the Combined Group could be subject to penalties or requested to change its business operations in a manner that may increase the Combined Group's costs or reduce the Combined Group's profit margin and revenues. As such, these factors could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. Further changes in specific regulations and limitations imposed on the Combined Group, including in terms of establishing preferential prices to certain groups of Russian customers, may increase the Combined Group's costs or reduce the Combined Group's profit margin and revenues. In addition, the FAS may impose additional conditions on the Combined Group in connection with any anti-monopoly approvals of the Combined Group's transactions. These requirements or any changes to these requirements, such as limitations on further acquisitions or further specific pricing requirements, or on the ability of the Combined Group to adjust its production and pricing to respond to changed market conditions, could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group is subject to protective trade measures applicable to its exports of potash products to the European Union.

The European Union is an important market for the Combined Group, particularly as a result of the logistical benefits arising from the Combined Group's proximity to Europe, as compared to many other potash producers. The Combined Group faces protective trade measures in the European Union which reduce its competitiveness in, and limits its access to, the European market. Imports into the European Union of potash originating in Russia were generally subject to anti-dumping duties set at 12.3% for Uralkali and 23% for Silvinit. Prior to the Combination, Uralkali agreed a Minimum Price Undertakings with the European Commission under which potash may be exported to the European Union without anti-dumping duties, provided that export sales adhere to certain conditions, including:

- a stipulation that the exemption is available only up to a quantitative ceiling, or quota. Imports above the level of the quantitative ceiling, or imports not falling within the scope of the agreement, are subject to the applicable anti-dumping duty.
- an obligation to sell potash in the European Union at or above a minimum import price.
- an obligation to sell to the European Union directly or through trading companies which form part of the Minimum Price Undertaking. For Uralkali, the exemption is available only for direct sales of Uralkali to European customers and for sales through Uralkali Trading. Imports of potash produced by the Combined Group into the European Union through any other channel, including imports made by BPC, do not benefit from an exemption and are considered to be a breach of the Minimum Price Undertaking.
- an obligation to comply with certain reporting, notification and documentation requirements in respect of all potash imports into the European Union.

In the event of any breach of the agreement by the Combined Group, the European Commission is entitled to terminate the arrangement, and, in such circumstances, imports into the European Union would be made subject to the applicable anti-dumping duty.

The Combined Group is currently carrying out consultations with the European Commission to increase its quota since the quantitative ceiling that Silvinit had previously negotiated automatically terminated as a result of Silvinit ceasing to exist as a legal entity upon completion of the Combination. The Combination will also result in a recalculation by the European Commission of the level of anti-dumping duty for potash originating from Russia. This process is likely to be lengthy and complex and no assurance can be given at

this stage as to the results of such consultations and review. Furthermore, the Combined Group can give no assurance as to how anti-dumping matter will evolve in the future, and it is possible that the European Commission could, at its discretion, vary or withdraw the duty free quota that has been granted to Uralkali. In the event that the Combined Group's ability to export to the European markets is adversely affected due to delays in the consultation and review procedures, as a result of an unfavorable outcome of such procedures or due to any other changes in the anti-dumping regime currently in force, its business, prospects, financial condition and results of operations or the price of the GDRs could be materially adversely affected.

The Combined Group is subject to extensive environmental controls and regulations.

The Combined Group is subject to extensive environmental controls and regulations in the jurisdictions in which it operates, principally in Russia. Environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements in licences, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licences, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease operations or pay fees or fines, or make other payments for discharges or other breaches of environmental standards.

The licences and subsoil use contracts under which the Combined Group operates include conditions regarding environmental compliance. The introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or in an increase in the Combined Group's environmental liabilities, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. See “–Risks Associated with the Potash Industry – The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1” and “Regulatory Matters – Environmental Matters”.

The Combined Group's operations are dependent on having received the required licences, permits and approvals from governmental authorities.

The Combined Group's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including primarily the eight subsoil licences for its mining and development operations in Russia. See “Material Contracts – Licences”. The Combined Group's mining licences currently expire in 2013, other than the licences for the development projects at the Ust-Yaivinsky and Polovodovsky fields, which expire in 2024 and 2028, respectively. The application process to renew such licences typically begins approximately six months prior to expiry of the relevant licence. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

Under certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the reduction of the licence term or the suspension, revocation or invalidation of the licence. Accordingly, licences that the Combined Group requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the Combined Group's ability to conduct its operations or to do so profitably.

As part of its obligations under licensing regulations and the terms of its licences, the Combined Group is also required to comply with numerous industrial standards, maintain production levels, recruit qualified

personnel, maintain necessary equipment and a system of quality control, monitor the Combined Group's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect its activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. In the event that the natural resources supervisory authorities in Russia discover what they deem a "material" violation by the Combined Group, it may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs. Furthermore, the terms of the Combined Group's subsoil production licences relating to its mines stipulate that in the event of an environmental or natural disaster, accident or catastrophe resulting in impossibility of further use of subsoil mineral reserves, a licence holder is obliged to reimburse the damage caused to the state by the loss of such mineral deposit. See "–Risks Associated with the Potash Industry – The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1".

Any or all of these factors may affect the Combined Group's ability to obtain, maintain or renew necessary licences or may cause it to incur additional costs or impact on its sales. If the Combined Group is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, or incurs liability with respect to its obligations to state authorities pursuant to the terms of a licence, it may be unable to benefit fully from its potash resources, and may have to suspend or materially change its operations, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

If the Perm Region government exercises its right to purchase from the Combined Group a portion of produced potassium chloride, it might have an adverse effect on the Combined Group's business.

Pursuant to the terms of the licences issued to Uralkali and Silvinit, the government of the Perm Region may require the licensee to sell a portion of produced potassium chloride in order to satisfy internal demands of Perm Region in potash. Such sales must be made on the basis of annually executed sale and purchase agreements. Although the government of the Perm Region has never to date purchased potash from Uralkali or Silvinit pursuant to such provisions or sought to enter into any sale and purchase agreements, there is no assurance that it will not do so in the future. In addition, provisions of the licences of the Combined Group regarding the right of the government of the Perm Region to purchase a portion of potassium chloride produced are vaguely drafted, leaving wide scope for interpretation by the government of the Perm Region of these provisions in terms of both the amount and price of potassium chloride that may be purchased. If the government of the Perm Region were to purchase potash from the Combined Group pursuant to such licence provisions, it could have an adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

If the Russian Federal Tariffs Service were to include JSC BBT in the register of natural monopolies, JSC BBT could be subject to limitations in its operating flexibility.

Federal Law No. 147-FZ on Natural Monopolies of 17 August 1995, as amended (the "Natural Monopoly Law") defines a "natural monopoly" as a condition of the commodities market where a demand for particular products or services is satisfied more effectively in the absence of competition and where the monopoly product or service cannot be easily replaced. Under this law, providers of transport terminal and port services are considered natural monopolies. In 2003, the Federal Energy Commission carried out an analysis of JSC BBT's activities in order to assess whether to include JSC BBT in the register of natural monopolies. Although, as far as Uralkali is aware, no decision to include JSC BBT in the register of natural monopolies has yet been taken, no assurance can be given that such a decision will not be taken in the future.

If such a decision is taken, the relevant regulatory authorities would be able to regulate JSC BBT's activities by, among other things, determining tariffs for JSC BBT's services and requiring JSC BBT to provide certain levels of services to particular consumers. The imposition of such requirements may result in JSC BBT being unable to carry all required shipments of the Combined Group's cargoes. In addition, if JSC BBT is included in the register of natural monopolies and tariffs for JSC BBT's services are fixed by the state authorities, such tariffs may be lower than the market value of JSC BBT's services. Any of these

consequences may, separately or in the aggregate, have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group and its affiliates enjoy favourable tax treatment in various jurisdictions and such treatment may be subject to challenge, withdrawal or change.

Perm Region of Russia

Generally, income tax is levied at the rate of 20%. Under Russian tax legislation, 2% of these 20% are paid to the state federal budget, while the remaining 18% are paid to the budget of the region of Russia where the taxpayer is registered. The legislative bodies of the Russian regions have the right to decrease the portion of profits tax due to the regional budget for certain taxpayers, keeping it within the limits designated by the Tax Code of the Russian Federation (the "**Tax Code**"). In the Perm region, where the most of Combined Group's business assets are located, the "regional" portion of profits tax has been decreased to 13.5%, i.e. the taxpayers that are registered in that region and satisfy certain criteria enjoy a lower overall profits tax rate of 15.5%. The criteria for applying the reduced rate varies depending on the taxpayer's headcount and the amount of its yearly profit. No assurance can be given that the criteria and tax rate will not change in the future or that the Combined Group would be able to comply with the criteria if they were changed, and therefore no assurance can be given that the Combined Group will continue to qualify for the reduced tax rate. Any revocation or adverse changes in this tax regime may have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Belarus

Since its formation in late 2005, BPC has been subject to taxation in accordance with general Belorussian tax legislation, as well as specific regulations applicable to exporters of potash fertilisers, including BPC. Currently BPC is the only company in Belarus which exports potash fertilisers. One of the applicable regulations established an individual tax regime for BPC for profits generated from the sales of potash fertilisers. While management of Uralkali takes every effort within its authority to comply with the current tax regime for BPC, no assurance can be given that the favourable tax regime established in Belarus will be maintained in its current form. The introduction of an unfavourable change to this tax regime could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Switzerland

In 2005, Uralkali started to conduct its export sales through Uralkali Trading, a wholly-owned trading subsidiary incorporated in Geneva, Switzerland. Pursuant to applicable legislation, Uralkali Trading obtained a favourable tax ruling from the Geneva cantonal tax authorities regarding taxation of Uralkali Trading. The tax ruling expired on 31 December 2009 and in 2010 Uralkali Trading applied for its extension under the same conditions for a new 5-year period. The new application has been agreed in principle by the Geneva cantonal tax authorities and Uralkali expects that the formal ruling will be issued in the near future. A failure to extend the above tax ruling or a substantial negative change to its conditions may have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Any change in these tax regimes may have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The Combined Group could become subject to limitations imposed by Russian legislation on the rights of foreign entities to invest in certain Russian companies and in the subsoil sector.

Pursuant to the Foreign Investments Law of the Russian Federation, the acquisition by a foreign investor, or a "Group" of persons (as such term is defined in the Law "On Protection of Competition") including one or more foreign investors, of 10% or more voting shares in a company undertaking operations at subsoil plots of federal importance ("**Strategic Subsoil Companies**"), or, if such foreign investor is a state or a state organisation, the acquisition of 5% or more of voting shares in the Strategic Subsoil Company, requires the prior approval of the Government of the Russian Federation (the "**Russian Government**"). Furthermore, if

a foreign investor, or a Group of persons including one or more foreign investors, already exercises direct or indirect “control” (as defined in the Foreign Investments Law) of over 10% or more of the voting shares of Strategic Subsoil Companies, each subsequent acquisition of shares of such Strategic Subsoil Company by the foreign investor, or Group of persons including a foreign investor, requires the prior approval of the Russian Government. The Foreign Investments Law is not clear as to whether the acquisition of shares in a holding company of a Strategic Subsoil Company would be subject to similar limitations. In the event that the required prior approval were not obtained, the relevant transactions may be declared void or the acquiring entity could be deprived of its voting rights in respect of the acquired shares.

The list of subsoil plots of federal importance was officially published in March 2009, and subsequently amended in March 2010. None of the subsoil plots operated by the Combined Group is included in this list. However, there is no assurance that the list will not be revised to include such plots, and, in addition, Uralkali could seek in future to obtain a subsoil licence for operation of the subsoil plots of federal importance. To the extent that the subsoil plots of the Combined Group become subject to these regulations, the operating flexibility of the Combined Group may be limited and investors may be required to obtain Russian government approvals in order to effect disposals or acquisitions of GDRs or Shares in excess of the relevant thresholds.

Risks Relating to the Russian Federation

Emerging markets are subject to greater risks than more developed markets.

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic, financial and political risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, including during the crisis in the world’s financial markets which began in 2008, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment and adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, even if the Russian economy remains relatively stable, financial turmoil in the country could seriously disrupt the Combined Group’s business, financial condition and results of operations, as well as result in a decrease in the price of the GDRs. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

In addition to its principal operations in Russia, the Combined Group is exposed to similar emerging market risk considerations in respect of some of its key export markets, including, in particular, China, India and Brazil, and, through its BPC joint venture, in Belarus.

Economic instability in Russia could adversely affect the Combined Group’s business.

Since the dissolution of the Soviet Union, the Russian economy has at various times experienced, among other things:

- significant declines in gross domestic product;
- hyperinflation;
- sudden price declines in the natural resource sector;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;

- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of “black” and “grey” market economies;
- high levels of capital flight;
- corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels amongst the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, in 1998, the Russian state defaulted on its rouble denominated securities and imposed a temporary moratorium on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian groups to raise funds in the international capital markets. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licences of a few mid-sized banks were withdrawn. Throughout the second half of 2008, the Russian financial markets were characterised by extreme volatility in both the debt and equity segments and reductions in foreign investment. Furthermore, the first half of 2009 saw a substantial decrease in gross domestic product as the real sector of the Russian economy experienced a sharp decline in production levels. Although the Russian stock markets have experienced a recovery since the second half of 2009, there can be no assurance that this trend will continue in the future or that it will have a positive impact on the Russian economy in the long-term. As Russia produces and exports large quantities of crude oil, gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices such commodities on the world market. Any further disruption of the Russian economy, its financial markets and a decline in the prices of commodities may have a material adverse effect on the Combined Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia.

The Russian Federation is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the Combined Group’s business, many of which do not exist in countries with more developed market economies:

- inconsistencies exist between: federal laws, decrees, orders and regulations issued by the President, the government and federal ministers; and regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- judges and courts are relatively inexperienced in interpreting legislation in accordance with new principles established under reformed statutes;
- substantial gaps exist in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures are not well developed and are subject to abuse.

Disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

In particular, the legal framework relating to the ownership and use of land and other real estate in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in more economically developed countries. It is often difficult to determine with certainty the validity and enforceability of title to land in Russia and the extent to which it is encumbered. Moreover, in order to use and develop land and other real estate in Russia, approvals, consents and registrations of various federal, regional and local governmental authorities are required, and it is not always clear which governmental body has the right to lease land in relation to certain land plots. In addition, the construction approval procedures are intricate and such approvals may be contested or totally cancelled, while the building and environmental regulations often contain requirements that are impossible to fully comply with in practice. If the real estate owned or leased by the Combined Group, or any construction activities relating to such real estate, is found not to be in compliance with all applicable regulations, the Combined Group may be prevented from or delayed in using such real estate or continuing such construction activities, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Additionally, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws is in doubt and many new laws remain untested. Moreover, the courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Any or all of these weaknesses could affect the Combined Group's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Combined Group, could result in substantial additional compliance costs or various sanctions.

The Combined Group's operations and properties in Russia are subject to regulation by various government entities and agencies at both the federal and regional levels. Regulatory authorities often exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences and permits and in monitoring licensees' compliance with licence terms. Russian authorities have the right to, and frequently do, conduct periodic inspections of operations and properties of Russian companies throughout the year. Any such future inspections may conclude that the Combined Group violated applicable laws, decrees or regulations. Findings that the Combined Group failed to comply with existing laws or regulations or directions resulting from government inspections may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Combined Group's licences or permits or in requirements that the Combined Group cease certain business activities, or in criminal and administrative penalties being imposed on the Combined Group's officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Combined Group, could increase the Combined Groups costs and could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

In addition, government officials have a high degree of discretion in Russia and at times act selectively or arbitrarily, without a hearing or prior notice, and sometimes in a manner that is contrary to law or is influenced by political or commercial considerations. Unlawful, selective or arbitrary actions of Russian government officials have reportedly included the denial or withdrawal of licences, sudden and unexpected

tax audits, criminal prosecutions and civil actions. Unlawful, selective or arbitrary action of government officials, if directed at the Combined Group, could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

A Russian legal entity may be liquidated on the basis of formal non-compliance with certain laws.

Russian law sets out certain requirements that must be complied with in the course of the establishment, reorganisation or operation of a Russian legal entity, and, in the event of non-compliance with those requirements, Russian law may allow a court to order the liquidation of that Russian legal entity. There have been cases in the past in which formal deficiencies in the process of establishing a Russian legal entity or non-compliance by a Russian legal entity with Russian law requirements have been used by Russian courts as a legal basis for liquidation of that legal entity. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the relevant company failed to comply with applicable legal requirements and have taken into account other factors, such as the financial standing of the company or its ability to pay taxes, as well as the economic and social consequences of such liquidation. The Constitutional Court of the Russian Federation has held that a purely technical violation of any statutory requirement may not be regarded as sufficient legal grounds for a compulsory liquidation. Weaknesses in the Russian legal system, however, create an uncertain legal environment, which, on occasion, makes the decisions of a Russian court or a governmental authority difficult, if at all possible, to predict. Although the Combined Group does not believe any of its subsidiaries is at risk of an involuntary liquidation, the liquidation of any Russian subsidiary or company in which the Combined Group has invested could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian Federation has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including weaknesses in the judiciary and insufficient mechanisms to enforce court rulings, as well as reports of corruption among state officials. In addition, due to a lack of experience in enforcing these provisions or due to political change, legislative protections might not be enforced in the event of an attempted nationalisation. Although the Combined Group does not believe that there is a legal basis for the expropriation or nationalisation of any of its assets, any expropriation or nationalisation of the Combined Group's business could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Russian currency control regulations may hinder the Combined Group's ability to conduct business.

The Combined Group's operational expenses are primarily denominated in roubles. The current Russian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between residents in Russia, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia. These currency control restrictions may restrict the Combined Group's operational flexibility, which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and the Combined Group may be subject to greater than expected tax burdens.

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties and other taxes.

Russian tax law and practice is not as clearly established as those of more developed market economies and the practice of the Russian tax authorities may not always be in accordance with other laws. The Russian tax authorities do not always apply laws evenly to all taxpayers, in certain instances allegedly due to political motivations. Furthermore, it is possible that the current interpretation of the law or understanding of practice

may change or that the law may be changed with retroactive effect, even though legislation with retroactive effect that causes a deterioration in taxpayers' positions is generally prohibited under Russian law. In the event of such changes, there is a risk that the Combined Group would not comply with the relevant requirements and may incur significant costs due to additional compliance burdens or costs related to non-compliance. There is a risk that the Combined Group's interpretations and applications of current and future Russian tax laws may be challenged, which may result in penalties and fines being imposed on the Combined Group, or a need to revise the practices adopted by the Combined Group's companies.

The Russian tax environment has historically been complicated by the fact that various authorities often issued contradictory clarifications of tax legislation. In practice, the Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Different interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax returns, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges (see also “–Tax audits carried out by Russian tax authorities may result in additional costs to the Combined Group”).

When a tax dispute arises, as a first step taxpayers are obliged to enter into pre-court (administrative) resolution procedures with the tax authorities. In practice, however, this measure is not very effective as the tax authorities tend to keep the decisions unchanged, and therefore the taxpayers are forced to enter into lengthy court proceedings (which normally take from 9 to 12 months). Court practice on tax disputes in Russia can be unstable or inconsistent: lower courts are obliged to follow the official position of the Supreme Arbitrazh Court of the Russian Federation which can change unpredictably, and, therefore, the official approach to the implementation of certain provisions of tax legislation can vary greatly over time.

On 12 October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued Resolution No. 53 formulating the concept of “unjustified tax benefit,” which is described in the Resolution by reference to circumstances, such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the reclassification of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Resolution might have been to combat abuse of tax laws, in practice, there is no assurance that the tax authorities will not seek to apply this concept in a broader sense.

If the tax authorities conclude that any transactions performed within the Combined Group, as well as transactions performed with third parties, have no strong economic rationale and are aimed at receiving an unjustified tax benefit, the tax authorities or arbitration courts may treat the transactions as resulting in an “unjustified tax benefit” for any of the parties involved, which may lead to the imposition of additional taxes payable by the Combined Group.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities, in some cases, are increasingly taking a “substance over form” approach, which may cause additional tax exposures to arise in the future. There can be no assurance that the Tax Code or its interpretation will not be changed in the future in a manner adverse to the stability and predictability of the tax system (including in relation to thin capitalisation and transfer pricing rules and other rules governing the deductibility of interest or other expenses and the timing thereof). It is expected that Russian tax legislation will become more sophisticated, which, coupled with the state budget deficits, may result in the introduction of additional revenue raising mechanisms. Although it is unclear how these measures would operate, the introduction of such measures could affect the Combined Group's overall tax efficiency and result in significant additional tax liabilities. Additional tax exposure could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

The financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of the Combined Group's Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss

against the profit or loss of any subsidiary of the Combined Group. This may result in a higher than expected effective tax rate for the Combined Group's consolidated Russian activities. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2011–2013 has proposed the introduction of consolidated tax reporting to enable the consolidation for corporate income tax purposes of the financial results of Russian taxpayers which are part of one group. Uralkali is aware that the draft law on consolidated tax reporting has already been prepared; however, at this stage, it is impossible to predict whether, when or how consolidated tax reporting principles will be enacted.

In addition, intercompany dividends are subject to a withholding tax of 9% or 0% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend (although not against any withholding made on a distribution to a foreign company). These tax requirements impose additional burdens and costs on our operations, including management resources.

On 2 September 2010, Federal Law No. 229-FZ entered into force introducing changes to the interest deductibility limits capping the amount of interest expenses deductible for corporate profits tax purposes. Starting from 1 January 2011, the limits are set at 1.8 times the CBR refinancing rate for loans denominated in roubles, and 0.8 times the CBR refinancing rate for loans denominated in foreign currency. The amendment decreasing deductibility limits was introduced as a temporary measure to be in effect for a time period specified in the law, and according to the current wording of the law, this period expires on 31 December 2012. These changes may result in a disallowance of a certain portion of interest expenses incurred on foreign currency denominated loans (if the Russian companies of the Combined Group borrow in foreign currency), which could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

It should also be noted that the President of Russia in his budget message of 25 May 2009 expressed a goal of introducing legal mechanisms to restrict the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of the country being a party to the relevant double tax treaty. It is unclear what form such legal mechanisms may take, how they may be applied or when they may be introduced; however, Uralkali is aware of the fact that relevant amendments to the Tax Code have already been drafted. Depending upon the form of amendments, if and when enacted, such amendments may result in the inability for foreign entities of the Group to claim benefits under a double taxation treaty through structures which historically were subject to double taxation treaty protection in Russia. Furthermore, the Resolution of the Russian Government on entering into international double tax treaties and the prevention of tax evasion No. 84, dated 24 February 2010, which introduces, *inter alia*, limitations on the availability of treaty benefits, and which is intended to be used by the Russian authorities as a guideline when negotiating new double tax treaties and/or renegotiating existing treaties, is indicative of a trend towards introducing such legal mechanisms in order to restrict the use of double tax treaties for the purpose of minimising taxes. Briefly, the new Resolution limits the use of treaty benefits by persons or entities if the granting of such benefits to such persons or entities in the opinion of the Russian tax authorities would lead to abuse of the purposes of the treaty, or by entities that are owned as to more than 50% of their shares/units by an entity that is not a resident of a contracting state. However, it is unclear whether such limitations will be implemented with existing treaty partners by protocols or by entering into new treaties, or whether the new initiative will be implemented at all.

The foregoing conditions create tax risks in the Russian Federation that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to the Combined Group's substantial tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing the Combined Group to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could have a material adverse effect on the Combined Group's business, revenues, financial condition, results of operations or prospects or the trading price of the GDRs.

Tax audits carried out by Russian tax authorities may result in additional costs to the Combined Group.

Generally, tax returns of Russian companies remain open and subject to inspection by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority. These tax audits may result in additional costs to the Combined Group if the relevant authorities conclude that the companies comprising the Combined Group did not satisfy their tax obligations in any given year. They may also impose additional burdens on the Combined Group by diverting the attention of the management of the relevant company of the Combined Group. The outcome of these audits may result in significant fines, penalties and enforcement measures which could have a material adverse effect on the Combined Group's business, financial condition, results of operations and the trading price of the GDRs.

The period during which a taxpayer can be held responsible for a tax violation (further to findings of a tax audit) is also generally limited to three years. However, on 14 July 2005, the Russian Constitutional Court issued a decision allowing the statute of limitations for tax responsibility to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. Moreover, subsequent amendments to the first part of the Tax Code, effective from 1 January 2007, provided for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Since none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and possibly to hold a taxpayer ultimately responsible for a tax violation beyond the three-year term.

The Russian transfer pricing rules are unclear and are subject to varying interpretations by Russian tax authorities and courts.

Russian transfer pricing rules which have been in effect since 1999 give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in relation to all controlled transactions, if the transaction price differs from the market price by more than 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between independent parties, such as foreign trade, barter transactions or transactions with significant (greater than 20%) price fluctuations within a short period of time. Special transfer pricing rules are applied to operations with securities and derivative instruments. The Russian transfer pricing rules are unclear and are subject to varying interpretations by Russian tax authorities and courts due to the lack of formal guidance as to how these rules should be applied.

Moreover, in the event that the Russian tax authorities make a transfer pricing adjustment, the Russian transfer pricing rules do not provide for a corresponding adjustment to the related counterparty in the transaction that is subject to adjustment. While members of the Combined Group engage in numerous transactions among themselves, the respective members seek to conduct such transactions based on market prices. However, it is not always possible to determine a relevant market price, and the view of the Russian tax authorities as to what constitutes an appropriate market price may differ from the position of the Combined Group.

Due to the uncertainties in the interpretation of the transfer pricing legislation, the tax authorities may challenge the Combined Group's prices and make adjustments which could affect its tax position. If such tax adjustments become effective, it could have a material adverse effect on the Combined Group's business, financial condition, results of operations and the trading price of the GDRs. In addition, the Combined Group could face significant losses associated with the assessed amount of underpaid prior tax and related interest and potential penalties.

Currently, new Russian transfer pricing rules are in the process of being adopted by the State Duma of the Russian Federation. They may come into force at any time in the year 2011 or at a later date. The implementation of these amendments should help align domestic rules more with OECD guidelines. At the same time, the amendments are expected to considerably toughen the existing law, as the proposed changes are expected, among other things, to effectively shift the burden of proving market prices from the tax

authorities to the taxpayer, obliging the taxpayer to keep specific documentation. Besides that, the new rules introduce certain other significant amendments:

- the introduction of the arm's length principle as a fundamental principle of the Russian transfer pricing rules;
- a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);
- an extended list of related parties;
- an extended list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split Method) with the choice of method depending on the allocation of functions performed, risks assumed and assets employed by the parties to a transaction (instead of a rigid priority of methods under current legislation);
- the replacement of the existing permitted deviation threshold by the arm's length range of market prices (profitability);
- correlative adjustments in relation to domestic transactions; and
- special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe than in the case of other, non-transfer pricing related, tax assessments).

The introduction of the new transfer pricing rules may increase the risk of transfer pricing adjustments by the tax authorities and have a material impact on the Combined Group's business and the results of operations. It will also require the Combined Group to ensure compliance with the new transfer pricing documentation requirements proposed by these rules. Any imposition of additional tax liabilities under the Russian transfer pricing legislation could have a material adverse effect on the Combined Group's business, financial condition, results of operations and the trading price of the GDRs.

Risks Relating to the GDRs

Future sales of Uralkali's Shares or GDRs may affect the market price of the GDRs.

Sales, or the possibility of sales, of substantial numbers of Uralkali's Shares, or Shares in the form of GDRs, in the public markets, including the Russian stock market, could have an adverse effect on the trading price of the GDRs or could materially adversely affect Uralkali's ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may reduce the percentage ownership of Uralkali's existing shareholders. Moreover, newly issued shares may have rights, preferences or privileges senior to those of the Shares. Uralkali may issue additional ordinary shares or other securities convertible or exchangeable into ordinary shares. Any such issues could adversely affect the trading price of the GDRs.

Because the Depositary may be considered the owner of the Shares represented by the GDRs, such Shares may be seized or arrested in legal proceedings in Russia against the Depositary, and the Depositary may be subject to various requirements of Russian law.

Many jurisdictions, including the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, shares held by a depositary on behalf of the holders of depositary receipts should not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the relevant shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership, and it may only recognise the rights of the depositary in whose name the shares are held. Thus, in proceedings brought against the Depositary, whether or not related to the Shares represented by the GDRs, Russian courts may treat those underlying Shares as the assets of the Depositary, and therefore open to seizure or arrest. If a lawsuit seeking the seizure or arrest of the Shares underlying the GDRs were to be successfully initiated in the future against the Depositary, and the Shares represented by the GDRs were to be seized or arrested,

GDR holders would be likely to lose their rights to such underlying Shares and the GDRs holders could lose all of their investment in the GDRs.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the terms and conditions of the GDRs and relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, Uralkali's charter (the "Charter") requires it to notify shareholders at least 30 days in advance of any meeting and, in relation to an extraordinary meeting to elect directors, the Russian Federal Law "On Joint Stock Companies" No. 208-FZ dated 26 December 1995, as amended (the "Joint Stock Companies Law") requires at least 70 days' notice. Uralkali's common shareholders will receive notice directly from Uralkali and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from Uralkali. Rather, in accordance with the Deposit Agreement, Uralkali will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, in a timely manner and at Uralkali's expense, and provided there are no U.S., English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares and the GDRs are listed or admitted to trading), to mail to GDR holders notice of the meeting and the relevant agenda (if and as received by the Depositary from Uralkali) as well as written requests containing voting instructions (if and as received by the Depositary from Uralkali) by which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote with regards to the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for them than for holders of the Shares and Uralkali cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested. Moreover, GDR holders may not exercise voting rights in respect of fractional shares. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of holders of GDRs.

While, as a practical matter, in accordance with the procedures established by the Depositary holders of GDRs might be able to instruct the Depositary to introduce proposals for the agenda of shareholders' meetings, request that a shareholders' meeting be called, nominate candidates for Uralkali's Board of Directors or its Revision Committee or otherwise exercise the rights of minority ownership arising under the Joint Stock Companies Law, there is no strict legal basis for such procedures of the Depositary, and such procedures remain untested by the Russian courts. See "Description of Share Capital and Certain Requirements of Russian Legislation". If such procedures are challenged successfully, then holders of GDRs who wish to take such actions, will need to timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owner of the Shares on Uralkali's share register.

The number of shares that can be deposited into the GDR programme is limited.

The number of shares that can be deposited into the GDR programme is limited, and requires certain approvals from Russian authorities. New Russian securities regulations currently provide that no more than 25% of all issued Russian company's shares may be circulated abroad through sponsored depositary receipt

programmes at any time subject to certain conditions. In accordance with previously effective legislation in 2006, Uralkali received an approval from the FSFM for up to 616,073,100 shares, which corresponded to 29% of its issued and outstanding shares upon issuance of approval, to be circulated abroad. As a result, Uralkali's GDR programme is currently capped at 616,073,100 of Uralkali's issued and outstanding shares, which will correspond to approximately 19.9% of the share capital of the Uralkali following the Combination. As at 14 June 2011, 477,646,545 Shares had been deposited into the GDR programme. Consequently, investors may not be able to deposit shares into Uralkali's GDR programme in order to receive GDRs following the Combination. On 3 June 2010, Uralkali's shares were included on the "A" list of the MICEX, and, consequently, Uralkali is now able to apply for the maximum 25% limit for sponsored depositary receipt programmes allowed under the current FSFM regulations. Uralkali has not yet taken a decision on the timing of any such application, and no assurance can be given that any such application will be successful.

GDR holders may be unable to repatriate distributions made on the Shares.

Uralkali intends to pay dividends on Shares in roubles, and Russian law currently permits such rouble funds to be converted into U.S. dollars by the Depositary without restriction. The ability to convert roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge roubles and rouble-denominated investments.

Non-Russian resident holders of GDRs may not be able to benefit from double tax treaties in relation to dividend income.

Under Russian law, dividends paid to non-Russian resident holders of the GDRs, both legal entities (or organisations) and individuals, will generally be subject to Russian tax at a rate of 15%. This tax may be reduced under the provisions of the relevant double tax treaty between the Russian Federation and the country in which the holder of the GDRs is resident for tax purposes. However, treaty relief may not be available to non-resident holders of the GDRs because of the absence of any official interpretative guidance as to the beneficial ownership concept in existing Russian tax legislation and the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the shares under Russian law.

In 2005 and subsequent years, the Russian Ministry of Finance issued clarifications providing that a holder of depositary receipts should be treated as the beneficial owner of the underlying shares for the purpose of the double tax treaty provisions applicable to the taxation of dividends from the underlying shares, provided that the tax residence of the holder of depositary receipts is duly confirmed. However, in the absence of any specific provision in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat holders of the GDRs in this regard. Given the uncertainty of this area of Russian tax law, it is likely that the reduced withholding tax rate provided by the relevant double tax treaties will not apply and that tax will be withheld at the domestic tax rate of 15% that applies to dividends payable on the shares underlying the GDRs.

Moreover, from a practical perspective, it may not be possible for the depositary to collect residence confirmations from all GDR holders and submit such information to the Combined Group, and, furthermore, the Combined Group may be unaware of the exact amount of income payable to each particular holder. In addition, there are uncertainties and practical difficulties for obtaining advance double tax treaty benefits for individuals. For more detail see "Taxation – Taxation in the Russian Federation".

Capital gains from the sale of GDRs by non-Russian resident holders of GDRs may be subject to Russian income tax potentially with no double tax treaty relief.

Under Russian tax legislation, capital gains arising from the sale, exchange or other disposition of GDRs by non-Russian resident holders that are legal entities (or organisations) may be taxable in Russia if more

than 50% of the assets of the Company consist of immovable property located in Russia. In this case the aforementioned gains should be subject to a 20% withholding tax rate on the gross proceeds from the sale of the GDRs less expenses relating to the acquisition, holding and disposal of the GDRs paid by the non-resident holder, provided that the non-Russian resident holder is able to present documentary evidence confirming such expenses. If a non-Russian resident holder is not able to present documentary evidence confirming the expenses incurred in relation to the acquisition, holding and disposal of the GDRs, the Russian withholding tax should be withheld at 20% of the gross proceeds.

Where the GDRs are sold by non-Russian resident holders of the GDRs that are legal entities (or organisations) to persons other than a Russian company or a foreign legal entity or organisation with a registered Russian permanent establishment, even if the resulting capital gain is considered taxable in Russia, there is currently no practical mechanism under which the respective tax could be withheld and remitted to the budget of the Russian Federation.

Moreover, capital gains arising to non-Russian resident holders that are legal entities or organisations from the sale, exchange or other disposition of GDRs that are circulated (i.e. listed and traded) on a foreign stock exchange fall outside the scope of Russian taxes provided that such transaction was made on a foreign stock exchange. Therefore, as long as GDRs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition of the GDRs on the London Stock Exchange by non-Russian resident holders that are legal entities or organisations that have no permanent establishment in Russia to which such disposal could be connected, should not be subject to taxation in Russia and, hence, to Russian withholding income tax.

Income from the sale, exchange or other disposition of GDRs by a non-Russian resident holder that is an individual should be subject to tax at a rate of 30% of the gain if such income is treated as having Russian source (such gain being computed as the sales price less any available documented cost deduction which includes the purchase price of the GDRs as well as other documented expenses, such as depositary expenses and brokers fees). Russian tax law gives no clear indication as to how the place of sale of the GDRs should be determined in this respect. Such tax is required to be paid by such individual personally, but if an individual holder acts via a professional intermediary (such as a trustee, dealer, broker or other intermediary acting to the benefit of the individual holder), the tax may be withheld at the source of payment. The taxable base should be calculated in roubles and, therefore, may be affected by changes in the exchange rates between the currency of acquisition of the GDRs, the currency of sale of the GDRs and the rouble.

A number of the existing double tax treaties concluded by the Russian Federation provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non-Russian resident individuals, and obtaining subsequent tax refunds may be time-consuming and can involve considerable practical difficulties. For more detail see "Taxation – Taxation in the Russian Federation".

THE COMBINATION OF URALKALI AND SILVINIT

On 20 December 2010, the Board of Directors of Uralkali announced the proposed combination of Uralkali with Silvinit to create one of the largest potash companies in the world.

The terms of the Combination

The proposal to combine Uralkali and Silvinit comprised the following two steps: (i) the acquisition by Uralkali of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for US\$ 894.5 per ordinary Silvinit share, or a total cash consideration of US\$ 1.4 billion, and (ii) the 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. Under the terms of the Merger, Silvinit shareholders, other than Uralkali, received 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. Uralkali is the surviving entity following the Merger.

Approval

The Merger was approved by the respective shareholders of Uralkali and Silvinit at extraordinary general shareholders meetings of 4 February 2011. At the Uralkali extraordinary general shareholders meeting, Uralkali shareholders representing 98.9% of the votes cast at the meeting voted to approve the Merger. Uralkali shareholders also approved the Acquisition and related financing. At the Silvinit extraordinary general shareholders meeting, Silvinit shareholders representing 90.9% of the votes cast at the meeting voted to approve the Merger.

Shareholder Redemption Rights

Holders of Uralkali Shares that were entitled to vote at the extraordinary general shareholders meeting of Uralkali of 4 February 2011 and, subject to compliance with applicable law, holders of Uralkali GDRs that were entitled to deliver voting instructions to The Bank of New York Mellon, and in each case that either voted against or abstained from voting on any of the proposals submitted to the meeting to approve the Merger, the Acquisition or the financing of the Acquisition or did not participate in the meeting, were entitled to require Uralkali to purchase (redeem) Uralkali Shares (including those represented by Uralkali GDRs) within the specified period set forth by applicable Russian law. The redemption price has been set by the Board of Directors of Uralkali at RUR 203.37 per Uralkali Share, based on the market price as determined by an independent appraiser. Under Russian law, Uralkali may use no more than 10% of its net assets, determined as of the date of the extraordinary general shareholders meeting, to redeem its Shares. If the number of Shares covered by redemption requests exceeds the number of Shares that can be redeemed under this 10% limit, the number of Shares redeemed from each shareholder will be determined on a *pro rata* basis, based on the number of Shares submitted for redemption by each shareholder.

Similar redemption rights apply to holders of Silvinit shares who either voted against or abstained from voting on the Merger or approval of the Merger agreement as a major transaction, or did not participate in the meeting.

Completion

The Acquisition was completed on 28 February 2011. The Merger was submitted for registration with the Russian authorities on 11 May 2011, and Uralkali received notification of registration of the Merger on 17 May 2011. Upon such registration, Silvinit ceased to exist and the final stage of the Merger was implemented through the distribution of Uralkali shares to shareholders of Silvinit and the registration by the FSFM on 15 June 2011 of the report on placement of such shares.

The new application for Admission of GDRs

The Combination is classified as a reverse takeover by Uralkali of Silvinit for the purposes of the FSA's Listing Rules on the basis of class tests set out in Listing Rule 10. Consequently, the Combination results in

the cancellation by the UKLA and London Stock Exchange of the existing Admission. Uralkali is therefore making a new application for admission of the GDRs to the Official List and to trading on the Regulated Market. Uralkali expects that the cancellation of the current Admission and the re-admission of the GDRs to the Official List and to trading on the Regulated Market pursuant to this new application will each become effective on or around 21 June 2011.

The Combined Group

Uralkali expects that the Combination will lead to significant synergies, including, among other things, operational and transportation efficiencies, reductions in selling, general and administrative costs and the integrated development of the asset base of the Combined Group. See “Business” for further information on the business and strategy of the Combined Group.

DIVIDEND POLICY

Following completion of the Combination, Uralkali currently intends to declare and pay annual dividends of no less than 15% of any net profit, determined on the basis of Uralkali's IFRS financial statements in the prior annual period, subject to the restrictions on declaration and payment of dividends contained in Russian law. In determining the amount of any dividends to propose to shareholders of Uralkali, the Board of Directors of Uralkali will take into account Uralkali's business prospects, capital expenditure, cash requirements, financial requirements and other business and regulatory considerations.

The Joint Stock Companies Law and Uralkali's Charter set forth the procedure for determining the dividends that Uralkali distributes to its shareholders. The Joint Stock Companies Law allows dividends to be paid out only of net profits calculated under Russian Accounting Standards ("RAS"). According to its Charter, Uralkali may distribute dividends based on its three-month, six-month, nine-month or annual results according to RAS. The Board of Directors recommends dividends to the general shareholders' meeting, which then approves the dividends by majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the respective period; a decision on annual dividends must be taken at the Annual General Shareholders' Meeting. The dividend approved at the shareholders' meeting may not exceed the amount recommended by the Board of Directors. Dividends are distributed to holders of Uralkali's ordinary shares as of the record date for the shareholders' meeting approving the dividends. The shareholders' right to receive dividends, once declared, does not lapse. See "Description of Share Capital and Certain Requirements of Russian Legislation – Description of share capital – Dividends".

The table below shows the dividends that Uralkali declared on its Shares in the periods indicated.

Date of Adoption of Decision on Dividend Payment	Period for which the dividend was declared	Amount of Dividend per Ordinary Share⁽¹⁾/GDR (RUR)	Amount of Accrued Dividends (RUR thousands)
18 June 2008	2007	1.9/9.5	4,036,341.0
19 September 2008	Six months ended 30 June 2008	4.0/20.0	8,497,560.0
18 June 2010	2009	1.7/8.5	3,611,463.0

(1) The dividend per Share data has been calculated on the basis of the number of Shares issued and outstanding in the relevant year (2,124 million Shares in each of 2008, 2009 and 2010).

The historical dividend information for Uralkali for the years ended 31 December 2010, 2009 and 2008 described in this Prospectus may not be indicative of the dividend policy or any dividend declarations of Uralkali following the Combination. In any given year, several factors may affect Uralkali's determination of whether to pay dividends and the amount of such dividends, including, whether Uralkali generated any or sufficient profits under RAS on an unconsolidated basis or under IFRS on a consolidated basis, Uralkali's business prospects, cash requirements, financial performance, the condition of the market and the general economic climate, and other factors, including tax and other regulatory considerations. The borrowings of the Combined Group also impose certain conditions in relation to dividends. In particular, following the Combination, Uralkali will be the guarantor of Kamskaya Mining's obligation under a loan agreement with Sberbank. Under the terms of this loan, the guarantor of such loan may not pay more than 10% of its net profits for the relevant financial period as a dividend without the prior consent of Sberbank. Sberbank may refuse to consent to a dividend payment in the event that it believes that, based on a business plan and a cashflow model provided to the bank under the terms of the loan, the guarantor's group will be short of funds if the dividend is paid.

To the extent that Uralkali declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Uralkali's shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in any currency and, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts – Conversion of foreign currency", are converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

SELECTED FINANCIAL AND OPERATING INFORMATION

Uralkali

The following table shows selected financial and operating information for Uralkali as of and for the years ended 31 December 2010, 2009 and 2008. Financial information as of and for the years ended 31 December 2010, 2009 and 2008 has been extracted without adjustment from the Uralkali Financial Statements incorporated by reference in this Prospectus and should be read in conjunction with “Operating and Financial Review”, “Presentation of Financial Information” and the Uralkali Financial Statements, including the notes thereto.

Consolidated statement of income data

	Year Ended 31 December		
	2010	2009	2008
	(RUR millions, except earnings per share)		
Revenues.....	51,592	33,809	62,798
Cost of sales	(11,830)	(8,878)	(9,410)
Gross profit	39,762	24,931	53,388
Distribution costs.....	(12,819)	(6,075)	(9,840)
General and administrative expenses	(4,937)	(3,838)	(3,204)
Taxes other than income tax.....	(639)	(502)	(402)
Other operating expenses	(917)	(1,328)	(1,109)
Operating profit	20,450	13,188	38,833
Mine flooding costs.....	(28)	(1,060)	(8,294)
Finance income	214	456	856
Finance expense	(887)	(1,350)	(1,860)
Profit before income tax	19,749	11,234	29,535
Income tax expense	(3,095)	(2,139)	(7,592)
Net profit for the year	16,654	9,095	21,943
Profit is attributable to:			
Owners of the Company.....	16,650	9,089	21,937
Non-controlling interests.....	4	6	6
Net profit for the year	16,654	9,095	21,943
Earnings per share – basic and diluted (in RUR)⁽¹⁾	7.93	4.33	10.45

Consolidated statement of cash flows data

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Net cash generated from operating activities.....	21,218	4,472	32,604
Net cash used in investing activities	(4,719)	(15,369)	(12,910)
Net cash used in financing activities.....	(5,981)	(1,154)	(11,357)

Consolidated balance sheet data

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Total non-current assets.....	49,290	47,348	36,519
Total assets	74,806	62,628	62,323
Total current liabilities	7,864	9,876	16,995
Total non-current liabilities	10,145	9,037	10,708
Total liabilities	18,009	18,913	27,703
Non-controlling interest	23	27	21
Total equity	56,797	43,715	34,620
Total liabilities and equity	74,806	62,628	62,323

Selected Operating Data

	Year ended 31 December		
	2010	2009	2008
EBITDA (RUR millions)⁽²⁾	24,271	15,315	33,055
EBITDA margin ⁽³⁾	60%	52%	61%
Adjusted EBITDA (RUR millions)⁽⁴⁾	24,299	16,375	41,349
Adjusted EBITDA margin ⁽⁵⁾	60%	56%	76%
Capital expenditure (RUR millions)	10,257	14,105	14,341
Number of employees (annual average)	12,688	13,016	12,453
Available Production (thousand tonnes)⁽⁶⁾	5,500	5,500	5,400
Actual Production (thousand tonnes)⁽⁶⁾	5,061	2,621	4,793

- (1) Basic earnings per share are calculated by dividing the net profit attributable to equity holders of Uralkali by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. Uralkali has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.
- (2) EBITDA means net profit adjusted for income tax expense, finance income, finance expense, share of net (loss)/profit of investments accounted for using the equity method, depreciation and amortisation expenses. Depreciation is reported through cost of sales, distribution costs, transshipment costs, general and administrative expenses depending on the function of the assets being depreciated. Amortisation is reported through general and administrative expenses. The following table shows a calculation of EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Net profit	16,654	9,095	21,943
<i>plus income tax expense</i>	3,095	2,139	7,592
<i>plus finance expense</i>	887	1,350	1,860
<i>plus depreciation</i>	3,793	3,131	2,445
<i>plus amortisation</i>	56	57	71
<i>less finance income</i>	(214)	(456)	(856)
EBITDA	24,271	15,315	33,055

- (3) EBITDA margin means (1) EBITDA divided by (2) revenues less railway tariff, freight and transshipment costs. Uralkali believes that this calculation provides a better reflection of margins because it adjusts for the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the EBITDA margins expressed by many of Uralkali's competitors. The following table shows a calculation of revenues less railway tariff, freight and transshipment costs for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Revenues	51,592	33,809	62,798
<i>less railway tariff</i>	(4,631)	(1,628)	(3,203)
<i>less freight costs</i>	(5,882)	(2,611)	(4,960)
<i>less transshipment costs</i>	(476)	(340)	(282)
Revenues less railway tariff, freight and transshipment costs	40,603	29,230	54,353

- (4) Adjusted EBITDA means EBITDA plus mine flooding costs. The following table shows a calculation of Adjusted EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
EBITDA	24,271	15,315	33,055
<i>plus mine flooding costs</i>	28	1,060	8,294
Adjusted EBITDA	24,299	16,375	41,349

- (5) Adjusted EBITDA margin means (1) Adjusted EBITDA divided by (2) revenues less railway tariff, freight and transshipment costs. Uralkali believes that this calculation provides a better reflection of margins because it neutralises the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the Adjusted EBITDA margins expressed by many of Uralkali's competitors.
- (6) Potash only.

Silvinit

The following table shows selected financial and operating information for Silvinit as of and for the years ended 31 December 2010, 2009 and 2008. Financial information as of and for the years ended 31 December 2010 and 2009 has been extracted without adjustment from the Silvinit Financial Statements. The following selected financial and operating information for Silvinit should be read in conjunction with "Operating and Financial Review", "Presentation of Financial Information" and the Silvinit Financial Statements, including the notes thereto, included elsewhere in this Prospectus.

In connection with the preparation of its audited consolidated financial statements as at and for the year ended 31 December 2009, Silvinit restated the comparative 2008 information included in such 2009 consolidated financial statements for the following changes in accounting policy: the adoption by Silvinit of IAS 23 Borrowing Costs (2007) and revised IAS 1 Presentation of Financial Statements (2007). As a result of this restatement, the comparative information for 2008 included in the audited consolidated financial statements as at and for the year ended 31 December 2009 is not comparable in all respects to the consolidated financial statements of Silvinit as at and for the year ended 31 December 2008. The 2008 financial information presented below has been derived from the comparative 2008 information in the audited consolidated financial statements of Silvinit as at and for the year ended 31 December 2009 and not the previously published 2008 financial statements.

Consolidated statement of comprehensive income data

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions, except earnings per share)		
Revenue	39,025	33,994	55,402
Cost of sales	(11,070)	(8,691)	(10,203)
Gross profit	27,955	25,303	45,199
Distribution costs.....	(6,395)	(3,198)	(5,412)
Export duties	–	(260)	(2,013)
Administrative expenses.....	(1,935)	(1,526)	(1,711)
Other income	365	128	167
Other expenses	(4,901)	(2,027)	(1,177)
Results from operating activities	15,089	18,420	35,053
Finance income	278	151	148
Finance costs	(1,374)	(3,991)	(10,440)
Share of profit of equity accounted investees (net of tax)	10	62	49
Profit before income tax	14,003	14,642	24,810
Income tax expense	(2,471)	(4,124)	(7,127)
Profit for the year	11,532	10,518	17,683
Profit attributable to:			
Owners of the Company.....	11,532	10,517	17,685
Non-controlling interest	–	1	(2)
Profit for the year	11,532	10,518	17,683
Basic and diluted earnings per share (in RUR)			
Preference shares.....	1,114	1,016	1,709
Ordinary shares	1,114	1,016	1,709

Consolidated statement of cash flows data

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Cash flows from operating activities.....	12,917	12,788	22,033
Cash flows utilised by investing activities	(8,506)	(7,829)	(54,660)
Cash flows (utilised by)/from financing activities	(3,946)	(5,505)	35,833

Consolidated statement of financial position data

	As at 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Total assets	112,817	106,466	99,591
Total current liabilities	18,217	6,418	32,838
Total non-current liabilities	36,537	51,327	26,325
Total liabilities	54,754	57,745	59,163
Non-controlling interest	–	7	7
Total equity	58,063	48,721	40,428
Total liabilities and equity	112,817	106,466	99,591

The following table sets forth selected operating data for Silvinit for the periods indicated.

Selected Operating Data

	Year ended 31 December		
	2010	2009	2008 (Restated)
EBITDA⁽¹⁾ (RUR millions)	18,335	21,307	37,231
EBITDA margin ⁽²⁾	53%	66%	74%
Capital expenditure (RUR millions)	4,168	5,570	7,472
Capital expenditure in intangible assets, excluding capitalised borrowing costs (RUR millions)	194	111	47,024
Borrowing costs, capitalised in intangible assets (RUR millions).....	3,996	4,361	2,207
Number of employees – OJSC Silvinit (annual average)	10,859	10,892	11,301
Actual KCI Production (thousand tonnes)	5,120	3,518	5,082

(1) The following table sets forth a calculation of EBITDA for the periods indicated:

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(RUR millions)		
Net profit	11,532	10,518	17,683
<i>plus income tax expenses</i>	2,471	4,124	7,127
<i>plus finance expense</i>	1,374	3,991	10,440
<i>less share of net (loss)/profit of investments accounted for using the equity method</i>	(10)	(62)	(49)
<i>plus depreciation</i>	3,215	2,855	2,116
<i>plus amortisation</i>	31	32	62
<i>less finance income</i>	(278)	(151)	(148)
EBITDA	18,335	21,307	37,231

- (2) EBITDA margin means (1) EBITDA divided by (2) revenues less export duties, railway tariff, freight and transshipment costs. The following table shows a calculation of revenues less export duties, railway tariff, freight and transshipment costs for the periods indicated:

	Year ended 31 December		
	2010	2009	2008 (Restated)
		(RUR millions)	
Revenues	39,025	33,994	55,402
<i>less export duties</i>	–	260	2,013
<i>less railway tariff</i>	3,675	1,467	2,477
<i>less freight costs</i>	152	23	161
<i>less transshipment costs</i>	273	161	257
Revenues less export duties, railway tariff, freight and transshipment costs	34,925	32,083	50,494

DOCUMENTS INCORPORATED BY REFERENCE

The following financial information for Uralkali, which is available at www.uralkali.com/eng/investors/financial_performance, is incorporated by reference into this Prospectus:

Information incorporated by reference	Reference document	Page in the reference document
Financial Statements 2010, including Auditors' Report	Uralkali Group Consolidated Financial Statements and Auditor's report for the year ended 31 December 2010	1-38
Financial Statements 2009, including Auditors' Report	Uralkali Group Consolidated Financial Statements and Auditor's report for the year ended 31 December 2009	1-36
Financial Statements 2008, including Auditors' Report	Uralkali Group Consolidated Financial Statements and Auditor's report for the year ended 31 December 2008	1-38

The Uralkali Financial Statements have been audited by ZAO PricewaterhouseCoopers Audit.

OPERATING AND FINANCIAL REVIEW

The following discussion of the financial condition and results of operations of Uralkali and Silvinit should be read in conjunction with the Uralkali Financial Statements and the Silvinit Financial Statements, the notes thereto and the other information included elsewhere in this document. This section contains forward-looking statements that involve risks and uncertainties. The Combined Group's results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors". In particular, the historical financial results of Uralkali and Silvinit may not be indicative of the financial results or condition of the Combined Group for financial reporting periods following completion of the Merger.

Overview

On 20 December 2010, the Board of Directors of Uralkali announced the proposed combination of Uralkali with Silvinit to create one of the largest potash companies in the world. Uralkali is the surviving entity following the Merger.

The mining operations of the Combined Group are located at five mines at the Verkhnekamskoe deposit of potassium and magnesium salts in the Perm region of the Urals in Russia, which is the world's second largest deposit in terms of ore reserves.

Uralkali operates two mines of potassium and magnesium salts at the Verkhnekamskoe deposit with proved and probable reserves of silvinit, reported in accordance with the JORC Code, of 506.9 million tonnes of ore at 1 January 2011. In 2010, Uralkali accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. Uralkali also has a licence for the Ust-Yaivinsky field, which is estimated to contain approximately 1,291 million tonnes of potash resources. Uralkali has a major distribution platform, including its joint venture interest in BPC, and holds a 100% interest in JSC BBT, which operates cargo and warehousing facilities at the port of St. Petersburg. Over 86% of Uralkali's potash sales volumes was exported in 2010, including to its principal export markets of China, Brazil and India.

The three mines that Silvinit operated are located at the Verkhnekamskoe deposit, in close proximity to Uralkali's operations. Silvinit's proved and probable reserves of silvinit, reported in accordance with the JORC Code, were 497.0 million tonnes of ore as at 1 January 2011. In 2010, Silvinit accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. In addition, Kamskaya Mining, a wholly-owned subsidiary of the Combined Group, has a licence to develop the Polovodovsky field, which is located adjacent to the three Silvinit mines. In 2010, export sales accounted for 79% of Silvinit's total volume of sales. The principal export markets for Silvinit's products are India, China, other Asian countries and Brazil. In 2010, Silvinit sold the majority of its products under commission and sales contracts with trading firms, including IPC and Agrifert S.A.

The Combined Group produces two main potash products: Granular and Standard MOP, each of which is derived from potash ores comprising potassium chloride (KCl) mixed with other minerals.

Uralkali's total consolidated revenues for the year ended 31 December 2010 were RUR 51,592 million. Uralkali's net profit for the year ended 31 December 2010 was RUR 16,654 million. Silvinit's total consolidated revenues for the year ended 31 December 2010 were RUR 39,025 million. Silvinit's net profit for the year ended 31 December 2010 was RUR 11,532 million.

The Combination

The proposal to combine Uralkali and Silvinit comprised the following two steps: (i) the acquisition by Uralkali of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for a total cash consideration of US\$ 1.4 billion, and (ii) the 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. The Acquisition was completed on 28 February 2011. The Merger was submitted for registration with the Russian authorities on 11 May 2011, and Uralkali received notification of the

registration on 17 May 2011. Upon such registration, Silvinit ceased to exist. See “The Combination of Uralkali and Silvinit”. Uralkali is the surviving entity following the Merger.

Significant Factors Affecting Results of Operations

In the periods under review, the principal operations of Uralkali and Silvinit have comprised the production of potash in the Urals Region of Russia for sale to markets in China, India, other parts of Asia, Brazil, Europe and the United States, as well as to domestic customers in Russia. Consequently, their operations have historically been influenced to a large extent by the same key factors set out below:

- Macroeconomic and other economic trends, globally and in the markets which drive demand for potash (see “Industry Overview”);
- Pricing dynamics, which vary from market to market (see “Industry Overview”); and
- Freight and rail costs.

In addition, Uralkali’s operation have been affected by the flooding of Mine 1, which Uralkali considers to be an unusual and extraordinary event. See “– Liquidity and Capital Resources – Contingent Liabilities”.

Exchange rate movements and inflation

The rouble/U.S. dollar and rouble/euro exchange rate and inflation trends in the Russian Federation have affected the results of operations of Uralkali and Silvinit since most of their respective revenues from sales of potash outside the Russian Federation have been denominated in U.S. dollars or euro, while a substantial portion of their expenses are denominated in Russian roubles. Accordingly, the real appreciation of the rouble versus the U.S. dollar or the euro negatively affects Uralkali’s margins. Neither Uralkali or Silvinit used currency hedging instruments in 2010, 2009 or 2008. See “Currencies and Exchange Rates”.

Government policies

During the periods under review, Uralkali and Silvinit have been influenced by social considerations in Russia, including government policies to support domestic agriculture. For example, Uralkali voluntarily set the price for sales to Russian complex fertiliser producers at RUR 3,955 per tonne of KCl for the first six months of 2009, which, even taking into account the 5% customs duty, represented a significant discount to export prices, and, in response to continuing difficulties in the Russian agricultural sector and the recommendations of the Russian Ministry of Industry and Trade, Uralkali retained this pricing policy for the remainder of 2009.

In addition, potash demand in China and some other export destinations, where the government influences the price of potash, and India, where potash use is subsidised by the government, is heavily dependent on government policy.

Freight and rail costs

During the periods under review, Uralkali and Silvinit used a number of delivery methods for sales of potash and accepted varying responsibilities for the chain and cost of delivery. Choice of such methods and responsibilities has affected the amount of the distribution costs in any particular period as well as the prices charged for the potash, and therefore the amount of revenues. In general, the more delivery costs that were borne by Uralkali or Silvinit, as the case may be, the higher the distribution costs and, consequently, the higher the amount charged to the customers.

The tables below show a breakdown of various delivery methods, in terms of sales volume, for the periods indicated:

Uralkali:

	Year Ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
CFR	3,328	1,506	2,968
DAF	891	139	505
FCA Berezniki	682	602	527
FOB	178	250	668
Total sales volume	5,079	2,497	4,668

Silvinit:

	Year Ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
CFR	272	40	226
DAF	507	103	460
FCA Solikamsk	2,802	2,541	3,062
FOB	1,330	830	1,364
Including FOB Solikamsk	264	157	393
Total sales volume	4,924	3,550	5,545

In the periods under review, Silvinit also made a small quantity of sales on a CPT (Carriage Paid To) basis and EXW (Ex Works) basis, although such sales were not material in the context of its overall volume of sales for such periods.

CFR (Cost and Freight)

Under the CFR arrangement, title to potash transfers when potash passes the rail of the ship at the port of shipment. The majority of Uralkali's sales to Southeast Asia, Brazil, India, Latin America and the United States, as well as almost all export sales to Europe, when delivered by sea, and sales to China by sea (approximately 34% of all Uralkali's sales to China were sea sales in 2010) are made on a CFR basis. In 2010, approximately 6.9% of Silvinit's export sales were made on a CFR basis, comprising sales to Europe under an agreement with IPC. Under the terms of sale on a CFR basis, the Combined Group incurs railway tariff for deliveries to the relevant sea port, transshipment cost to load potash on the ship, freight cost for transporting potash to the destination port and the rail tariff for transporting the empty rail cars back from the sea ports to Berezniki or Solikamsk, as the case may be.

DAF (Delivery at Frontier)

Under the DAF arrangement, title to potash transfers when potash crosses the Russian border. All China Rail Sales and certain export sales to Europe, such as those to Poland, Finland and Romania, when made for delivery by rail, are made by Uralkali on a DAF basis. In 2010, approximately 13% of Silvinit's export sales were made on a DAF basis, comprising sales to China, several European countries and CIS countries. In all cases, the Combined Group incurs the loaded rail car tariff charges for transporting the potash to the train terminal near the Russian border as specified in the contract and the railway tariff for transporting the empty rail cars back from that train terminal to Berezniki or Solikamsk, as the case may be. The price charged to customers includes the expected cost of these transport costs.

FCA (Free Carrier) Berezniki and FCA (Free Carrier) Solikamsk

Under the FCA Berezniki and FCA Solikamsk arrangement, title to potash transfers when potash is loaded on the customers' rail cars at the respective production facilities in Berezniki and Solikamsk. Uralkali delivers on an FCA Berezniki basis only in respect of domestic sales, and 100% of domestic sales were delivered on such basis in 2010. In 2010, sales by Silvinit on an FCA Solikamsk basis represented 99 per cent. of domestic sales and 46% of export sales. The price charged to customers for these deliveries are generally lower than export prices reflecting the fact that delivery is taken so close to the production facilities without additional charges having to be made for onward deliveries. Rail related costs do not therefore affect the price received for the products.

FOB (Free on Board)

Under the FOB arrangement, title to potash transfers as soon as potash is loaded on the ship. In 2010, 4% of Uralkali's export sales were made on a FOB basis. In 2010, Silvinit sold products on a FOB basis under an agreement with IPC to customers in India, Brazil, the United States, Europe and Southeast Asia. The Combined Group incurs railway tariff for deliveries to the relevant sea port in St. Petersburg for onward shipping, ship loading costs and the rail tariff for transporting the empty rail cars back from the sea port to Berezniki or Solikamsk, as the case may be. In 2010, Silvinit also made sales on a FOB Solikamsk basis pursuant to an agreement with Agrifert SA to customers in India, Brazil, China and Southeast Asia, under which Silvinit's products were loaded onto ship's at Silvinit's own loading facilities. The price of products sold on a FOB Solikamsk basis does not include cost of onward transportation by river and sea.

DISCUSSION OF RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008 – URALKALI

The following table shows a summary of Uralkali's consolidated financial results for the years ended 31 December 2010, 2009 and 2008:

	Year Ended 31 December		
	2010	2009	2008
		(RUR millions)	
Revenues	51,592	33,809	62,798
Cost of sales	(11,830)	(8,878)	(9,410)
Gross profit	39,762	24,931	53,388
Distribution costs	(12,819)	(6,075)	(9,840)
General and administrative expenses	(4,937)	(3,838)	(3,204)
Taxes other than income tax	(639)	(502)	(402)
Other operating expenses	(917)	(1,328)	(1,109)
Operating profit	20,450	13,188	38,833
Mine flooding costs	(28)	(1,060)	(8,294)
Finance income	214	456	856
Finance expense	(887)	(1,350)	(1,860)
Profit before income tax	19,749	11,234	29,535
Income tax expense	(3,095)	(2,139)	(7,592)
Net profit for the year	16,654	9,095	21,943

Revenues

Total revenues in 2010 were RUR 51,592 million, an increase of 52.6% from RUR 33,809 million in 2009. Total revenues in 2009 were RUR 33,809 million, a decrease of 46.2% from RUR 62,798 million in 2008. In 2010, 2009 and 2008, Uralkali derived 97.0%, 94.8% and 97.8% of its total revenues from the sale of potash, with 91.0%, 86.3% and 92.7% of total revenues for those respective periods derived from export sales of potash. As a result, Uralkali's revenues are largely dependent on sales of potash to its main export markets, as well as, to a lesser extent, sales of potash in Russia.

The table below shows a breakdown of revenues, including a breakdown of revenues from potash by geographical market, for the periods indicated:

	Year Ended 31 December					
	2010		2009		2008	
	RUR millions	% of total revenues	RUR millions	% of total revenues	RUR millions	% of total revenues
Export potash sales.....	46,960	91.0	29,189	86.3	58,222	92.7
Latin America, China, India, Southeast Asia...	30,186	58.5	20,239	59.9	38,812	61.8
USA, Europe	16,342	31.7	8,713	25.8	18,851	30.0
Other countries	432	0.8	237	0.6	559	0.9
Domestic potash sales	3,092	6.0	2,878	8.5	3,190	5.1
Total potash sales.....	50,052	97.0	32,067	94.8	61,412	97.8
Other sales.....	1,540	3.0	1,742	5.2	1,386	2.2
Total revenues	51,592	100	33,809	100	62,798	100

Revenues from export potash sales

Revenues from export potash sales were RUR 46,960 million in 2010, an increase of 60.9% from RUR 29,189 million in 2009. The increase was primarily a result of an increase in the volume of sales of potash to export markets to 4.4 million tonnes in 2010 from 1.9 million tonnes in 2009. The average Vancouver FOB price and the average Baltic FOB price, which are used by the potash industry as a reference point for prices globally, decreased by 41.5% and 43.1%, respectively, in 2010 as compared with 2009. As a proportion of total revenues, export sales increased to 91.0% in 2010 from 86.3% in 2009.

In 2010, RUR 30,186 million, or 58.5% of total revenues, were revenues from exports to customers in Latin America, China, India, Southeast Asia, and RUR 16,342 million, or 31.7% of total revenues, were revenues from exports to the United States and member states of the EEA. Average prices in 2010 for sales to Latin America, China, India, Southeast Asia were RUR 10,305 per tonne, as compared to RUR 11,409 per tonne in the United States and the states of the European Union. The price differences resulted primarily from different delivery terms and different market conditions.

Revenues from export potash sales in 2009 were RUR 29,189 million, a decrease of 49.9% from RUR 58,222 million in 2008, largely due to a decline in the volume of sales of potash to export markets to 1.9 million tonnes in 2009 from 4.1 million tonnes in 2008 as a result of reduced global demand for potash, as well as lower prices for potash. The average Vancouver FOB price and the average Baltic FOB price decreased by 6.3% and 14.3%, respectively, in 2009 as compared with 2008. As a proportion of total revenues, export sales decreased to 86.3% from 92.7% in 2008.

In 2009, RUR 20,239 million, or 59.9% of total revenues, were revenues from exports to customers in Latin America, China, India, Southeast Asia, and RUR 8,713 million, or 25.8% of total revenues, were revenues from exports to the United States and member states of the EEA. Average prices in 2009 for sales to Latin America, China, India, Southeast Asia were RUR 15,360 per tonne, as compared to RUR 15,999 per tonne in the United States and the states of the European Union. The price differences resulted primarily from different delivery terms and different features of the markets.

In 2008, RUR 38,812 million, or 61.8% of total revenues, were revenues from exports to customers in Latin America, China, India, Southeast Asia, and RUR 18,851 million, or 30.0% of total revenues, were revenues from exports to the United States and member states of the EEA. Average prices in 2008 for sales to Latin America, China, India, Southeast Asia were RUR 13,375 per tonne, as compared to RUR 24,497 per tonne in the United States and the states of the European Union. The price differences resulted primarily from different delivery terms and different features of the markets.

Revenues from domestic potash sales

Revenues from domestic potash sales in 2010 were RUR 3,092 million, an increase of 7.4% from RUR 2,878 million in 2009, primarily driven by an increase of volume of sales to domestic customers to 682 thousand tonnes in 2010 from 602 thousand tonnes in 2009 as a result of growth in demand. Revenues from domestic potash sales comprised 6.0% of total revenues in 2010, as compared with 8.5% in 2009.

Revenues from domestic potash sales in 2009 were RUR 2,878 million, a decrease of 9.8% from RUR 3,190 million in 2008, primarily driven by the decrease in prices as a result of the price ceiling that Uralkali voluntarily imposed on domestic sales in 2009 in order to support Russian agriculture. The decrease in price was partially offset by an increase of volume of sales to domestic customers to 602 thousand tonnes in 2009 from 527 thousand tonnes in 2008. Revenues from domestic potash sales comprised 8.5% of total revenues in 2009, as compared with 5.1% in 2008, largely as a result of the decline in potash demand in Uralkali's export markets.

Other sales

Revenues from other sales were derived from domestic sources in the periods under review and comprise primarily revenues from transshipment services provided by JSC BBT to third parties, sodium chloride sales, processing of carnallite and repairs and maintenance services provided to third parties.

Revenues from other sales were RUR 1,540 million in 2010, a decrease of 11.6% from RUR 1,742 million in 2009. The decrease was primarily due to decline in JSC BBT transshipment revenue, freight and transportation services provided to third parties, which was partially offset by an increase in rent services provided to third parties.

Revenues from other sales in 2009 were RUR 1,742 million, an increase of 25.7% from RUR 1,386 million in 2008. The increase was primarily due to a higher average price charged by JSC BBT for its transportation services.

Cost of sales

The largest components of Uralkali's cost of sales are depreciation, labour costs, fuel and energy, materials and components used and repairs and maintenance.

Cost of sales in 2010 were RUR 11,830 million, an increase of 33.3% from RUR 8,878 million in 2009 as a result of overall increase in production by 93.1% in 2010 compared to 2009. Cost of sales increased largely due to increase in labour costs, fuel and energy, depreciation and materials and components used, as more fully explained below. As a percentage of revenues, cost of sales decreased to 22.9% for 2010 from 26.3% for 2009.

Cost of sales in 2009 were RUR 8,878 million, a decrease of 5.7% from RUR 9,410 million in 2008. The decrease in cost of sales was primarily due to the decrease in production in 2009 of 45.3% from 2008, which was partially offset by an increase in depreciation. As a percentage of revenues, cost of sales increased to 26.3% for 2009 from 15.0% for 2008.

The table below shows Uralkali's cost of sales for the periods under review by major components:

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
	(RUR millions, except percentages)				
Depreciation	3,132	2,502	25.2	1,908	31.1
Labour costs	2,890	2,083	38.7	2,622	(20.6)
Fuel and energy	2,244	1,499	49.7	1,864	(19.6)
Materials and components used	1,998	1,460	36.8	1,820	(19.8)
Repairs and maintenance	1,357	1,242	9.3	1,282	(3.1)
Transportation between mines					
by railway	333	201	65.7	348	(42.2)
Utilities	13	16	(18.8)	25	(36.0)
Change in work in progress, finished					
goods and goods in transit	(179)	(172)	4.1	(479)	(64.1)
Other costs	42	47	(10.6)	20	135.0
Total Cost of sales	11,830	8,878	33.3	9,410	(5.7)

Depreciation

Uralkali calculates depreciation costs on a straight line basis with respect to its property, plant and equipment. Depreciation of property, plant and equipment relating to mining and processing potash are reported through cost of sales. See "Presentation of Financial Information". Depreciation has been one of the largest components of Uralkali's total cost of sales, during the periods under review (26.5%, 28.2% and 20.3% in 2010, 2009 and 2008, respectively).

Depreciation increased by RUR 630 million, or 25.2%, in 2010 compared to 2009 as a result of an increase in property, plant and equipment due to fixed assets additions and modernisation. As a percentage of total cost of sales, depreciation decreased to 26.5% for 2010 from 28.2% for 2009.

Depreciation increased by RUR 594 million, or 31.1%, in 2009 compared to 2008 due to an increase in property, plant and equipment due to fixed assets additions and modernisation. As a percentage of total cost of sales, depreciation increased to 28.2% for 2009 from 20.3% for 2008.

Labour costs

Uralkali's labour costs mainly consist of salaries, bonuses and other incentives, severance payments, pension expenses and related social taxes. Labour costs are allocated by employee function among cost of sales, distribution costs (including a share of labour costs relating to BPC) and general and administrative expenses. Labour costs relating to mining and processing potash, and repair and maintenance of production equipment, are recorded under cost of sales.

Labour costs incurred for production increased by RUR 807 million, or 38.7%, in 2010 compared to 2009, largely due to the increase in potash production volume and due to the increase in the amount of compensation paid to employees involved in mining. In particular, in 2010, the average monthly salary was increased by 40% as compared with 2009 mainly due to the renewal of payments of monthly bonuses, which had been suspended in 2009 due to the decrease in production levels, and the indexation of salaries in line with market conditions. As a percentage of total cost of sales, labour costs increased to 24.4% for 2010 from 23.5% for 2009.

Labour costs incurred for production decreased by RUR 539 million, or 20.6%, in 2009 compared to 2008, largely due to the decrease in potash production, partially offset by increases in the level of compensation paid to employees involved in mining, in line with the wage inflation in Russia. As a percentage of total cost of sales, labour costs decreased to 23.5% for 2009 from 27.9% for 2008.

Fuel and energy

The potash production process requires significant amounts of electricity and heat energy. Energy related expenses represented 19.0%, 16.9% and 19.8% of total cost of sales in 2010, 2009 and 2008, respectively. In each of these periods, the majority of fuel and energy expenses were attributable to electricity expenses. The next two largest components during the period under review were heat and natural gas, together representing about a quarter of fuel and energy expenses. The remaining portion of these expenses were fuel oil and other energy expenses (principally consisting of gasoline). Uralkali uses electricity, among other things, to power the machines used in the production processes. Uralkali uses gas to heat boilers, which are used to produce heat for various stages of the production process, including, for example, to dry the potash and to heat the production facilities. Uralkali also purchases steam for heating from external providers for Plant 1. Uralkali uses fuel oil for ovens and heating at Plant 3 and gasoline to fuel its trucks.

Uralkali has implemented a power generation programme to reduce its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas. The power generation programme consisted of the installation and operation of four electricity generation turbines at Plant 4, the first two of which became operational in 2008 and the second two of which are expected to become operational in the third quarter of 2011. Although Uralkali expects its total electricity expenses to continue to rise as production is increased, it believes that by building its own power generation facility it will be able to reduce the rate of increase for these expenses. Uralkali's costs of producing its own electricity is reported under energy related expenses. Uralkali expects its natural gas expenses to rise, as it increases natural gas usage for electricity generation and as it switches from the use of fuel oil to gas.

Fuel and energy costs increased in 2010 by 49.7% to RUR 2,244 million from RUR 1,499 million in 2009, mainly due to the higher consumption of electricity and gas as a result of the higher production volumes in 2010. This increase in consumption was accompanied by an increase in prices of electricity and gas. As a percentage of total cost of sales, fuel and energy increased to 19.0% for 2010 from 16.9% for 2009.

Fuel and energy costs decreased in 2009 by 19.6% to RUR 1,499 million from RUR 1,864 million in 2008, mainly due to lower consumption of electricity and gas as a result of the decreased production volumes in 2009. The effect of the lower production was partially offset by an increase in prices of electricity and gas. As a percentage of total cost of sales, fuel and energy decreased to 16.9% for 2009 from 19.8% for 2008.

Materials and components used

Expenses in relation to materials and components used are costs incurred for products used in the production process, including, for example, chemicals, spare parts for mining equipment and the costs of repairs and maintenance conducted by Uralkali's in-house repairs and maintenance departments, and are all reported through cost of sales. Expenses for materials and components used have been one of the largest components of Uralkali's total cost of sales during the periods under review (16.9%, 16.4% and 19.3% of the total cost of sales in 2010, 2009 and 2008, respectively).

Costs related to materials and components used increased by 36.8% to RUR 1,998 million in 2010 from RUR 1,460 million in 2009, largely due to the higher production volumes in 2010. As a percentage of total cost of sales, materials and components used increased from 16.4% in 2009 to 16.9% in 2010.

Costs related to materials and components used decreased by 19.8% to RUR 1,460 million in 2009 from RUR 1,820 million in 2008, mainly due to decreased production volumes in 2009 and as a result of a decrease in prices for materials due to the global economic crisis. As a percentage of total cost of sales, materials and components used decreased to 16.4% in 2009 from 19.3% in 2008.

Repairs and maintenance

Expenses in relation to repairs and maintenance are costs of repairs and maintenance for production facilities and equipment outsourced to third-party service providers. Since 2005, Uralkali has increasingly outsourced repairs and maintenance work to third-party service providers and, in 2010, approximately 32% of all repairs and maintenance works were conducted by such providers. Increase in repairs and maintenance as a result of outsourcing has an offsetting effect on materials and components used, as materials and components used include the costs of repairs and maintenance conducted by Uralkali's in-house repair and

maintenance department. Repairs and maintenance costs accounted for 11.5%, 14.0% and 13.6% of the total cost of sales in 2010, 2009 and 2008, respectively.

Repairs and maintenance costs increased due to the higher production volume in 2010. As a percentage of total cost of sales, repairs and maintenance costs decreased to 11.5% for 2010 from 14.0% for 2009.

Repairs and maintenance costs remained stable in 2009 compared to 2008. Uralkali used the opportunity afforded by lower production volumes in 2009 to conduct maintenance work throughout its operations, and, consequently, due to the higher price of materials used in repairs and maintenance work, and the larger amount of repair and maintenance work outsourced to third-party contractors in 2009, repair and maintenance costs were largely unchanged from 2008. As a percentage of total cost of sales, repairs and maintenance costs increased to 14.0% for 2009 from 13.6% for 2008.

Transportation between mines by railway

Costs related to transportation between mines by railway are incurred to transport ore from Mine 4 to Plant 3 by rail. Uralkali incurs rail tariffs for this transport. These costs accounted for 2.8%, 2.3% and 3.7% of the total cost of sales in 2010, 2009 and 2008, respectively.

Costs related to transportation between mines by railway increased by 65.7% to RUR 333 million in 2010 from RUR 201 million in 2009 mainly because of the higher production volume in 2010.

Costs related to transportation between mines by railway decreased by 42.2% to RUR 201 million in 2009 from RUR 348 million in 2008, mainly due to decreased production volumes in 2009.

Change in work in progress, finished goods and goods in transit

The change in work in progress, finished goods and goods in transit is an adjustment to cost of sales to reflect production of goods for which revenues have not yet been recognised. The amount of the work in progress, finished goods and goods in transit at each reporting date is recorded at the cost of production of those products. Uralkali engages an independent surveyor as required by customs regulations to verify the physical quantity of finished products at a customs warehouse at the port of St. Petersburg at the reporting dates used for valuation. In accordance with the surveyor's guidance and the technical characteristics of the devices used for valuation, the valuation error can be plus or minus four to six per cent. Change in work in progress, finished goods and goods in transit accounted for 1.5%, 1.9% and 5.1% of the total cost of sales in 2010, 2009 and 2008, respectively.

Change in work in progress, finished goods and goods in transit remained stable in 2010 compared to 2009. At the end of 2010 and 2009, the amount of inventory held in Uralkali's and third party warehouses mainly comprised inventory held for customers from China and the United States.

Change in work in progress, finished goods and goods in transit decreased from an income of RUR 479 million in 2008 to an income of RUR 172 million in 2009, largely due to the larger amount of inventory held in Uralkali's and third party warehouses at the end of 2008 that was sold to final customers in 2009.

Distribution costs

The major components of distribution costs are freight costs and railway tariffs. Other distribution costs include transport repairs and maintenance, transshipment, depreciation, labour costs, travel expenses and commissions.

Distribution costs increased by 111.0% to RUR 12,819 million in 2010 from RUR 6,075 million in 2009, largely due to the higher amount of potash exported during 2010. As a percentage of revenues, distribution costs rose from 18.0% in 2009 to 24.8% in 2010.

Distribution costs decreased by 38.3% to RUR 6,075 million in 2009 from RUR 9,840 million in 2008, largely due to the lower amount of potash exported during 2009. As a percentage of revenues, distribution costs rose to 18.0% in 2009 from 15.7% in 2008.

The table below details Uralkali's distribution costs for the periods under review by major components:

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
	(RUR millions, except percentages)				
Freight	5,882	2,611	125.3	4,960	(47.4)
Railway tariff.....	4,631	1,628	184.5	3,203	(49.2)
Transport repairs and maintenance	579	347	66.9	572	(39.3)
Transshipment	476	340	40.0	282	20.6
Depreciation	286	273	4.8	259	5.4
Labour costs	243	217	12.0	137	58.4
Commissions	203	52	290.4	22	136.4
Travel expenses	139	157	(11.5)	158	(0.6)
Other.....	380	450	(15.6)	247	82.2
Total Distribution costs.....	12,819	6,075	111.0	9,840	(38.3)

Freight

Freight costs are shipping costs incurred by Uralkali if it sells potash on a CFR basis. The amount of freight costs Uralkali incurs not only depends on changes in freight charges, but also on the volumes Uralkali sells on a CFR basis, which in turn depends on how the sales are made and to which markets sales are made. Freight costs are seasonal in nature in that the underlying freight prices are higher in the winter months than in the summer months. Freight costs accounted for 45.9%, 43.0% and 50.4% of distribution costs in 2010, 2009 and 2008, respectively. Sales on a CFR basis accounted for 65.5%, 60.3% and 63.6% of Uralkali's sales volumes in 2010, 2009 and 2008, respectively.

Freight costs increased by 125.3% to RUR 5,882 million in 2010 from RUR 2,611 million in 2009. The increase in freight costs in 2010 compared to 2009 resulted primarily from the higher volume of CFR sales made during 2010.

Freight costs decreased by 47.4% to RUR 2,611 million in 2009 from RUR 4,960 million in 2008, largely due to the lower volume of sales made during 2009 due to reduced global demand for potash.

Railway tariff

During the period under review, railway tariff consisted of:

- railway tariff costs for deliveries by Uralkali by rail to sea ports for onward delivery by sea to the export markets for Uralkali products for sales made on a CFR and FOB basis;
- railway tariff costs for overland deliveries undertaken by Uralkali on a DAF basis to China and European destinations such as Poland, Finland and Romania. In these instances, Uralkali incurred railway tariff associated with transporting potash as far as the agreed rail terminal outside the country of ultimate destination, which is typically close to the relevant border with that country; and
- empty rail car tariffs for the return of the empty rail cars after deliveries have been made on deliveries made on China Rail Sales by Uralkali on DAF terms and on European export sales on DAF terms.

Railway tariff costs accounted for 36.1%, 26.8% and 32.6% of distribution costs in 2010, 2009 and 2008, respectively.

Railway tariff costs increased by 184.5% to RUR 4,631 million in 2010 from RUR 1,628 million in 2009, largely due to the higher production and sales volumes made during 2010.

Railway tariffs costs decreased by 49.2% to RUR 1,628 million in 2009 from RUR 3,203 million in 2008, largely as a result of the overall decline in production and sales in 2009.

Transport repairs and maintenance

Transport repairs and maintenance costs are costs related to services of third parties (primarily Russian Railways) and Uralkali's subsidiary, LLC Vagonnoe Depo Balahontsi. The costs relate to the repair and maintenance of Uralkali's rail cars and vary depending on the number and type of rail car serviced, such as dump cars and boxcars.

Transport repairs and maintenance costs increased by 66.9% to RUR 579 million in 2010 from RUR 347 million in 2009, largely due to the higher production and sales in 2010.

The decrease in transport repairs and maintenance by 39.3% to RUR 347 million in 2009 from RUR 572 million in 2008 resulted primarily from the overall decline in production and sales in 2009, although this was partially offset by the increase in prices of rail car parts in 2009 as compared to 2008.

Transshipment

Transshipment costs are principally costs incurred by JSC BBT with respect to transshipment of Uralkali potash. JSC BBT costs include depreciation, labour costs, raw material expenses (to facilitate storage of potash, for example) and various general and administrative expenses. Transshipment costs accounted for 3.7%, 5.6% and 2.9% of distribution costs in 2010, 2009 and 2008, respectively. If Uralkali's deliveries through JSC BBT fall in the future, transshipment costs would likely decrease, while other costs, in which Uralkali records fixed costs attributable to third party transshipments, would likely increase.

The increase in transshipment costs to RUR 476 million in 2010 from RUR 340 million in 2009 resulted primarily from the higher volume of sales made during 2010.

Transshipment costs increased modestly to RUR 340 million in 2009 from RUR 282 million in 2008 resulted primarily from the increase in JSC BBT costs such as depreciation, labour costs, raw material expenses and various general and administrative expenses, which was partially offset by overall decline in sales in 2009.

General and administrative expenses

The major component of general and administrative expenses is labour costs, which accounted for 60.3%, 54.2% and 47.8% of general and administrative expenses in 2010, 2009 and 2008, respectively. Other general and administrative expenses include consulting, audit and legal services, depreciation (related to administrative buildings and office equipment) and repairs and maintenance.

General and administrative expenses increased by 28.6% to RUR 4,937 million in 2010 from RUR 3,838 million in 2009, mainly because of increases in labour and repairs and maintenance costs, which were partially offset by decreases in consulting, audit and legal services and depreciation costs. As a percentage of revenues, general and administrative expenses decreased from 11.4% in 2009 to 9.6% in 2010, as a result of the overall increase in revenues in 2010.

General and administrative expenses increased by 19.8% to RUR 3,838 million in 2009 from RUR 3,204 million in 2008, mainly because of increases in labour, repairs and maintenance and depreciation costs, which were partially offset by decreases in consulting, audit and legal services and insurance costs. As a percentage of revenues, general and administrative expenses increased to 11.4% in 2009 from 5.1% in 2008, as a result of the overall decline in revenues in 2009.

The changes in the principal components in the general and administrative expenses for the periods indicated are set out in the table below.

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
	(RUR millions, except percentages)				
Labour costs	2,976	2,081	43.0	1,532	35.8
Consulting, audit and legal services	309	318	(2.8)	362	(12.2)
Depreciation	227	241	(5.8)	196	23.0
Repairs and maintenance	171	141	21.3	92	53.3
Security	147	119	23.5	113	5.3
Mine-rescue crew	120	111	8.1	93	19.4
Insurance	94	67	40.3	116	(42.2)
Travel expenses	76	59	28.8	67	(11.9)
Amortisation of intangible assets.....	56	57	(1.8)	71	(19.7)
Communication and information system services.....	47	51	(7.8)	67	(23.9)
Bank charges	33	24	37.5	69	(65.2)
Other.....	681	569	19.7	426	33.6
Total General and administrative expenses	4,937	3,838	28.6	3,204	19.8

Labour costs

Uralkali's labour costs relating to general and administrative expenses comprise salaries for executive management and other administrative staff.

Labour costs increased by 43.0% to RUR 2,976 million in 2010 from RUR 2,081 million in 2009. As a percentage of total general and administrative expenses, labour costs increased to 60.3% for 2010 from 54.2% for 2009.

Labour costs increased by 35.8% to RUR 2,081 million in 2009 from RUR 1,532 million in 2008. As a percentage of total general and administrative expenses, labour costs increased to 54.2% for 2009 from 47.8% for 2008.

The increase in labour costs in 2010 and 2009 was largely due to increase in bonuses made to the senior management, a higher amount of compensation paid to staff, employment of more highly paid professionals and managers, termination benefits paid for professionals and managers that left Uralkali, the restructuring of parts of the labour force to move certain employees from the production to general administration for greater efficiencies and wage inflation in Russia.

Consulting, audit and legal services costs

Consulting, audit and legal services mainly consists of fees for external management consultants, legal advisers and auditors.

Consulting, audit and legal services costs decreased slightly to RUR 309 million in 2010 from RUR 318 million in 2009. As a percentage of total general and administrative expenses, consulting, audit and legal services costs decreased to 6.3% for 2010 from 8.3% for 2009.

Consulting, audit and legal services costs decreased to RUR 318 million in 2009 from RUR 362 million in 2008. As a percentage of total general and administrative expenses, consulting, audit and legal services costs fell to 8.3% for 2009 from 11.3% for 2008.

Taxes other than income tax

Taxes other than income taxes increased by 27.3% to RUR 639 million in 2010 from RUR 502 million in 2009 largely due to increases in property tax and extraction tax.

Taxes other than income taxes increased by 24.9% to RUR 502 million in 2009 from RUR 402 million in 2008 largely due to increases in property tax, tax on land and extraction tax.

Other operating income and expenses

Other operating expenses decreased by 30.9% to RUR 917 million in 2010 from RUR 1,328 million in 2009 mainly because of decreased social costs and charity payments compared to 2009.

Other operating expenses increased by 19.7% to RUR 1,328 million in 2009 from RUR 1,109 million in 2008 mainly because of an increase in social costs and charity payments.

Operating profit

Operating profit increased by 55.1% to RUR 20,450 million in 2010 from RUR 13,188 million in 2009. Operating margin increased to 39.6% in 2010 from 39.0% in 2009.

Operating profit decreased by 66.0% to RUR 13,188 million in 2009 from RUR 38,833 million in 2008. Operating margin decreased to 39.0% in 2009 from 61.8% in 2008.

Mine flooding costs

In 2006, Uralkali ceased production operations in Mine 1 due to flooding. The flooding resulted in damage to Uralkali and third party property and resulted in subsidence of land above the flooded mine. In 2010, 2009 and 2008, Uralkali incurred mine flooding costs of RUR 28 million, RUR 1,060 million and RUR 8,294 million, respectively. These amounts, which Uralkali had previously recorded as provisions, comprised compensation and other payments to state authorities, Russian Railways and other third parties. See “–Liquidity and Capital Resources – Contingent Liabilities”.

Finance income

Finance income decreased by 53.1% to RUR 214 million in 2010 from RUR 456 million in 2009 mainly due to a reduction in interest income as a result of a decline in the amount of deposits opened during 2010 and a reduction in the interest rate available to Uralkali.

Finance income decreased by 46.7% to RUR 456 million in 2009 from RUR 856 million in 2008 mainly as a result of a reduction in interest income due to a decline in the amount of deposits opened during 2009.

Finance expense

Finance expense decreased by 34.3% to RUR 887 million in 2010 from RUR 1,350 million in 2009 mainly because of a reduction in foreign exchange loss and letters of credit fees, which was partially offset by a slight increase in interest expense and syndication fees.

Finance expense decreased by 27.4% to RUR 1,350 million in 2009 from RUR 1,860 million in 2008 mainly as a result of a reduction in interest expense due to the decrease in the effective interest rate on borrowings in 2009 compared to 2008.

Profit before income tax

Profit before income tax increased by 75.8% to RUR 19,749 million in 2010 from RUR 11,234 million in 2009 for the reasons discussed above.

Profit before income tax decreased by 62.0% to RUR 11,234 million in 2009 from RUR 29,535 million in 2008 for the reasons discussed above.

Income tax expense

Income tax increased by 44.7% to RUR 3,095 million in 2010 from RUR 2,139 million in 2009, largely due to the rise in operating profit in 2010.

Income tax decreased by 71.8% to RUR 2,139 million in 2009 from RUR 7,592 million in 2008, largely due to the decline in operating profit in 2009.

Net profit for the year

Net profit for the year increased by 83.1% to RUR 16,654 million in 2010 from RUR 9,095 million in 2009 for the reasons discussed above.

Net profit for the year decreased by 58.6% to RUR 9,095 million in 2009 from RUR 21,943 million in 2008 for the reasons discussed above.

DISCUSSION OF RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008 – SILVINIT

The following table shows a summary of Silvinit's consolidated financial results for the years ended 31 December 2010, 2009 and 2008:

In connection with the preparation of its audited consolidated financial statements as at and for the year ended 31 December 2009, Silvinit restated the comparative 2008 information included in such 2009 consolidated financial statements for the following changes in accounting policy: the adoption by Silvinit of IAS 23 Borrowing Costs (2007) and revised IAS 1 Presentation of Financial Statements (2007). As a result of this restatement, the comparative information for 2008 included in the audited consolidated financial statements as at and for the year ended 31 December 2009 is not comparable in all respects to the consolidated financial statements of Silvinit as at and for the year ended 31 December 2008. The 2008 financial information presented below has been derived from the comparative 2008 information in the audited consolidated financial statements of Silvinit as at and for the year ended 31 December 2009 and not the previously published 2008 financial statements.

	Year ended 31 December		
	2010	2009	2008 (Restated)
	(amounts in RUR millions, except earnings per share)		
Revenue	39,025	33,994	55,402
Cost of sales	(11,070)	(8,691)	(10,203)
Gross profit	27,955	25,303	45,199
Distribution expenses	(6,395)	(3,198)	(5,152)
Export duties	–	(260)	(2,013)
Administrative expenses	(1,935)	(1,526)	(1,971)
Other income	365	128	167
Other expenses	(4,901)	(2,027)	(1,177)
Results from operating activities	15,089	18,420	35,053
Finance income	278	151	148
Finance costs	(1,374)	(3,991)	(10,440)
Share of profit of equity accounted investees (net of tax)	10	62	49
Profit before income tax	14,003	14,642	24,810
Income tax expense	(2,471)	(4,124)	(7,127)
Profit for the year	11,532	10,518	17,683

Revenue

Total revenue in 2010 was RUR 39,025 million, an increase of 14.8% from RUR 33,994 million in 2009. Total revenue in 2009 was RUR 33,994 million, a decrease of 38.6% from RUR 55,402 million in 2008. In 2010, 2009 and 2008, Silvinit derived 94.5%, 94.0% and 96.8% of its total revenue from the sale of potash, with 82.6%, 81.9% and 90.3% of total revenue for those respective periods derived from export sales of potash. As a result, Silvinit's revenue is largely dependent on sales of potash to its main export markets, as well as, to a lesser extent, sales of potash and other products in Russia.

The table below shows revenues by geographical market and product for the periods indicated:

	Year Ended 31 December					
	2010		2009		2008	
	RUR millions	% of total revenues	RUR millions	% of total revenues	RUR millions	% of total revenues
Export (<i>all potash sales</i>): ...	32,220	82.6	27,850	81.9	50,042	90.3
Latin America, China,						
India, Asia	23,107	59.2	25,207	74.2	36,441	65.8
USA, Europe	8,159	20.9	1,422	4.2	13,071	23.6
Other countries	954	2.5	1,221	3.5	530	0.9
Domestic:	6,805	17.4	6,144	18.1	5,360	9.7
Potash sales	4,640	11.9	4,123	12.1	3,623	6.5
Salt	824	2.1	775	2.3	775	1.4
Carnallite	495	1.3	414	1.2	492	0.9
Services	645	1.7	492	1.5	295	0.5
Other	201	0.4	340	1.0	175	0.4
Total revenues	39,025	100	33,994	100	55,402	100

Revenues from export sales

Revenues from export potash sales were RUR 32,220 million in 2010, an increase of 15.7% from RUR 27,850 million in 2009. The increase was largely due to an increase in demand resulting from the recovery of the world economy from the global financial crisis. As a proportion of total revenues, export sales increased to 82.6 % in 2010 from 81.9% in 2009.

In 2010, revenue from exports to customers in Latin America, China, India and Asia were RUR 23,107 million in 2010, a decrease of 8.3% from RUR 25,207 million in 2009. Revenues from exports to member states of the EEA and the United States comprised 20.9% of total revenue in 2010, as compared to 4.2% in 2009.

Revenues from export potash sales in 2009 were RUR 27,850 million, a decrease of 44.3% from RUR 50,042 million in 2008. The decrease was largely due to a decline in the volume of sales of potash to export markets to 2.6 million tonnes in 2009 from 4.3 million tonnes in 2008 as a result of reduced global demand for potash, as well as lower prices for potash. As a proportion of total revenues, export sales decreased to 81.9% from 90.3% in 2008.

In 2009, revenue from exports to customers in Latin America, China, India and Asia comprised 74.2% of total revenues, as compared to 65.8% in 2008. Revenues from exports to member states of the EEA and the United States comprised 4.2% of total revenue in 2009, as compared to 23.6% in 2008. There were no revenues from sales to customers in the United States in 2009 due to a decrease in the production levels of main customers and availability of major stock balances of potash during the whole period. Sales to China and Asia decreased substantially in 2009 for similar reasons.

Revenues from domestic sales

Revenue from domestic sales in the periods under review comprised primarily sales of potash, as well as salt, carnallite and public services, including the supply of steam, water and energy.

Revenue from domestic potash sales in 2010 was RUR 4,640 million, an increase of 12.5% from RUR 4,123 million in 2009. The increase in revenue from domestic potash sales was primarily the result of increase in demand as a result of the economic recovery in Russia following the global financial crisis.

Revenue from domestic potash sales in 2009 were RUR 4,123 million, an increase of 13.8% from RUR 3,623 million in 2008. The increase in revenue from domestic potash sales was primarily the result of an increase in sales volumes to the domestic market from 0.91 million tonnes in 2008 to 0.97 million tonnes in 2008 due to the decrease in demand for potash in Silvinit's export markets, as well as an increase in price levels on the domestic market, including increases of up to 27% for some types of products.

Aggregate revenue from salt, carnallite, services and other sources in 2010 was RUR 2,165 million, an increase of 7.1% from RUR 2,021 million in 2009. The increase was primarily due to an increase in revenue from sale of salt, carnallite and services, which was partially offset by a decrease in other revenue (as result of the cessation of the production and sale of soldering flux in 2010).

Aggregate revenue from salt, carnallite, services and other sources in 2009 was RUR 2,021 million, an increase of 16.4% from RUR 1,737 million in 2008. The increase was primarily due to an increase in sales of services and revenue from other sources, which was partially offset by a decrease in revenue from carnallite.

Cost of sales

The largest components of Silvinit's cost of sales are materials, depreciation, personnel costs, payroll and social taxes, repairs, electricity and gas.

Cost of sales in 2010 were RUR 11,070 million, an increase of 27.4% from RUR 8,691 million in 2009. Cost of sales increased largely due to the growth of costs of materials, depreciation and personnel costs. As a percentage of revenues, cost of sales increased to 28.4% for 2010 from 25.6% for 2009.

Cost of sales in 2009 were RUR 8,691 million, a decrease of 14.8% from RUR 10,203 million in 2008. The decrease, which was primarily due to lower production levels in 2009, was partially offset by an increase in depreciation. As a percentage of revenues, cost of sales increased to 25.6% for 2009 from 18.4% for 2008 due to the decline in revenue during 2009.

The table below details Silvinit's cost of sales for the periods under review by major components:

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
	(RUR millions, except percentages)				
Materials	2,385	2,020	18.1	2,890	(30.1)
Depreciation	2,745	2,164	26.8	1,525	41.9
Personnel costs	2,714	2,107	28.8	2,061	2.2
Repairs	1,306	762	71.4	1,375	(44.6)
Electricity	1,198	837	43.1	731	14.5
Gas	508	324	56.8	299	8.4
Services	241	283	(14.8)	363	(22.0)
Mineral extraction tax	198	123	61.0	143	(14.0)
Change in provision for site restoration	(291)	(50)	482	777	(106.4)
Other expenses	66	121	(45.5)	39	210.3
Total Cost of sales	11,070	8,691	27.4	10,203	(14.8)

Materials

Expenses in relation to materials are costs incurred for products used in the production process, for example, the chemicals needed, spare parts for mining equipment and the costs of repairs and maintenance conducted by Silvinit's in-house repairs and maintenance departments, and are all reported through cost of sales. During the periods under review, expenses for materials have been one of the largest components of Silvinit's total cost of sales (21.5%, 23.2% and 28.3% in 2010, 2009 and 2008, respectively).

Costs related to materials increased in 2010 compared to 2009 due to the increase in potash production in 2010. As a percentage of total cost of sales, materials and components used slightly decreased to 21.5% in 2010 from 23.2% in 2009.

Costs related to materials decreased by 30.1% to RUR 2,020 million in 2009 from RUR 2,890 million in 2008 due to the decrease in potash production in 2009. As a percentage of total cost of sales, materials and components used slightly decreased from 28.3% in 2008 to 23.2% in 2009.

Depreciation

Depreciation has been one of the three largest components of Silvinit's total cost of sales during the periods under review (24.8%, 24.9% and 14.9% in 2010, 2009 and 2008, respectively). See "Presentation of Financial Information" for a description of certain differences in the respective depreciation policies applied by Silvinit and Uralkali in 2010, 2009 and 2008.

Depreciation increased in 2010 compared to 2009 due to the acquisition of a large amount of fixed assets in 2010 and 2009. As a percentage of total cost of sales, depreciation decreased to 24.8% for 2010 from 24.9% for 2009.

Depreciation increased by 41.9% to RUR 2,164 million in 2009 from RUR 1,525 million in 2008 due to the acquisition of a large amount of fixed assets in 2009 and 2008. As a percentage of total cost of sales, depreciation increased to 24.9% for 2009 compared to 14.9% for 2008.

Personnel costs

Silvinit's personnel costs mainly consist of salaries, bonuses and other incentives, severance payments, pension expenses and related social taxes. Personnel costs relating to mining and processing potash, and associated repair work, are recorded under cost of sales and represented 24.5%, 24.2% and 20.2%, respectively, of Silvinit's total cost of sales in 2010, 2009 and 2008.

Personnel costs incurred for production increased to RUR 2,714 million in 2010 compared to RUR 2,107 million in 2009 due to an increase in employees' salary rates in April 2010. As a percentage of total cost of sales, personnel costs increased slightly to 24.5% for 2010 from 24.2% for 2009.

Personnel costs incurred for production increased slightly in 2009 compared to 2008 to RUR 2,107 million, as the decrease in potash production was offset by increases in the amount of compensation paid to employees involved in mining, in line with the wage inflation in Russia. As a percentage of total cost of sales, personnel costs increased slightly to 24.2% for 2009 from 20.2% for 2008.

Repairs

Expenses in relation to repairs are costs of repairs and maintenance for production facilities and equipment outsourced to third-party service providers. Repairs costs accounted for 11.8%, 8.8% and 13.5% of the total cost of sales in 2010, 2009 and 2008, respectively.

Repairs costs increased by 71.4% in 2010 compared to 2009 as a result of higher production volumes in 2010. As a percentage of total cost of sales, repairs costs increased to 11.8% for 2010 from 8.8% for 2009.

Repairs costs decreased by 44.6% to RUR 762 million in 2009 from RUR 1,375 million in 2008 as a result of lower production volumes in 2009. As a percentage of total cost of sales, repairs and maintenance costs fell to 8.8% for 2009 from 13.5% for 2008.

Electricity

Electricity expenses represented 10.8%, 9.6% and 7.2% of total cost of sales in 2010, 2009 and 2008, respectively.

Electricity costs increased by 43.1% to RUR 1,198 million in 2010 from RUR 837 million in 2009 mainly due to a significant increase in production volumes and increases in electricity tariffs. As a percentage of total cost of sales, electricity increased to 10.8% for 2010 from 9.6% for 2009.

Electricity costs increased by 14.5% to RUR 837 million in 2009 from RUR 731 million in 2008 as a result of increases in prices for electricity tariffs, which was partially offset by a decrease in the volume of electricity consumed due to lower production volumes.

Gas

Gas costs increased by 56.8% to RUR 508 million in 2010 from RUR 324 million in 2009 mainly due to a significant increase in production volumes and growth in prices of the fuel. As a percentage of total cost of sales, gas costs increased to 4.6% for 2010 from 3.7% for 2009.

Gas costs increased slightly by 8.4% to RUR 324 million in 2009 from RUR 299 million in 2008 as a result of increases in prices for gas, which was partially offset by a decrease in the volume of gas consumed due to lower production volumes. As a percentage of total cost of sales, gas costs increased to 3.7% for 2009 from 2.9% for 2008.

Mineral extraction tax

Mineral extraction tax increased in 2010 as compared with 2009 by 61.0% as a result of the increase in production volumes in 2010.

Mineral extraction tax fell in 2009 by 14.0% from 2008 as a result of the decrease in production volumes in 2009.

Change in provision for site restoration

Silvinit increased its provision for site restoration by RUR 777 million in 2008 and decreased this provision by RUR 50 million in 2009 and RUR 291 million in 2010. See “– Liquidity and Capital resources – Contingent Liabilities”.

Distribution expenses

The major component of distribution expenses railway tariff (accounting for 57.5%, 45.9% and 48.1% of distribution expenses in 2010, 2009 and 2008, respectively). Distribution expenses also include repair, distribution, materials, personnel costs, sales commissions, cargo handling in ports, services, payroll and social taxes, customs, rent of wagons, freight and bad debts and change in allowance for impairment of trade receivables.

Distribution expenses increased by 100% to RUR 6,395 million in 2010 from RUR 3,198 million in 2009, largely due to the increased amount of potash exported during 2010. As a percentage of revenues, distribution expenses rose from 9.4% in 2009 to 16.4% in 2010.

Distribution costs decreased by 37.9% to RUR 3,198 million in 2009 from RUR 5,152 million in 2008, largely due to the lower amount of potash exported during 2009. As a percentage of revenues, distribution costs increased slightly from 9.3% in 2008 to 9.4% in 2009.

The table below details Silvinit's distribution costs for the periods under review by major components:

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
(RUR millions, except percentages)					
Railway tariff	3,675	1,467	150.5	2,477	(40.8)
Freight	152	23	560.9	161	(85.7)
Transshipment	273	161	69.6	257	(37.4)
Services	93	58	60.3	179	(67.6)
Repair	512	418	22.5	438	(4.6)
Rent of wagons	66	33	100.0	108	(69.4)
Depreciation	283	237	19.4	271	(12.5)
Materials	245	181	35.4	324	(44.1)
Sales commissions	360	172	109.3	294	(41.5)
Personnel costs	324	222	45.9	260	(14.6)
Customs	100	43	132.6	144	(70.1)
Other	312	183	70.5	239	(23.4)
Total Distribution expenses	6,395	3,198	100.0	5,152	(37.9)

Railway tariff

Railway tariff expenses are shipping costs incurred by Silvinit when cargos are shipped by railway to ports. Railway tariff accounted for 57.5%, 45.9% and 48.1% of distribution expenses in 2010, 2009 and 2008, respectively.

The increase in railway tariff by 150.5% to RUR 3,675 million in 2010 from RUR 1,467 million in 2009 resulted primarily from the higher volume of sales made during 2010 and an increase in railway tariffs.

The decrease in railway tariff by 40.8% to RUR 1,467 million in 2009 from RUR 2,477 million in 2008 resulted primarily from the lower volume of sales made during 2009 due to the market uncertainty stemming from the global financial crisis, which was partially offset by a rise in fuel prices.

Transshipment

Transshipment costs relate to payments by Silvinit to third parties in connection with cargo handling services provided in the course of export of Silvinit's products.

Transshipment costs in 2010 increased by 69.6% from the level in 2009, as a result of an increase in export sales during 2010.

Transshipment costs in 2009 declined by 37.4% from the level in 2008, as a result of the lower volume of sales made during 2009.

Repair

Repair costs in 2010 rose by 22.5% from the level in 2009, as a result of growth in sales volumes.

Repair costs in 2009 decreased by 4.6% from the level in 2008, as a result of the overall decline in production and sales in 2009.

Depreciation

Depreciation costs rose by 19.4% in 2010 as compared to 2009 primarily due to the acquisition of a large amount of fixed assets in 2010 and 2009.

Depreciation costs fell in 2009 as compared to 2008 primarily as a result of change in classification of several groups of assets previously depreciated in distribution expenses.

Customs

Customs duties increased significantly in 2010 as compared to 2009 as a result of an increase in export sales.

Customs duties decreased by 70.1% to RUR 43 million in 2009 from RUR 144 million in 2008 as a result of the lower volume of export sales made during 2009 and a decrease in customs duties rates.

Export duties

Export duties decreased by 87.1% to RUR 260 million in 2009 from RUR 2,013 million in 2008 as a result of the abolition of export duties on potash products in March 2009. As a percentage of revenues, export duties decreased to 0.8% in 2009 from 3.6% in 2008.

Administrative expenses

The major components of administrative expenses are personnel costs and services. Other components include depreciation, insurance, materials, payroll and social taxes and business trips.

Administrative expenses increased by 26.8% to RUR 1,935 million in 2010 from RUR 1,526 million in 2009, mainly due to increases in personnel costs and costs of services. As a percentage of revenues, administrative expenses increased to 5.0% in 2010 from 4.5% in 2009.

Administrative expenses decreased by 22.6% to RUR 1,526 million in 2009 from RUR 1,971 million in 2008, mainly due to decreases in insurance and repairs costs, partially offset by increases in personnel costs, services, depreciation and property tax expenses. As a percentage of revenues, administrative expenses increased to 4.5% in 2009 from 3.6% in 2008.

The changes in the principal components in administrative expenses between the periods are set out in the table below.

	Year ended 31 December				
	2010	2009	% change, 2010/2009	2008	% change, 2009/2008
	(RUR millions, except percentages)				
Personnel costs	570	483	18.0	405	19.3
Services	481	383	25.6	439	(12.8)
Insurance	53	103	(48.5)	181	(43.1)
Depreciation	187	182	2.7	177	2.8
Materials	33	45	(26.7)	71	(36.6)
Property tax	279	231	20.8	174	32.8
Business trips	29	24	20.8	35	(31.4)
Rent	6	12	(50.0)	20	(40.0)
Repairs	39	20	95.0	135	(85.2)
Bad debts and change in allowance for impairment of trade receivables	188	(32)	687.5	260	(112.3)
Other	70	75	(6.7)	74	1.4
Total Administrative expenses	1,935	1,526	26.8	1,971	(22.6)

Personnel costs

Personnel costs relating to the head office personnel costs are reported through general and administrative expenses. Personnel costs mainly consist of salaries, bonuses and other incentives and related social taxes.

Personnel costs increased by 18.0% to RUR 570 million in 2010 from RUR 483 million in 2009, mainly due to the increase in salary rates in April 2010 and higher level of bonuses. As a percentage of total administrative expenses, personnel costs decreased to 29.5% for 2010 from 31.7% for 2009.

Personnel costs increased by 19.3% to RUR 483 million in 2009 from RUR 405 million in 2008, mainly due to change in classification of personnel costs between distribution costs and general and administrative expenses. As a percentage of total administrative expenses, personnel costs increased to 31.7% for 2009 from 20.5% for 2008.

Services

The increase in services costs in 2010 as compared to 2009 primarily resulted from an increase in expenditures for gas and electricity (due to higher prices), as well as increases in expenditures for security services, corporate education services, medical insurance services and other services.

The decrease in services costs in 2009 as compared to 2008 primarily resulted from change in classification of several types of expenses to cost of sales.

Depreciation

Depreciation of property, plant and equipment at Silvinit's head office is reported through administrative expenses.

Depreciation growth was relatively stable in 2010 as compared to 2009, as compared to 2008 with an increase of 2.7% and 2.8%, respectively, over those periods. This primarily resulted from capital renewals.

The increase in depreciation in 2009 as compared to 2008 primarily resulted from the acquisition of new fixed assets, as well as the result of a change in classification of several groups of assets previously depreciated in distribution expenses.

Property tax

Property tax paid by Silvinit increased to RUR 279 million in 2010 from RUR 231 million in 2009 as a result of purchases of new property.

Property tax paid by Silvinit increased to RUR 231 million in 2009 from RUR 174 million in 2008 as a result of the purchases of new property.

Other income

Other income increased by 185.2% to RUR 365 million in 2010 from RUR 128 million in 2009 mainly due to the reversal of bad debt provision.

Other income decreased by 23.4% to RUR 128 million in 2009 from RUR 167 million in 2008 due to the fact that other income in 2008 was significantly affected by reversal of bad debt provision.

Other expenses

Other expenses increased by 141.8% to RUR 4,901 million in 2010 from RUR 2,027 million in 2009 mainly due to loss on disposal of subsidiary and impairment of goodwill.

Other expenses increased by 72.2% to RUR 2,027 million in 2009 from RUR 1,177 million in 2008, largely as a result of a donation to state authorities in the amount of RUR 1,000 million that was used to fund construction of a new railway line that will be used by Silvinit to transport its products. The new railway line went into operation at the end of 2009.

Results from operating activities

Results from operating activities decreased by 18.1% to RUR 15,089 million in 2010 from RUR 18,420 million in 2009. Operating margin decreased to 38.7% in 2010 from 54.2% in 2009.

Results from operating activities decreased by 47.5% to RUR 18,420 million in 2009 from RUR 35,053 million in 2008. Operating margin decreased to 54.2% in 2009 from 63.3% in 2008.

Finance income

Finance income increased by 84.1% to RUR 278 million in 2010 from RUR 151 million in 2009 mainly due to an increase in interest income and gain from reversal of provision for investments.

Finance income increased by 2.0% to RUR 151 million in 2009 from RUR 148 million in 2008 mainly because of an increase in dividend income, which was partially offset by a decrease in interest income.

Finance costs

Finance costs decreased by 65.6% to RUR 1,374 million in 2010 from RUR 3,991 million in 2009, mainly due to a decrease in foreign exchange loss and reduction of interest expenses as a result of the early repayment of loans.

Finance costs decreased by 61.8% to RUR 3,991 million in 2009 from RUR 10,440 million in 2008 since finance costs for 2008 included a foreign exchange loss of RUR 9,687 million resulting from a bank loan that was repaid in 2009.

Profit before income tax

Profit before income tax decreased by 4.4% to RUR 14,003 million in 2010 from RUR 14,642 million in 2009.

Profit before income tax decreased by 41.0% to RUR 14,642 million in 2009 from RUR 24,810 million in 2008.

Income tax expense

Income tax decreased by 40.1% to RUR 2,471 million in 2010 from RUR 4,124 million in 2009, due to the decline in operating profit and as a result of the effect of the utilisation in 2010 of deferred tax assets (decrease in provisions) and effect of recognition of deferred tax liabilities (capitalised interest expenses).

Income tax decreased by 42.1% to RUR 4,124 million in 2009 from RUR 7,127 million in 2008, largely due to the decline in operating profit.

Profit for the year

Profit for the year increased by 9.6% to RUR 11,532 million in 2010 from RUR 10,518 million in 2009 for the reasons discussed above.

Profit for the year decreased by 40.5% to RUR 10,518 million in 2009 from RUR 17,683 million in 2008 for the reasons discussed above.

Liquidity and Capital Resources

Capital resources

Historically, Uralkali relied on cash provided by operations and bank loans to finance its working capital and capital requirements, and management expects that these will continue to be important sources of cash of the Combined Group in the future.

Uralkali intends to finance the future capital investment programme of the Combined Group with a mix of cash flows from operations and financing activities. Uralkali currently seeks long-term financing both domestically and internationally, from banks and in the future potentially through the capital markets, as well as medium-term working capital loans that may be secured by pledges over plant and equipment or by revenues.

Historical cash flows of Uralkali

The table below shows Uralkali's net cash flows from operating, investing and financing activities for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(RUR millions)		
Profit before income tax	19,749	11,234	29,535
Net cash generated from operating activities	21,218	4,472	32,604
Net cash used in investing activities	(4,719)	(15,369)	(12,910)
Net cash used in financing activities	(5,981)	(1,154)	(11,357)
Including dividends paid	(3,575)	(10)	(12,361)
Increase/(decrease) in cash and cash equivalents, net of restricted cash	10,391	(11,890)	8,981

Net cash generated from operating activities was RUR 21,218 million, RUR 4,472 million and RUR 32,604 million in the years ended 31 December 2010, 2009 and 2008, respectively.

The increase in net cash generated from operating activities in 2010 compared to 2009 was mainly due to an increase in potash volume of sales as a result of a higher global demand for potash. The decrease in net cash generated from operating activities in 2009 compared to 2008 was mainly due to a decline in potash volume of sales and potash prices as a result of a reduced global demand for potash.

Net cash used in investing activities was RUR 4,719 million, RUR 15,369 million and RUR 12,910 million in the years ended 31 December 2010, 2009 and 2008, respectively. The cash flows used in investing activities in these periods mainly related to the acquisition of property, plant and equipment, and, in 2010, was partially offset by sales of property, plant and equipment and the repayment of a related party loan. See "Transactions with Related Parties".

Net cash flows relating to financing activities were outflows of RUR 5,981 million, RUR 1,154 million and RUR 11,357 million in the years ended 31 December 2010, 2009 and 2008, respectively. In each of 2009 and 2008, proceeds of borrowings were largely matched by repayment of borrowings. In 2010 and 2008, Uralkali paid dividends to shareholders of RUR 3,575 million and RUR 12,361 million, respectively.

Historical cash flows of Silvinit

The table below shows Silvinit's net cash flows from operating, investing and financing activities for the periods indicated:

	Year ended 31 December		
	2010	2009	2008
	(amounts in RUR millions)		
Profit for the year	11,532	10,518	17,683
Cash flows from operating activities	12,917	12,788	22,033
Cash flows utilised by investing activities	(8,506)	(7,829)	(54,660)
Cash flows (utilised by)/from financing activities	(3,946)	(5,505)	35,833
Increase/(Decrease) in cash and cash equivalents	465	(546)	3,206

Cash flows from operating activities was RUR 12,917 million, RUR 12,788 million and RUR 22,033 million in the years ended 31 December 2010, 2009 and 2008, respectively.

Cash flows from operating activities in 2010 remained largely unchanged in 2010 and 2009. The decrease in cash flows from operating activities in 2009 compared to 2008 was mainly due to a decline in potash volume of sales and potash prices as a result of a reduced global demand for potash.

Cash flows utilised by investing activities was RUR 8,506 million, RUR 7,829 million and RUR 54,660 million in the years ended 31 December 2010, 2009 and 2008, respectively. The cash flows utilised by investing activities mainly related to the acquisition of property, plant and equipment in 2010 and 2009 and a mining licence for the exploration and development of potassium ore extraction in the Polovodovsky, Novo-Solikamsky and Ostalnyo fields of the Verkhnekamskoe deposit in 2008.

Cash flows utilised by financing activities in 2010 were RUR 3,946 million, largely as a result of the repayment of a financial lease and borrowings. Cash flows utilised by financing activities in 2009 were RUR 5,505 million, largely as a result of repayments of borrowings of RUR 53,102 million, which was partially offset by proceeds of borrowings of RUR 48,604 million. Cash flows from financing activities in 2008 were RUR 35,833 million, largely as a result of proceeds of borrowings of RUR 47,091 million.

Capital Expenditure

In 2010, 2009 and 2008, Uralkali made capital expenditures of RUR 10,257 million, RUR 14,105 million and RUR 14,341 million, respectively.

In 2010, 2009 and 2008, Silvinit made capital expenditures of RUR 4,168 million, RUR 5,570 million and RUR 7,472 million, respectively.

See “Business – Principal Investments” for a description of the principal investment projects undertaken by Uralkali and Silvinit in the periods under review.

Capital requirements

In addition to meeting its working capital requirements, Uralkali expects that repayments of outstanding debt and capital expenditures will represent its most significant uses of funds for the next several years. The amount and timing of Uralkali’s obligations in respect of outstanding debt is described below.

In December 2009, the Uralkali Board of Directors approved the investment programme for 2010–2012, which set the annual level of investment for that period at approximately RUR 12.5 billion, which excludes any costs that may be incurred in the development the Ust-Yaivinsky field and investment in social projects. Of these funds, approximately RUR 6.7 billion is allocated for capacity expansion, and nearly RUR 5.8 billion for capacity maintenance. The total cost of Silvinit’s investment programme to increase capacity to 6.0 million tonnes is estimated at approximately RUR 0.6 billion, and, in addition, Silvinit typically invests approximately RUR 4.5 billion each year on capacity maintenance. These investments have been financed through cash flow generated by operations and debt financing, and Uralkali expects that the Combined Group will finance the completion of these projects through cash flow generated by operations and debt financing. See “Business – Principal Investments – Brownfield Projects” for a description of the principal investments under the respective investment programmes of Uralkali and Silvinit. Uralkali expects that the implementation of both programmes will continue following completion of the Combination.

Borrowings

Uralkali

The following table sets forth the amount of Uralkali’s obligations in respect of loans and borrowings as of 31 December 2010 by period. These borrowings are partially collateralised with equipment or export revenues. Uralkali’s bank borrowings mature as follows:

Bank Loans	(RUR millions)
– within 1 year	2,589
– between 2 and 5 years	8,664
Total bank loans	11,253

Minimum lease payments as at 31 December 2010 under finance leases and their present values are as follows:

	(RUR millions)
– within 1 year	49
– between 2 and 5 years	196
– after 5 years	2,132
Minimum lease payments at the end of the period	2,377
Less future finance charges	(1,870)
Present value of minimum lease payments	507

Capital expenditure commitments as at 31 December 2010 were RUR 5,508 million payable upon satisfaction by the contractor of its obligations.

Description of existing bank debt obligations

The following table summarises Uralkali's bank debt obligations as at 31 December 2010.

Loan	Interest Rate	Amount (RUR millions)
Short-term bank loans in US\$ – floating interest	From 1 month Libor +1.6% to 1 month Libor +3.5%	2,589
Long-term bank loans in US\$ – floating interest	From 1 month Libor +3.25% to 1 month Libor +3.5%	8,664
Total		11,253

As of 31 December 2010 the carrying value of property, plant and equipment pledged under bank loans was RUR 3,987 million.

Rouble Bonds

On 25 February 2011, Uralkali completed the placement of Rouble Bonds, with a nominal value of RUR 1,000 per bond, in a total principal amount of RUR 30 billion in order to fund the Acquisition. The Rouble Bonds bear interest at the rate of 8.25% per annum and are due for redemption in February 2014.

The Rouble Bonds are admitted to trading on MICEX. Uralkali has entered into a currency swap with VTB Capital in respect of principal and interest payments in respect of the Rouble Bonds under which Uralkali pays U.S. dollar amounts to the swap counterparty and receives rouble amounts. Uralkali's obligations to the counterparty under the swap are secured by a pledge of corporate and sovereign bonds that it owns.

Sberbank loan

On 22 February 2011, Uralkali entered into loan facility agreement with Sberbank for approximately RUR 12 billion with a maturity of two years in conjunction with a cross-currency interest rate swap.

Silvinit

The following table sets forth the amount of Silvinit's obligations in respect of loans and borrowings as of 31 December 2010 by period. These borrowings are guaranteed by collateral of equipment, inventory and shares of its subsidiary (Kamskaya Mining). Silvinit's bank borrowings mature as follows:

Bank Loans	(RUR millions)
– within 1 year	14,274
– between 2 and 5 years	31,272
Total bank loans	45,546

Capital expenditure commitments as at 31 December 2010 were RUR 234 million payable upon satisfaction by the contractor of its obligations.

Description of existing bank debt obligations

The following table summarises Silvinit's bank debt obligations as at 31 December 2010.

Loan	Interest Rate	Amount (RUR millions)
Current portion of long-term bank loans in US\$ – fixed interest	7.65%	11,117
Short-term bank loans in US\$ – floating interest	1 month Libor + 4%	3,048
Short-term bank loans in RUR – floating interest	1 month MOSPRIME + 5.0%	109
Long-term bank loans in US\$ – fixed interest	7.65%	31,272
Total		45,546

As of 31 December 2010 the carrying value of property, plant and equipment pledged under bank loans was RUR 17,331 million.

Contingent liabilities

Mine 1 Flooding

On 28 October 2006, Uralkali ceased production operations in Mine 1 due to an inflow of natural groundwater which reached a level that could not be properly controlled.

On 1 November 2006, the commission of Rostekhnadzor issued an act on its technical investigation of the causes of flooding in Mine 1. According to the act, the cause of flooding was a “new kind of previously unknown anomaly of geological structure” and “the development of two silvinit layers AB (1964–1965) and Kr II (1976–1977)”. The combination of circumstances before the accident, in terms of the source, scope and strength was classified as “being extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved”.

In November 2008, at the request of the Russian Deputy Prime Minister, a new commission was established by Rostekhnadzor for a second investigation into the cause of flooding in Mine 1. According to the report of the second commission, issued on 29 January 2009, the flooding was caused by a “combination of geological and technological factors”.

Provision for compensations

In February 2009, Uralkali decided voluntarily, as a part of its social responsibility, to compensate expenses incurred by different levels of the Russian government in addressing the consequences of the flooding, including expenses for the resettlement of citizens, and expenses incurred prior to 31 December

2008 on the construction of a 6-kilometre railway bypass around the affected area. Uralkali also elected to fund part of the financing deficit for a project to construct a 53-kilometre railway bypass around the affected area.

Total compensations amounted to RUR 7,804 million and included the following expenses:

- Compensation of expenses related to addressing the consequences of the flooding incurred by federal and regional budgets. This part of the compensation amounted to RUR 2,314 million;
- Compensation for the financing deficit related to funding of the construction of a 53-kilometre railway bypass in the amount of RUR 5,000 million;
- Other compensations in the amount of RUR 490 million, including expenses related to the construction of a 6-kilometre railway bypass of RUR 454 million, and expenses incurred by the budget of Berezniki in relation to resettling citizens of RUR 36 million.

At the end of 2009, Uralkali was in negotiations with OJSC Russian Railways regarding the voluntarily compensation of additional actual expenditures related to the construction of a 53-kilometre railway bypass in the amount of RUR 1,000 million. In March 2010, the Board of Directors of Uralkali approved this compensation, as a part of its social responsibility. Since, as of 31 December 2009, the determination that this compensation would crystallise was assessed as “probable”, Uralkali accrued a provision in this amount. To date this provision has not been utilised as the process for making payment has not been finalised.

Other possible risks not included in provision for compensations

In July 2009, Uralkali received a request from TGK-9 to compensate expenses in the amount of RUR 3,160 million. According to the request, this amount corresponds to the expenses incurred in the development of a reserve energy supply source in Berezniki. The parties established a technical commission in order to determine whether these expenses are in fact directly connected to the consequences of the mine flood. In July 2010, Uralkali received an amended request from TGK-9 to compensate expenses in the amount of RUR 995 million. On 1 April 2011, TGK-9 filed a new claim against Uralkali for RUR 2.7 billion to compensate for costs incurred in the elimination of consequences of the flooding, and a preliminary hearing has been scheduled for 21 June 2011.

Uralkali believes that only the expenses that are directly caused by the flooding of the mine could be considered for compensation. Therefore Uralkali estimates the probability of having to pay this compensation to be from “remote” to “possible” and no accrual has been made in respect of this amount.

The procedure for calculating and compensating for mineral deposits lost as a result of mine flooding is not established by Russian law. However, Uralkali evaluates the risk that such claims could arise as “possible”. In the appendices to the report of the second commission, there is a calculation of the value of lost mineral resources (from RUR 25,380 million to RUR 84,602 million) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from RUR 964 million to RUR 3,215 million). Uralkali analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as “remote”.

In October 2009, Uralkali received the decision of the Russian tax authorities based on the tax audit for 2005–2006. The tax authorities have stated that, in October 2006, Uralkali should have charged mineral extraction tax for mineral deposits written off in the state records due to flooding. The sum of unpaid mineral extraction tax including fines and penalties amounted to RUR 782 million. Uralkali filed an appeal to the decision, which was rejected by the tax authorities in December 2009. In January 2010, Uralkali received a claim from the tax authorities to pay these taxes, fines and penalties. Uralkali believed that the conclusion in the authorities’ decision was not valid, and, in January 2010, Uralkali filled a petition against the decision. As a result of the petition, the court granted an interlocutory injunction to suspend the execution of tax authorities’ claim. On 16 April 2010, the Moscow arbitration court declined Uralkali’s petition, but, following a further appeal by Uralkali, on 19 August 2010 the arbitration court of appeal sustained Uralkali’s appeal. This decision came into force from the date of the ruling. The tax authorities subsequently challenged the decision of the arbitration court of appeal in the Federal Arbitration Court in Moscow Judicial Circuit,

and, in January 2011, the Federal Arbitration Court in Moscow Judicial Circuit ruled to leave standing the decision of the arbitration court of appeal. Uralkali estimates the probability of this liability crystallising as “remote” and accordingly has not made an accrual for this amount.

The audit opinion of PWC on the Uralkali Financial Statements for each of the financial years ended 31 December 2008 and 2009 included an emphasis of matter in relation to management’s estimates of compensations resulting from the flooding of Mine 1 in October 2006 on the basis that the ultimate outcome of this matter could not be determined as at the audit date and costs in excess of those provided for could be significant for Uralkali in the future.

Site restoration at Silvinit mines

Silvinit established a provision for its obligation to replace earth extracted from its mines in the amount of RUR 2,148 million, RUR 2,469 million and RUR 2,492 million as at 31 December 2010, 31 December 2009 and 21 December 2008, respectively.

Major uncertainties surrounding the quantum and timing of cash outflows related to the site restoration works and assumptions that Silvinit management has made in respect of such 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 liability 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 metre 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 metre 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 2009.
- 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.

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.

Quantative and Qualitative Disclosures about Market Risk

Overview

Uralkali is exposed in the ordinary course of its business to risks related to changes in exchange rates, interest rates, commodity prices, energy and transportation tariffs and credit risk. These same risks have applied historically to a large extent to Silvinit as well, and management expects that the Combined Group will be exposed to these risks following the Combination.

Foreign exchange risk

Uralkali’s products are typically priced in roubles for Russian sales and in U.S. dollars for international sales, and Uralkali’s direct costs, including materials and components used, labour and distribution costs, are largely incurred in roubles. The mix of Uralkali’s revenues and costs is such that appreciation in real terms of the rouble against the U.S. dollar tends to result in an increase in Uralkali’s costs relative to its revenues, while depreciation of the rouble against the U.S. dollar in real terms tends to result in a decrease in Uralkali’s costs relative to its revenues. See “Currencies and Exchange Rates”.

A 10% weakening/strengthening of the rouble against the U.S. dollar and euro, based on Uralkali’s exposure at 31 December 2010, would have increased/decreased Uralkali’s post-tax profit for the year by RUR 384 million, on the assumption that all other variables remain constant.

In the periods under review, Silvinit's foreign currency exposure was primarily in relation to the U.S. dollar. A 10% strengthening/weakening of the rouble against the U.S. dollar, based on Silvinit's exposure at 31 December 2010, would have increased/decreased Silvinit's post-tax profit for the year by RUR 3,924 million, largely as a result of Silvinit's U.S. dollar-denominated loans, on the assumption that all other variables remain constant.

Interest risk

Uralkali is exposed to interest rate risk through its borrowings at variable rates. The following table summarises the outstanding interest-bearing bank loans of Uralkali and Silvinit by currency and interest rate method as at 31 December 2010:

	Rouble-denominated		Dollar-denominated	
	Uralkali	Silvinit	Uralkali	Silvinit
Bank loans	–	109	11,253	45,437
Fixed-rate debt	–	–		42,389
Variable-rate debt	–	109	11,253	3,048

As at 31 December 2010, if LIBOR rates on US\$-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, Uralkali's post-tax profit for the year would have been RUR 113 million lower/higher.

As at 31 December 2010, if LIBOR/MOSPRIME rates on US\$/RUR denominated borrowings had been 100 basis points higher/lower with all other variables held constant, Silvinit's post-tax profit for the year would have been RUR 31 million lower/higher.

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from customers. Uralkali's corporate treasury function monitors credit risk by analysing the credit quality of customers, particularly by reference to country of origin.

As at 31 December 2010, Uralkali had 8 counterparties with aggregated receivables balances above RUR 100 million. The total aggregate amount of these balances was RUR 2,173 million, or 65% of the gross amount of trade and other receivables.

The majority of sales from units operated by Silvinit prior to the Combination were performed through long-established relationships with a network of traders. As at 31 December 2010, approximately 58% or RUR 22,636 million of Silvinit's export revenue was attributable to sales transactions with four export customers. As at 31 December 2010, the net accounts receivable to such customers was RUR 673 million.

Critical Accounting Policies

The summary below describes certain critical accounting policies of Uralkali in the periods under review. Following the Combination, Uralkali management expects that Uralkali will retain its current accounting policies. For a description of certain differences in the accounting policies applied by Uralkali and Silvinit in 2010, 2009 and 2008, see "Presentation of Financial Information".

Uralkali prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards and semi-annual consolidated condensed interim financial information in accordance with IAS 34. Significant accounting policies applied in the preparation of the IFRS financial statements are described in Notes 2 and 5 to the Uralkali Financial Statements. The application of certain of these policies requires management to make assumptions and judgments that can significantly affect the amounts reported in the Uralkali Financial Statements. Management believes that the following are critical policies where the assumptions and judgments made may significantly affect the Uralkali Financial Statements.

Uralkali makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's

experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Uralkali Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include (in addition to those discussed under “– Liquidity and Capital Resources – Contingent Liabilities – Mine 1 Flooding”):

Arrangements in respect of BPC

Uralkali has a 50% interest in BPC – the remaining 50% is divided between Belaruskali (which owns 44.999%), Belorussian Railways (which owns 5.0%) and Grodno Azot (which owns 0.001%).

BPC’s charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants’ goods and the related cost of sale and distribution costs. Administrative expenses incurred by BPC are currently shared as follows: not more than 69% on Belaruskali operations, and not less than 31% on Uralkali operations. The actual proportion depends on the volume of goods sold by each participant through BPC.

The distribution of net income to each participant is made on the basis of their relevant results after deducting administrative costs, unless both participants decide not to distribute. Uralkali’s operations through BPC, and Uralkali’s assets and liabilities located in BPC in which Uralkali has a direct interest, are included in Uralkali’s consolidated financial statements. The statement of income reflects the revenue from sales by BPC of Uralkali’s products, together with the related costs of sales, distribution and administrative costs.

Impairment of goodwill

Uralkali tests goodwill for impairment at least annually. The goodwill primarily relates to expected reduction of transport costs to be incurred from synergies with Uralkali when exporting potash by the Baltic Sea and is allocated to CGU JSC Uralkali. The recoverable amount of the goodwill is determined based on value in use calculations comprising cash flow projections approved by management covering a five-year period and analysis of synergies performed by an independent appraiser. Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the business sector of the economy in which Uralkali operates. A pre-tax discount rate of 15% which reflects risks relating to Uralkali was used in the calculation of the recoverable value. Uralkali did not recognise any impairment.

Remaining useful life of property, plant and equipment

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to Uralkali. The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the relevant operating licences. Management believes that the licences will be renewed in due order. However if the licences are not renewed, property, plant and equipment with net book value of RUR 1,931 million will be assessed for impairment in 2013.

Land

The main part of the facilities of JSC BBT are situated on land occupied on a lease basis for an unidentified period of time by virtue of applicable Russian law. Given the unidentified term of the lease, the relevant state authorities have the ability to unilaterally terminate the lease for the original land plot upon a three-month notice. If such termination by the state authorities occurs and the Combined Group cannot secure long-term use of this land, non-current assets of RUR 2,330 million should be assessed for impairment.

Trade and other receivables

Uralkali’s management analyses overdue trade and other accounts receivable at each reporting date. Overdue accounts receivable are not provided if management has certain evidence of their recoverability. If

management has no reliable information about the recoverability of overdue receivables, a 100% impairment provision is accrued for trade and other receivables overdue by more than 90 days, and receivables overdue by more than 45 (but less than 90) days are provided for at 50% of their carrying amount.

Inventory

Uralkali engages an independent surveyor to verify the physical quantity of finished products at the reporting dates. In accordance with the surveyor's guidance and technical characteristics of the devices used, the possible valuation error is 4–6%. At the reporting date, the carrying amount of finished products may vary within this range.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. See note 29 to the Uralkali Financial Statements.

Revenue recognition

Revenues are recognised on the date of risks transfer under the appropriate Incoterms 2000 specified in the sales contracts, as this is the date when the risks and rewards of ownership are transferred to the customers. For "Free On Board" (FOB) transactions, the title to goods transfers as soon as the goods are loaded on the ship. For "Delivery At Frontier" (DAF) transactions, the title to goods transfers only when goods cross the Russian border. For "Free Carrier" (FCA) terms, the title transfers when goods are loaded on the first carrier (railway carriages). For "Cost and Freight" (CFR) terms, the title transfers when goods pass the rail of the ship in the port of shipment.

Sales of services are recognised in the accounting period in which the services are rendered.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Uralkali Group. Revenues are measured at the fair value of the consideration received or receivable.

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE COMBINED GROUP AS AT 31 DECEMBER 2010

The unaudited pro forma statement of net assets has been prepared to illustrate the effect of the Combination as if it had occurred on 31 December 2010 (the “Unaudited Pro Forma Net Assets”). The Unaudited Pro Forma Net Assets of the Combined Group has been prepared using the Uralkali Financial Statements for the year ended 31 December 2010 and the Silvinit Financial Statements for the year ended 31 December 2010 and on the basis of the notes set out below.

The Unaudited Pro Forma Net Assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Combined Group’s actual financial position or results.

The Unaudited Pro Forma Net Assets has been prepared in a form consistent with the accounting policies adopted in the Uralkali Group’s latest annual accounts. The differences in accounting policies and other presentation matters are not material. See “Presentation of Financial Information” – “Differences in IFRS accounting policies of Uralkali and Silvinit”.

All pro forma adjustments are factually supportable and expected to have a continuing impact on the Combined Group.

Unaudited Pro Forma statement of net assets of the Combined Group

	Uralkali Group 31 December 2010 ⁽¹⁾	Silvinit Group 31 December 2010 ⁽²⁾	Adjustments			Pro Forma Combined Group 31 December 2010
			Reclassifi- cations (Note 1)	New loan facility and bonds (Note 2)	Acquisition accounting (Note 3)	
			(RUR millions)			
ASSETS						
Non-current assets						
Property, plant and equipment	47,144	36,696	(223)	–	–	83,617
Prepayments for acquisition of property, plant and equipment.....	1,022	–	223	–	–	1,245
Letters of credit for acquisition of property, plant and equipment.....	130	–	–	–	–	130
Goodwill	366	–	–	–	189,822	190,188
Intangible assets	142	57,819	–	–	–	57,961
Deferred income tax assets	258	323	–	–	–	581
Financial assets	228	–	552	–	–	780
Investments in equity accounted investees	–	322	–	–	–	322
Other investments	–	552	(552)	–	–	–
Long-term trade and other receivables.....	–	138	–	–	–	138
Total non-current assets	49,290	95,850	–	–	189,822	334,962

	Uralkali Group 31 December 2010 ⁽¹⁾	Silvinit Group 31 December 2010 ⁽²⁾	Adjustments			Pro Forma Combined Group 31 December 2010
			Reclassifi- cations (Note 1)	New loan facility and bonds (Note 2)	Acquisition accounting (Note 3)	
(RUR millions)						
Current assets						
Inventories.....	3,515	1,941	–	–	–	5,456
Trade and other receivables	7,164	3,259	–	–	–	10,423
Current income tax prepayments	62	54	–	–	–	116
Loans issued to related parties	10	–	15	–	–	25
Cash and cash equivalents	14,765	3,961	2,328	42,000	(40,517)	22,537
Irrevocable bank deposits	–	2,328	(2,328)	–	–	–
Other investments	–	2,917	(15)	–	–	2,902
Assets classified as held for sale.....	–	2,507	–	–	–	2,507
Total current assets	25,516	16,967	–	42,000	(40,517)	43,966
TOTAL ASSETS	74,806	112,817	–	42,000	149,305	378,928
LIABILITIES						
Non-current liabilities						
Borrowings	9,216	31,272	–	42,000	–	82,488
Post employment benefits obligations.....	282	–	–	–	–	282
Deferred income tax liability	647	3,380	–	–	–	4,027
Site restoration provision	–	1,885	–	–	–	1,885
Total non-current liabilities	10,145	36,537	–	42,000	–	88,682
Current liabilities						
Borrowings	2,589	14,274	–	–	–	16,863
Trade and other payables	3,489	1,818	1,297	–	–	6,604
Mine flooding provisions	1,000	–	–	–	–	1,000
Current income tax payable	306	–	–	–	–	306
Other taxes payable.....	480	–	241	–	–	721
Site restoration provision	–	–	263	–	–	263
Provisions	–	1,739	(1,739)	–	–	–
Dividends payable.....	–	62	(62)	–	–	–
Liabilities classified as held for sale.....	–	324	–	–	–	324
Total current liabilities	7,864	18,217	–	–	–	26,081
TOTAL LIABILITIES	18,009	54,754	–	42,000	–	114,763
NET ASSETS.....	56,797	58,063	–	–	149,305	264,165

(1) Extracted without adjustment from the audited IFRS consolidated financial statements of the Uralkali Group for the financial year ended 31 December 2010 issued on 1 April 2011, which are incorporated by reference into this Prospectus.

(2) Extracted without adjustment from the audited IFRS consolidated financial statements of the Silvinit Group for the financial year ended 31 December 2010 issued on 1 April 2011, which are included in this Prospectus.

Notes to the Unaudited Pro Forma statement of net assets

The Unaudited Pro Forma Net Assets includes appropriate adjustments to account for the events directly associated with the Combination. In addition, adjustments have been made to reflect the fundraising undertaken by the Uralkali Group, including the new loan facility with Sberbank and issuance of the Rouble Bonds. Any potential synergy benefits which may result from the Combination are not included in the Unaudited Pro Forma Net Assets.

- (1) The reclassifications were made to the statement of financial position of the Silvinit Group in order to present line items in a manner consistent with presentation adopted in the Uralkali Group's latest annual accounts. These amounts were extracted from the IFRS accounting records of the Uralkali Group and the Silvinit Group for 2010.
- (2) The adjustment represents financing raised by the Uralkali Group for the Combination, in particular RUR 12 billion of two-year loan facility with Sberbank and RUR 30 billion obtained from issuance of exchange-traded bonds maturing in 2014. These amounts were extracted from the IFRS accounting records of the Uralkali Group for 2011 and from the respective loan agreements. See "Operating and Financial Review – Liquidity and Capital Resources".
- (3) The Combination has been accounted for using the acquisition method of accounting. The excess of consideration over the book value of the net assets acquired has been reflected as goodwill and other intangibles. Determination of fair value of acquired net assets will be completed post Combination. According to IFRS 3 Business combinations, the Uralkali Group has a one year period to finalise the acquisition accounting. Therefore, the purchase price allocation was not performed and the calculation prepared for the purposes of Unaudited Pro Forma Net Assets will change upon completion of the Combination.

The Combination consists of the acquisition of 20% of Silvinit ordinary share capital for US\$ 894.5 per ordinary share, and the issuance of Uralkali ordinary shares for the remaining ordinary and preferred share capital of Silvinit. See "The Combination of Uralkali and Silvinit".

The amount of goodwill and other intangible assets has been calculated as follows:

	<u>Note</u>	<u>RUR million</u>
Cash consideration paid	(i)	40,517
Share consideration.....	(ii)	207,368
Total consideration		247,885
Less Silvinit Group's net assets acquired at book value as at 31 December 2010		(58,063)
Goodwill and other intangible assets		189,822

- (i) The cash consideration amounted to US\$ 1.4 billion paid for acquisition of 20% of OJSC Silvinit ordinary shares. The purchase price has been funded entirely through the Sberbank loan facility and issuance of Rouble Bonds.
- (ii) The share consideration represented by the issuance of 970,247,054 Uralkali ordinary shares for the remaining ordinary and preferred shares of Silvinit.

The calculation of share consideration is based on a closing price for the GDR of US\$ 38.00 per 1 GDR (1 GDR equals 5 shares) quoted on the London Stock Exchange on 17 May 2011, and the exchange rate between the Russian rouble and the U.S. dollar for 17 May 2011 based on the official exchange rate quoted by the Central Bank of Russia.

INDUSTRY OVERVIEW

The information on the fertiliser industry included in this “Industry Overview” section has been obtained from several independent external sources, including the International Fertilizer Industry Association, FERTECON, U.S. Geological Survey and Economist Intelligence Unit. Operating data that was presented in the external sources in tonnes of K_2O equivalent has been converted for the purposes of presentation in this Prospectus to tonnes of KCl equivalent using a conversion ratio of 0.62.

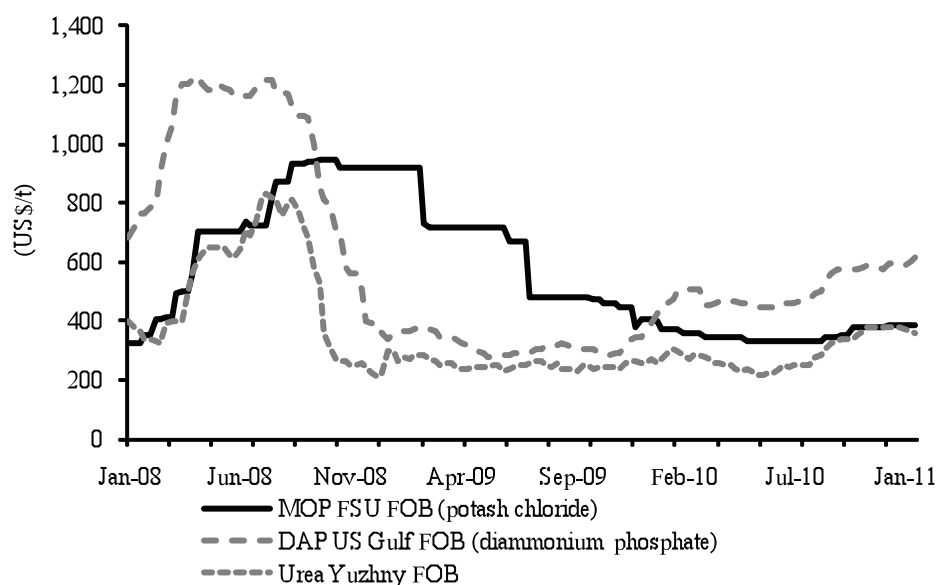
Global fertiliser industry

Fertilisers serve an important role in global agriculture by providing vital nutrients that help increase both the yield and the quality of crops. The three main nutrients required for plant growth are potassium, nitrogen and phosphorus. All three of these nutrients are naturally present in soil, but continued farming depletes soil of nutrients and therefore to sustain the yield and quality of crops each of the nutrients must be replenished through the use of fertilisers.

Potassium (“K”) improves plant durability, providing protection from drought, disease, weeds, parasites and cold weather and is an important regulator of plants’ physiological functions. Unlike nitrogen and phosphorus, potassium does not require additional chemical conversion to be used as a plant nutrient. Nitrogen (“N”) promotes protein formation and is a major component of DNA and RNA. Absorbed by plants in larger amounts than other nutrients, nitrogen makes plants green and is usually most responsible for increasing yields in crop plants. Phosphorus (“P”) plays a key role in the photosynthesis process, i.e., the conversion of light energy into chemical energy and storing it in the bonds of sugar. Phosphorus is also involved in seed germination and helps plants use water efficiently.

According to the International Fertilizer Industry Association (“IFA”), global production for the three principal crop fertilisers in the 2009/2010 season was approximately 163.7 million tonnes, consisting of 102.6 million tonnes (62.7%) of nitrogen, N, 37.5 million tonnes (22.9%) of processed phosphate, P_2O_5 and 23.5 million tonnes (14.4%) of potash, K_2O . The quality or grade of potash is sometimes expressed in terms of KCl content, or its equivalent in terms of potassium content, and the formula to convert the two is: $K_2O = KCl * 0.62$.

Fertiliser prices have exhibited significant volatility in the past three years, which was caused by the global economic and financial downturn of 2008–2009 and the subsequent economic recovery. The 2008-2010 minimum prices were as low as 34% of 2008–2010 peak price for potash, 22% for diammonium phosphate and 25% for urea. In the second half of 2010 and in the beginning of 2011, fertiliser prices have been increasing driven by increasing global demand backed by worldwide economic recovery. The charts below show international fertiliser prices for nitrogen, phosphate and potash fertilisers since 2008.



Source: FERTECON, FMB, Datastream

Consumption Fundamentals of Fertilisers

There has been a steady increase in consumption of fertilisers in the last 50 years due to a number of world macroeconomic factors. These factors include rising world population, shrinking arable land per capita and income growth, as well as changes in diet worldwide, such as an increase in meat consumption resulting in increased demand for grain and other animal feed.

Rising global population and falling arable land per capita: According to United States Census Bureau, the global population was more than 6.8 billion as at 1 January 2011 and has recently been increasing at 1.1% per annum, which has led to higher demand for food. At the same time that population has been rising, available arable land has remained fairly stable in the world generally and in the main markets in which Uralkali's products are sold. These factors have therefore driven increased demand for fertilisers which help increase the yield of the land. The table below shows population growth trends in certain key markets in which Uralkali products were sold during each of the three years ended 31 December 2010, 2009 and 2008:

Population growth compared to previous year

Country/Region	As of 31 December		
	2010	2009	2008
China	0.9%	1.0%	1.1%
Brazil	0.5%	0.6%	0.5%
India	1.5%	1.6%	1.6%
Russia.....	(0.2)%	0.1%	(0.4)%
United States	0.9%	0.9%	0.9%
Western Europe	0.5%	0.5%	0.6%

Source: Economic Intelligence Unit

Income growth: The world economy grew by approximately 4.6% (in purchasing power parity ("PPP") terms) in 2010, led significantly by Asian countries such as China, Taiwan, India, as well as Brazil. The table below shows GDP and GDP per capita increases in the United States and Western European economies and the BRIC countries (Brazil, Russia, India and China) compared to the previous corresponding period or date, as specified:

As of and for the years ended 31 December

Economies	2010	2009	2008
United States and Western Europe			
Real GDP (PPP, 2005 prices) in US\$ billions.....	26,834	26,197	27,123
GDP Growth %	2.4%	(3.4)%	0.2%
Total population in millions.....	788	783	778
GDP per capita in US\$ thousands.....	33.8	33.2	34.6
BRIC			
Real GDP (PPP, 2005 prices) in US\$ billions.....	16,928	15,548	14,777
GDP Growth %	8.9%	5.2%	7.4%
Total population in millions.....	2,804	2,776	2,750
GDP per capita in thousands US\$.....	6.0	5.5	5.3

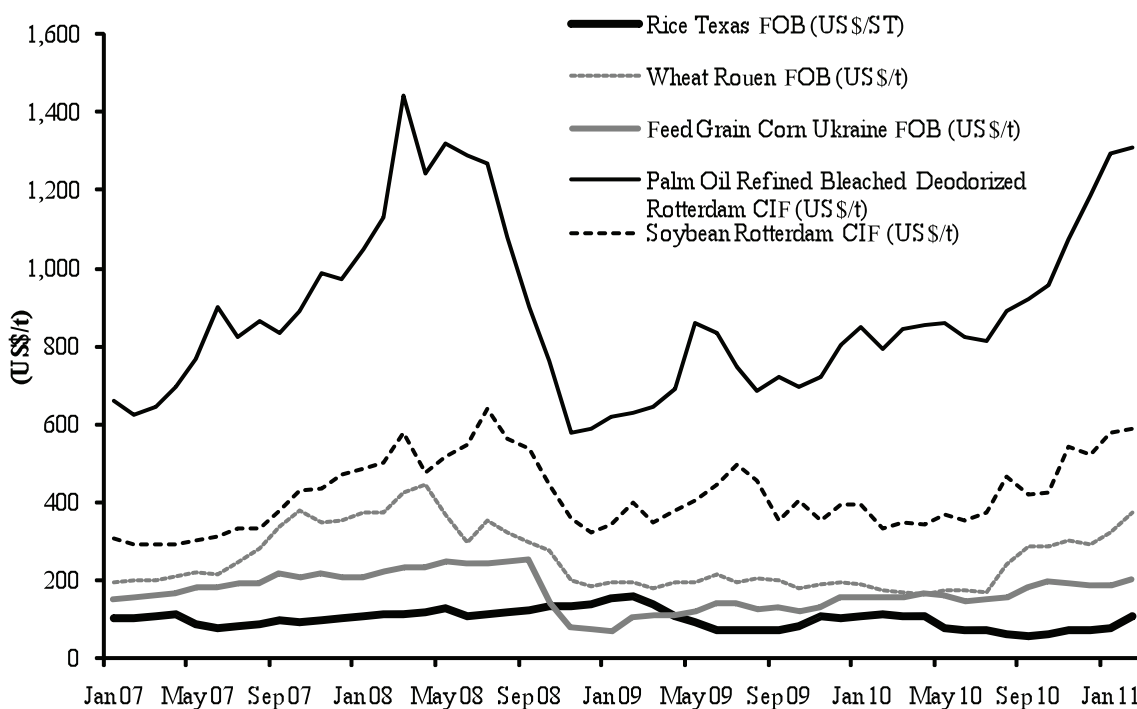
Source: Economic Intelligence Unit

Rising income levels, indicated by rising GDP levels, GDP per capita levels and the relevant consumer price index, also help drive fertiliser demand. Rising income levels help bring people above the poverty line and help them afford food above a mere subsistence level, which, in turn, helps drive increased demand for both grain and meat. Moreover, rising incomes lead to demand for better diets, which are more likely to include meat protein. Rise in demand for meat increases demand for grain and other animal food, which in turn drives the demand for fertilisers in order to increase the yield of the land. Over the last 10 years, world's total grain consumption has been growing with a compound annual growth rate ("CAGR") of 1.9%, and

world's meat consumption has been growing with a CAGR of 1.1% according to the U.S. Department of Agriculture data.

Biofuels: Due to the increasing governmental support for clean alternative sources of energy and the upsurge in oil prices, a new use for crops is emerging in the form of ethanol and biofuels production. Increasingly, corn in the United States, sugar cane in Brazil and oil crops such as canola and oil palm in Indonesia and Malaysia are being used for the production of such alternative fuels. Furthermore, the favourable regulatory framework plays an important role in shaping biofuels industry growth as governments worldwide aim to reduce conventional fuel consumption and replace it with environmentally friendly biofuels. As an example, an EU directive has established a mandatory target of 10% of biofuel usage in proportion to the total fuel consumption by 2020 in each member country, as compared to the actual usage of 3.4% in the European Union in 2008. This increase in demand for biofuels has a positive effect on the demand for potash as more potash is required to keep up with growing production of biofuel.

As a result of these coinciding trends (growth in population and GDP per capita, better diets, reduction in the amount of arable land per person and increasing popularity of biofuels), crop prices have been recovering following the global financial crisis to the historically high levels recorded in 2008:



Source: Bloomberg, February 2011

These increasing crop prices motivate farmers to use more fertilisers which represent a relatively small portion of crop production costs in order to increase yields. In developed economies, fertilisers are generally used to maintain healthy balances of nutrients in soils that have been fertilised for significant periods of times. Consumption has been fairly consistent over time. There has been little to no growth in fertiliser use in recent years in developed countries. In contrast, soil in many developing nations is undergoing its first stage of treatment in order to meet growing crop consumption. As a result, many developing countries have experienced a strong growth in the consumption of fertilisers.

Global potash industry

Overview

Potash is the common name for potassium chloride (also referred to as muriate of potash). It is the most common source of potassium. Plants cannot achieve maximum growth and yield without potassium, nor can the functions that potassium performs be carried out by other nutrients. Nearly every aspect of plant growth development, yield and quality is dependent upon an adequate supply of potassium.

Potash is mined from ore deep underground or extracted from brine by means of solution mining and is milled on the surface. In its processed state, potash appears as a granular mineral of varying sizes and ranges in colour from white to reddish depending on the presence of trace elements, notably iron, which remain after processing.

There are two principal potash grades: Granular/coarse, and Standard/fine. Standard/fine includes white muriate of potash (referred to as White MOP) and pink muriate of potash (referred to as Pink MOP). These grades differ in their particle size distribution specifications. Potash can be applied directly to crops or blended mechanically or chemically with other fertiliser nutrients.

The concentration of potash reserves is high and the production is limited to 13 countries, with 5 of these controlling approximately 94% of the total reserves according to January 2011 United States Geological Survey. The largest potash reserves are located in Canada, Russia and Belarus, with deposits in those three countries representing 46.3%, 34.7% and 7.8%, respectively, of known global potash reserves.

Global potash demand

Approximately 95% of the world's potash production is used as fertiliser, with the balance used principally in a variety of industrial applications. There are currently no commercially available viable substitutes for potash that approximate its function in agriculture.

Potash is generally purchased either directly from producers or via trading companies such as BPC and Canpotex by distributors which then sell to the agricultural industry, producers of NPK compound fertilisers and governments negotiating on behalf of a consortium of agricultural interests.

According to FERTECON, global consumption of potash has grown on average by approximately 2.6% per annum from 2000 to 2010, as many countries are increasing potash application due to the need to develop food supply for an expanding population. In 2009, according to FERTECON, global consumption dropped by 2.9% to 43.2 million tonnes, compared to 44.5 million tonnes in 2008, due to the global economic downturn. Consumption levels recovered to 52.4 million tonnes in 2010, an increase of 21.2% as compared with 2009. Global deliveries of potash exhibit more volatile behaviour, as customers tend to keep large inventory balances. In 2009, global deliveries decreased by 42.8% to 31.1 million tonnes, compared to 54.4 million tonnes in 2008. In 2010, total deliveries increased by approximately 78.4% compared to 2009 to a level of 55.5 million tonnes due to global stock depletion and increased worldwide demand backed by economic recovery.

FERTECON estimates that total deliveries in 2011 will increase by approximately 3.7%, to as much as 57.6 million tonnes, the highest level since the historical peak of 57.7 million tonnes in 2007. Overall, FERTECON estimates that demand for potash is expected to grow on average by approximately 3.8% per annum over the next five years, comprising a total increase of 11.4 million tonnes, although projected growth varies significantly from country to country. According to market data, it is estimated that the BRIC market will account for approximately 58% of the global incremental demand for potash by 2015.

Global potash supply

The supply of potash fertilisers is influenced by a broad range of factors including available capacity and achievable operating rates, mining, production and freight costs and government policies. During the 1990s, the potash industry suffered from significant overcapacity primarily due to high level of investments in Canada and an increased supply of potash to the global market from Russian and Belorussian producers. The situation changed significantly in the period from 2000 to 2008 and the world demand for potash experienced robust growth in this period. Global demand for potash demonstrated an average growth of 3.1% per annum between 2000 and 2008 driven by substantial economic growth in Asia and Latin America. The three leading potash-producing countries – Canada, Russia and Belarus – increased production in response to the increased demand. World potash production declined to 33.3 million tonnes in 2009, representing a decrease of 39.8% from the production levels in 2008 of 55.4 million tonnes according to FERTECON, as producers reduced production volumes in response to global economic and financial stability. In late 2009 and 2010, global potash demand recovered and global production reached 55.0 million tonnes in 2010, an increase of

65.2% from 2009. According to FERTECON forecasts, the total world production of potash in 2011 is expected to increase to 58.0 million tonnes, representing an increase of 5.4% from the 2010 levels.

If global demand grows at an average rate of 3.8% per annum in 2010-2015 as estimated by FERTECON, approximately 3.7 million additional tonnes of KCl will be required every year by potash consumers and capacity additions will be needed to meet future demand.

There a limited number of economically recoverable potash deposits in appropriate geologic conditions, and Uralkali believes that the cost of a development of a greenfield potash mine represents a significant barrier to entry for new participants and limits the potential growth of the current potash producers. This scarcity has resulted in a high degree of concentration among the leading producers.

In addition to the scarcity of economic deposits, another significant barrier to entry into the potash business is the location of the world's currently identified and unexploited potash reserves. A large portion of such reserves resides in politically unstable or remote locations such as the Congo, Ethiopia, Laos, Thailand, Uzbekistan and the Rio Colorado region of Argentina, where it would be very costly to build the infrastructure necessary to develop a new mine, such as electricity, water and links to rail transportation. Another barrier to entry is the long lead time necessary to develop and construct a new mine, which adds to the development costs for a new potash mine, especially in currently unexploited regions where ore bodies tend to be much deeper in the earth than the reserves that are currently being mined. Globally, there has been no new greenfield mine constructed which is currently in operation for more than twenty years; the most recently constructed operating mine in the world is Uralkali's Mine 4, which opened in 1987.

Pricing

Fertilisers are commodities for which competition occurs principally on the basis of delivered price and to a lesser extent on customer service and product quality. Potash prices are usually negotiated between suppliers or traders and consumers based on delivery contracts. Contracts for potash sales often vary in terms depending on the market. Contracts may be large sales contracts with fixed prices, contracts negotiated on a monthly basis with terms conditional on minimum orders for the year, and *ad hoc* "spot" purchases.

In 2000-2008, potash prices increased steadily as a result of increasing agricultural demand and limited supply on the market, reaching historical highs of US\$873 per tonne in October 2008. In 2009, following the global economic downturn, financial instability and a fall in commodity prices, potash prices declined sharply and stagnated until the second half 2010, reaching a low of US\$343 per tonne in August 2010. Prices subsequently increased as a result of the improvement in the global economic and financial climate and reached US\$383 per tonne by January 2011.

Period-end MOP prices (US\$ per tonne)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Jan 2011
Vancouver FOB.....	119.5	117.5	117.5	147.5	172.5	175.0	287.5	872.5	460.0	382.5	382.5
Black Sea FOB	94.5	94.5	94.5	132.5	160.0	162.5	257.5	975.0	392.5	387.5	395.0

Source: FERTECON, February 2011

Premium grades of potash include coarse and granular material in which the particle sizes are larger (1-4 mm), and soluble industrial products that are generally purer (98% K₂O). In international markets, Granular/Coarse potash is priced at a premium of US\$5-20 per tonne over Standard/Fine because of the additional processing required to produce it.

Trading

While there are 11 major potash producers worldwide, there are currently just two major international traders, which were responsible for the sale of approximately 56% of export potash sales in 2010 outside the country of production. These two traders are BPC and Canpotex.

- BPC: Most export sales by Uralkali and Belaruskali are made via BPC. In 2010, the total export sales of Belaruskali and Uralkali, taken together, represented 31% of the total export sales of potash.

- Canpotex, based in Canada, was established in 1972 as a joint venture owned by PotashCorp, Mosaic and Agrium. Canpotex trades outside of North America, which is considered the domestic market for each of its shareholders.

Transportation

Potash is transported via rail and by sea. Logistical costs vary significantly depending on the location of production and consumption. As the major sources of potash are geographically concentrated, transportation costs both during the production process and for the delivery to the customer have a significant impact on a company's ability to price its products competitively. Reliable transportation is a key component in the value chain of potash production as it allows top quality customer service and reactivity to peaks in demand and it ensures total control over low costs.

BUSINESS

Overview

On 20 December 2010, the Board of Directors of Uralkali announced the proposed combination of Uralkali with Silvinit to create one of the largest potash companies in the world. The proposal to combine Uralkali and Silvinit comprised the following two steps: (1) the acquisition by Uralkali on 28 February 2011 of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital and (2) the 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. Uralkali is the surviving entity following the Merger.

The mining operations of the Combined Group are located at five mines at the Verkhnekamskoe deposit of potassium and magnesium salts in the Perm region of the Urals in Russia, which is the world's second largest deposit in terms of ore reserves.

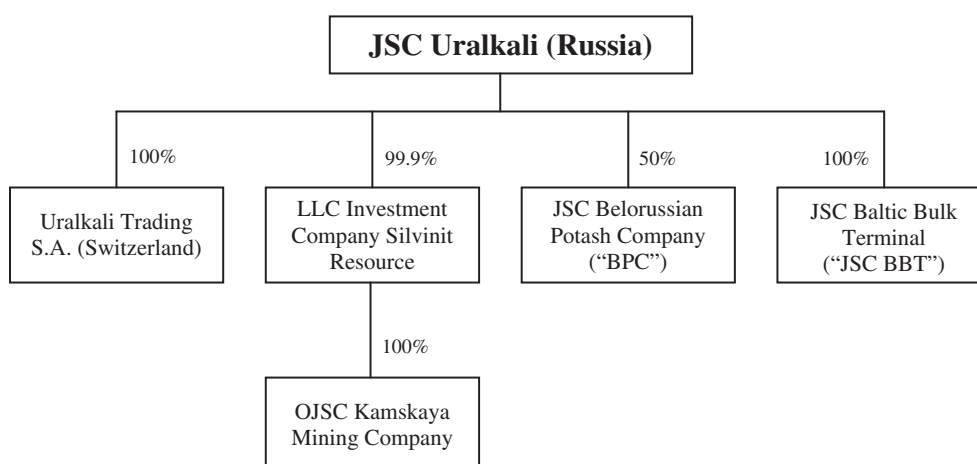
Uralkali operates two mines of potassium and magnesium salts at the Verkhnekamskoe deposit with proved and probable reserves of silvinit, reported in accordance with the JORC Code, of 506.9 million tonnes of ore at 1 January 2011. In 2010, Uralkali accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. Uralkali also has a licence for the Ust-Yaivinsky field, which is estimated to contain approximately 1,291 million tonnes of potash resources. Uralkali has a major distribution platform, including its joint venture interest in BPC, and holds a 100% interest in JSC BBT, which operates cargo and warehousing facilities at the port of St. Petersburg. Over 86% of Uralkali's potash sales volumes was exported in 2010, including to its principal export markets of China, Brazil and India.

The three mines that Silvinit operated are located at the Verkhnekamskoe deposit, in close proximity to Uralkali's operations. Silvinit's proved and probable reserves of silvinit, reported in accordance with the JORC Code, were 497.0 million tonnes of ore as at 1 January 2011. In 2010, Silvinit accounted for approximately 9.5% of global potash production with production of 5.1 million tonnes. In addition, Kamskaya Mining, a wholly-owned subsidiary of the Combined Group, has a licence to develop the Polovodovsky field, which is located adjacent to the three Silvinit mines. In 2010, export sales accounted for 79% of Silvinit's total volume of sales. The principal export markets for Silvinit's products are India, China, other Asian countries and Brazil. In 2010, Silvinit sold the majority of its products under commission and sales contracts with trading firms, including IPC and Agrifert S.A.

The Combined Group produces two main potash products: Granular and Standard MOP, each of which is derived from potash ores comprising potassium chloride (KCl) mixed with other minerals.

Corporate structure

Uralkali is the holding company and main operating company for the Combined Group. The following chart shows the organisational structure of the main subsidiaries and holdings of the Combined Group:



Competitive strengths

Uralkali believes the Combined Group will benefit from the following key strengths:

- the Combined Group will form one of the largest potash companies worldwide, with leading levels of production and production capacity, and one of the largest mining companies in Russia in terms of expected market capitalisation;
- the Combined Group will benefit from a global sales reach, with 83% of its combined 2010 sales going to export markets, of which 71% was exported to Brazil, India, China and Southeast Asia;
- the Combined Group is expected to have cash costs amongst the lowest in the potash industry worldwide, based on historical financial information and expected synergies from the Combination;
- Uralkali's and Silvinit's mining and processing operations are in close proximity to each other, which Uralkali believes will allow the Combined Group to achieve sizeable operational efficiencies; and
- the Combined Group will own an attractive portfolio of development opportunities to sustain organic long-term growth, including existing brownfield development projects at BKPRU-4 (Uralkali) and SKRU-3 (Silvinit) and greenfield projects at the Ust-Yaivinsky field (Uralkali) and Polovodovsky field (Silvinit).

Strategy

Uralkali's objective for the Combined Group is to create the leading global potash producer. Uralkali intends to pursue this objective through the implementation of the strategies set out below:

- leveraging the operational and financial strength of the Combined Group;
- promoting organic growth through a value accretive investment programme, to include the development of brownfield projects and greenfield development opportunities in the Combined Group's portfolio;
- pursuing improvements in operational efficiency to maintain and enhance the Combined Group's competitive cost position and profitability;
- optimizing sales and marketing channels;
- realizing the considerable synergy potential that exists through the Combination in an expedited timeframe to increase shareholder value;
- delivering shareholder value whilst operating in a socially responsible manner and positioning the Combined Group as the employer of choice in the Russian mining industry; and
- continued commitment to ongoing enhancements to Uralkali's corporate governance standards.

History and development

Uralkali's business was founded and developed as a large state-owned enterprise in 1930. In 1930, the construction of Uralkali's first industrial complex began in Berezniki in the Urals. Uralkali's four currently operating production divisions were commissioned and constructed between 1954 and 1987. For most of its operating history, all of Uralkali's production was sold domestically as part of the Soviet planned economy. In 1992, Uralkali was privatised and JSC Uralkali was established as the holding company for the various mining and production assets. Uralkali adapted to a market economy and the drop in domestic demand for its potash by commencing export activities through an independent trading company. In 1997, Uralkali shares were admitted to trading on the Russian Stock Exchange, Russian Trading System ("RTS").

Between 2000 and 2005, Uralkali invested in the construction and operation of JSC BBT, for the transshipment of potash at the seaport at St. Petersburg. After using independent traders and an in-house trader for export sales at different times during its history, Uralkali saw an opportunity to join a 50/50 joint

venture trading company with Belaruskali. During 2005, Uralkali acquired a 50% interest in the joint venture, BPC, for the export of potash produced by both companies starting 2006.

In 2007, Uralkali obtained admission of GDRs to the Official List of the UKLA and to trading on the Regulated Market of London Stock Exchange. On 20 December 2010, the Board of Directors of Uralkali announced the proposed combination of Uralkali with Silvinit to create one of the largest potash companies in the world. The Combination comprises the acquisition by Uralkali of approximately 20% of Silvinit's ordinary share capital, which completed on 28 February 2011, and the implementation of a statutory merger of Uralkali and Silvinit. See "The Combination of Uralkali and Silvinit".

Silvinit had until 1983 formed part of the same state-owned enterprise from which Uralkali was privatised. Its operations date back to 1927 with the commencement of construction of the first potash mining and production unit in Russia (SKRU-1). Its other operating units, SKRU-2 and SKRU-3, were constructed in 1973 and 1983, respectively. Silvinit was privatised in 1992 and re-directed its sales policy towards export sales. Following the implementation of a modernisation programme from 2000, Silvinit produced 5.5 million tonnes in 2008, its highest production volume to date. In 2008, Silvinit's subsidiary, Kamskaya Mining, obtained a licence to develop the Polovodovsky field, which is located adjacent to the existing production facilities described above. The Polovodovsky field, with estimated mineral resources of 3,073.5 million tonnes of ore, is the largest Russian greenfield property in terms of ABC1 resources.

Licences, mineral resources, ore reserves and mines

The Combined Group combines the mineral resources and reserves and mines and exploration assets of Uralkali and Silvinit, as described below.

Licences, mineral resources and ore reserves of Uralkali

Licences

Uralkali's mining licences give rights to develop the Durymansky and Bygelsko-Troitsky fields of the Verkhnekamskoe Deposit, referred to as Mine 2 and Mine 4, respectively. These licences were re-issued in 2001 and are valid until April 2013. A mining licence for Ust-Yaivinsky field, Mine 5, was issued to Uralkali in 2004 and is valid until 2024. In addition, Uralkali has licence rights to the Bereznikovsky field until 2013. Mining operations at this area were substantially reduced following the flooding and closure of Mine 1 in 2006, although Uralkali has underground access to some of the Bereznikovsky field from Mine 4. See "Material Contracts – Licences" for a summary of the main terms of Uralkali's mining licences.

Mineral Resources

Mineral Resources and Ore Reserves reported below comply with the 2004 edition of the Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves which is prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists, and Minerals Council of Australia, and is commonly referred to as the JORC Code. As at the date of this document, the 2004 edition of the JORC Code is in force.

The table below presents SRK's audited silvinitic Mineral Resource statement for Uralkali as of 1 January 2011. SRK has re-classified the resource estimates from the estimates calculated under the Russian mineral reporting system using the terminology and guidelines proposed in the JORC Code. In doing this, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. Definitions for the different categories used by this reporting code are given in "Glossary of Technical Terms". SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to the Mineral Resource. See "Appendix 1 – Mineral Expert's Report on the Mineral Resources and Ore Reserves of Uralkali's Mining Assets".

Category	Tonnage (Million tonnes)	K ₂ O (%)	K ₂ O (Million tonnes)
Mine 2			
Measured.....	49.1	24.5	12.0
Indicated.....	280.2	24.3	68.2
Measured + Indicated.....	329.3	24.4	80.2
Inferred.....	–	–	–
Mine 4			
Measured.....	808.0	22.1	178.7
Indicated.....	1,016.8	20.6	209.6
Measured + Indicated.....	1,824.8	21.3	388.3
Inferred.....	310.3	26.8	83.3
Mine 5			
Measured.....	480.9	19.5	94.0
Indicated.....	809.7	19.8	160.4
Measured + Indicated.....	1,290.6	19.7	254.4
Inferred.....	–	–	–
All Mines			
Measured.....	1,338.1	21.3	284.7
Indicated.....	2,106.7	20.8	438.2
Total Measured + Indicated.....	3,444.8	21.0	723.0
Inferred.....	310.3	26.8	83.3

Ore Reserves

The table below presents SRK's audited Silvinite Ore Reserve statement for Uralkali as of 1 January 2011. As with its audited Mineral Resource statement, SRK's Ore Reserve statement has been re-classified using the terminology and guidelines proposed in the JORC Code. In the case of Mine 5, SRK has not transferred any of the reported Measured or Indicated Mineral Resource to Ore Reserve status, given that technical work, inclusive of feasibility studies are ongoing to confirm the potential economics of developing this as a separate mine. In addition no Inferred Mineral Resources have been converted to Ore Reserves.

	Tonnage (Million tonnes)	K ₂ O (%)	K ₂ O (Million tonnes)
Mine 2			
Proved.....	18.2	19.8	3.6
Probable.....	102.3	19.8	20.2
Total.....	120.5	19.8	23.8
Mine 4			
Proved.....	187.3	18.6	34.9
Probable.....	199.1	18.5	36.8
Total.....	386.4	18.5	71.7
All Mines			
Proved.....	205.5	18.7	38.5
Probable.....	301.4	18.9	57.0
Total.....	506.9	18.8	95.5

SRK has limited the Ore Reserve Statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed, which SRK has taken to be that material planned to be mined during the period covered by Uralkali's 20 year Business Plan. Mine 2 Ore Reserves are fully depleted within the 20 year period of the Business Plan, however, Mine 4 Ore Reserves have the potential to

extend beyond the current 20 year period and, at an assumed production rate of 20Mtpa, could extend the mine life up to a further 15 to 20 years.

Licences, mineral resources and ore reserves of Silvinit

Licences

Silvinit's mining licences give rights to develop Solikamsky and Novo-Solikamsky fields of the Verkhnekamskoe Deposit. Each of these licences are valid until April 2013. In addition, the subsidiary Kamskaya Mining holds a licence for the adjacent Polovodovsky field. See "Material Contracts – Licences" for a summary of the main terms of Silvinit's mining licences.

Mineral Resources

The tables below present SRK's audited Mineral Resource statement for Silvinit for silvinit and carnallite, respectively. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. In doing this, SRK has reported those blocks classified as A or B by Silvinit as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to the Mineral Resource. See "Appendix 2 – Mineral Expert's Report on the Mineral Resources and Ore Reserves of Silvinit's Mining Assets".

Silvinit:

The table below presents SRK's audited silvinit Mineral Resource and Reserve statements for Silvinit as of 1 January 2011.

<u>Category</u>	<u>Tonnage</u> <u>(Million</u> <u>tonnes)</u>	<u>K₂O</u> <u>(%)</u>	<u>K₂O</u> <u>(Million</u> <u>tonnes)</u>
SKRU-1 Mine			
Measured.....	154.7	17.3	26.8
Indicated.....	86.0	16.3	14.0
Measured + Indicated.....	240.7	17.0	40.8
Inferred	–	–	–
SKRU-2 Mine			
Measured.....	252.6	17.3	43.8
Indicated.....	279.9	18.6	52.2
Measured + Indicated.....	532.5	18.0	96.0
Inferred	–	–	–
SKRU-3 Mine			
Measured.....	190.8	18.0	34.3
Indicated.....	1,264.3	17.4	220.3
Measured + Indicated.....	1,455.1	17.5	254.6
Inferred	–	–	–
Polovodovsky field			
Measured.....	694.1	16.7	115.8
Indicated.....	2,379.4	17.4	413.9
Measured + Indicated.....	3,073.5	17.2	529.7
Inferred	260.8	15.3	39.8
All Mines			
Measured.....	1,292.1	17.1	220.7
Indicated	4,009.7	17.5	700.4
Measured + Indicated.....	5,301.8	17.4	921.1
Inferred	260.8	15.3	39.8

Carnallite:

The table below presents SRK's audited carnallite Mineral Resource and Reserve statements for Silvinit as of 1 January 2011.

Category	Tonnage (Million tonnes)	MgCl ₂ (%)	MgCl ₂ (Million tonnes)
SKRU-1 Mine			
Measured.....	169.3	23.2	39.2
Indicated.....	–	–	–
Measured + Indicated.....	169.3	23.2	39.2
Inferred.....	–	–	–
Total			
Measured.....	169.3	23.2	39.2
Indicated.....	–	–	–
Measured + Indicated.....	169.3	23.2	39.2
Inferred.....	–	–	–

Ore Reserves

The tables below presents SRK's audited Ore Reserve statements for Silvinit as of 1 January 2011. As with the audited Mineral Resource statements of Silvinit above, SRK's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code. In the case of Polovodovsky, SRK has not transferred any of the reported Measured or Indicated Mineral Resource to Ore Reserve status, given that technical studies are ongoing to confirm the potential economics of developing this as a separate mine. In addition no Inferred Mineral Resources have been converted to Ore Reserve.

Silvinit:

The table below presents SRK's audited silvinit Ore Reserve statement for Silvinit as of 1 January 2011.

	Tonnage (Million tonnes)	K ₂ O (%)	K ₂ O (Million tonnes)
SKRU-1 Mine			
Proved.....	41.7	16.0	6.7
Probable.....	41.8	15.7	6.5
Total.....	83.5	15.8	13.2
SKRU-2 Mine			
Proved.....	97.8	15.5	15.2
Probable.....	97.9	16.4	16.0
Total.....	195.7	15.9	31.2
SKRU-3 Mine			
Proved.....	95.7	15.8	15.1
Probable.....	122.1	15.3	18.7
Total.....	217.8	15.5	33.8
All Mines			
Proved.....	235.2	15.7	36.9
Probable.....	261.8	15.7	41.2
Total.....	497.0	15.7	78.2

Carnallite:

The table below presents SRK's audited carnallite Ore Reserve statement for Silvinit as of 1 January 2011.

	<u>Tonnage</u>	<u>MgCl₂</u>	<u>MgCl₂</u>
	(Million tonnes)	(%)	(Million tonnes)
SKRU-1 Mine			
Proved	8.8	22.3	2.0
Probable	–	–	–
Total	8.8	22.3	2.0
Total			
Proved	8.8	22.3	2.0
Probable	–	–	–
Total	8.8	22.3	2.0

SRK has limited the Ore Reserve Statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed, which SRK has taken to be that material planned to be mined during the period covered by Silvinit's 20 year Business Plan. All three mines have the potential to extend the mine life beyond the current 20 year period covered by the Business Plan. At the currently assumed production rates, Mine 1 and Mine 2 could potentially extend for a further 5 and 6 years, respectively, while Mine 3 could extend the mine life in excess of a further 20 years.

Mines

The Combined Group's mining operations are concentrated at five mines in the Verkhnekamskoe Deposit in the Perm Region in the Urals area of Russia. Potash ores exist in solid beds in this deposit at depths of between 250m and 400m below the earth's surface and are extracted by conventional mechanised room and pillar underground mining. Three of the five mines have been operated by Silvinit prior to the Combination.

Uralkali mines

Uralkali operates two potash mines, both of which exploit a part of the Verkhnekamskoe Deposit. Uralkali's mining assets include: (i) Mine 2 at the Durymansky field, which has been in operation since 1970 and (ii) Mine 4, at the Bygelsko-Troitsky field, which has been in operation since 1987. Mines 2 and 4 encompass all the underground and auxiliary surface operations, and the processing plants. Mine 1 at the Bereznikovsky field and Mine 3 at the Balakhontsevsky field were abandoned in 2006 and 1986, respectively, due to flooding. Uralkali has underground access to some of the Bereznikovsky field from Mine 4. See "Risk Factors – Risks Associated with the Potash Industry – The Combined Group's mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali's Mine 1".

Uralkali also has a licence for the Ust-Yaivinsky field. Based on the SRK Uralkali Report, the Ust-Yaivinsky field ("Mine 5") is estimated to contain potash Mineral Resources of approximately 1,290.6 million tonnes of ore, consisting of Measured Mineral Resources of 480.9 million tonnes of ore and Indicated Mineral Resources of 809.7 million tonnes of ore reported according to the JORC Code. Based on its current production methods, Uralkali believes that the Ust-Yaivinsky field has potential to support 30 to 40 years of production at approximately 2 to 2.8 million tonnes of production per annum. See "– Principal Investments".

Silvinit Mines

Silvinit's three mines comprise:

- SKRU-1 at the north part of Solikamsky field, which has been in operation since 1934;
- SKRU-2, at the south part of Solikamsky field, which has been in operation since 1973; and
- SKRU-3 at the Novo-Solikamsky field, which has been in operation since 1983.

In addition to sylvanite processing mills at each mine, SKRU-1 also includes a carnallite processing mill.

Silvinit also obtained a licence through its subsidiary, Kamskaya Mining, to develop the Polovodovsky field, which is located adjacent to the existing production facilities described above. The Polovodovsky field, with estimated Mineral Resources of 3,073.5 million tonnes of ore, is the largest Russian greenfield property in terms of ABC1 resources (Russian Classification system). The Combined Group intends to continue to explore the development opportunities at this field.

Products

The principal product of the Combined Group is potash, which it produces by mining from potash ore. In 2010, Uralkali and Silvinit derived 97.0% and 94.5%, respectively, of total revenues from sales of potash. Potash is the common name for the fertiliser form of the element potassium. Potassium chloride (KCl), also known as muriate of potash, is the major source of potassium used in agriculture. Muriates of potash can be used as fertiliser by themselves, for mechanical blending with nitrogen and phosphate products to make blended fertilisers or for chemical processing to produce compound fertilisers consisting of a combination of potassium, nitrogen and/or phosphorous, also commonly referred to as compound NPK fertilisers. The potash is mined from potash ore deep underground or extracted from brine and is milled on the surface.

The Combined Group produces two main potash products: Granular and Standard MOP.

- *Granular* is a premium product used mainly in countries with more advanced fertilising application methods. Granulation slows down the absorption of fertiliser nutrients into the soil and thus prolongs the action of fertilisers. It is primarily used for agricultural purposes. Granular is primarily sold to Brazil and also to countries such as the United States where it is then supplied for direct application to the ground or mechanically blended with nitrogen and phosphate fertilisers and sold at a premium to other potash products.
- *Standard MOP* is primarily used for agricultural purposes, including the production of NPK fertiliser. It is sometimes coloured pink in response to customer preference. It is sold in substantially all of the Combined Group's markets.

In addition, Silvinit has also processed its own carnallite from SKRU-1 for supply to a local magnesium producer.

Historical potash production and capacity

Historical production for 2010, 2009 and 2008 is presented below on a separate basis for Uralkali and Silvinit.

Uralkali

The table below shows Uralkali's production volumes for its main products for the specified periods.

	Year Ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
Granular	1,311	691	1,154
Standard MOP	3,750	1,930	3,639
Total	5,061	2,621	4,793

In the three months ended 31 March 2011, Uralkali produced a total of 1,205 thousand tonnes of potash. The potash production process produces, as a by-product, substantial quantities of salt (sodium chloride). Uralkali stores most of the salt that it produces on open land in Berezniki, although it is able to sell a small proportion of the salt locally for application to local roads in the winter to facilitate the clearance of ice, as well as to produce sodium chloride solution for sale to domestic soda ash production. The sale of salt and production and sale of sodium chloride solution is not a core part of Uralkali's business and represented less than 1% of Uralkali's revenues in 2010.

The table below shows Uralkali's utilisation rates (in terms of available production) at its plants for the production of its main products for the specified periods.

	Year Ended 31 December		
	2010	2009	2008
Granular	99%	54%	90%
Standard MOP	88%	46%	86%
Total	92%	48%	87%

Silvinit

The table below shows Silvinit's actual production of its main products for the specified periods.

	Year Ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
Granular	896	515	854
Standard MOP	4,224	3,003	4,228
Total	5,120	3,518	5,082

In the three months ended 31 March 2011, Silvinit produced a total of 1,352 thousand tonnes of potash.

In addition, Silvinit also produced carnallite in 2010, 2009 and 2008 (307 thousand tonnes, 261 thousand tonnes and 335 thousand tonnes, respectively).

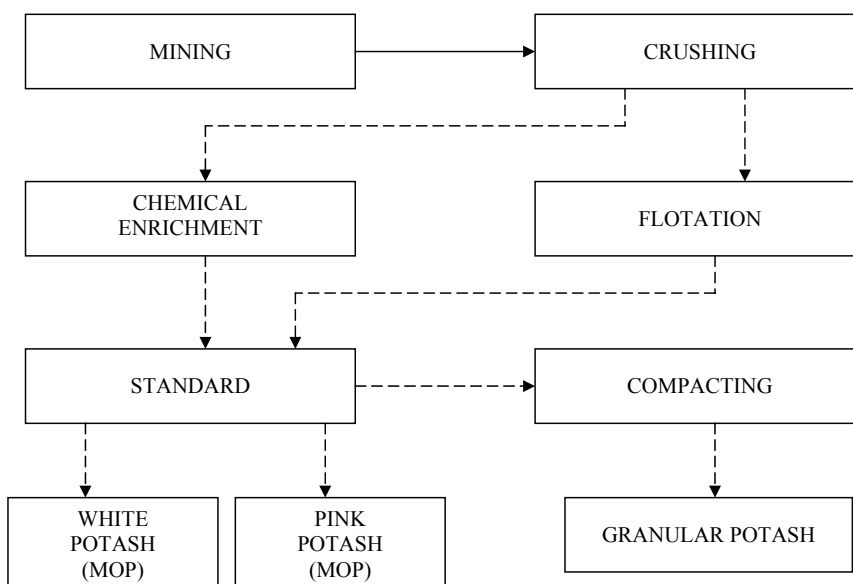
Silvinit has also sold some of the salt that it produces as a by-product of the potash production process, although sales of salt are not a material component of revenues.

The table below shows Silvinit's utilisation rates (in terms of available production) at its plants for the production of its main products for the specified periods.

	Year Ended 31 December		
	2010	2009	2008
Granular	89%	51%	85%
Standard MOP	100%	73%	100%
Total	100%	69%	100%

Production Process

The production cycle for the Combined Group's potash products uses several processes and includes production facilities consisting of 7 potash refining plants. The potash production processes are set out in the chart below.



The Combined Group enriches potash ore using the chemical enrichment and flotation methods. The chemical enrichment method has been used since the potash industry started in the second half of the 19th century. It produces chemically pure MOP which contains 98% of the commercial component and is used in agriculture and the chemical industry. The flotation method has been used since the 1960s to produce potash fertilisers for agriculture, with the products containing up to 95% of the useful component.

Chemical enrichment method

The chemical enrichment method is used to make White MOP. The method is based on the varying joint solubility of potassium chloride (KCl) and sodium chloride (NaCl) in water at different temperatures. KCl crystallises out of saturated solution when it cools. It creates potash fertilisers containing 95% and 98% of MOP and chemically pure 99.8% MOP.

Flotation method

The flotation method is used to make Pink MOP. The method is based on the varying floatability of sylvite and halite minerals in the saturated aqueous solution of potassium chloride and sodium chloride in the presence of agents. Partly purified potash ore is placed in the flotation machine, and bubbles stick to potassium chloride particles and push them to the mixture surface for subsequent separation. The humidity of pink MOP after drying is only 0.1%

Granulation

The process of making Granular potash is identical to the process used in the production of Pink MOP up to completion of the final drying phase. Following this phase, dried potash powder is compressed into flakes, and granules of the correct size are selected. These granules are treated to remove sharp edges and cracks and are hardened in furnaces to increase their strength. Granules are prepared for long transportation in the oil treatment blender. Uralkali also plans to produce Granular from white MOP.

Production divisions

The Combined Group's production assets comprise the production divisions of Uralkali together with those divisions operated by Silvinit prior to the Combination.

Uralkali

Uralkali operates three main production divisions (Plants 2, 3 and 4), which process potash from its initial potash ore form through to the finished product. In addition, Uralkali has non-core facilities at Plant 1 (consisting of Plants 1A, 1B and 1C) that it intends to de-commission in 2012.

The following table summarises certain aspects of Uralkali's production facilities:

Production Division	Year of Introduction	Type of Facility	Products	Capacity (thousand tonnes, unless otherwise stated)
<i>Core facilities:</i>				
2	1969-1970	Flotation enrichment plant	Standard MOP, Granular	1,870 Standard MOP and 450 Granular
3	1973-1974	Flotation enrichment plant	Standard MOP, Granular	1,830 Standard MOP and 870 Granular
4	1992	Chemical enrichment plant	Standard MOP	1,500
<i>Non-core facilities:</i>				
1A	1963	Flotation enrichment plant	brine	2,800 thousand cubic meters
1B	1954	Chemical enrichment plant	Standard MOP,	300
1C	1962	Carnallite enrichment plant	magnesium chloride	600

The following table summarises Uralkali's structural capacities of potash by potash product as at 31 December 2010.

Product Type	Capacity (thousand tonnes)
Standard MOP (if no production of Granular).....	5,500
Standard MOP (with maximum production of Granular).....	4,180
Maximum production of Granular	1,320

Uralkali's available production in 2011 is limited to approximately 4.8 million tonnes due to upgrading works that are being performed on mine shafts. Uralkali expects that these upgrading works will be completed in the third quarter of 2011 and, as a result of such works, available production is expected to increase to 5.5 million tonnes. Uralkali is currently implementing a project to increase the capacity of Mine 4. Following completion of this project, total production capacity of the Uralkali units is expected to increase to 7.0 million tonnes. See “– Principal Investments”.

Plant 2: A flotation enrichment plant with capacity of 1,870 thousand tonnes of Standard MOP or, if Granular production is maximised, capacity of 1,420 thousand tonnes of Standard MOP and 450 thousand tonnes of Granular.

Plant 3: A flotation enrichment plant with capacity of 1,830 thousand tonnes of Standard MOP, or, if Granular production is maximised, capacity of 960 thousand tonnes of Standard MOP and 870 thousand tonnes of Granular. Uralkali plans to increase Granular production capacity at Plant 3 to 1,250 thousand tonnes by the end of 2011. Since its associated mine was flooded in 1986, this production facility processes potash ore delivered mainly from Mine 4 by rail but also from Mine 2 by truck.

Plant 4: A chemical enrichment plant that began production in December 1992, and has a current capacity of 1,500 thousand tonnes of Standard MOP. Upon completion of the project to increase the capacity of Mine 4, the capacity of Plant 4 will increase by 1,500 thousand tonnes to 3,000 thousand tonnes of Standard MOP. See “– Principal Investments”.

Non-Core facilities: Plant 1, comprising Plant 1A, Plant 1B and Plant 1C

Plant 1A is a flotation enrichment plant which is currently being used for the production of brine which is required to be pumped into Mine 1 since its flooding in October 2006 to minimise the dissolution of the

mineral reserves. Plant 1B is a chemical enrichment plant with a capacity of 300 thousand tonnes of Standard MOP, which is carried out on one production line. Because its associated mine was flooded in October 2006, this production facility currently processes potash ore delivered from Mine 4 by truck. Plant 1C is a carnallite enrichment plant which was formerly used by Uralkali to process carnallite for OJSC VSMPO-Avisma. Since 1 January 2011, production of carnallite at Plant 1C has ceased and Silvinit units now produce carnallite for supply to OJSC VSMPO-Avisma. In light of the costs of production of potash at Plant 1 due to additional transportation expenses, and the anticipated expansion of capacity at Plant 4, Uralkali intends to de-commission Plant 1 in 2012.

Silvinit

The production assets operated by Silvinit prior to the Combination comprise: SKRU-1, including a carnallite concentrating mill, SKRU-2 and SKRU-3. SKRUs 1, 2 and 3 process potash from its initial potash ore form through to the finished product. SKRU-1 also produces magnesium chloride.

The following table summarises certain aspects of these production facilities:

Production Division	Year of Introduction	Type of Facility	Products	Capacity (thousand tonnes)
SKRU-1	1934	Chemical enrichment plant	Standard MOP, magnesium chloride	850 Standard MOP, 300 magnesium chloride
SKRU-2	1973-1975	Flotation enrichment plant	Standard MOP, Granular	2,030 Standard MOP, 1,055 Granular
SKRU-3	1983	Flotation enrichment plant	Standard MOP	2,220 Standard MOP

The following table summarises Silvinit's structural capacities of potash by potash product as at 31 December 2010.

Product Type	Capacity (thousand tonnes)
Standard MOP (if no production of Granular).....	5,100
Standard MOP (with maximum production of Granular).....	4,045
Maximum production of Granular	1,055

SKRU-1: A chemical enrichment plant with structural capacity of 850 thousand tonnes of Standard MOP. The Combined Group plans to increase capacity at SKRU-1 to 950 thousand tonnes of Standard MOP. SKRU-1 also includes a carnallite enrichment facility with a capacity of 300 thousand tonnes.

SKRU-2: A flotation enrichment plant with a capacity of 2,030 thousand tonnes of Standard MOP or, if Granular production is maximised, capacity of 975 thousand tonnes of Standard MOP and 1,055 thousand tonnes of Granular. Capacity at SKRU-2 is expected to increase to 2,340 thousand tonnes of Standard MOP as a result of the anticipated increase in the volumes of silvinit that will be mined at SKRU-2 upon completion of the planned project to construct a fifth mine shaft.

SKRU-3: A flotation enrichment plant with a capacity of 2,220 thousand tonnes of Standard MOP. Capacity at SKRU-3 is expected to increase to 2,700 thousand tonnes of Standard MOP as a result of the anticipated increase in the volumes of silvinit that will be mined at SKRU-3 upon completion of the planned project to convert the third mine shaft for the extraction of silvinit rather than salt.

Energy generation assets

The potash production process requires significant amounts of electricity to power, for example, the various processing machines, and heat energy, for example, to dry the potash.

By the end of 2010, Uralkali had reached the final stage of its power generation programme to reduce its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas. The power generation programme consisted of the installation and operation of four electricity generation turbines at Plant 4, the first two of which became operational in 2008 and the second two of which are expected to become operational in the third quarter of 2011 upon receipt of the approval from the authorities to work in parallel with the federal grid.

Silvinit has constructed an electricity generation plant at SKRU-1. Work is currently being undertaken to connect the plant with the federal grid network to increase efficiency.

Principal Investments

The principal investments of Uralkali and Silvinit comprise ongoing brownfield development projects with the aim of increasing production capacity.

Brownfield projects

Uralkali

Uralkali is implementing a project to increase production capacity at Mine 4 from its original 1.3 million tonnes to 3.0 million tonnes. The project includes the following:

- the construction of a new factory line and the reconstruction of the existing line;
- an increase in mining capacity, including the construction of new mine walkways, the replacement of conveyors, and the reconstruction of electricity supplies; and
- the reconstruction of the mine ventilation systems and mine shafts.

Capacity has already been increased by 0.2 million tonnes to 1.5 million tonnes. The project is currently expected to be completed in March 2012. The estimated cost of the project is RUR 20.0 billion, of which approximately RUR 14.0 billion has been invested to date.

In addition, Uralkali is currently increasing its Granular capacity from 1.3 million tonnes to 1.7 million tonnes. This project is expected to be completed by the end of 2011 at a total cost of RUR 1.5 billion, of which approximately RUR 1.0 billion has been invested to date.

These two projects were Uralkali's principal investments in 2008, 2009 and 2010. Uralkali expects that the Combined Group will finance the completion of these projects through cash flow generated by operations and debt financing.

Silvinit

The Combined Group plans to continue to implement the following projects of Silvinit:

- the construction of a fifth mine shaft at SKRU-2 to increase mining output and consequently increase capacity at SKRU-2 to 2,340 thousand tonnes of Standard MOP; and
- the conversion of the third mine shaft at SKRU-3 so that it can be used for the extraction of silvinit rather than salt, together with the reconstruction of associated transportation infrastructure.

These two projects were Silvinit's principal investments in 2008. In 2009 and 2010, Silvinit's principal investments were devoted to capacity maintenance.

Total production capacity at the Silvinit units is expected to increase from 5.1 million to 6.0 million tonnes at the total cost of RUR 0.6 billion. Uralkali expects that the Combined Group will finance the completion of these projects through cash flow generated by operations and debt financing.

Ust-Yaivinsky and Polovodovsky

Following completion of the Combination, the Combined Group plans to undertake additional market analysis before finalising plans for the development of the Ust-Yaivinsky and Polovodovsky fields.

Key markets and customers

Below is a summary of the principal markets in which the Combined Group's products are sold and the principal customers of the Combined Group's products, both domestic and foreign. The geographic discussion below also describes the key features of those markets that are relevant to the Combined Group's business.

The following table shows the main customers for Uralkali's and Silvinit's products across all markets, as a percentage of total volumes of potash sold:

	Year ended 31 December 2010	
	Silvinit	Uralkali
Top customer	29.9%	5.5%
Top two customers	40.2%	10.9%
Top five customers	65.5%	24.5%
Top ten customers	89.6%	40.7%

A summary of the key markets for the Combined Group is set out below. See “– Sales and Marketing” for a description of the distribution channels used by Uralkali and Silvinit.

China

China is the world's largest potash buyer and global price setter. In 2010, 23% of Uralkali's and 20% of Silvinit's sales volumes of potash were derived from sales to customers in China. The Combined Group, through BPC and Uralkali Trading, has leading access to China. In 2010, Uralkali, selling through Uralkali Trading, and BPC were the largest exporters to China in terms of sales with an approximate 12.3% share of sales in China, based on Uralkali and FERTECON data, while Silvinit, selling through IPC, Agrifert S.A., CJSC Permpolyimpex and under direct supply contracts, had an approximate 10.5% share of sales in China, based on Silvinit and FERTECON data, with Uralkali and Silvinit selling 1,152.5 thousand tonnes and 986.8 thousand tonnes to Chinese customers, respectively. Together, Uralkali's and Silvinit's potash accounted for 22.8% of the aggregate potash sales in China in 2010. Almost all the sales of Uralkali products to Chinese customers are made to local distributors, while Silvinit's sales to Chinese customers were primarily made to both to producers of SOP and compound fertilisers, as well as to local distributors. Uralkali's principal customer in China is Sinochem, the leading Chinese distributor. Sinochem has been a customer of Uralkali products for over ten years.

In 2010, 4.3% of the aggregate sales volumes of Uralkali and Silvinit in China were Granular and 95.7% were Standard MOP.

In 2010, Uralkali's and Silvinit's sales to Chinese customers increased by 901.7% and 257.3%, respectively, in response to increased Chinese potash fertiliser consumption and market recovery after the global financial crisis. After the 2008 contract expired, no new agreement was reached until December 2009. The new contract price for 2010 was \$350 per tonne CFR for Uralkali's product, the first time China has contracted tonnage on a delivered basis, compared with the previous BPC and IPC contract prices 2008 of \$568 per tonne FOB Baltic. Sinochem and Suifenhe Longsheng Economic and Trade Co. Ltd are Uralkali's two largest customers in China, together accounting for 43% of Uralkali's sales volumes in China in 2010. Migao Corporation Limited and CNAMPGC are the two largest customers of Silvinit, together accounting for 46% of Silvinit's sales volumes in China in 2010.

Brazil

In 2010, 4.5% of Uralkali's and 3.8% of Silvinit's sales volumes of potash were derived from sales to customers in Brazil. In 2010, Uralkali, selling through Uralkali Trading and BPC, had an approximate 3.2% share of sales in Brazil, based on FMB data and Vale Earning Report 2010, while Silvinit, selling through IPC and Agrifert S.A., had an approximate 2.6% share of sales in Brazil, based on IFA data, with Uralkali and Silvinit selling 228.7 and 187.4 thousand tonnes to Brazilian customers, respectively. See “– Competition”. The customers for Uralkali products are mainly distributors.

The vast majority of the Combined Group's sales volumes destined for the Brazilian market is Granular potash. In 2010, Uralkali's top two customers (ADM do Brasil and Bunge Fertilizantes) accounted for more than a third of sales volumes to Brazil and almost all sales volumes were made to the top ten customers. Silvinit's top five customers in 2010 (Peninsula International S/A., Goias Verde Alimentos Ltda., Fertilizantes Heringer S.A., Luis Dreyfuss Commodities Brasil S.A. and Macrofertil Ind. e Com. de Fertilizantes Ltda) accounted for 94% of sales volumes to Brazil. Typically, large customers buy with prices fixed for a particular bulk delivery by vessel or on a quarterly basis. Prices are typically set taking into account the indicative expected purchase volume for the relevant period. Small and medium size businesses, which represent most of the rest of the customers for Uralkali and Silvinit products in Brazil, typically purchase on a spot basis. Prices for these sales are affected by the prevailing prices for the large customers, although they are generally higher than those prevailing prices.

India

In 2010, 15.6% of Uralkali's and 16.2% of Silvinit's sales volumes of potash were derived from sales to customers in India. In 2010, Uralkali, selling through Uralkali Trading and BPC had an approximate 13% share of sales in India, based on Uralkali and FMB data, while Silvinit had an approximate 13.1% share of sales in India, based on Silvinit and FMB data, with Uralkali and Silvinit selling, directly and indirectly, 790.2 thousand tonnes and 797.4 thousand tonnes to Indian customers, respectively. In general, the main customers in India for Uralkali and Silvinit products are wholesale distributors and producers of compound fertilisers.

The Combined Group sells primarily Standard MOP in India. Negotiations with respect to sales in India are undertaken with IPL, the largest Indian customer. The terms of the agreements with the other large customers in India correspond with the terms agreed with IPL. The terms of the contract are approved by the Indian government prior to execution of the contracts because the current Indian government is a heavy subsidiser of agriculture. Sales made to IPL accounted for more than 10.7% of Uralkali and Silvinit's combined sales in 2010. All of Uralkali's and Silvinit's sales in India in 2010 were made pursuant to 6 to 12-month contracts with fixed prices and volumes with very large customers.

Russia

Russian customers accounted for 13.3% and 20.6%, respectively, of the sales volumes of Uralkali and Silvinit in 2010. In 2010, Uralkali had a 39% market share based on sales in the Russian market, according to its own data, while Silvinit had an approximate 58% share of sales in the Russian market, based on its own data, with Uralkali and Silvinit selling, directly and indirectly, to Russian customers 682 thousand tonnes and 1,012.6 thousand tonnes, respectively. Overall in Russia, Uralkali's major customers are compound NPK fertiliser producers, accounting for approximately 86% of sales in 2010, while farmers accounted for approximately 4% of sales. Compound NPK fertiliser producers were also Silvinit's major customers in 2010, accounting for approximately 83.6% of sales, while farmers accounted for approximately 8.6%. Sales of Uralkali and Silvinit products in Russia have generally been made directly to their customers. Since March 2007, Uralkali has sold potash on the commodity section of the Moscow Stock Exchange, with contracted sales amounting to 6% of its total domestic sales in 2010. Potash is sold mainly in the form of Standard MOP in Russia.

European Economic Area (EEA)

In 2010, 14.0% of Uralkali's and 11.2% of Silvinit's sales volumes of potash were derived from sales to customers in the EEA countries. Most of these sales were made to distributors and NPK producers and comprised sales of Standard MOP for industrial application and Granular for agricultural application.

Negotiations with respect to sales in the EEA by Uralkali are undertaken by Uralkali Trading directly with the relevant customers. Contracts for approximately half the sales are generally based on a customer's minimum six month or annual purchase volume. The rest of the sales therefore are generally negotiated with customers on a spot basis.

Silvinit conducted its sales to the customers in EEA through IPC and Agrifert S.A. In 2010 deliveries of the product to EEA countries through IPC were carried out by two ways: (i) under direct contracts of IPC

with EU customers on CFR and DAF basis, both end-users and distributor, and (ii) under contracts of IPC with Polyfer, a related company registered in Austria on CFR, DAF and FOB basis.

Southeast Asia

In 2010, 13.9% of Uralkali's and 21.3% of Silvinit's sales volumes of potash were derived from sales to customers in Southeast Asia (including Bangladesh, Indonesia, Malaysia, Vietnam and Thailand). Most of these sales are made to distributors. Negotiations for Uralkali's sales in Southeast Asia are undertaken by BPC directly with the relevant customers. Contracts are generally based on a customer's minimum annual purchase volume. Most sales of Uralkali products in Southeast Asia are sales of Standard MOP for agricultural application. Silvinit conducted its sales to the customers in Southeast Asia under commission contract with IPC and under supply contracts with Agrifert S.A. See "-- Competition".

United States

In 2010, 14.2% of Uralkali's and 4.9% of Silvinit's sales volumes of potash were derived from sales to customers in the United States. See "-- Competition". Overall in the United States, distributors have been the main customers for Uralkali and Silvinit products. Barge trade, which is spot trading on the Mississippi River (often for re-sale), is also very active in the U.S. market. Since potash is mainly sold in the United States for agricultural application, and U.S. farmers demand high-grade potash, almost all of the sales of Uralkali and Silvinit potash in the United States has comprised sales of Granular.

Seasonality

In the periods under review, Uralkali and Silvinit attempted to manage seasonality by selling to different markets at different times of the year depending on planting, growing and harvesting cycles to keep sales at relatively constant levels throughout the year. Sales in China, for example, typically rise towards the end of the first quarter, fall during the middle of the year, rise at the beginning of the third quarter, and fall towards the end of the year. Sales in Asia-Pacific markets, such as India and Southeast Asia, typically rise towards the middle of the second quarter, and then fall gradually in the last quarter. Sales in Brazil fall towards the end of the first quarter, typically rise at the beginning of the last quarter and fall again throughout the rest of the year. Sales in the United States typically have a relatively flat peak in the first quarter, fall sharply in the middle of the year, rise sharply in the third quarter, fall again sharply at the end of the third quarter and then rise sharply again at the end of the year.

Sales and marketing

Uralkali makes sales to either its joint venture export trader, BPC, for eventual resale to the relevant customers in a particular market, or to these customers directly. In either case, the relationship between the relevant customers in each market and the persons involved in making the sale to those customers is crucial to Uralkali's business. Accordingly, it was of significant importance that, when Uralkali and Belaruskali established the BPC joint venture, the Uralkali and Belaruskali employees with customer relationships joined BPC to continue and to develop these relationships.

Prior to the proposed Combination, Silvinit made sales to either its primary trading partners, including sales on a commission basis, for eventual resale to the relevant customers in a particular market, or to its customers directly.

Uralkali

The table below shows the sales volumes of potash products made by Uralkali in 2010, 2009 and 2008. The table shows sales volumes by Uralkali domestically (which Uralkali makes directly), by Uralkali Trading (as UKT Sales), by BPC (as BPC Sales or BPC/UKT Resales), and to the third party export traders.

	Year ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
Domestic sales	682	602	527
UKT Sales	2,313	926	1,869
BPC Sales.....	2,084	969	2,272
Direct export sales by Uralkali	–	–	–
Third party traders	–	–	–
Total	5,079	2,497	4,668

In the three months ended 31 March 2011, demand for potash remained at comparable levels to 2010 and the total sales volume of Uralkali was 1,342 thousand tonnes.

Uralkali is currently considering entering into a transaction with Belaruskali, pursuant to which Uralkali Group may advance up to US\$1 billion to Belaruskali to secure purchase of specified volume of potash during a period of 24 months. Belaruskali is a joint venture partner with Uralkali in connection with BPC. Uralkali has not yet entered into any binding agreement, and no assurance can be made that the transaction will be completed on these terms or at all.

BPC

In 2005, Uralkali acquired a 50% interest in BPC, a joint venture with Belaruskali, for the export to certain markets of potash produced by both companies. In addition to Uralkali's stake, Belaruskali, Belarusian Railways and GrodnoAzot hold stakes of 44.999%, 5.0% and 0.001%, respectively. In 2010, the combined export sales of BPC and Uralkali Trading represented 31% of worldwide sales outside the country of production (excluding domestic sales and potash trade between Canada and the United States) and included exports to over 60 countries. BPC is one of only two major international traders, the other being Canpotex, a joint venture between PotashCorp, Mosaic and Agrium, North American fertiliser companies. The BPC joint venture was established to undertake all of Uralkali's export sales (other than sales to EEA countries, China Rail Sales and sales to the USA) and all of Belaruskali's export sales (other than sales to the Russian Federation).

The sales undertaken by Uralkali or Belaruskali through BPC directly to end customers are referred to as "BPC Sales". The sales undertaken by Uralkali through Uralkali Trading are referred to as "UKT Sales" (Belaruskali did not undertake any such sales). In 2010, approximately 47% of Uralkali's export sales were made as BPC Sales and the remaining 53% as UKT Sales. BPC has offices in key export markets: India, Brazil, China, Singapore and the United States.

Trading staff at BPC negotiate volumes and prices with customers. Whether an Uralkali product or a Belaruskali product is delivered is determined based on meeting the agreed budget, although the joint venture partners have agreed that short-term variations from the budget should lead to adjustments in subsequent months to meet annual targets. Specifications of each joint venture partner's potash is not generally a factor in determining whose product is delivered as both partners have the same types of potash products with very similar quality levels. Uralkali determines its monthly production levels based on the budget's planned sales as it stands at that time. Shortfalls in demand are adjusted for in the budget so that each partner is affected equally. If a customer wishes to have the potash delivered to it by rail, these orders are referred to Uralkali Trading or BPC.

If the contract between BPC and the customer provides for CFR terms, where BPC is liable for arranging and paying for shipping freight, the price BPC pays the joint venture partner is the BPC customer price, less the sum of the freight costs to BPC, certain other costs (such as inspection and transaction costs) and the agreed margin. If the contract between BPC and the customer provides for FOB terms, where the customer arranges and pays for shipping freight, the price BPC pays the joint venture partner is the BPC customer price less the agreed margin and certain other costs (such as inspection and transaction costs).

BPC sometimes incurs unexpected costs over and above its general and administrative costs. For example, the actual Freight costs for the delivery of one of the joint venture partner's product could be higher than the amount allowed for in setting the price between BPC and the relevant joint venture partner. In such a case, the unexpected cost is allocated to the joint venture partner whose product was being delivered. The partners have agreed that these allocated costs should be netted off from any dividends payable in respect of that period. For a summary of the BPC Charter, see "Material Contracts".

Uralkali Trading

Uralkali Trading is a wholly-owned subsidiary of Uralkali incorporated in Switzerland. Uralkali Trading is responsible for Uralkali's sales in the EEA countries, the United States and Belarus, as well as China Rail Sales. All other exports of Uralkali are mostly made through BPC.

Silvinit

The table below shows the sales volumes of potash products made by Silvinit in 2010, 2009 and 2008. The table shows domestic and export sales volumes made by Silvinit directly and to third party traders.

	Year ended 31 December		
	2010	2009	2008
	(thousand tonnes)		
Direct domestic sales by Silvinit	699	–	14
Direct export sales by Silvinit.....	1,966	1,757	2,542
Domestic sales to third party traders	313	969	892
Export sales to third party traders.....	1,946	824	1,704
Total	4,925	3,550	5,153

In the three months ended 31 March 2011, the total sales volume of Silvinit was 1,355 thousand tonnes.

Export sales to third party traders comprises sales made on a commission basis by Silvinit. In 2010, 42% of Silvinit's total volume of export sales were made under the commission agreement with the Russian company IPC. From 1 January 2011, the rate of commission payable under this agreement is 1.18% (including VAT). Silvinit has also concluded commission-based agreements with the Russian trading firms CJSC VAO Agrochimexport and CJSC Permpolyimpex, although, in 2011, Silvinit is not conducting its sales through these two entities.

In 2010, 75% of Silvinit's volume of direct export sales, and 38% of total volume of export sales, were made under an agreement with Agrifert SA, which is incorporated in Switzerland. Silvinit sells to Agrifert in India, China, Southeast Asia and the Middle East. Sales are made to Agrifert S.A. on an FCA Solikamsk basis (for transportation by rail to the Vostochny and Nikolaev ports, as well as on a FOB Solikamsk basis (for transportation by river to the ports of St. Petersburg, Nikolaev and the Caucasus). Silvinit has also concluded direct contracts with customers in China and the CIS region. In addition to the continuing arrangements with IPC and Agrifert S.A., in 2011 it is expected that sales of Silvinit products will be made through BPC.

In 2010, Silvinit's domestic sales were made under commission agreements with LLC Trading Company Mineral as well as on a direct basis. In 2011, it is expected that domestic sales of Silvinit products will be made on a direct basis only.

Logistics

The method of transportation of the Combined Group's products depends on the agreed basis of delivery. See "Operating and Financial Review – Significant Factors Affecting Results of Operations – Freight and rail costs".

Distribution assets

The Combined Group's principal distribution assets are:

- railway transportation: a large fleet of potash product and potash ore carrying rail cars, together with repair facilities;
- sea and river transportation: JSC BBT, its wholly-owned subsidiary at the port of St. Petersburg, one of the largest ports in Russia and through which Uralkali ships most of its exports, as well as a port on the River Kama in the Perm region; and
- storage facilities: strategically located warehousing capacity.

Railway Transportation. Railway transportation is key to the Combined Group's deliveries to JSC BBT at St. Petersburg and other ports for export by sea as well as China Rail Sales. Each of Uralkali's processing plants have outlets into the Berezniki train terminal for transportation of potash. In addition, the processing plants of the Combined Group that were operated by Silvinit have outlets into the Solikamsk train terminal.

Rail transportation is organised either directly through the Russian Railways or through one of a number of freight and forwarding agents with whom Uralkali have contracts. However, most shipments of potash from Uralkali production facilities both for export and domestic sales are performed by rail transportation under freight and forward contracts. Under the terms of Uralkali's freight and forward contracts, a freight and forward company undertakes to provide for delivery and tracking of cargo, concluding agreements with carriers and freight and forward, settlement of accounts for transportation of cargo on behalf of Uralkali, and other transportation services at the request of Uralkali. The fee is either fixed at 1.0%–1.5%, or negotiated on a contract-by-contract basis. Freight and forward services are paid in full after services are rendered, although between 30% and 50% of the applicable fee is payable in advance.

Uralkali owns approximately 4,600 special rail cars for transportation of the finished potash product. Uralkali is one of the largest customers of Russian Railways. By owning its own fleet of rail cars, Uralkali is not dependent on the availability of rail cars from Russian Railways for its China Rail Sales and deliveries to sea ports for export by sea. Uralkali does not rely on the availability of rail cars from Russian Railways for its domestic deliveries. Demand for rail cars from Russian Railways far outweighs supply, and companies who are reliant on their rail cars often suffer delays in transport. This is particularly challenging for companies such as Uralkali with production facilities in remote locations. Uralkali realises benefits from owning a fleet of rail cars for most of its deliveries. In addition, the Combined Group has a further 3,357 rail cars that were formerly operated by Silvinit, together with an associated repair division.

Uralkali also has a logistics management system that monitors the movement of its rail cars and furnishes Uralkali's logistics staff with information about the location of each car. The information is updated twice a day.

In addition to special rail cars used for bulk potash shipment, Uralkali owns over 280 dumping cars to transport potash ore from Mine 4 to Plant 3.

Sea and River Transportation. Uralkali's main shipping asset is the shipping complex operated by JSC BBT, its loading terminal which is specially designed to handle mineral fertilisers. JSC BBT undertakes transshipment for Uralkali as well as for third party NPK producers, including Uralkali's domestic customers for potash. Approximately 59% of JSC BBT's standalone revenues in 2010 were from Uralkali and the balance was from these third parties. The shipping capacity of the shipping complex is approximately 6.2 million tonnes of mineral fertilisers per year. The ship loading speed is up to 3,000 tonnes per hour. For the 12 months ended 31 December 2010, the shipping complex handled 74.3 thousand rail cars with mineral fertilisers, which represents a 43% increase as compared with the preceding year. In 2010, 346 sea vessels were loaded at JSC BBT as compared to 248 in 2009. This 40% increase in the number of sea vessels loaded at JSC BBT primarily resulted from the increase in sales volumes overall. Uralkali believes the control it has over JSC BBT gives Uralkali and the Combined Group significant efficiency and quality benefits. In particular, Uralkali, through its control of the transshipment facility, is better able to safeguard quality of its potash, which can deteriorate if mishandled. It also has control over investments in the shipping complex and improvements in its efficiency.

In addition, the Combined Group has its own port on the Kama river in the Perm region with three berths and a 15,000 tonne storage facility. In a typical navigation season of May to October, the port has the capacity to facilitate the transportation of 800-900 thousand tonnes of potash and salts. The port provides access via Russia's inland waterways system to the Baltic Sea and the Black Sea.

Storage

Warehousing capacity is important to the Combined Group's business because potash inevitably needs to be stored from time to time as immediate transportation away from production facilities upon production is not always possible. For example, transportation scheduling on the Russian Railways or freight timetables often necessitate storage. A key challenge to adequate warehousing capacity is that potash is subject to deterioration from exposure to the environment. Potash can generally be stored for up to twelve months although Uralkali does not typically store potash for this long. Each of Uralkali's warehouses at Berezniki is connected to the rail freight terminals by a system of belt conveyors, which are fully isolated from the environment. Different kinds of potash are stored in different warehouses.

The total current capacity of Uralkali's warehouses in Berezniki is 284,000 tonnes of potash. Uralkali also has two warehouse complexes at JSC BBT with a combined storage capacity of approximately 240,000 tonnes of potash.

The Combined Group also has five warehouses, with an aggregate storage capacity of 120,000 thousand tonnes, which were operated by Silvinit.

Competition

Uralkali believes that key competitors of the Combined Group in the main markets in which its products will be sold comprise the trading joint venture Canpotex and the producers listed below.

- China: Canpotex and ICL. PotashCorp, a key member of the Canpotex joint venture, holds a strategic stake in Sinochem, which was Uralkali's main customer in China in terms of sales in 2010. See "– Sales and Marketing".
- Brazil: Canpotex, Kali und Salz ("K + S") and ICL.
- India: Canpotex and ICL.
- Russia: Belaruskali.
- Southeast Asia: Canpotex.
- Europe: ICL and K + S.
- United States: PotashCorp, Mosaic and Agrium.

A brief description of these competitors is provided below.

Canpotex. Canpotex, headquartered in Canada, is a trading company that distributes potash to markets outside North America for PotashCorp, The Mosaic Company and Agrium Inc. It is BPC's, and therefore Uralkali's, main competitor in the main export markets for Uralkali's products. In 2010, Canpotex had a 22%, 28% and 17% market share in China, Brazil and India, respectively, based on Canpotex estimates. Canpotex markets potash principally to countries in Asia, Latin America, and Oceania. According to various industry sources, Canpotex had a 25% share of sales outside the country of production in 2010 (excluding trade between the United States and Canada). The three partners of Canpotex are described in summary below.

PotashCorp. Potash Corporation of Saskatchewan Inc, located in Canada, is the world's leading producer of potash and the world's largest fertiliser enterprise by capacity. It has six potash mines, plus mineral rights at another mine operated by Mosaic, and for 2010 had reported capacity of 13.3 million tonnes and reported production of 8.1 million tonnes of potash (excluding tonnage produced for a third party). Unlike Uralkali, it is not a dedicated potash company, as it earns significant revenues from sales of other products, namely

phosphate and nitrogen fertilisers. In 2010, according to PotashCorp's annual report, its net sales were US\$6.5 billion, with 46% of its total sales attributable to potash, and 28% and 26% attributable to phosphate and nitrogen, respectively.

Mosaic. The Mosaic Company, located in the United States, was formed in October 2004 following the merger of Cargill Incorporated and IMC Global Inc. Mosaic has four potash mines and for the financial year ended 31 May 2010 had reported capacity of 10.4 million tonnes and reported production of 5.2 million tonnes of potash. Unlike Uralkali, Mosaic is not a dedicated potash company. Mosaic mines, manufactures, markets and distributes potash, phosphate and nitrogen, as well as a number of specialty products. In the financial year ended 31 May 2010, according to Mosaic's annual report, its net sales were US\$6.8 billion. According to its annual report, 29% of its net sales was attributable to potash, and 70% and 1% were attributable to phosphate and nitrogen, respectively.

Agrium. Agrium Inc., located in Canada, is a retailer of agricultural products and services in the United States, Canada and Argentina and a global producer and wholesale marketer of nutrients for agricultural and industrial markets. Agrium has one potash mine and for 2010 had reported capacity of 2.1 million tonnes and reported production of 1.8 million tonnes of potash. Unlike Uralkali, Agrium is not a dedicated potash company. Agrium mines, manufactures, markets and distributes potash, phosphate and nitrogen, as well as a number of specialty products. In 2010, according to Agrium's annual report, its net sales were US\$10.5 billion. According to information contained in its annual report, 6% of its net sales was attributable to potash, and 5% and 13% were attributable to phosphate and nitrogen respectively, with the rest attributable to crop nutrients, protection and related products.

Belaruskali. Republican Unitary Enterprise Production Association Belaruskali, located in Belarus, is a dedicated potash company. Belaruskali is Uralkali's joint venture partner in BPC, their export trader. See “– Sales and marketing – BPC”. Belaruskali's products are exported to all the markets Uralkali's products are exported to. Belaruskali has four mines and for 2010 had reported capacity of 9.2 million tonnes and reported production of 8.3 million tonnes of potash.

ICL. Israel Chemicals Ltd., located in Israel, produces phosphate, potash, bromine, primary magnesium and specialty chemicals. ICL has evaporation ponds in Sodom for potash production and underground mines in England and Spain and had reported production of 4.3 million tonnes of potash in 2010. Unlike Uralkali, ICL is not a dedicated potash company. ICL's primary markets for potash are Europe, Asia-Pacific, the United States and South America. Uralkali considers ICL to be a significant competitor in Europe, India and Brazil in particular. ICL's sales in 2010 were approximately US\$2.9 billion according to its annual report. According to information contained in its annual report, 68% of its sales was attributable to potash and 32% was attributable to phosphate. PotashCorp holds a 14% stake in ICL.

Arab Potash Company. Arab Potash Company (“APC”) located in Jordan, is a dedicated potash company. APC extracts potash from the Dead Sea. In 2010 APC had reported capacity of 2.5 million tonnes and reported production of 1.9 million tonnes of potash. APC's sales revenue in 2010 was approximately JD 559 million (US\$788 million). Its main export markets, India, Malaysia and Indonesia, comprise approximately 57% of APC's sales. All of APC's sales are attributable to the sale of potash products. PotashCorp holds a 28% stake in APC.

Kali und Salz AG. K + S is a German potash and magnesium company with offices in Europe, the United States, South Africa, India, Singapore and Japan. This company operates six potash and magnesium mines around the world. In 2010 Kali and Salz had reported capacity of 7.5 million tonnes and reported production of 7.0 million tonnes of potash and magnesium. K + S's largest market is in Europe. In 2010, according to Kali und Salz's annual report, its net sales were €5.0 billion, with 37% of its net sales attributable to potash and magnesium and 26% to nitrogen (Fertiva and COMPO segments).

Employees

As of 31 December 2010, the Uralkali Group had approximately 12,917 employees, and the Silvinit Group had approximately 13,619 employees. The chart below sets forth the number of employees for Uralkali, the Uralkali Group, Silvinit and the Silvinit Group as at the dates indicated.

As of 31 December

	2010	2009	2008
Uralkali Group employees	12,655	13,242	13,041
Uralkali employees	7,185	7,438	8,023
Silvinit Group employees	13,619	16,136	12,719
Silvinit employees.....	11,189	11,026	11,536

As at 31 December 2010, approximately 50.1% and 94.9% of the employees of Uralkali and Silvinit, respectively, belonged to a trade union. Upon completion of the Combination, employees of Silvinit become employees of Uralkali by operation of law, although they will remain members of the Silvinit union. Neither Uralkali or Silvinit has experienced any labour problems resulting in a work stoppage. In June 2010, Uralkali and its employees represented by the Uralkali union signed a collective bargaining agreement, for a term of three years, and Silvinit signed a corresponding agreement with the Silvinit union in February 2010 for a term of two years. These collective bargaining agreements, which established basic principles of labour relations between the respective employer, employees and trade union, cease to be effective upon completion of the Combination. It is expected that Uralkali will conclude a new collective bargaining agreement with Uralkali and Silvinit union members by the end of 2011.

No stock option plans currently exist for Uralkali employees.

Research and development

Uralkali does not believe that research and development activities are significant to its results of operations, nor does it expect them to be significant to the results of operations of the Combined Group. In addition to product research and development, Uralkali seeks to improve operations at its facilities, principally by improving operating and production efficiency and reliability, capacity and developing new methodologies.

Environmental matters

The operations of the Combined Group are subject to various environmental laws and regulations. See “Regulatory Matters – Environmental matters”. Since 2002, Uralkali has been operating an integrated quality and environmental management system which complies with ISO standards 14001 and 9001, as confirmed by certificates issued by The All-Russian Research Certification Institute and the Swiss company SGS. Silvinit had been operating such a system since 2006 and received certification auditors of the German TUV Certification System.

The Combined Group currently has all necessary environmental permissions and licences that are required by their operations. Uralkali and Silvinit have made payments from time to time under the pay-to-pollute regime that operates in the Russian Federation, including aggregate payments of RUR 13.8 million and RUR 9.8 million, respectively, in 2010.

Uralkali and Silvinit have been implementing the following programmes aimed at reducing the level of environmental pollution and ensuring the ecological rehabilitation of the areas in which they operate: the filling of salt wastes and salt clay, the use of certain salt wastes to produce NaCl solution and the substitution of gas for fuel oil in powering industrial potash dyers. In 2010, the aggregate payments made into these environmental programmes by Uralkali and Silvinit were RUR 595.2 million and RUR 575.9 million, respectively.

See “Risk Factors – Risks Associated with the Potash Industry – The Combined Group’s mining and other operations are subject to significant natural risks, including liabilities resulting from the flooding of Uralkali’s Mine 1”.

Insurance

Uralkali has obtained insurance for its mining and production facilities that it believes covers property and business interruption risks at industry standard levels. Uralkali has also obtained property insurance for above-ground production facilities, railcars and business interruption risks for up to US\$2,245 million through October 2011. Uralkali's civil liability as operator of dangerous industrial facilities (including mines) and of water development facilities is insured under a policy with an aggregate coverage of RUR 26.5 million valid through 31 December 2011 and a policy with an aggregate coverage of RUR 34.3 million valid through 15 September 2011, respectively. Uralkali holds certain other insurance policies including obligatory insurance policies required by Russian law. The insurance agreements do not cover risks of damage to the property of third parties resulting from Uralkali's underground activities.

Silvinit has obtained insurance for its mining and production facilities that it believes covers property and business interruption risks at industry standard levels. Silvinit has also obtained property insurance through December 2011 for production facilities and business interruption risks for a total amount of up to US\$ 1,307 million. Silvinit has also obtained railcar insurance through February 2012 for up to US\$ 110 million. Silvinit's civil liability as an operator of dangerous industrial facilities (including mines) and of water development facilities is insured through February 2012 pursuant to a policy with an aggregate coverage of RUR 24.7 million. Silvinit holds certain other insurance policies including obligatory insurance policies required by Russian law. The insurance agreements do not cover risks of damage to the property of third parties resulting from Silvinit's underground activities.

See "Risk Factors – Risk relating to the Operations of the Combined Group – The Combined Group is not insured against all potential losses and liabilities and could be seriously harmed by natural disasters, catastrophes or other risks that are not covered by its insurance policies".

Litigation

Uralkali and Silvinit have been and continue to be the subject of legal proceedings and adjudications from time to time, as well as regulatory and administrative investigations, inquiries and actions regarding tax, labour, environmental and other matters, which, in the past, have resulted in damage awards, settlements or administrative sanctions, including fines.

Other than as set forth in "– Claims relating to Uralkali and Silvinit" below, Uralkali is not, nor has it been, involved in any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which Uralkali is aware, during the twelve months preceding the date of this Prospectus that have had in the recent past significant effects on the financial position or profitability of Uralkali or the Uralkali Group or may have significant effects on the financial position or profitability of Uralkali or the Combined Group.

Other than as set forth in "– Claims relating to Uralkali and Silvinit" below, Silvinit is not, nor has it been, involved in any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which Silvinit is aware, during the twelve months preceding the date of this Prospectus that have had in the recent past significant effects on the financial position or profitability of Silvinit or the Silvinit Group or may have significant effects on the financial position or profitability of Uralkali or the Combined Group.

Due to uncertainties in the legal and regulatory process, there can be no assurance that the Combined Group will not become subject to proceedings or adjudications in the future that could have a material adverse effect on the Combined Group, its results of operations or its financial condition. See "Risk Factors – Risks Relating to the Russian Federation – Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia".

Claims relating to Uralkali and Silvinit

TGK-9 claim relating to Mine 1 flooding. In 2009, Uralkali received a claim from the power generation company TGK-9 for RUR 3.2 billion to compensate TGK-9 for costs incurred in the construction of a reserve energy supply in Berezniki. Uralkali and TGK-9 agreed to establish a technical commission to determine

whether these expenses were directly connected to the consequence of the flooding of Mine 1. In July 2010, while the technical commission was still in process, Uralkali received an amended claim from TGK-9 in the amount of RUR 995 million. On 1 April 2011, TGK-9 filed a new claim against Uralkali for RUR 2.7 billion to compensate for costs incurred in the elimination of consequences of the flooding, and a preliminary hearing has been scheduled for 21 June 2011. See “Operating and Financial Review – Liquidity and Capital Resources – Contingent Liabilities”.

Tax authorities claim relating to Mine 1 flooding. Following an audit by the Russian tax authorities of the 2005-2006 tax year, Uralkali has contested a claim for RUR 782 million, comprising mineral extraction taxes that the authorities allege Uralkali should have paid in relation to the deposits lost in the flood, together with associated penalties and fines. Uralkali successfully appealed the decision in 2010 and the appeal court’s ruling was upheld in January 2011 following a challenge by the tax authorities. See “Operating and Financial Review – Liquidity and Capital Resources – Contingent Liabilities”.

U.S. Class Action Litigation. In 2008, a class action lawsuit was filed in the United States District Court of Illinois against various potash producers, including Uralkali and Silvinit. The plaintiffs are various corporations and individuals who have filed the suit purportedly on behalf of purchasers of potash in the United States from one or more of the defendants. The plaintiffs allege that, since 2003, the potash producers named in the lawsuit have been committing price fixing offences under the U.S. Sherman Anti-trust Act. The plaintiffs in the suits have not claimed any specific amount in damages, and the potential liability of the Combined Group in respect of this claim is not quantifiable. Uralkali and Silvinit management concluded that the lawsuit has no legal merit, and the Combined Group intends to contest it vigorously.

Uralkali FAS Inspection. In 2009, following an inspection of Uralkali, the FAS alleged that Uralkali had been in violation of the provision of the Russian Federal Law on Protection of Competition that prohibits coordinated actions to restrict competition. The FAS subsequently adopted a resolution and prescription and initiated administrative proceedings against Uralkali, and, in June 2010, the FAS issued a decision to impose a fine on Uralkali in the amount of RUR 104 million. Following a first unsuccessful appeal, Uralkali challenged the decision of the court in the arbitration court of appeal, and, on 14 December 2010, the arbitration court of appeal sustained Uralkali’s appeal. The FAS has since challenged the decision of the arbitration court of appeal in the cassation court of appeal, which upheld the court of appeal’s decision. Uralkali also challenged the decision of the FAS to impose a fine in the court of Perm region. The proceedings were stayed until the court decision on the resolution and prescription of the FAS comes into force.

Silvinit FAS Inspection and related claims. In 2009 Silvinit was subject to an inspection by the FAS, which concluded that Silvinit was selling potash on the territory of Russia at prices exceeding the deemed fair price of RUR 3,755 per tonne. The fine imposed by the decision of the FAS was RUR 143 million. As a consequence of this FAS decision, some of Silvinit’s domestic customers filed legal claims against Silvinit in 2009 demanding reimbursement of the difference between the actual price paid for the potash they had purchased from Silvinit and the deemed fair price as determined by the FAS. The aggregate amount by these customers claimed was RUR 244 million. Silvinit management believed the FAS decision had no legal basis and, in 2010, Silvinit commenced legal action against the decision of the FAS. In December 2010, the arbitration court of appeal passed judgement in favour of Silvinit. The FAS has challenged the decision of the arbitration court of appeal in the cassation court of appeal, which upheld the court of appeal’s decision. Silvinit has also successfully challenged the decision of the FAS to impose fine in the court of Perm region.

Acron claim relating to decision of the Silvinit Board of Directors. In January 2011, OJSC Acron and LICONA (INTERNATIONAL) LIMITED filed a claim against Silvinit in the Perm Territory Arbitrazh (Commercial) Court seeking to invalidate the decision of the Board of Directors of Silvinit taken on 20 December 2010 to approve the decisions related to the Merger with Uralkali. The claim alleged that the Board of Directors approved unfair conversion ratios and sought injunctive relief. Following a hearing to consider the injunctive relief, the court rejected the preliminary measures sought by the claimants and scheduled a hearing for 11 May 2011, which was subsequently rescheduled to 27 May 2011, to consider the claim on invalidation of the decision and the claim described below relating to the decision of the Silvinit general shareholders’ meeting on the Merger and the merger agreement. At such hearing, the court rejected

both claims.

Acron claim relating to decision of the Silvinit General Shareholders' Meeting on the Merger and the merger agreement. In February 2011 OJSC Acron, LICONA (INTERNATIONAL) LIMITED, Medvezhonok Holdings Limited and ROF (Cyprus) Limited filed a claim against Silvinit and Uralkali in the Perm Territory Arbitrazh (Commercial) Court seeking to invalidate the decision on the Merger and approval of the merger agreement as a major transaction taken by Silvinit General Shareholders' Meeting on 4 February 2011 and the merger agreement entered into between Uralkali and Silvinit on the basis of the share conversion ratios duly approved by the shareholders of both companies. The claimants did not specify whether monetary damages were being sought in conjunction with the allegation. Following consideration of the injunction plea the court issued an order "ex parte" for a temporary injunction prohibiting the implementation of the Silvinit shareholders' decisions of 4 February 2011, the merger agreement, the registration of Uralkali new share issuances and the reports on results of the share issuances, and the registration of Silvinit's termination upon the Merger. The injunction imposed by the Court did not affect completion of acquisition by Uralkali of 20% ordinary shares in Silvinit. At hearings held on 18 March 2011, 13 April 2011 and 11 May 2011, respectively, Uralkali succeeded in obtaining the removal of all injunctive measures relating to the Combination. The Court also scheduled a preliminary hearing for 11 May 2011, which was subsequently rescheduled to 27 May 2011, to consider the merits of the claim and the claim described above relating to the decision of the Silvinit Board of Directors. At such hearing, the court rejected both claims.

Acron claim against Uralkali, the FSFM and the Russian tax authorities. On 20 May 2011 OJSC Acron, LICONA (INTERNATIONAL) LIMITED, Medvezhonok Holdings Limited, ROF (Cyprus) Limited and SOKOL RUSSIAN EQUITY CAPITAL PARTNERS L.P. filed a claim in the Perm Territory Arbitrage (Commercial) Court against Uralkali, the FSFM and the Interdistrict Inspectorate of the Federal Tax Service #2 of the Perm Region (the "**Tax Authority**") attempting to challenge the share conversion ratios approved by the overriding majority of shareholders of Uralkali and Silvinit on 4 February 2011 and seeking to: (i) invalidate additional issuances of Uralkali ordinary shares registered by the FSFM in connection with the Merger; (ii) invalidate the entries made in the Unified State Register of Legal Entities ("**USRLE**") in connection with the registration of termination of Silvinit in connection with the Merger; and (iii) oblige the Tax Authority to make an entry in the USRLE with respect to Silvinit as an "existing" legal entity. A plea issued by the same claimants on 24 May 2011 seeking to obtain injunctive relief against the FSFM in connection with this claim was rejected at a court hearing on 3 June 2011. A preliminary court hearing on the merits of the claim is scheduled for 26 July 2011. In the event that such hearing were to find in favour of the claimants, Uralkali expects that, although Acron and its co-claimants have not to date claimed for a specified amount of damages, Uralkali believes that they would likely seek monetary damages from the Combined Group since damages would constitute the most practicable remedy. Uralkali believes that the claims are entirely without merit and intends to contest them vigorously.

Lomakin claim related to illegal transfer of Silvinit shares. In January 2011, Mr. Anatoly G. Lomakin, a shareholder of Silvinit, filed a claim against Silvinit and its registrar in the Perm Territory Arbitrazh (Commercial) Court seeking damages from Silvinit and its registrar in the amount of RUR 1.7 billion. The claim alleges that Mr. Lomakin incurred such losses as a result of an illegal transfer of his Silvinit shares on the basis of forged documents. The Court has not yet issued its final decision on this matter.

MATERIAL CONTRACTS

Material contracts establishing BPC

On 7 April 2005, BPC was established in accordance with instructions from the President of Belarus issued on 17 February 2005 for the sale of potassium fertilisers on the world market. On 31 October 2005, BPC was reorganised from an open joint stock company into a closed joint stock company. In October 2005, Uralkali acquired a 50% stake in BPC pursuant to two share sale and purchase agreements with OJSC Grodno Azot (whereby Uralkali acquired 2% of the share capital of BPC for 2 million Belorussian roubles (“BYR”) and with Belaruskali (whereby Uralkali acquired 48% of the share capital of BPC for BYR 48 million).

Joint Venture Agreement

On 10 August 2005, Belarusian State Concern of Oil and Chemistry (“Belneftekhim”) and Uralkali entered into an agreement that provided for Uralkali and Belaruskali to create a joint venture company (BPC) through the acquisition by Uralkali of a 50% stake in BPC. Joint sales through BPC were planned to commence on 1 January 2006. In practice, the Joint Venture Agreement in respect of BPC is implemented through the provisions of the BPC Charter and export contracts concluded with BPC.

BPC Charter

The currently effective BPC Charter was approved by the general shareholders meeting of BPC on 17 May 2008 and registered on 22 May 2008. The purpose of BPC’s operations is to (i) exercise the state right to engage in the foreign trade of potash fertilisers in order to ensure the interests of the Republic of Belarus, and (ii) carry out business activities in order to gain and distribute profit to satisfy the interests of BPC’s shareholders. BPC may exercise the state right to engage in the foreign trade of potash fertilisers on the basis of the Decree of the President of Republic of Belarus No. 398 of 25 August 2005. According to the BPC Charter, the share capital of BPC is BYR 100 million, divided into 100,000 ordinary shares each with a nominal value of BYR 1,000. Under the BPC Charter, BPC’s governing bodies are: (i) the general shareholders’ meeting (the “GSM”); (ii) the supervisory council; and (iii) the general director.

General Shareholders’ Meeting

According to the BPC Charter, the competence of the GSM includes:

- making amendments to the BPC Charter;
- the election of the supervisory council;
- the approval of annual reports, financial statements and profit and loss statements;
- the distribution of profit and losses;
- the approval of increases or decreases of the charter capital;
- the approval of the amount of supervisory council members’ remuneration; and
- the liquidation and reorganisation of BPC.

Under the BPC Charter, the GSM satisfies quorum if shareholders holding in aggregate more than 75 per cent. of voting rights are present at the GSM. The BPC Charter stipulates that decisions at a GSM must be taken by a vote of at least three quarters of shareholders participating in the GSM, save for the decisions to amend the BPC Charter, decisions on reorganisation and liquidation and decisions to alter the size of the charter capital, which must be made by 100% of votes of the shareholders participating in the GSM.

Supervisory Council

The BPC Charter specifies that the supervisory council conducts the general management of BPC. The supervisory council's competence under the BPC Charter includes, among others:

- the appointment and dismissal of the general director of BPC with the consent of the President of the Republic of Belarus;
- giving consent to the appointment and dismissal of the deputy general directors of BPC (the candidate for the first deputy general director is nominated by the general director and candidates for the other deputy general directorships are nominated by the chairman of the supervisory council);
- the approval of BPC's budget and annual sales plan;
- the approval of BPC's transactions which exceed 20% of the balance sheet value of BPC's assets; and
- the approval of the acquisition and disposal of shares and interests in other companies.

The BPC Charter stipulates that members of the supervisory council are elected for a term of five years and can be re-elected an unlimited number of times. The supervisory council currently consists of eight members – four from Uralkali and four from Belaruskali. The BPC Charter stipulates that Uralkali has the right to nominate the chairman of the supervisory council; however, the BPC Charter does not vest any right to a casting vote to the chairman of the supervisory council. Not less than two thirds of the supervisory council members are required to attend the meeting in order to have quorum. The BPC Charter prescribes that decisions of the supervisory council be taken by a simple majority vote of present members.

General director

According to the BPC Charter, the general director manages the day-to-day activities of BPC. The BPC Charter stipulates that the general director shall be nominated by Belaruskali and agreed upon with the President of the Republic of Belarus. The general director is appointed by the supervisory council for a term of five years.

Separate accounting

Under the BPC Charter, BPC performs a separate accounting of business operations related to the sale of products of Belaruskali, JSC GrodnoAzot and Uralkali. The BPC Charter stipulates that the following items are subject to separate accounting with respect to each shareholder:

- proceeds and revenues from the products' sales;
- expenses related to purchase and sale of products (including costs of sold products and expenses for delivery and transportation of products);
- receivables and credit indebtedness with respect to sold products;
- receivables and credit indebtedness related to purchase of products for their further resale;
- receivables and credit indebtedness with respect to transportation and delivery expenses;
- stock of finished goods;
- profit from sold products;
- loans made from the funds received from the products' sale;
- interest from placement of funds received from the sale of products; and
- other assets, liabilities, proceeds and expenses under the regulation on separate accounting.

Under the BPC Charter, each of the shareholders receives profit from the sale of its goods in the form of dividends after deduction of sales' expenses, administrative expenses and applicable taxes.

Material contracts of JSC BBT

In October 2000, JSC BBT entered into a joint operating agreement (the “**Joint Operating Agreement**”) with St. Petersburg Sea Port that was amended and restated in February 2003. Pursuant to that agreement, the parties agreed to carry out joint activity for the construction and use of the universal mineral fertiliser shipping complex, a combined unit of real estate comprised of various loading, warehouse and transshipment assets (the “**Shipping Complex**”). The allocation in the Joint Operating Agreement provides that JSC BBT holds a 98% interest in the project, and St. Petersburg Sea Port holds the remaining 2 per cent. The agreement also provides that JSC BBT’s contribution to the project is required to be the payment of 100% of the expenses related to the construction of the Shipping Complex, while the contribution of St. Petersburg Sea Port consists of providing certain engineering documentation for the construction of the Shipping Complex (such as designs and blueprints) and, more importantly, of providing the right to the lease in respect of the land plot underlying the Shipping Complex (the “**Land Plot**”) and by making certain payments, including lease payments for the Land Plot.

The Joint Operating Agreement also provides that following the completion of the construction of the Shipping Complex, JSC BBT and St. Petersburg Sea Port shall register their joint ownership title to the Shipping Complex in proportion to their respective interests in the project. In addition, the agreements between the parties provide that, following the completion of construction and registration of title to the Shipping Complex, St. Petersburg Sea Port is to enter into a long-term agreement with the relevant state authorities for the lease of the Land Plot for 49 years, and then immediately thereafter transfer its rights under such long-term lease agreement to JSC BBT.

In addition to the Joint Operating Agreement, JSC BBT and St. Petersburg Sea Port in December 2001 entered into a preliminary agreement for the sale of St. Petersburg Sea Port’s 2% share in the joint ownership of the Shipping Complex, as subsequently amended in June 2004 (the “**Preliminary Sale Agreement**”). Pursuant to the Preliminary Sale Agreement, JSC BBT and St. Petersburg Sea Port also undertake, following the transfer of rights under the long-term lease agreement for the Land Plot referred to above, to enter into an agreement for the sale by St. Petersburg Sea Port of its 2% share in the joint ownership of the Shipping Complex to JSC BBT for approximately RUR 45 million. Pending that acquisition, all profits and losses generated by the Shipping Complex (to be operated by JSC BBT) were agreed to be allocated between JSC BBT and St. Petersburg Sea Port in proportion to their respective interests in the project.

The implementation of these agreements is still pending. The authorisations governing the construction of the Shipping Complex initially provided that the construction should be completed by December 2006, but this has been extended until 30 June 2007 and JSC BBT is in the process of extending the term further in order to finalise the title registration. The actual construction of the Shipping Complex was completed, and certain parts of the Shipping Complex were registered as joint ownership of JSC BBT and St. Petersburg Sea Port in a proportion of 98:2, respectively. St. Petersburg Sea Port leased the land plot of approximately 15 hectares for the construction of the Shipping Complex from the City Property Management Committee of St. Petersburg under the lease agreement for a term of 31 December 2003. Under the general provisions of Russian law, if the term of a lease expires and the lessee continues to use the property following the expiration but the lessor makes no objections, the lease is deemed extended on the same terms for an indefinite period. St. Petersburg Sea Port has continued to use the original land plot following 2003, and the City Property Management Committee of St. Petersburg has not raised any objections yet. Russian law also provides that a lease concluded for an indefinite period may be terminated by either party at any time upon a three-months’ notice to that effect. In December 2004, the St. Petersburg Government issued a resolution allowing St. Petersburg Sea Port to expand the original land plot to 23 hectares. However, St. Petersburg Sea Port did not enter into a lease agreement covering such additional land. St. Petersburg Sea Port is in the process of consolidating the original land plot with the additional land to create the Land Plot underlying the entire Shipping Complex and ensuring the cadastre registration of the Land Plot, which is a prerequisite for the registration of title to the shipping complex and the conclusion of a lease agreement in respect of the Land Plot. Thus, certain formalities in respect of the completion of the construction and obtaining registered rights to the Land Plot remain outstanding, and the complete registration of a title to the Shipping Complex and a lease to the Land Plot and other events contemplated by JSC BBT and St. Petersburg Sea Port have not yet taken place.

Licences

Certain details of the mining licences of Uralkali and Silvinit are set out below. See “Business – Licences, mineral resources, ore reserves and mines”.

Facility	Registration/ Re-registration	Expiry	Periods and main terms
<i>Uralkali</i>			
Verkhnekamskoye Deposit, Durymansky field	15.02.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.
Verkhnekamskoye Deposit, Bygelsko-Troitsky field	15.02.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.
Verkhnekamskoye Deposit, Bereznikovsky field	15.02.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.

Facility	Registration/ Re-registration	Expiry	Periods and main terms
Verkhnekamskoye Deposit, Ust-Yaivinsky field	26.04.2004	15.04.2024	<ul style="list-style-type: none"> • By 15 April 2005: prepare a feasibility study on extraction of associated components (bromine, rubidium) and submit it for review of the state reserves commission. • By 15 April 2005: conduct an environment baseline study in the mining area. • By 15 May 2011: prepare and obtain approval by the prescribed state authorities for the new project of construction of mine facilities. • By 15 December 2015: commence construction. • By 15 August 2018: put mine facilities into operation and achieve annual output in accordance with the project documentation, but not less than 8,000 thousand tonnes of ore per year. • Clear with the prescribed state authorities measures to ensure industrial safety and subsoil and environmental protection during the temporary suspension of mining for a period exceeding two months. • Prepare and obtain approval in the prescribed manner for the plan on liquidation of the mining enterprise, site facilities and infrastructure.
<i>Silvinit</i>			
Verkhnekamskoye Deposit, Solikamsky field, north part	30.03.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.

Facility	Registration/ Re-registration	Expiry	Periods and main terms
Verkhnekamskoye Deposit, Solikamsky field, south part	02.04.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.
Verkhnekamskoye Deposit, Novo-Solikamsky field	02.04.2001	01.04.2013	<ul style="list-style-type: none"> • Pay fees for subsoil use. • On the basis of annually executed sale and purchase agreements, sell a portion of the produced ore to the government of the Perm Region in order to satisfy internal demands of the Perm Region. • Annually provide the specified state authorities with information on proved reserves, mineral resources extracted and conserved in soil; on components contained therein and on using subsoil for purposes other than extraction of commercial minerals.
Verkhnekamskoye Deposit, Polovodovsky field	01.07.2008	01.07.2028	<ul style="list-style-type: none"> • By 01 May 2009: prepare an exploration project and obtain approval by the prescribed state authorities. • By 01 July 2009: commence exploration. • By 01 February 2012: present to the designated authority the feasibility study on permanent exploratory standards for calculation of salt reserves of the first stage development section of the licensed site. • By 01 February 2013: complete exploration of potassium-magnesium salts at the first stage development section of the licensed site and provide a report to a designated authority. • By 01 January 2014: prepare a technical plan for development of the first stage development section of the licensed site and obtain approval by the prescribed state authorities.

Facility	Registration/ Re-registration	Expiry	Periods and main terms
			<ul style="list-style-type: none"> • By 01 July 2014: commence construction of the mine facilities at the first stage development section of the licensed site; • By 01 July 2016: put mine facilities at the first stage development section of the licensed site into operation. • By 01 July 2018: achieve estimated capacity at the first stage development section of the licensed site with output in accordance with the technical plan. • By 01 October 2013: present to the designated authority the feasibility study on permanent exploratory standards for calculation of salt reserves of the remaining section of the licensed site. • By 01 July 2014: complete exploration of potassium-magnesium salts at the remaining section of the licensed site and provide a report to a designated authority. • By 01 January 2017: prepare a technical plan for development of the remaining section of the licensed site and obtain approval by the prescribed state authorities. • By 01 April 2017: commence construction of the mining facilities at the remaining section of the licensed site. • By 01 October 2024: put mine facilities at the remaining section of the licensed site into operation. • By 01 October 2025: achieve estimated capacity at the remaining section of the licensed site with output in accordance with the technical plan. • Not later than 6 months prior to mining completion: prepare and obtain approval in the prescribed manner for the plan on liquidation of the mining enterprise, site facilities and infrastructure. • Pay fees and taxes for subsoil use. • Comply with reporting requirements.

The Acquisition

On 17 December 2010, Uralkali entered into a share purchase agreement with Otkritie Securities Limited to acquire 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for US\$ 894.5 per ordinary Silvinit share, or a total cash consideration of US\$ 1.4 billion. The Acquisition completed on 28 February 2011. See “The Combination of Uralkali and Silvinit”. On 25 February 2011, Uralkali completed the placement of Rouble Bonds in a total amount of RUR 30 billion in order to fund the Acquisition and entered into a cross-currency swap in respect of the Rouble Bonds. In addition, on 22 February 2011, Uralkali entered into loan facility agreement with Sberbank for approximately RUR 12 billion with a maturity of two years in conjunction with that cross-currency interest rate swap. See “Operating and Financial Review – Liquidity and Capital Resources – Borrowings”.

MANAGEMENT AND CORPORATE GOVERNANCE

Uralkali's management structure consists of the General Shareholders' Meeting, the Board of Directors, the Management Board (collegial executive body) and the Chief Executive Officer (the General Director and sole executive body).

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governing body of Uralkali. The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in Uralkali's Charter and internal regulations of Uralkali. See "Description of Share Capital and Certain Requirements of Russian Legislation – General shareholders' meetings".

Board of Directors

The Board of Directors directs Uralkali's strategy and policy between General Shareholders' Meetings and is responsible for general management matters, with the exception of those matters designated by law and Uralkali's Charter as being the exclusive responsibility of the General Shareholders' Meetings.

The Board of Directors currently consists of nine members, each of whom was elected at the Extraordinary General Shareholders' Meeting on 17 September 2010. The current terms of appointment of the members of the Board of Directors expire on the date of the next annual general shareholders meeting of Uralkali, which is scheduled to be held on 29 June 2011. Changes are expected to the composition of the Board of Directors following this meeting. See "– The New Board of Directors".

Uralkali considers three of the current nine directors, Messrs. Voloshin, Horn and Yuzhanov to be independent within the meaning of the corporate governance code approved by the Federal Commission for Securities Market (the predecessor of FSFM) on 4 April 2002 (the "FSFM corporate governance code"), the corporate governance code of Uralkali (approved by the Board of Directors on 21 February 2011) and the UK Corporate Governance Code, while the other six directors do not meet the independence criteria of the UK Corporate Governance Code. Members of the Uralkali's Board of Directors, other than Mr. Grachev and Mr. Nesis, meet the independence criteria of the FSFM corporate governance code and the corporate governance code of Uralkali.

As of the date of this document, members of Uralkali's Board of Directors are as follows:

<u>Name</u>	<u>Year of Birth</u>	<u>Role</u>
Alexander Voloshin	1956	Chairman
Alexander Mosionzhik	1961	Deputy Chairman
Alexander Nesis	1962	Deputy Chairman
Anton Averin	1966	Director
Pavel Grachev	1973	Director
Hans Jochum Horn	1948	Director
Anna Kolonchina.....	1972	Director
Alexander Malakh	1964	Director
Ilya Yuzhanov	1960	Director

Alexander Voloshin. Mr. Voloshin has been the Chairman of the Board of Directors since September 2010. From 1997 till 2003 Mr. Voloshin was Assistant Head, Deputy Head and eventually Head of the Administration of the President of the Russian Federation. From 1999 till 2008, Mr. Voloshin was Chairman of the Board of Directors of RAO UES of Russia. He was also a member of the Board of Directors of UES FGC and System Operator of the United Power System from 2005 till 2008. From 2008 till 2010, Mr. Voloshin was Chairman of OJSC MMC Norilsk Nickel, and, in 2008, he was a member of the Board of Directors of IDGC Holding. Since 2010, he has been a member of the Board of Directors of Yandex N.V., A3 LLC, the East West Institute and a Co-Chairman of the Board of Directors of the Moscow School for

Political Studies. Since 2011, has been Chairman of the Board of Directors of OJSC MMC Norilsk Nickel. Mr. Voloshin graduated from the Moscow University of Transport Engineering in 1978 and the All-Union Academy of Foreign Trade in 1986.

Alexander Mosionzhik. Mr. Mosionzhik has been Deputy Chairman of the Board of Directors since September 2010. Mr. Mosionzhik has been the Chairman of the Board of Directors of Nafta Moskva Company since 2006. From 2005 to 2008, Mr. Mosionzhik was a Chairman of the Board of Directors of OJSC Polymetal. Since 2009, Mr. Mosionzhik has been a member of the Board of Directors of PIK Group and OJSC Polyus Gold and he is also the Deputy Chairman of OJSC Polyus Gold. In 2010, Mr. Mosionzhik was elected to the Board of Directors of JSC Bank International Financial Club and to the Supervisory Board of BPC. Since 2011, he has been a member of the Management Board of the Russian Union of Industrialists and Entrepreneurs. Mr. Mosionzhik graduated from the Tula Polytechnic University in 1983 with a degree in Applied Mathematics.

Alexander Nesis. Mr. Nesis has been Deputy Chairman of the Board of Directors since September 2010. He began his career as radiochemist at Baltiysky Zavod. Mr. Nesis later started his own business, setting up a number of construction and material production companies. In 1991, Mr. Nesis founded and headed a company which became known as ICT Group in 1993. From 1993 till 1998 and from 2002 till 2005, Mr. Nesis was the Chairman of the Board of Directors of Baltiysky Zavod. From 1998 till 2003, Mr. Nesis was Chief Executive Officer of OJSC Polymetal. From 2005 to 2007, Mr. Nesis was Chairman of the Board of Directors of OJSC North-Western Ferroalloy Company. Since 2005, he has been General Director of CJST ICT. Mr. Nesis graduated from the Lensovet Leningrad Institute of Technology in 1985 with a degree in Radiochemistry.

Anton Averin. Mr. Averin has been a member of the Board of Directors since September 2010. From 2005 to 2006, Mr. Averin was a member of the Board of Directors of OJSC Polymetal, and, since 2008, Mr. Averin has been a Managing Director of Nafta Moskva Company. Mr. Averin graduated from the Lomonosov Moscow State University with a degree in Mathematics in 1988 and in 1995 received a degree in Management from the International University in Moscow.

Pavel Grachev. Mr. Grachev has been a member of the Board of Directors since September 2010, and served as President and General Director (Chief Executive Officer) of Uralkali from August 2010 to February 2011. From 1998 till 2006, Mr. Grachev was the managing partner of the Moscow office of the Pavia e Ansaldo law firm. In 2006, Mr. Grachev joined Nafta Moskva Company as Director of the Legal Department and, in 2008, was appointed a Managing Director. Since 2009, Mr. Grachev has been a member of the Board of Directors of OJSC Polyus Gold and the PIK Group, and, in 2010, he was elected as a Chairman of the PIK Group. From 2010 until 2011, Mr. Grachev was a member of the Supervisory Board of BPC. Mr. Grachev graduated from the Italian University of Trieste and Saint Petersburg State University in 1998 with a degree in Law.

Hans Jochum Horn. Mr. Horn has been a member of the Board of Directors since 2008. Mr. Horn came to Moscow in 1990 to establish the Russian branch of the accounting and consulting firm Arthur Andersen. For fifteen years, Mr. Horn was the head of Arthur Andersen in Russia and managed the integration of Ernst & Young's and Arthur Andersen's businesses in the CIS countries. From 2002 till 2005, Mr. Horn was a Managing Partner at Ernst & Young. From September 2005 till February 2009, Mr. Horn held the post of Managing Director with Renaissance Group. Since February 2009, Mr. Horn has been Deputy Chairman of the Board of Renaissance Group. Mr. Horn is a Chairman of the Norwegian Association of MBA Graduates, a founding member of the German Chamber of Commerce in Russia and President of Junior Achievement Russia. Mr. Horn graduated from the Germany's University of Mannheim in 1977, earning Diplom Kaufmann MBA and that same year graduated from Bergen University as a State Authorised Public Accountant.

Anna Kolonchina. Ms. Kolonchina has been a member of the Board of Directors since September 2010. From 2001 to 2008, Ms. Kolonchina was a director at Deutsche Bank AG, London. In 2008, Ms. Kolonchina was a managing director of Wainbridge Limited, and, from 2008 to 2010, she was Vice President for Economic Affairs and Finance of the PIK Group. Since 2010, she has been a managing director of Nafta Moskva Company, a member of the Board of Directors of the PIK Group, OJSC Polyus Gold and JSC Bank International Financial Club, and a member of the Supervisory Board of BPC. Ms. Kolonchina graduated

from the Financial Academy of the Government of the Russian Federation in 1994 with a degree in Accounting and Audit.

Alexander Malakh. Mr. Malakh has been a member of the Board of Directors since September 2010. From 1998 till 2001, Mr. Malakh worked as a consultant at McKinsey & Company. From 2001 till 2004, Mr. Malakh held executive positions at Mars Incorporated. From 2004 till 2007, Mr. Malakh was a managing director of Alfa Eco Company, and he was the Chairman of the Board of Directors of all the subsidiaries of Alfa Eco. From 2007 till 2010, Mr. Malakh was Chief Executive Officer of Rosvodokanal. Mr. Malakh is currently the Deputy CEO of ICT Group and a member of the Board of Directors of OJSC DVMP. Mr. Malakh graduated from the Kazan State University in 1985 with a degree in Applied Mathematics, earned a Master's Degree in Computational Mechanics from the State University of New York in 1994 and received an MBA from the Wharton Business School of the University of Pennsylvania in 1998.

Ilya Yuzhanov. Mr. Yuzhanov has been a member of the Board of Directors since June 2006. From 1993-1997, he held various executive positions in state agencies of St. Petersburg. From 1997-1998, Mr. Yuzhanov headed the State Committee on Land Resources and Land Utilisation of the Russian Federation. In 1998, he chaired the Ministry on Land Policy, Construction and Utilities of the Russian Federation. From 1999-2004, he was the Minister of Anti-monopoly Policy and Entrepreneur Support of the Russian Federation. From 2000-2003, Mr. Yuzhanov served on the board of directors of OJSC Gazprom. From 2003-2004, Mr. Yuzhanov served on the board of directors of OJSC Russian Railways. From 2000-2008, he served on the board of directors of OJSC RAO UES Russia. From 2004-2006, he held the position of the Chairman of the Supervisory Board of OJSC Nomos-Bank. Mr. Yuzhanov has also served on the Board of Directors of OJSC Novatek and JSC Kirov Plant from 2006 to 2009. In 2008, he was a member of the Board of Directors of IDGC Holding. From December 2009 until December 2010, Mr. Yuzhanov was Managing Director of Deutsche Bank LLC. Since 2008, Mr. Yuzhanov has been Chairman of the Board of Directors of OJSC Polymetal, and, since 2009, he has been a member of the Supervisory Council of AK Alrosa. Mr. Yuzhanov graduated from Leningrad State University in 1982 with a degree in Economics and went on to receive a Ph.D. in Economics.

The business address of the members of Uralkali's Board of Directors is 7, Butikovskiy Pereulok, Moscow 119034, Russian Federation.

The New Board of Directors

A new Board of Directors will be elected at the annual general shareholders meeting of Uralkali on 29 June 2011. Based on the list of nominated candidates, the new Board of Directors is expected to comprise six members of the current board (Messrs. Voloshin, Mosionzhik, Nesis, Grachev and Malakh and Ms. Kolonchina), together with Mr. Vladislav Baumgartner, who is currently Chairman and General Director of Uralkali (see “– Management Board”), Sir Robert Margetts and Mr. Paul Ostling. A short biography of Sir Robert Margetts and Mr. Paul Ostling (together, the “**Nominee Directors**”) is set out below.

Sir Robert John Margetts. Sir Robert Margetts was born in 1946. Mr. Margetts worked for Imperial Chemical Industries (ICI) from 1969 in various roles, where he became a member of the Board of Directors in 1992, as well as Chairman of the Board of Directors of ICI Pension Fund Trustee Limited from 1994-2000. From 1996 to 2010, Mr. Margetts served on the Boards of Directors of Legal & General Group PLC (2000-2010 as Chairman of the Board), BOC Group (2002-2006 as Chairman of the Board), English China Clays PLC, Neochimiki SA and Falck Renewables PLC. From 1999 to 2010, he was a Non-Executive Director of Anglo American PLC. In 2006 Robert Margetts became co-founder and Non-Executive Chairman of the biofuel company Ensus Limited. Since 2007, he has been Chairman of the Board of Directors of Energy Technologies Institute LLP, and, since 2008, Chairman of the Board of Directors of Ordnance Survey. Since 2010, Mr. Margetts has been non-executive director at Huntsman Corporation. Mr. Margetts graduated from Cambridge University with a BA in Chemical Engineering.

Mr. Paul James Ostling. Mr. Ostling was born in 1948. From 1977 to 2007, Mr. Ostling was a member of the Global Executive Council of Ernst & Young Global, and, from 1995 to 2002, he served as Global Executive Partner and, from 2002 to 2007, as the Global Chief Operating Officer. From 2002 to 2008, Mr. Ostling was a member of the Board of Directors of United Services Organization. Since 2007,

Mr. Ostling has served on the Boards of Directors of Cool NRG. and Boy Scouts of America Transatlantic Council, as well as holding several positions on the Board of Directors of OJSC MTS, serving as the Chairman of the Audit Committee, Chairman of the Appointments and Remuneration Committee and Chairman of the Special Committee. From 2008 till 2011, he served on the Board of Directors of Uralchem Holding Plc, a holding company owning 99.9% of shares of the Russian fertiliser producer Uralchem. Since 2008, Mr. Ostling has been a member of the Board of Directors, member of the Audit Committee and Chairman of the Appointments and Remuneration Committee of PromSvyaz Bank and, since 2010, he has served on the Board of Directors and as Chairman of the Audit Committee of Innolume GMBH. Since 2010, Mr. Ostling has also been a member of the Board of Directors of OJSC Kungur – oil and gas equipment services (where he served as Chief Executive Officer from 2007 to 2009) and, since May 2011, he has been a member of the Board of Directors of DME Ltd, Domodedovo. Since 2002, Mr. Ostling has been a member of the Business Council for International Understanding, a business association promoting dialogue between the business and government in the United States, and served as Chairman of the Board of Directors of that association from 2007 to 2010. Mr. Ostling graduated from Fordham University School of Law with a Law Degree.

Uralkali considers that, upon their appointment to the Board of Directors, Sir Robert Margetts and Mr. Paul Ostling will be independent within the meaning of the FSFM corporate governance code, the corporate governance code of Uralkali and the UK Corporate Governance Code.

Management Board

Uralkali's Management Board currently consists of six members. Members of the Management Board are appointed for a term equal to the term of the members of the Board of Directors that appointed the respective member of the Management Board. The members of the Management Board were elected in September 2010, except for Mr. Baumgertner, who was elected in February 2011. The General Director of Uralkali chairs the Management Board. The Board of Directors may terminate at any time appointment of any member of the Management Board.

As of the date of this document, the members of Uralkali's Management Board are as follows:

Name	Year of Birth	Role
Vladislav Baumgertner	1972	Chairman of the Management Board and General Director
Victor Belyakov	1973	Chief Financial Officer (Director for Economics and Finance)
Yuri Bogdanov	1980	Director for Restructuring and Permanent Enhancement
Oleg Petrov	1963	Director for Sales and Marketing
Elena Samsonova	1976	Director for Human Resources
Marina Shvetsova	1972	Director for Legal and Corporate Affairs

Vladislav Baumgertner. Mr. Vladislav Baumgertner has been Chairman and General Director and a member of the Management Board since February 2011. Mr. Baumgertner first joined Uralkali in 2003 as Chief Commercial Officer, and he was Uralkali's General Director from 2005 to 2010 and its President from 2004-2008. He was a member of the Supervisory Board of BPC from 2005 to 2010. In March 2011, Mr. Baumgertner was elected again to the Supervisory Board of BPC. In 2006, he was elected to Silvinit's Board of Directors, and he was Silvinit's General Director from 2010 to February 2011. Since 2010, Mr. Baumgertner has been a member of the Board of Directors of OJSC Galurgia, CJSC VNII Galurgii and CJSC Solikamsky Construction Trust. Mr. Baumgertner graduated from the Ural Engineering University in 1994, majoring in Electric Power Station management, earned an MBA degree from Kingston Business School in 2000, and obtained a University of London MSc degree in Financial Management in 2003.

Victor Belyakov. Mr. Belyakov has been the Chief Financial Officer and a member of the Management Board since 2007. Prior to 1999, Mr. Belyakov worked in the banking sector. From 1999-2003, he served as

Chief Financial Officer of LLC ABB Moselectroschit. From 2002-2004, Mr. Belyakov was the financial controller of LLC Yukos-Moscow. Mr. Belyakov joined Uralkali in 2004, initially as financial controller, before becoming Deputy Director for Economics and Finance and then Director for Economics and Finance and Deputy General Director. Mr. Belyakov has been a member of Uralkali's Management Board since 2007. Between 2005 and 2006, Mr. Belyakov was a member of the Board of Directors of JSC BBT. Since 2011, he has been a Member of the Boards of Directors of OJSC Solikamsky Magnesium Plant and CJSC Solikamsky Construction Trust, and he also currently serves on a number of Boards of Directors of Uralkali affiliate companies. Between September 2010 and March 2011, Mr. Belyakov was a member of the Supervisory Board of BPC. Mr. Belyakov graduated from Tver Polytechnical Institute in 1995 with a degree in Computer Engineering. In 1997, he graduated from Tver State Technical University with a degree in Economics. He also holds a CMA (Certified Management Accountant) degree and an MBA degree from Kingston University in the UK.

Yuri Bogdanov. Mr. Bogdanov has been Director for Restucturing and Permanent Enhancement since May 2011 (having been the Vice President for Efficiency Management from July 2010 to May 2011) and a member of the Management Board since 2010. Mr. Bogdanov joined Uralkali in 2004 and has held various managerial positions, including the posts of Corporate Financial Controller and Vice President for Organisational Development and Restructuring. He currently serves on a number of Boards of Directors of Uralkali affiliates. Mr. Bogdanov graduated from the Finance Academy under the Government of the Russian Federation in 2002 with a degree in Finance and Credit.

Oleg Petrov. Mr. Petrov has been the Director for Sales and Marketing since May 2011 (having been Vice President for Sales and Marketing from July 2010 to May 2011) and a member of the Management Board since 2010. In 1995 Mr. Petrov was the Commercial Director of Lisco Company. From 1995 to 2001, he occupied various management position in Philips Consumer Electronics. In 2002, Mr. Petrov was the Director for Business Development and Director of the representative office of Bermont, and, from 2002 to 2005, he was a Director of Uralkali Trading. Mr. Petrov has served as the First Deputy General Director of BPC since 2005. Mr. Petrov graduated from the Military Institute, where he specialised in foreign languages, and graduated from the Russian Plekhanov Academy Economic with a degree in Finance and Credit.

Elena Samsonova. Ms. Samsonova has been Director for Human Resources since May 2011 and a member of the Management Board since 2004. From 1997-2003, Ms. Samsonova worked at LLC Permtex holding various positions, including Head of the Human Resources Department. In 2003, she joined Uralkali as Deputy Human Resources Director. From 2004 to 2010, she was the Human Resources Director of Uralkali, and, from July 2010 to May 2011, she was Uralkali's Vice President for Human Resources. She serves on a number of Boards of Directors of Uralkali affiliates. Ms. Samsonova graduated from Perm State University in 1998 with a degree in English and Philology and in 2000 graduated from Durham University Business School with a Master's degree in Management.

Marina Shvetsova. Ms. Shvetsova has been the Director for Legal and Corporate Affairs and a member of the Management Board since 2006, having previously been Head of Legal Department since 2005. From 1995-2001, she was a Senior Lawyer of JSC Perm Project and Construction Corporation. From 2001-2005, Ms. Shvetsova worked at CJSC Sibur-Khimprom holding various positions, including Head of Legal Department. From 2002 to 2007, she was a Senior Lecturer at Regional Inter-Industrial Retraining Center at Perm State Technical University. Since 2011, she has been a Member of the Boards of Directors of OJSC Solikamsky Magnesium Plant, CJSC Solikamsky Construction Trust and CJSC VNII Galurgii, and she is currently a Member of the Board of Directors at several Uralkali affiliated companies. Ms. Shvetsova graduated from Perm State University in 1994 with a degree in Law.

The business address of the members of Uralkali's Management Board is 63 Pyatiletki Street, Berezniki, Perm Region, 618426, Russian Federation.

As described above, a new Board of Directors will be elected at the annual general shareholders meeting of Uralkali, which is scheduled to be held on 29 June 2011. Uralkali expects that the new Board of Directors will then appoint a new Management Board.

General Director

The General Director is the sole executive body and Uralkali's Chief Executive Officer. See "Description of Share Capital and Certain Requirements of Russian Legislation – General Director". The Board of Directors appoints Uralkali's General Director for a term of up to two years. The General Director may be re-elected for an unlimited number of terms. The current General Director, Vladislav Baumgartner, has served in this position since 22 February 2011.

Remuneration and Terms of Employment of Directors and Management

Compensation of key management personnel consists of remuneration paid to executive members of the Board of Directors and members of the Management Board for their services in full or part time positions. Compensation is comprised of annual remuneration plus a performance bonus depending on operating results. Total compensation of key management personnel in the form of short-term employee benefits amounted to RUR 1,305 million, RUR 702 million and RUR 375 million for the years ended 31 December 2010, 2009 and 2008, respectively. Uralkali does not operate a pension or post-employment benefits scheme specifically for its directors and management.

Members of the Board of Directors do not serve pursuant to a contract. The employment contract with the General Director has a term of two years and does not provide benefits upon termination of employment except for situations specified by Russian employment law. Uralkali enters into employment contracts for indefinite periods with its other members of its Management Board, and these contracts do not include termination benefits.

Incentive schemes

In 2007, Uralkali launched a unified bonus system for management, under which bonuses vary depending on seniority and are tied to the results of professional performance. Under this scheme, participants may receive an annual bonus, the amount of which depends on the fulfilment by the officer of key performance indicators agreed at the beginning of the year with the General Director (or, in respect of the General Director, with the Chairman of the Board of Directors). Bonuses may be as high as 100% of such officer's annual salary for the preceding year.

Insurance

Pursuant to employment contracts, Uralkali provides life and disability insurance for senior executive officers and health insurance for these officers and members of their families. The maximum insurance coverage under the life and disability insurance is equal to US\$500,000 and shall be paid in case of death or permanent or partial disability of a senior executive officer.

Shares held by Directors and Management

As at the date of this Prospectus, no member of Uralkali's Board of Directors or Management Board nor either of the Nominee Directors holds any Shares or holds any option over Shares. See "Principal Shareholders" for details of shareholdings of Aerellia Investments Limited, Chierno Construction Ltd, Aliquantum Limited and Terikla Holdings Limited, which are under the ultimate control of Mr. Alexander Nesis.

Litigation statement about Directors and Management

At the date of this document, for at least the previous five years, none of the members of the Board of Directors or members of the Management Board nor either of the Nominee Directors have:

- (i) had any convictions in relation to fraudulent offences;
- (ii) have been adjudged bankrupt or have been a member of the administrative, management or supervisory board or a senior manager of a company which has been bankrupt, placed in receivership or liquidation;

- (iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or
- (iv) been disqualified by a court from acting as a member of the administrative, management or supervisory board of an issuer or from acting in the management or conduct of the affairs of any issuer.

Mr. Alexander Nesis is the ultimate beneficial owner of Aerillia Investments Limited, Chierno Construction Ltd, Aliquantum Limited and Terikla Holdings Limited, which hold stakes of approximately 4.4%, 3.3%, 3.1% and 1.3%, respectively, in Uralkali's ordinary share capital. See "Principal Shareholders". As a result, conflicts of interest could arise between Mr. Nesis's role as a member of the Board of Directors and his position as ultimate beneficial owner of those shareholders of Uralkali. There are no other potential conflicts of interest between any duties owed to Uralkali by the members of the Board of Directors or the Management Board or either of the Nominee Directors and their private interests and/or other duties.

Corporate governance

Uralkali's shares have been listed on the RTS since 21 April 2006 and the MICEX since 9 September 2010, and its GDRs have been admitted to the UKLA's Official List and to trading on the Regulated Market of the London Stock Exchange since October 2007. Uralkali is required to comply with a number of corporate governance requirements, including the following requirements which arise as a result of the inclusion of Uralkali's Shares on the "A" list on MICEX:

- the establishment of a collegial executive body;
- the retention of at least three independent directors on the Board of Directors at all time;
- the establishment of an Audit Committee of the Board of Directors chaired by an independent non-executive director;
- the establishment of an Appointments and Remuneration Committee of the Board of Directors comprised of independent non-executive directors or independent and non-executive directors; and
- the adoption of a bylaw on insider trading;
- the establishment of internal control procedures;
- a provision in Uralkali's bylaws requiring Uralkali's General Director, members of the Board of Directors, the Management Board and its officers to disclose information concerning their ownership, sale and purchase of securities issued by Uralkali;
- a provision in Uralkali's Charter that notification of each annual General Shareholders' Meeting is made not less than 30 days before the date on which such meeting is held; and
- the adoption of a bylaw on disclosure of information.

Uralkali is in full compliance with the corporate governance requirements of the Russian Federation. Corporate governance requirements in Russia are not as developed as in western European countries or the United States and, in general, do not offer the same level of protection to investors. Uralkali does not currently observe the corporate governance recommendations set out in the UK Corporate Governance Code, although, as described above, Uralkali considers three of its current nine directors, Messrs. Voloshin, Horn and Yuzhanov, to be independent according to the criteria set out in the UK Corporate Governance Code. In relation to the new Board of Directors that is expected to be appointed at the annual general shareholders meeting on 29 June 2011, Mr. Voloshin is expected to be re-appointed, and Uralkali considers that, upon their appointment, Sir Robert Margetts and Mr. Paul Ostling will be independent according to the criteria set out in the UK Corporate Governance Code. Messrs. Horn and Yuzhanov have not been nominated for re-appointment to the Board of Directors.

Board of Directors committees

Uralkali's Board of Directors has approved internal regulations regarding corporate governance (collectively, the “**Corporate Governance Regulations**”), which incorporate recommended provisions of the FSFM corporate governance code. In accordance with the Corporate Governance Regulations, the Board of Directors has established the following committees of the Board of Directors:

Audit Committee. The Audit Committee currently consists of three members, Messrs. Horn and Malakh and Ms. Kolonchina, who were elected in September 2010. The Committee is chaired by Mr. Horn, who Uralkali believes to be an independent director within the meaning of the FSFM corporate governance code, the corporate governance code of Uralkali and the UK Corporate Governance Code. Other members of the Audit Committee are non-executive directors. The responsibilities of the Audit Committee include assessing candidates for the position of auditor, assessing the independence and quality of the audit report, overseeing the effectiveness of internal audit and risk management systems, and monitoring the activity of the internal auditor of Uralkali. In addition to the Audit Committee, Uralkali maintains a Revision Committee in accordance with the requirements of the Joint Stock Companies Law. See “Description of Share Capital and Certain Requirements of Russian Law – Revision Committee”. Following the election of a new Board of Directors at the annual general shareholders meeting of Uralkali on 29 June 2011 (see “– The New Board of Directors”), Mr. Paul Ostling is expected to be appointed Chairman of the Audit Committee.

Appointments and Remuneration Committee. The Appointments and Remuneration Committee currently consists of three members of the Board of Directors: Messrs. Yuzhanov, Mosionzhik and Nesis, who were elected in September 2010. The Committee is chaired by Mr. Yuzhanov, who Uralkali believes to be an independent director within the meaning of the FSFM corporate governance code, the corporate governance code of Uralkali and the UK Corporate Governance Code, while the other two members are non-executive directors. The Appointments and Remuneration Committee is responsible first and foremost for ensuring that Uralkali is managed by highly qualified professionals. This involves succession planning and developing recommendations on personnel, remuneration, and social policy.

Investments and Development Committee. The Investments and Development Committee currently consists of three members of the Board of Directors: Messrs. Malakh, Nesis and Averin, who were elected in September 2010. The Committee is chaired by Mr. Malakh. All members of the Investments and Development Committee are non-executive directors. The main responsibilities of this committee include determining investment and development priorities, analysing long-term development plans, setting budgets, reviewing financial performance, undertaking preliminary consideration of Uralkali's key investment projects, and making recommendations to the Board of Directors on the issues which fall within the competence of the Committee.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of Shares of Uralkali after giving effect to the Combination:

<u>Shareholders</u>	<u>% of share capital⁽¹⁾</u>
Shareholders ultimately controlled by Mr. Suleiman Kerimov :	
Kaliha Finance Ltd (9.49%)	
Gereniaco Limited (7.67%)	17.16 ⁽²⁾
Shareholders ultimately controlled by Mr. Alexander Nesis⁽³⁾ :	
Aerellia Investments Limited (4.41%)	
Chierno Construction Ltd (3.33%)	
Aliquantium Limited (3.09%)	
Terikla Holdings Limited (1.33%)	12.16
Shareholders ultimately controlled by Mr. Zelimkhan Mutsoev :	
Forman Commercial Limited	8.10
Shareholders ultimately controlled by Mr. Anatoly Skurov :	
Fenguard Ltd.	7.76
Shareholders ultimately controlled by Mr. Filaret Galtchev :	
Becounioco Holdings Limited (5.49%)	
Cosmopro Trading Limited (4.81%)	10.30 ⁽⁴⁾
Other ⁽⁵⁾	44.52
Total	100

(1) Uralkali's issued share capital following the Combination comprises 3,094,637,905 Shares, including 121,330 Shares submitted to Uralkali for redemption following approval of the Merger and major transactions by the shareholders of Uralkali at the extraordinary general meeting of 4 February 2011 in accordance with the rights of shareholders under Russian law and remaining on Uralkali's balance sheet until their further disposal.

(2) Including 6.24% of Uralkali's share capital that was transferred to OJSC Sberbank under repo agreements with voting rights being exercised by the transferors of the repo shares by proxy.

(3) Mr. Nesis is a member of the Board of Directors of Uralkali. See "Management and Corporate Governance".

(4) Including 4.81% of Uralkali's share capital that was transferred to OJSC Sberbank under repo agreements with voting rights being exercised by the transferors of the repo shares by proxy.

(5) Includes 15.43% of Uralkali's share capital held by The Bank of New York Mellon, as depositary under Uralkali's GDR program, 0.8% of Uralkali's share capital held by LLC SP Kama, a wholly-owned subsidiary of Uralkali, and 1.25% of Uralkali's share capital transferred to OJSC Sberbank under repo agreements with voting rights being exercised by the transferors of such repo shares by proxy.

Uralkali is not directly or indirectly owned or controlled by any party.

To Uralkali's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of Uralkali.

None of Uralkali's shareholders has voting rights different from any other holder of its Shares.

TRANSACTIONS WITH RELATED PARTIES

The following is a summary of Uralkali's most significant transactions with related parties for the years ended 31 December 2010, 2009 and 2008. For further details of these transactions, see note 6 to the Uralkali Financial Statements.

In the ordinary course of its business, Uralkali has engaged, and continues to engage, in transactions with parties that are under common control with Uralkali or that are otherwise related parties to Uralkali. Transactions with entities under common control with Uralkali constitute transactions with parties that have the same beneficial owners as Uralkali. Other than the transactions with entities that are under common control or otherwise constitute related parties to Uralkali described herein, Uralkali did not engage in any other material transactions with related parties during the periods under review.

Russian law requires a company that enters into so-called "interested party transactions" to obtain specific approvals. See "Description of Share Capital and Certain Requirements of Russian Legislation – Certain requirements of Russian legislation – Interested party transactions" for a discussion of the relevant procedures.

Uralkali seeks to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

Significant transactions with related parties during the years ended 31 December 2010, 2009 and 2008 are set out below:

Loan issued to related party

In September 2009, Uralkali entered into loan agreement for a total amount of EUR 50 million with Mr. Dmitry Rybolovlev, who ultimately controlled the Uralkali Group. The loan was provided for a term of one year at an interest rate of Euro LIBOR plus 4%. Management believes that the loan was provided on market terms and conditions since the interest rate on the loan exceeded the rates on the US\$ denominated loans held by Uralkali as of 31 December 2009. Mr. Rybolovlev ceased to be Uralkali's ultimate controlling shareholder in June 2010. The loan was fully repaid in July 2010.

Acquisition of subsidiary

In January 2009, Uralkali acquired a subsidiary from Blue Horizon Enterprise Ltd., an entity under common control. The total purchase consideration of RUR 753 million (US\$ 23,196,232) was fully paid by Uralkali in 2009. At the time of the acquisition, Uralkali and Blue Horizon Enterprise Ltd were under common control. See Note 9 to the 2009 Uralkali Financial Statements. In July 2010, Uralkali sold the entire share capital of the subsidiary.

Cross-shareholding

At 31 December 2010, 2009 and 2008, LLC SP Kama, a 100% owned subsidiary of Uralkali, owned a stake in Uralkali corresponding to approximately 0.8% of Uralkali's issued share capital following the Combination. Shares owned by LLC SP Kama are accounted for as treasury shares, but retain their voting rights and rights to dividends.

REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing the operation of the fertiliser industry and the activities of mineral fertiliser producing and manufacturing companies. The production, sale and distribution of mineral fertilisers in the Russian Federation are regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

Regulatory bodies

At the federal level, regulatory supervision over Uralkali's business is divided primarily between the Ministry of Industry and Trade, the Ministry of Economic Development and the Ministry of Natural Resources and Ecology of the Russian Federation. The Ministry of Industry and Trade is responsible for the development of the governmental policy in the industry, general and industrial standards regulation and internal and foreign trade. The Ministry of Economic Development is responsible for encouraging investment and support of scientific research. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and environment.

In addition to the ministries, various federal services are responsible for oversight of compliance with regulations, and various federal agencies are responsible for the management of state property and the provision of state services. The federal services and agencies that regulate Uralkali's business include: the Federal Agency for Subsoil Use, the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Labour and Employment Service, the Federal Agency for Technical Regulation and Metrology, the FAS, the Federal Customs Service and the Federal Tariff Service.

The Federal Agency for Subsoil Use organises tenders and auctions, issues licences for the use of natural resources and approves design documentation for subsoil use.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of subsoil licences and certain matters of environmental legislation and controls geological exploration, use and protection of subsoil, as well as forming special committees for the official ecological examination of project papers.

The Federal Service for Environmental, Technological and Nuclear Supervision oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures relating to the installation, deployment and operation of technical devices and machinery used in Uralkali's business and the procedures for maintaining production and technological processes. It also (i) issues licences and permissions for certain industrial activities and activities relating to safety and environmental protection, such as licences for the use of fire hazardous mining works and explosives, surveyor's works and use of dangerous wastes; (ii) registers hazardous objects; and (iii) establishes limits for waste disposal.

The Federal Labour and Employment Service controls and supervises Uralkali's compliance with labour legislation.

The Federal Agency for Technical Regulation and Metrology determines obligatory industrial standards.

The FAS (i) supervises compliance with anti-monopoly legislation; (ii) investigates violations of anti-monopoly legislation; (iii) prevents monopolistic activity, unfair competition and other violations of anti-monopoly legislation; and (iv) exercises state control over business concentration. The FAS oversees the acquisition of controlling stakes in companies and dominant market positions of business enterprises.

The Federal Tariffs Service determines and implements state regulation of prices (tariffs) on goods (services), and regulates natural monopolies. The Federal Tariffs Service takes decisions on the inclusion of a business entity in the register of natural monopolies and the establishment of prices for goods produced or services rendered by natural monopolies. See “– Natural monopoly”.

The Federal Customs Service oversees compliance with prohibitions and limitations on the movement of goods across borders in accordance with Russian legislation and international treaties, and is responsible for customs clearance and customs control.

In addition to the federal executive bodies referred to above, which are directly involved in the regulation of and supervision over Uralkali's business, there are a number of other governmental bodies and agencies with authority over general issues connected to Uralkali's business, including justice, rail transport and tax enforcement.

Regional and local authorities usually control land-use allocations and exercise certain taxation powers.

Licensing

Uralkali is required to obtain licences, authorisations and permits from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities dated 8 August 2001, as amended (the "**Licensing Law**"), as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, Uralkali is required to obtain licences and permits to carry out certain activities:

- the use of subsoil, See "– Subsoil licensing";
- the handling of hazardous waste;
- the storage and use of industrial explosive materials; and
- various transportation activities.

As of the date of this document, Uralkali held 4 licences and permits necessary to conduct material aspects of its operations.

Following enactment of the Federal Law of 27 December 2002 on Technical Regulation, as amended (the "**Technical Regulation Law**"), it is anticipated that the Russian government will replace the licensing regime for certain types of activities, including the operation of hazardous industrial facilities, surveyor's works, the construction and design of buildings and other structures and fire prevention and fighting, that are currently conducted by Uralkali with technical regulations issued under the Technical Regulation Law. However, as at the date of this document, the government has not introduced most of the technical regulations, and Uralkali must continue to conduct these types of activities on the basis of licences issued under the Licensing Law and the regulations introduced thereunder.

The licences are usually issued for a minimum period of five years. Licences for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a licence may be extended upon application of the licensee but usually subject to prior compliance with regulations. Certain types of licences may be issued for the expected operational life of the relevant field, and certain licences may have unlimited terms.

A licence may be suspended or terminated if a licensee repeatedly commits material breaches of the terms and conditions of such licence. If a licensee fails to mitigate any breach of a licence granted to it within the period established by a licensing authority, that authority may apply to court for the termination of the licence. A court may also terminate the licence in certain other cases, including, for example, if the breach of the terms and conditions of a licence by the licensee damaged the rights, legal interests or health of individuals. However, in certain cases, the licensing authorities have the authority to terminate subsoil licences by unilateral action beyond a court procedure. See "– Subsoil licensing – Maintenance and termination of licences".

Licensing regulations and the terms of its licences and permits require Uralkali to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil licensing

In Russia, minerals mining requires a subsoil licence issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

The primary law regulating subsoil licensing is the Law on Subsoil of 21 February 1992, as amended (the “**Subsoil Law**”), and the regulations adopted thereunder, which set out the regime for granting licences for the exploration and production of mineral resources and subsoil use regime. Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities.

Currently production licences and combined exploration and production licences are awarded by tender or auction conducted by special commissions of the Federal Agency for Subsoil Use. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. Regional authorities may, however, issue production licences for “common” mineral resources, such as clay, sand or limestone. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover mineral resource deposits through exploration work conducted at their own expense, except for the subsoil plots of federal importance.

The Federal Law of 29 April 2008 on Amending Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State (the “**Amending Law**”) introduced certain further amendments to the Subsoil Law, including the concept of subsoil plots of federal importance. Pursuant to the Amending Law, if geological research conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance, in the interests of national defence and security, the Russian government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined licence has already been issued to such subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological research and reimbursement of the lump sum payment upon issue of the licence). The transfer for any reason of subsoil use rights to subsoil plots of federal importance to Russian legal entities controlled by foreign investors is prohibited, other than the transfer of rights in exceptional cases at the discretion of the Russian Government. Uralkali currently does not possess any licences for conducting operation on the subsoil plots of federal importance, although there is no assurance that such licences would not be obtained by Uralkali in the future.

There are two major types of licences: (1) exploration licences, which are non-exclusive licences granting the right of geological exploration and assessment within the licence area, and (2) production licences, which grant the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined (exploration and production) licences, which grant the right to explore, assess and produce minerals from the licence area, which is defined in terms of latitude, longitude and depth.

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law, which may include regular payments for exploration of minerals and certain one-off payments; (ii) the mineral extraction tax under the Tax Code, and (iii) other payments and fees prescribed by Russian legislation, including fees for the right to participate in tenders and auctions and fees for the issuance of a licence. Failure to make payments for the use of subsoil under the Subsoil Law and the mineral extraction tax under the Tax Code could result in the suspension or termination of the subsoil licence. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and

currently is set at 3.8% for silvinite and 5.5% for carnallite. In 2010, Uralkali incurred mineral extraction tax in the amount of RUR 126,968 thousand.

The term of the licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences have a maximum term of five years; production licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the licence may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments do not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided that the licensee complies with the licence terms. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use.

Issuance of licences

The Federal Agency for Subsoil Use or its regional authorities issue subsoil licences. Most of the currently existing production licences owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations or (ii) tender or auction procedures held in the post-Soviet period. The Subsoil Law and related regulations contain the major requirements relating to tenders and auctions.

Extension of licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

The Order of the Ministry of Natural Resources No. 439-R, of 31 October 2002, recommends that the following issues be considered by the relevant governmental authorities when determining whether to approve an extension: (i) the grounds for the extension with specific information as to how the extension may impact payments by the licensee to the federal and local budgets; (ii) compliance of the licensee with the conditions of the licence; and (iii) the technical expertise and financial capabilities that would be required to implement the conditions of the extended licence.

The factors that may, in practice, affect a company's ability to obtain an extension of a licence include (i) its compliance with the licence terms and conditions; and (ii) its management's experience and expertise relating to subsoil issues. For a description of additional factors that may affect the Combined Group's ability to extend its licences, see "Risk Factors – Risks Relating to Regulations – The Combined Group's operations are dependent on having received the required licences, permits and approvals from governmental authorities".

Transfer of licences

As a general rule, the Subsoil Law prohibits transfer of rights of subsoil use, certified by a licence, with certain exceptions, including the following:

- as a result of a merger or spin-off of legal entities provided that a transferee is a Russian legal entity;
- to a newly established Russian legal entity in which the initial licence holder has at least a 50% interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;

- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and
- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity controlled by a foreign investor or a group of persons including a foreign investor if such foreign investor or such group of persons including a foreign investor: (i) directly or indirectly possess 10% or more of the total number of votes conferred by voting shares in the share capital of that entity; or (ii) have the right, on the basis of a contract or another ground, to issue binding instructions to that entity, including control over the business operations; or (iii) have the right to appoint chief executive officer or more than 10% of the members of the collective executive body, and (or) have an unconditional right to elect more than 10% of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, including bringing the field into production by a certain date; extracting an agreed-upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the relevant authorities; and submitting on a regular basis formal progress reports to regional authorities. The licence agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, as discussed above, though such amendments may be denied. Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and the Federal Service for Environmental, Technological and Nuclear Supervision, undertake periodic reviews for ensuring compliance by subsoil licence users with the terms of their licences and applicable legislation.

A licensee can be fined for failing to comply with the conditions of the subsoil licence and the subsoil licence can be revoked, suspended or limited in certain circumstances, including:

- a breach or violation of material terms and conditions of the licence by the licensee;
- repeated violation of the subsoil regulations by the licensee;
- the failure of licensee to commence operations within a required period of time or to produce required volumes, as specified in the licence;
- the occurrence of an emergency situation, including natural disasters or war;
- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- the liquidation of the licensee; and
- the failure to submit reporting data in accordance with the legislation.

Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project, in comparison with the levels set up in the licensing agreement, would also be likely to constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence suspension or termination or the refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such three-month period, no termination or other action may be taken.

As a general rule under the Subsoil Law, the subsoil user pays expenses of conservation and liquidation of goafs and other underground equipment connected with subsoil works. In addition, the Subsoil Law specifically establishes that in the event of early termination of the licence, the subsoil user pays such expenses if the user's faults imposes direct threat to human life and health and if there were material or repeated violations resulted in early termination of the licence or if the licence is terminated at the user's request. The state pays conservation and liquidation expenses if the licence is terminated due to an emergency situation, such as natural disasters, flooding, war and other similar circumstances, or in the event of direct threat to human life and health if there is no user's fault.

Land use rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction on a land plot without obtaining appropriate land use rights. Land use rights are obtained for the parts of the licence area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, (the "**Land Code**"), companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation is owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other rights of use to the land to third parties.

Under the Federal law of 25 October 2001 on Enactment of the Land Code of the Russian Federation, as amended, companies having a right of perpetual use of land that was obtained prior to the enactment of the Land Code are required, by 1 January 2012, either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority-owner of the land.

In 2003 and 2004, Uralkali purchased most of the land relating to its mineral fertilisers production and manufacturing facilities and with respect to the remaining land plots Uralkali has entered into long-term lease agreements or occupies them under a right of permanent perpetual use. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the lease agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental matters

Uralkali is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air, water and soil, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily

by the Federal Law on Environmental Protection of 10 January 2002, as amended (the “**Environmental Protection Law**”), as well as by a number of other federal and regional legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime which is enforced by federal and regional authorities. The Ministry of Natural Resources and Ecology has established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Environmental, Technological and Nuclear Supervision has set limits for emission and disposal of substances as well as for waste disposal. A company may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of emissions or disposals must be developed by Uralkali and cleared with the appropriate governmental authority. Fees (as prescribed by the “Order of Determination of Payments and Their Maximum Level for Pollutant Emissions, Disposal of Wastes, Other Types of Negative Impact” approved by the Regulation of the Russian Government No. 632 of 28 August 1992 and the Regulation of the Russian Government No. 344 “On Rates of Payments for Pollutant Emissions Into the Air by Stationary and Mobile Sources, Pollutant Disposals Into Surface and Underground Waters, Disposal of Production and Consumption Waste” of 12 June 2003, as amended) are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits. The lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities Uralkali incurred fees in the amount of approximately RUR 590 million in 2010.

Ecological approval

Any activities that may affect the environment are subject to evaluation of the negative impact on the environment and to state ecological expertise by the relevant federal authorities in accordance with the Federal Law on Ecological Expert Examination of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological expertise may result in the negative consequences described in “-Environmental liability”. However, under the Environmental Protection Law, a positive state ecological expertise does not exclude liability to compensate damage caused to the environment.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate proceedings for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban such operations and require Uralkali to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative or civil liability, and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. A court may impose an obligation to finance and conduct reclamation measures pursuant to an expert report approved by a court. See also “- Reclamation”.

As a general rule under the Environmental Protection Law, a legal entity or individual that caused damage to the environment by its pollution, depletion, deterioration, contamination or by irrational use of natural resources, degradation or destruction of environmental systems, natural complexes or physical landscape is obliged to compensate such damage in the full amount. The compensation of harm is paid voluntarily or pursuant to a court decision. Under applicable Russian law, compensation of harm is generally payable, provided that fault of a person who caused the harm is proved. Russian law may establish instances in which a person causing harm is liable without fault. In particular, if a company's activity is connected with increased danger (such as performance of construction works, use of mechanical devices or high voltage electricity, explosive substances or in any other circumstances based on court findings), such company is obliged to compensate harm caused by its activity, unless the harm is proved to be a result of *force majeure* or malicious acts of the victim.

The compensation for damages caused to the environment is calculated pursuant to rates or estimating procedures approved by environmental authorities. If the relevant rates or estimating procedures do not exist, courts calculate an amount of damages based on the principle of full compensation of all costs for recovery of losses, including any lost profit.

The Environmental Protection Law provides that mandatory environmental insurance can be introduced in the Russian Federation. Pursuant to the terms of the licence issued to Kamskaya Mining, an indirect wholly-owned subsidiary of Silvinit, for development of the Polovodovsky field, and the licence issued to Uralkali with respect to development of Ust-Yaivinsky field, licensees are required to obtain insurance in respect of their civil liability for damages caused to the environment. The Ministry of Natural Resources and Ecology recommended in its Sample Regulation on Procedure for Voluntary Environmental Insurance in the Russian Federation approved on 3 December 1992, under No. 04-04/72-6132, that a voluntary environmental insurance policy should cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities. However, on 1 January 2012, the Federal Law "On Mandatory Insurance of Civil Liability of Owners of Dangerous Facilities for Harm Caused as the Result of an Accident at the Dangerous Facility" is expected to come into force, and Uralkali may incur additional expenses for obtainment of such insurance.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low, but failure to comply with the clean-up requirements may lead to suspension of mining works.

Reclamation

Uralkali conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Ministry of Natural Resources and the Land Resources and Development Committee of the Russian Federation. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. Uralkali has not prepared closure and post closure plans for its mining and production plants in accordance with any acceptable international standards.

Environmental protection programmes

Uralkali has been developing and implementing environmental protection programmes. The programmes include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, the introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste. The Combined Group has also been implementing programmes aimed at reducing the level of waste-water discharges and water consumption per tonne of production, as well as hazardous atmosphere emissions by switching from powering industrial potash dyers with fuel oil to using gas. Uralkali engages leading Russian Research and Development Institutes in Perm and St. Petersburg.

Energy production

Uralkali is currently finalising the implementation of its power generation programme to reduce its reliance on external sources of electricity and heat energy by building its own power generation facility using electricity turbines powered by natural gas. The electricity generation turbines will also produce heat as a by-product, which Uralkali intends to use to reduce its demand for heat supplied externally. The power generation programme consists of installation and operation of four electricity generation turbines at Plant 4. Two of these turbines became operational in 2008, and Uralkali expects that the other two turbines will become operational in the third quarter of 2011.

Health and safety

Much of Uralkali's business activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used and where certain types of mining are carried out. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for mining and production operations that Uralkali conducts.

Uralkali's activities also include operation of certain hazardous industrial sites regulated by the Federal Service for Environmental, Technological and Nuclear Supervision. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless approved by the state expertise. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia of 30 December 2001, as amended (the "**Labour Code**"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to record and notify the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The procedure for such investigation is set out in Regulation of the Ministry of Natural Resources and Ecology No. 191 of 30 June 2009. The company operating the industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate a company's operations or impose administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for loss of earnings, as well as health-related damages and in certain cases its activity may be suspended.

The Technical Regulation Law introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation. The Technical Regulation Law supersedes the Laws of the Russian Federation on Certification of Goods and Services of 10 June 1993 and on Standardisation of 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. During the development of this new system, Russia's existing certification and licensing system will generally remain in effect. Currently, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of mining and production operations that relate to Uralkali's operations.

The System of Management of Industrial Safety and Labour Protection

Uralkali approved internal Regulation on a System of Management of Industrial Safety and Labour Protection (the "**Safety Regulation**"), effective from 1 September 2003, which summarises the risks associated with Uralkali's facilities and production processes and establishes an internal set of rules for the safe operation of hazardous equipment, maintenance of a safe working environment and accident prevention. The Safety Regulation provides for the overseeing of these safety practices as well as methods of related risk assessment and management and employee training. The Safety Regulation contains a detailed description of the responsibilities of Uralkali's officers. Failure to comply with these guidelines may result in personal liability of a non-complying employee under Russian law.

Furthermore, pursuant to the Federal Law on Safety of Hydrotechnic Constructions of 21 July 1997, as amended, Uralkali is required to prepare an industrial safety declaration with respect to each hydrotechnic construction operated by Uralkali. Therefore, Uralkali prepares such declarations with respect to its four sludge reservoirs.

Regulation of competition

The anti-monopoly legislation of the Russian Federation is based primarily on the Federal Law on Protection of Competition of 26 July 2006 (the "**Competition Law**") and other federal laws and regulations governing anti-monopoly issues. Uralkali is subject to regulation by the FAS, both in connection with acquisitions as well as a result of its market position in certain market segments.

The FAS keeps a register of companies which have more than a 35% share in a particular commodity market (both federal and regional) (the "**Register**"). Uralkali is currently included in the Register of both federal and regional levels. The Register for the federal level refers to Uralkali as an entity holding more than 65% share in the markets of concentrated carnallite and potash chloride in the Russian Federation. Uralkali is also included in the Register for the Perm region as an entity holding more than a 50% share in the markets of saline and purified sodium chloride markets in the Perm region as well as an entity holding more than a 65% share in the electric power transmission services market within the borders of an electric network owned by Uralkali (territory of Berezniki in the Perm region).

The Competition Law establishes a regulatory framework for each company holding a dominant position on a particular market, aimed at protection of competition at the relevant markets.

The Competition Law establishes several criteria for determining whether an entity together with its group has a dominant position on a particular commodity market.

- An entity (together with its group) has a dominant position on a particular commodity market if: (a) the entity (together with its group) has a market share on a particular commodity market in excess of 50%, unless it is specifically established that the entity (together with its group) does not have a dominant position; or (b) the entity has a market share on a particular commodity market in excess of 35% (but less than 50%) and it is specifically established by the FAS that the entity (together with its group) has a dominant position based on the following factors: (i) the share of the entity on the relevant commodity market is permanent or is subject to insignificant changes as compared to competitors' shares on the same commodity market; (ii) there is a low likelihood for new

competitors to enter the relevant commodity market; or (iii) other criteria characterising the commodity market that the FAS deems relevant.

- As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35% but this rule does not apply if (i) the company is holding a collective dominant position (as described below); (ii) the dominant position of the company holding less than 35% of market share is determined by the federal law or (iii) the dominance is determined by the anti-monopoly body upon conducting the analysis of the competitive situation on the market if the company is subject to compliance with certain requirements provided for by the Competition Law.
- Several unrelated entities (always considered together with their respective groups) have a dominant position (“collective dominant position”) if: (a) the aggregate share of not more than the leading three entities exceeds 50% or of not more than the leading five entities exceeds 70% of a particular commodity market, but this provision does not apply if the share of one of the entities is less than 8%; and (b) during a significant period of time (not less than one year or, if shorter, the life of the particular commodity market), the respective shares of such entities remain constant or are subject to insignificant changes and entry into the particular commodity market is difficult; and (c) the relevant commodity goods cannot be easily substituted and demand for the commodity is price-inelastic.
- Any “natural monopoly” of a particular commodity has a dominant position on the relevant commodity market (“natural monopolies” are created by specific legislation and include the gas and electricity markets).

An entity holding a dominant position on a particular commodity market is prohibited from abusing such a position through, *inter alia*, the following activities: (i) fixing or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation, which results in price increases; (iii) dictating to a counterparty terms unfavourable to it or not relevant to the subject-matter of the agreement; (iv) reducing or terminating the production of certain goods for other than economic or technological reasons, if there is a demand for such goods or orders are placed for the supply of such goods, provided the goods can be produced at a profit, and also if such reduction or termination is not explicitly provided for by corresponding legal or judicial acts; (v) refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement for reasons other than on economic or technical grounds, provided there are possibilities for the production or supply of the relevant goods, and also if such refusal or avoidance is not explicitly provided for by corresponding legal or judicial acts; (vi) fixing various prices (tariffs) for the same goods for other than economic or technological reasons or otherwise, unless provided for by federal laws; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; (ix) violation of established pricing rules; and (x) any other activities that result or may result in preventing, limiting or eliminating competition and/or infringing upon other participants on such market by any entity holding a dominant position in a particular commodity market. The FAS is authorised to issue binding orders on companies holding a dominant position, including requiring that companies treat customers equally or imposing pricing restrictions. In addition, the FAS has the power to require in limited circumstances a spin-off or split of companies, and even a mandatory liquidation of a company that systematically abuses a dominant position.

The Competition Law provides for a mandatory pre-approval by the anti-monopoly authorities or mandatory post-transactional notification of the anti-monopoly authorities in case of certain transactions. See “Description of Share Capital and Certain Requirements of Russian Legislation – Certain requirements of Russian legislation – Approval of the Russian anti-monopoly authorities”.

Russian legislation grants the FAS wide-ranging powers to perform its functions and address violations of anti-monopoly legislation. The FAS is authorised:

- to initiate or examine cases regarding violation of anti-monopoly legislation;
- to issue statutory prescriptions to business entities in cases specified in the Competition Law, including (i) the termination of agreements or of coordinated acts of business entities limiting

competition, and the introduction of measures aimed at ensuring competition; (ii) the termination of the abuse of its dominant position by a business entity, and the introduction of measures aimed at ensuring competition; (iii) the introduction of measures to mitigate the effects of a violation of the anti-monopoly legislation; (iv) the conclusion or termination of agreements, or the introduction of amendments to the terms of agreements; and (v) the transfer to the federal budget of any income received as a result of a violation of anti-monopoly legislation;

- to impose sanctions on commercial and non-commercial organisations and their officers for violating anti-monopoly laws in accordance with Russian legislation; and
- to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including seeking to invalidate in full or in part any agreements that breach anti-monopoly legislation.

In March 2011, in order to obtain anti-monopoly clearance of the Combination by the FAS, Uralkali agreed to observe a number of special conditions set by the FAS, aimed at maintaining competition in the Russian domestic market. In particular, the Combined Group will be required to regulate its potash sales across various consumer categories in Russia, including agricultural producers, compound fertiliser manufacturers and industrial customers, and it must also maintain consistent pricing and other policies applicable to each consumer group to ensure that potash shipments are made to domestic customers. During a transition period until the end of 2012, the Combined Group is obliged to deliver potash to Russian agricultural producers at preferential prices which are below the market potash price. Russian manufacturers of complex potash fertilisers will be charged the minimal export price calculated in accordance with established formulas. Upon the expiration of the transition period, these pricing arrangements may be amended.

In addition, for the period of the next five years, the Combined Group will be required to comply with specific disclosure and reporting obligations, including reporting to the FAS on the following matters:

- any decisions to dispose of its assets or other actions resulting in a decrease of the Combined Group's production capacity;
- any increase in export sales of more than 5% at the expense of domestic potash sales;
- any increase in prices for domestic sales of more than 5%;
- any transactions or other actions with competitors, which may result in an increase in the Combined Group's dominant position in the Russian or foreign markets;
- any changes in distribution policy;
- any changes in the composition of the Uralkali Group; and
- quarterly reporting on current prices and delivery volumes to Russian and export markets.

Natural Monopoly

The Natural Monopoly Law defines a natural monopoly as a situation on the commodities market where a demand for particular products or services is satisfied more effectively in the absence of competition and where the monopoly product or service cannot be easily replaced by another one.

The Russian Government, the FAS and the Federal Tariffs Service are currently the main regulatory authorities for natural monopolies. The principal ways of regulating the activities of natural monopolies by the relevant authorities are:

- regulating prices; and
- requiring natural monopolies to provide certain levels of products or services to certain consumers.

The Natural Monopoly Law provides that natural monopolies cannot refuse to enter into contracts with particular consumers for the production or sale of goods and provision of services that fall within the regulation of the Natural Monopoly Law.

The supervisory authorities have the right: (i) to regulate natural monopolies; (ii) to instruct natural monopolies to enter into contracts with consumers entitled to obligatory services; (iii) to instruct natural monopolies to modify existing contracts; (iv) to instruct natural monopolies to transfer revenues from activities which contravene the Natural Monopoly Law to the federal budget; (v) to fine natural monopolies; and (vi) to perform other acts contemplated by federal laws.

The Natural Monopoly Law set forth the provisions when natural monopolies are obliged to receive prior approval of the regulatory authorities or notify them on different issues.

Pursuant to the Natural Monopoly Law, natural monopolies are obliged to receive prior approval of the FAS for the following:

- entering into any transactions, where the natural monopoly acquires the right of ownership on any assets not directly aimed at the production of goods, which are regulated under the Natural Monopolies Law, if the balance value of such assets exceeds 10% of the value of the own capital of the natural monopoly as per the last approved balance sheet;
- investments, which amount to over 10% of the value of the own capital of the natural monopoly as per the last approved balance sheet, in production of goods that are not regulated under the Natural Monopolies Law;
- a sale, lease or other transaction where the business entity acquires the right of ownership or use in relation to a part of assets of a natural monopoly used for the production of goods that are regulated under the Natural Monopolies Law, provided that the balance value of such assets exceeds 10% of the value of the own capital of the natural monopoly as per the last approved balance sheet.

The Natural Monopoly Law also requires that the FAS should be notified of the following:

- the acquisition by a person or a group of persons of shares (participation interests) in the charter capital of natural monopoly or entering into other transactions (including a surety, trust management or pledge) relating to the acquisition of more than 10% of the natural monopoly's voting shares, as well as in all events of change of the owned voting rights;
- the acquisition by the natural monopoly of shares (participation interests) in the charter capital of another business entity, representing more than 10% of the total amount of voting rights, as well as in all events of change in the amount of owned voting rights.

The applications for prior approval or notification are filed by the natural monopoly or person(s) acquiring shares (participation interests) in the charter capital of the natural monopoly.

Foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the subsoil sector

On 7 May 2008, new laws came into effect that changed the legal environment for foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation. The relevant laws are (i) the Federal Law "On Foreign Investments into Companies that are of Strategic Importance for the National Security and Defence of the Russian Federation" No.57-FZ dated 29 April 2008, as amended, (the "**Foreign Investments Law**") and (ii) the Amending Law (together with the Foreign Investments Law, the "**Strategic Laws**"), which introduced various amendments to the Subsoil Law.

The Foreign Investments Law provides for stringent requirements in respect of foreign investment in Strategic Subsoil Companies. In particular, foreign investors, or a group of persons including a foreign investor, intending to enter into a transaction which results in the acquisition of "control" (as defined below) over Strategic Subsoil Companies are required to obtain the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation (the "**Foreign Investment Commission**"). The

list of subsoil plots of federal importance was officially published in March 2009, and subsequently amended in March 2010. None of the subsoil plots operated by Uralkali or Silvinit is included in this list as at the date of this document. However, there is no assurance that they would not be included in the future or Uralkali would not obtain a subsoil licence for operation of the subsoil plots of federal importance.

Pursuant to the Foreign Investment Law, the acquisition by a foreign investor (or a “group” of persons (as defined in the Competition Law) including one or more foreign investors) of 10% or more of the voting shares of a Strategic Subsoil Company, means that such acquisition shall be subject to prior approval in accordance with the Foreign Investment Law. Moreover, the Foreign Investments Law provides that if a foreign investor (or a group of persons including one or more foreign investors) already exercises direct or indirect “control” (as defined in the Foreign Investments Law) over 10% or more of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of such Strategic Subsoil Company by the foreign investor (or group of persons including the foreign investor) would require the prior approval of the Foreign Investment Commission. The Foreign Investment Law is not clear as to whether an acquisition of shares in a holding company of a Strategic Subsoil Company would be subject to similar limitations, although this is likely to be the case. Failure to obtain such prior approval will either render the relevant transaction void or may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at the general shareholders meetings of the relevant Strategic Subsoil Company.

Furthermore, should a foreign investor, or a group of persons including a foreign investor, establish control over a Strategic Subsoil Company as a result of events other than the direct acquisition of shares, including, for example, as a result of a buy-out or redemption by the Strategic Subsoil Company of its own shares or a conversion of its preferred shares into ordinary shares, the relevant foreign investor or group of persons including a foreign investor would be obliged to apply for approval of control by the Foreign Investment Commission within three months from the date of establishment of control. Failure to apply for such approval may result in a prohibition on voting, as set out above. If the Foreign Investment Commission were to refuse to approve the establishment of foreign control over a Strategic Subsoil Company, the relevant foreign investor or group of persons including a foreign investor would be obliged to dispose of all or part of its shares so that the remaining shares do not represent a controlling stake. The failure of a foreign investor (or a group of persons including a foreign investor) to do so within three months from the date when the prior governmental approval is declined would enable the FAS to file a lawsuit in a Russian court requiring that a foreign investor (or a group of persons including a foreign investor) in breach of the above requirements be prohibited from voting at the general shareholders meeting of the Strategic Subsoil Company.

The Subsoil Law also provides that exploration and production at a subsoil plot of federal importance, even under a previously issued combined subsoil licence, may only be commenced on the basis of a decision of the Russian Government obtained following the completion of geological research. If, in the course of geological research at a subsoil plot, a foreign investor or a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance, and there may be the possibility of an apparent threat to the national security of the Russian Federation, the licensing authorities have the right to revoke the respective combined subsoil licence or refuse to grant an exploration and production subsoil licence upon a decision of the Russian Government. In the case of such a revocation, the Subsoil Law contemplates the reimbursement to the licence holder of costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the respective combined subsoil licence or geological research licence, as well as payment of a premium in accordance with applicable procedures. There is no assurance, however, that such amounts would cover the licence holder’s actual costs, or be paid at all. In addition, the Russian Subsoil Law provides that only Russian legal entities are entitled to use subsoil plots of federal importance. In the interests of national security, Russian legal entities with foreign participation may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government.

The Strategic Laws are worded vaguely, which leaves wide scope for their interpretation by the competent state authorities. For example, the Strategic Laws are unclear on various issues including the exact

definition of the term “legal entity with foreign participation”, the explicit scope of the transactions subject to regulation and the approval procedure for such transactions. Although the newly adopted laws do not apply retroactively, and generally apply to transactions and legal relationships taking place or arising after 7 May 2008, there is no assurance that the Strategic Laws will not be amended or otherwise supplemented to apply retroactively or to include additional provisions that may be onerous for Uralkali.

Employment and labour

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

Employment contracts

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts, including with respect to contracts with senior management.

An employer may terminate an employment contract only on the basis of the specific grounds provided for in the Labour Code, including:

- the liquidation of the enterprise or redundancy of staff;
- a failure of the employee to comply with the position’s requirements due to incompetence and as confirmed by an appraisal;
- a systematic failure of the employee to fulfil his or her duties, provided that such employee is subject to ongoing disciplinary sanctions;
- any single gross violation by the employee of his or her duties, including, for example, a breach of work safety rules, which knowingly creates the risk of serious accident;
- the provision by the employee of false documents prior to entry into the employment contract;
- a single gross violation of employment duties by the head or deputy head of the company (or its branch or representative office); and
- any grounds specified in the employment agreement with the head of the company or members of the management board.

An employee dismissed from an enterprise due to redundancy or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides for protections of specified categories of employees. For example, except for a limited number of circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18, or other persons caring for a child under the age of 14 or a disabled child under the age of 18 without a mother.

Any termination by an employer of an employment contract in violation of the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees’ rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week of 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

Annual paid vacation leave is 28 calendar days but may be extended for certain categories of employees. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 36 working days.

Work pensions and retirement are regulated by the Federal Law on Work Pensions in the Russian Federation of 17 December 2001.

The retirement age in the Russian Federation is generally 60 years for men and 55 years for women, although it may be lower in certain cases. For example, the retirement age for men who have worked in underground mines for at least 10 years, and women who have worked in underground mines for at least 7.5 years with pensionable service for at least 20 and 15 years, respectively, is 50 and 45 years, respectively, and for men who have worked under harmful labour conditions for at least 12.5 years and women who have worked under harmful labour conditions for at least 10 years with the pensionable service for at least 25 and 20 years, respectively, is 55 and 50 years, respectively. Persons who have worked full working days as miners in open-pit mines or underground mines for at least 25 years (and for leading specialists, 20 years) may also retire, regardless of their age.

Salary

As from 1 June 2011, the minimum salary in Russia is RUR 4,611 (approximately US\$165). Although the law requires that the minimum salary be at or above a minimum subsistence level, the current minimum salary is considered to be substantially less than a minimum subsistence level. According to information by the state statistics agency of the Russian Federation, the minimum subsistence level in the third quarter of 2010 was RUR 6,292 per month for Perm region, RUR 9,608 per month for Moscow and RUR 6,250 per month in St. Petersburg. According to the collective agreement between Silvinit and its employees, the salary of each full time first class employee may not be lower than the minimum subsistence level in the Perm region.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for termination of an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of an employment contract.

Trade unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, Uralkali's management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of its business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended (the "**Trade Union Law**").

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that are incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;

- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian law requires that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain additional guarantees.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

The following describes the Company's ordinary shares, the material provisions of the Company's Charter and certain requirements of Russian legislation. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and applicable Russian laws.

Corporate purpose

Article 1.12 of the Charter provides that the Company's purpose is to earn profit.

Description of share capital

Pursuant to the Joint Stock Companies Law, the Company has the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Under Russian law, share capital refers to the aggregate nominal value of the issued and outstanding shares. The Company did not issue any shares in 2008, 2009 or 2010. Prior to completion of the Combination, the Company's share capital consisted of 2,124,390,000 issued, fully paid and outstanding ordinary shares, each with a nominal value of RUR 0.5, and the Company was authorised by the Charter to issue an additional 2,700,000,000 ordinary shares. Following completion of the Combination, the Company's share capital consists of 3,094,637,905 issued, fully paid and outstanding ordinary shares, each with a nominal value of RUR 0.5. No preferred shares are authorised or outstanding. Preferred shares may only be issued if amendments have been made to the Charter pursuant to a resolution of the general meeting of shareholders.

The Joint Stock Companies Law requires the Company to dispose of any of its shares that the Company acquires within one year of their acquisition or, failing that, reduce the Company's share capital. For the purposes hereof such shares are referred to as treasury shares. Russian legislation does not allow voting rights in relation to such treasury shares. Any shares that are owned by the Company's subsidiaries are not considered treasury shares under Russian law (they are considered outstanding shares), and such subsidiaries are able to exercise voting rights relating to such shares and dispose of such shares without the need for any further corporate actions by the Company's shareholders or the Board of Directors. Currently the Company holds 121,330 treasury shares. In addition, LLC SP Kama, a 100% subsidiary of the Company, owns 24,868,944 of the Company's ordinary shares, which represents 0.8% of the Company's share capital. Accordingly, the Company's ordinary shares held by LLC SP Kama may vote at any general shareholders meeting of the Company and are entitled to dividends paid by the Company.

The Company's ordinary shares are listed on the RTS and on the MICEX under the symbol "URKA".

Rights attaching to ordinary shares

Holders of the Company's ordinary shares have the right to vote at all general shareholders' meetings. As required by the Joint Stock Companies Law and the Charter, all of the Company's ordinary shares have the same nominal value and grant to their holders identical rights. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- freely transfer the ordinary shares without the consent of other shareholders;
- receive dividends;
- participate in general shareholders' meetings and vote on all matters within the competence of general shareholders' meetings;
- transfer rights to vote on a general shareholders meeting to its representative pursuant to a power of attorney;
- if holding, alone or with other holders, 2% or more of the voting shares, within 30 days after the end of the Company's fiscal year, make proposals for the annual general shareholders' meeting and

nominate candidates to the Board of Directors, Management Board, General Director and Revision Committee;

- if holding, alone or with other holders, 10% or more of the voting shares, demand that the Board of Directors call an extraordinary general shareholders' meeting or an unscheduled audit by the Revision Committee;
- demand repurchase by the Company of all or some of the Company's ordinary shares if the shareholder voted against or did not participate in the voting on the decision approving any:
 - reorganisation of the Company,
 - conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the Company; or
 - amendment to the Charter or approval of a new edition of the Charter in a manner that restricts shareholder's rights;
- upon liquidation of the Company, receive a proportionate amount of its property after fulfilment of obligations by the Company;
- have access to certain of the Company's documents, receive copies for a reasonable fee, and if holding alone or with other holders, 25% or more of the voting shares, have free access to accounting documents and minutes of the Management Board meetings; and
- exercise other rights of a shareholder provided by the Charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with its competence.

Pre-emptive rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed, in proportion to their existing shareholdings. The Company must provide shareholders with written notice of the proposed sale of shares or securities convertible into shares at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of offered shares or securities convertible into shares is determined after expiration of the pre-emptive right period, the Company must provide shareholders with written notice of the proposed sale of shares or securities convertible into shares at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Share acquisition above certain thresholds and anti-takeover protection

Pursuant to the Joint Stock Companies Law, a person intending to acquire more than 30% of the voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to other shareholders of the company (a voluntary offer). Within 35 days after acquiring by any means more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (a mandatory offer).

The acquirer's payment obligations arising from both voluntary and mandatory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration of the payment period as indicated in the offer.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers respectively) to purchase the number of shares and at a

price greater than or equal to that offered in the respective voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, once a voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of a voluntary or mandatory offer, the company's shareholders' meeting will have the sole power to make decisions on share capital increase through additional share issuance, approval of interested party and certain other transactions and on certain other significant matters.

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and
- purchase their shares upon request of each minority shareholder.

An offer of the kind described in any of the preceding three paragraphs must be accompanied by a bank guarantee of payment. In addition, if the acquirer purchased not less than 10% of the voting shares, instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to comply with the rules.

Dividends

The Joint Stock Companies Law and the Charter and Uralkali's Dividend Policy (approved by the Board of Directors on 14 August 2006) set forth the procedure for determining the dividends that the Company distributes to its shareholders. Under the Charter and Uralkali Dividend Policy, the Company may declare dividends based on its first-quarter, six-month, nine-month or annual results. A majority of the Board of Directors recommends the amount of dividends to a general shareholders' meeting, which then approves such amount by a majority vote. The dividend amount approved at a general shareholders' meeting may not be more than that recommended by the Board of Directors. A decision on quarterly, six-month and nine-month dividends must be taken within three months of the end of the respective quarter at a general shareholders' meeting; a decision on annual dividends must be taken at the annual general shareholders' meeting. The Company only pays dividends to shareholders of record as of the record date for the shareholders' meeting that approved such dividends. See "– General shareholders' meeting – Notice and participation." Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption of the decision to pay dividends (and would not become insolvent as a result of the proposed dividend payment);
- the value of the company's net assets, calculated under Russian accounting standards, on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and

- other specified requirements of Russian legislation.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under Russian accounting standards, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian legislation.

Pursuant to Uralkali Dividend Policy dividends should be paid out to the Company's shareholders within 60 days after declaration thereof. In case a shareholder did not receive its declared dividend due to failure to provide the Company or its registrar with necessary payment details or receive the dividend being paid in cash, the Company will continue to effect payment of such "unclaimed" accrued dividends upon written request from the shareholder within three more years. No interest on such "unclaimed" dividend shall be accrued.

Distributions to shareholders on liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and the Charter allow the Company to be liquidated:

- by a three-quarters majority vote of a general shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage the Company's affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a general shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation, as amended (the "**Civil Code**") gives creditors the following order of priority during liquidation:

- First priority – to individuals owed compensation for injuries or deaths or moral damages;
- Second priority – to employees and copyright claims;
- Third priority – to federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- Fourth priority – to other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the Company's property would have recourse to the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of those creditors of the first and second orders of priority arose before the date of the grant of the relevant pledges. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;

- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a *pro rata* basis.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and only bear the risk of loss of their investments. This may not be the case, however, when one person or entity (the “effective parent”) is capable of determining decisions made by another entity (the “effective subsidiary”). If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for a transaction concluded by an effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction; and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent’s ability to determine decisions of the effective subsidiary arises).

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent’s effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, the shareholders will not be personally liable for the Company’s debts or those of the Company’s effective subsidiaries unless such shareholders control the business of the Company and/or its effective subsidiaries, and the conditions set forth above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary’s insolvency is caused by the wilful misconduct or negligence of such effective parent.

Share capital increase

The Company may increase its share capital by:

- issuing new shares, or
- increasing the nominal value of previously issued shares.

According to Joint Stock Companies Law, a decision to increase the share capital by increasing the nominal value of issued shares requires a majority vote at a general shareholders’ meeting. A decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders’ meeting. Otherwise, as provided in the Charter, a decision to increase the share capital by issuance of additional shares requires unanimous decision of the Board of Directors. In addition, the issuance of shares above the number of authorised shares provided in the Charter necessitates a Charter amendment, which requires a three-quarters majority vote of a general shareholders’ meeting.

The Joint Stock Companies Law requires that the placement price of the newly issued shares be determined by the Board of Directors based on their market value but not less than their nominal value. Placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than by 10% of the price paid by third parties. Fees

of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The Board of Directors may, but is not required to, involve an independent appraiser to set the placement price of the shares. There is a specific requirement for determining the placement price of securities, for which prices are regularly published, that the Board of Directors shall take into account such prices. The Board of Directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- the adoption of a decision on increase of share capital by placement of additional shares;
- the approval of a decision on share issuance;
- the prior registration of a share issuance with FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification on the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

Share capital decrease and share repurchases

The Company has the right to, and under certain circumstances, is statutorily required to, decrease its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUR 100,000 for an open joint stock company. The Joint Stock Companies Law requires that any decision to reduce the share capital of the Company, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a general shareholders' meeting. In addition, within 3 business days of a decision to reduce the Company's share capital, the Company must notify of such decision the state authority which carries out the state registration of legal entities and twice with the regularity of once a month publish the notification on this decision. The Company's creditors would then have the right to demand, within 30 days of the last publication, an accelerated performance or termination of obligation, as well as compensation for damages.

The Joint Stock Companies Law allows a company to decrease the share capital only if the following conditions have been met:

- the company's share capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent, as a result of the proposed decrease of share capital;
- the value of company's net assets on the date of adoption of the decision to decrease the share capital is not less (and would not become less, as a result of the proposed decrease of share capital) than the sum of its share capital, the reserve fund and the difference between the liquidation value and nominal value of the company's issued and outstanding preferred shares;
- the company has paid all declared and unpaid dividends (for decrease of nominal value of shares); and
- other requirements of Russian legislation.

Russian legislation provides that the company's shareholders may demand repurchase of all or part of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- the reorganisation of the company;

- the conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company; or
- an amendment to the charter or approval of a new edition of the charter in a manner that restricts the shareholder's rights.

The company may spend up to 10% of its net assets calculated under Russian accounting standards for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of net assets of the company, it will repurchase shares from each such shareholder on a *pro rata* basis.

Registration and transfer of shares

The Company's shares are all ordinary shares in registered form. Russian legislation requires that a joint stock company holds a register of its shareholders. A register of shareholders may be held by a company itself or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be held by a specialised registrar. Ownership of the Company's shares is evidenced solely by entries made in the shareholders' register or on the books of a Russian licensed depository. Any shareholder of the Company may obtain an extract from the Company's or the depository's register, as the case may be certifying the number of shares that such shareholder holds. Since July 1998, CJSC Registrar "Intrako", located at 64 Lenin Street, Perm, Russia, has held the shareholders register of the Company.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholders' register, or the registration of the transfer with a depository if shares are held through a depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to register a transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed and may be challenged in court.

Reserve fund

Russian legislation requires each joint stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The Charter provides for a reserve fund of 15% of the Company's share capital, funded through mandatory annual transfers of at least 5% of net profits of the Company until the reserve fund has reached the 15% requirement. The Company has also established a savings fund for financing of investment activity and formation of operating assets. Under the Charter, the Board of Directors is entitled to use the Company's funds.

Disclosure of information

Russian securities regulations require the Company to make the following public disclosures and filings on a periodical basis:

- filing with the FSFM, and publishing on the Company's website, quarterly reports containing information about the Company, its shareholders, the structure of the Company's management bodies, the members of the Board of Directors, the Company's branches and representative offices, the Company's shares, bank accounts and statutory auditors, significant subsidiaries of the Company, important developments during the reporting quarter, and other information about the Company's financial and business activity;
- filing with the FSFM and publishing in newswire as well as on the Company's website any information concerning material facts and changes in financial and business activity of the Company, including among other things:
 - information on the convocation and holding of the general shareholders' meetings of the Company and decisions taken on such general shareholders' meetings;

- information on meetings of the Company's Board of Directors, their agenda and certain decisions taken by the Board of Directors;
- the filing with the state registrar of an application on reorganisation or liquidation of the Company;
- the Company's acquisition or disposal of control over its significant subsidiaries;
- information on a person controlling the Company and on the termination of such control;
- decisions on, and registration of, reorganisation or liquidation of significant subsidiaries of the Company or the Company's controlling shareholder;
- claims against the Company, its controlling shareholder or a significant subsidiary with the amount in dispute being equal to or exceeding 10% of their respective balance sheet assets, or claims which, if satisfied, may negatively affect the financial condition of the Company, its controlling shareholder or a significant subsidiary, as the case may be;
- certain information on various stages of share issuances;
- the admission of the Company's securities to trading on a Russian or foreign organised securities market and the withdrawal from trading; listing or delisting of the Company's securities on a Russian or foreign stock exchanges;
- the acquisition or disposal by a Company's shareholder of an ability to directly or indirectly control a certain number of voting rights attributable to the Company's issued ordinary shares, if such number is equal to 5% or exceeded or decreased below a threshold of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95%;
- entering into transactions amounting to 10% or more of the Company's balance sheet assets, as well as into interested party transactions;
- a change in interest in the Company's share capital, or in the share capital of a significant subsidiary, of a member of the Company's Board of Directors or Management Board or its chief executive officer;
- any other information that the Company believes may significantly influence the value of its securities.
- information on any of the following documents received by the Company:
 - a voluntary offer (including any competing offer);
 - a mandatory offer (including any competing offer);
 - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the ordinary shares; and
- a request that minority shareholders sell their shares to the person that has acquired more than 95% of the ordinary shares;
- disclosing the Company's annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of the Company's affiliated persons and disclosing the same on website of the Company, on the same basis; and
- other information as required by applicable Russian securities legislation.

A joint stock company issuer may apply to the FSFM to be released from its disclosure obligations if all of the following conditions are satisfied:

- the general shareholders' meeting of the issuer takes the decision with a three-quarter vote to apply to the FSFM for release of disclosure obligations;

- no prospectus has registered with respect to any securities of the issuer other than shares;
- shares of the issuer are not admitted to trading on a stock exchange or any other regulated securities market;
- the total number of all shareholders of the issuer does not exceed 500.

Corporate governance

The Company's shares have been listed on the RTS since 21 April 2006 and on the MICEX since 9 September 2010. In order to maintain the listing, the Company must be in compliance with various requirements, including:

- the establishment of a collegial executive body;
- the retention of at least three independent directors on the Board of Directors at all times;
- the establishment of an Audit Committee of the Board of Directors chaired by an independent non-executive director;
- the establishment of an Appointments and Remuneration Committee of the Board of Directors comprised of independent non-executive directors or independent directors and non-executive directors;
- the adoption of a bylaw on insider trading;
- the establishment of internal control procedures;
- the inclusion of a provision in the Company's bylaws obligating the Company's General Director, members of the Board of Directors, the Management Board and its officers to disclose information concerning their ownership, sale and purchase of securities issued by the Company; and
- the adoption of a by-law on disclosure of information.

As of the date of this document, the Company is in full compliance with these requirements.

General shareholders' meetings

Procedure

The powers of a general shareholders' meeting are set forth in the Joint Stock Companies Law, in the Charter and Uralkali internal regulation "On the General Meeting of Shareholders" (approved by shareholders on 18 June 2010). A general shareholders' meeting may not decide issues that are not included in the list of its powers by the Joint Stock Companies Law and the Charter. Among others, the shareholders have the power to decide on:

- amendments to the Charter;
- the reorganisation or liquidation, appointment of the liquidation commission and approval of interim and final liquidation balances;
- the determination of the number of the members of the Board of Directors, and the election and early termination of powers of the Board of Directors;
- the determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in the Company's share capital, excluding instances when it falls within the competence of the Board of Directors;
- the appointment and early termination of powers of the external auditor and of the members of the Revision Committee of the Company;

- the approval of certain interested party transactions and major transactions;
- the distribution of profits, including approval of dividends;
- the redemption by the Company of issued shares in circumstances provided for by the Joint Stock Companies Law;
- participation in groups and other associations;
- the approval of annual reports and financial statements;
- the approval of certain internal documents; and
- other issues, as provided for by the Joint Stock Companies Law and the Charter.

Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a general shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- charter amendments;
- a reorganisation or liquidation, the appointment of a liquidation commission and the approval of interim and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- the determination of the number, nominal value and type of authorised shares and the rights granted by such shares;
- the repurchase by a company of its issued shares in cases provided for by the Joint Stock Companies Law;
- any issuance of shares or securities convertible into ordinary shares by closed subscription;
- the issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of issued ordinary shares; and
- a decrease of share capital by means of change of the nominal value of shares.

The quorum requirement for a general shareholders' meeting of the Company is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be scheduled and the quorum requirement will be satisfied if shareholders' (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The Board of Directors must convene the annual general shareholders' meeting between 1 March and 30 June of each year, and the agenda must include the following items:

- the election of the Board of Directors;
- the approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- the approval of distribution of profits, including approval of annual dividends (if any);
- the approval of an independent auditor; and
- the election of the internal Revision Committee.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued ordinary shares may introduce proposals for the agenda of the annual general shareholders' meeting and may nominate candidates for the Board of Directors, Management Board, General Director and Revision Committee. Any agenda proposals or nominations must be provided to the Company no later than 30 days after the preceding financial year-end.

Under the Joint Stock Companies Law, certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganisation or spin-off, an increase or decrease of share capital or a splitting or consolidation of shares (the "**Validity Period**"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period or the effective Validity Period for such resolutions has expired, such resolutions become null and void, and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

Extraordinary general shareholders' meetings may be called by the Board of Directors on its own initiative, or at the request of the Revision Committee, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued ordinary shares as of the date of the request.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues of the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' votes on issues of the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- the election of the Board of Directors;
- the election of the Revision Committee;
- the approval of the Company's independent auditor; and
- the approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends (if any).

Notice and participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in a form of a meeting or by absentee ballot, not less than 20 days prior to the date of the meeting and, if a reorganisation of the Company is set out in the agenda of the meeting, not less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. Pursuant to the Company's Charter, the Company must notify shareholders of a general shareholders' meeting 30 days in advance. However, under the Joint Stock Companies Law if it is an extraordinary general shareholders' meeting to elect the Board of Directors or to approve any reorganisation in the form of a merger, spin-off or demerger, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in the shareholders' register of the Company on the date determined by the Board of Directors, which date shall neither be earlier than the date of adoption of the resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Shareholders may exercise their right to participate in a general shareholders' meeting by:

- personally participating in the discussion of agenda items and voting thereon;

- sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- absentee ballot; or
- delegating the right to fill out the absentee ballot to an authorised representative.

Board of Directors

The Charter provides that the entire Board of Directors must be elected at each annual general shareholders' meeting and that the Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. A majority vote of a general shareholders' meeting may at any time remove the directors as a group without cause before the expiration of their term.

The Joint Stock Companies Law requires at least a five-member Board of Directors for all joint stock companies, at least a seven member Board of Directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member Board of Directors for a joint stock company with more than 10,000 holders of voting shares. The actual number of directors is determined by the Charter or a decision of a general shareholders' meeting. Since the total number of the Company's shareholders currently exceeds 10,000, the Charter provides that the Board of Directors shall consist of nine members. Only natural persons (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be shareholders of the Company.

The Board of Directors elects the chairman of the Board of Directors from its members and has the right to remove its chairman at any time. However, the General Director of the Company may not be elected as the chairman of the Board of Directors. The chairman of the Company's Board of Directors organises its work, calls and presides over meetings of the Board of Directors and performs other functions provided by Russian law, the Charter and Company's internal documents.

The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of a general shareholders' meeting. The Board of Directors has the power to perform the general management of the company, and to decide, among other things, the following issues:

- the approval of strategic plans of the Company;
- the determination of business priorities for the Company;
- the approval of the annual budget of the Company;
- the increase of share capital through issuance of additional shares, except in certain circumstances specified in the Joint Stock Companies Law;
- the convening of annual and extraordinary general shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- the approval of the agenda of a general shareholders' meeting and the determination of the record date for shareholders entitled to participate in a general shareholders' meeting;
- the placement of bonds and other securities by the Company, in cases specified in the Joint Stock Companies Law;
- the determination of the price of property and securities of the Company to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- the repurchase of Company's shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;

- the election and removal of the Company's General Director, approval of terms of contract concluded with the General Director;
- the determination of the number of members and election of the Management Board;
- the recommendations to the general shareholders' meeting on the amount of remuneration and compensation to be paid to members of Revision Committee of the Company;
- the determination of the amount of the fees payable for the services of an independent auditor;
- recommendations to the general shareholders' meeting on the amount of the dividend on shares and the payment procedure thereof;
- the use of Company's reserve fund and other funds;
- the approval of Company's internal documents, except for those documents whose approval falls within the competence of shareholders or executive bodies of the Company;
- the creation of branches and representative offices;
- the approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- the appointment of share registrar of the Company;
- the approval of decisions on share issuances and reports on the results of such share issuances; and
- other issues, as provided for by the Joint Stock Companies Law and the Charter.

Meetings of the Board of Directors are called by its chairman on his or her own initiative, or at the request of a member of the Board of Directors or a member of the Revision Committee, the Management Board, auditor or General Director of the Company. A Board of Directors' meeting is considered duly assembled and legally competent to act when five of nine elected directors are present.

The Charter generally requires a majority vote of the members of the Board of Directors present for an action to pass, with the exception of actions for which Russian legislation requires a qualified or unanimous vote, as described therein. In the case of a tied vote, the chairman of the Board of Directors shall have a casting vote.

Management Board

The Management Board is a collective executive body responsible for the day-to-day management of the Company. The Charter provides that the Board of Directors elects the members of the Management Board for a term corresponding to the term of the Board of Directors (until the next annual or extraordinary general shareholders' meeting elects new members of the Board of Directors). The Board of Directors may at any time terminate the powers of any member of the Management Board. Under the Joint Stock Companies Law, no more than 25% of the members of the Management Board are allowed to be members of the Board of Directors. The duties of the Management Board include, among other things:

- the determination of the short-term purposes of the Company;
- recommendations to the Board of Directors regarding participation in other organisations;
- the preliminary approval of the Company's budget;
- the approval of terms of collective agreement;
- the monitoring of budget performance;
- oversight over activities of subdivisions and units of the Company; and
- other issues provided for in the Charter.

Meetings of the Management Board are called by its chairman on his or her own initiative, or at the request of a member of the Board of Directors or a member of the Management Board. The Charter requires a majority vote of the members of the Management Board present for an action to pass, provided that majority of elected members are present at the meeting. In the case of a tied vote, the chairman of the Management Board shall have a casting vote. Members of the Management Board are not required to be shareholders of the Company.

General Director

The Company's General Director is the Company's chief executive officer and is in charge of the Company's day-to-day activities. The General Director exercises executive authority over all activities of the Company, except for issues assigned to the exclusive competence of the general shareholders' meeting, the Board of Directors and the Management Board. Under the Charter, the Board of Directors elects the General Director for a period of up to two years and may at any time resolve to terminate his or her powers. The General Director chairs the Management Board. The General Director acts on behalf of the Company without a power of attorney and may also be held liable for losses caused to the Company.

Revision Committee

The principal duties of the Revision Committee are ensuring that the Company's operations comply with applicable laws and the Company's accounting under RAS does not contain any material misstatements.

The Revision Committee's role is mainly limited to reporting to the Board of Directors and the Company's shareholders with respect to the RAS annual financial statements of the Company. In particular, opinions of the Revision Committee are provided to the Company's shareholders before and during each annual General Shareholders' Meeting. Furthermore, the Revision Committee is entitled to request that the Board of Directors convene an extraordinary General Shareholders' Meeting and suggest an agenda for such meeting. If the Board of Directors fails to convene an extraordinary General Shareholders' Meeting upon the Revision Committee's request, the Revision Committee is entitled to convene such meeting independently. The Revision Committee does not actively participate in the implementation of internal control procedures of the Company.

At the General Shareholders' Meeting members of the Revision Committee are elected for a term of one year. Members of the Board of Directors and the General Director may not serve on the Revision Committee.

Certain requirements of Russian legislation

Interested party transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of a company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive officer and/or the company's managing organisation), any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of any management body of a management organisation of such a company; or
- meet other criteria specified in Russian legislation.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an “independent director” is a person who is not, and within the year preceding the decision to approve the transaction was not, the General Director, a member of any executive body or an affiliate of the company except for being its director, or a member of any management body of the company’s management organisation or a person whose relatives held positions on management bodies of a company or the managing company or were sole manager of such company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company’s assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the placement by subscription or secondary market sale of shares in the amount exceeding 2% of the company’s issued ordinary shares and ordinary shares, into which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the placement by subscription of issued securities convertible into shares that may be converted into ordinary shares constituting more than 2% of the company’s issued ordinary shares and ordinary shares, in which issued convertible securities may be converted;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

The approval of an interested party transaction is not required if:

- the company has only one shareholder that simultaneously performs the functions of the company’s sole executive body;
- all shareholders of the company are deemed interested in the transaction;
- the shareholders are executing their pre-emptive rights to purchase newly issued shares or securities converted into shares;
- the company is repurchasing its issued shares;
- the company is merging with or into another company; or
- the company is required by the federal legislation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by the Russian Government or by the appropriate federal authority authorised by the Russian Government.

Any interested party transaction shall be approved prior to its execution. Upon a claim by a company or any of its shareholders, a court may invalidate any interested party transaction entered into in breach of the above requirements.

Major transactions

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement of ordinary shares through a subscription (sale of ordinary

shares), or with the placement of securities convertible into ordinary shares, or transactions into which a company is required to enter by the federal legislation and settlements under which are made pursuant to fixed tariffs and prices established by the Russian Government or by the appropriate state authorities authorised by the Russian Government. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, in the absence of such approval, a simple majority vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at the general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to the claim of the company or any of its shareholders.

Approval of the Russian anti-monopoly authorities

The Competition Law provides for a mandatory pre-approval by the FAS of the following actions:

- an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company ($\frac{1}{3}$ participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares ($\frac{1}{2}$ and $\frac{2}{3}$ participation interest in a limited liability company);
- an acquisition by a person (or its group) of the core production assets or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or
- obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group),

if any the following thresholds are met:

- (i) the aggregate asset value of an acquirer (or its group) together with a target (or its group) exceeds RUR 7 billion (approximately US\$233.3 million) and at the same time the total asset value of the target (or its group) exceeds RUR 250 million (approximately US\$8.3 million);
- (ii) the total annual revenues of an acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUR 10 billion (approximately US\$333.3 million) and at the same time the total asset value of the target (or its group) exceeds RUR 250 million (approximately US\$8.3 million); or
- (iii) if an acquirer, or a target, or any entity within the acquirer's group or a target's group are included in the register of entities having a market share in excess of 35% on a particular commodity market maintained by the FAS.

Furthermore, the Competition Law provides for a mandatory pre-approval by the FAS of the following actions:

- mergers and consolidations of entities, if any the following thresholds are met:
 - (i) their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUR 3 billion (approximately US\$112 million);
 - (ii) the total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed RUR 6 billion (approximately US\$224 million); or
 - (iii) one of these entities is included into the register of entities having a market share in excess of 35% on a particular commodity market maintained by the FAS; or
- the foundation of an entity, if any the following thresholds are met:
 - (i) its charter capital is paid by the shares (participation interest) or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (participation

interest) or assets as specified in the Competition Law, provided that the aggregate asset value of the founders (or group of persons to which they belong) and the entities (or groups of persons to which they belong) whose shares (participation interest) or assets are contributed to the charter capital of the newly founded entity exceeds RUR 7 billion (approximately US\$233.3 million);

- (ii) the total annual revenues of the founders (or group of persons to which they belong) and the entities (or groups of persons to which they belong) which shares (participation interest) or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUR 10 billion (approximately US\$333.3 million); or
- (iii) an entity whose shares (participation interest) or assets are contributed to the charter capital of the newly founded entity is included in the register of entities having a market share in excess of 35% on a particular commodity market maintained by the FAS.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) to the FAS in connection with certain actions specified above, if any the following thresholds are met:

- (i) the aggregate asset value or total annual revenues of an acquirer (or its group) and a target (or its group) for the preceding calendar year exceed RUR 400 million (approximately US\$13.3 million) and at the same time the total asset value of the target (or its group) exceeds RUR60 million (approximately US\$2 million) in case of the listed above acquisitions of the voting shares, interests, assets or rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body; or
- (ii) the aggregate asset value or total annual revenues of the participants to a merger or consolidation (or their groups) for the preceding calendar year exceed RUR 400 million (approximately US\$13.3 million) in case of mergers or consolidations,

provided that a transaction is not subject to a mandatory pre-approval by the FAS.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Currency control

Russian currency control restrictions with regard to such instruments as GDRs and ordinary shares are set forth in the Federal Law dated 10 December 2003 No. 173-FZ “On Currency Regulation and Currency Control”, as amended (the “**Currency Law**”), and respective regulations of the CBR.

Pursuant to the Currency Law, currency operations with GDRs and ordinary shares between residents and non-residents may be conducted without limitations in both roubles and in foreign currencies.

Under the Currency Law, currency operations with ordinary shares between non-residents may be conducted either in roubles or in foreign currencies without limitations, subject to compliance with Russian securities and anti-monopoly laws and regulations.

Finally, non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31, of 31 March 2005) and roubles. Dividends declared and paid in roubles may be freely converted through Russian authorised banks and remitted outside of Russia.

Notification of foreign ownership

Foreign persons and foreign companies that acquire shares in a Russian joint stock company, regardless of whether they are registered with the Russian tax authorities, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of the ordinary shares or GDRs.

Notification of acquisition of certain thresholds

Pursuant to Russian securities legislation, each holder of voting rights attributable to ordinary shares must notify a company and the FSFM of a direct or indirect acquisition, individually or together with other persons, of 5% or more of the votes in a company and any subsequent change in the number of votes above or below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95%. Each notification must contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. As a general rule, such notifications must be given within five days after the date on which the ordinary shares have been transferred to such shareholder's securities account.

Each shareholder holding 5% or more of the ordinary shares of a company must provide information on its controlling person (acquisition of control by such a person) or on the absence of a controlling person (disposal of control by such a person). Each company's subsidiary must notify the acquisition (or disposal) of voting shares of the company or securities of a foreign issuer representing registered shares of the company, except for subsidiaries which are brokers or trustees and have entered into the relevant transaction in their own name for the account of their client, save where such client is the company or its subsidiary.

Notification in the situations described above must be made to the company and the FSFM.

The Uralkali GDR programme

In 2006, Uralkali established a global depositary receipt programme with The Bank of New York (now known as The Bank of New York Mellon), as Depositary. The number of shares that can be deposited into the GDR programme is limited, and requires certain approvals from Russian authorities. New Russian securities regulations currently provide that no more than 25% of all issued Russian company's shares may be circulated abroad through sponsored depositary receipt programmes at any time subject to certain conditions. In accordance with previously effective legislation in 2006, Uralkali received an approval from the FSFM for up to 616,073,100 shares, which corresponded to 29% of its issued and outstanding shares upon issuance of approval, to be circulated abroad. As a result, Uralkali's GDR programme is currently capped at 616,073,100 of Uralkali's issued and outstanding shares, which corresponds to approximately 19.9% of the share capital of the Uralkali following the Combination. As at 14 June 2011, 477,646,545 Shares had been deposited into the GDR programme. On 3 June 2010, Uralkali's shares were included on the "A" list on the MICEX, and, consequently, Uralkali is now able to apply for the maximum 25% limit for sponsored depositary receipt programmes allowed under the current FSFM regulations. Uralkali has not yet taken a decision on the timing of any such application, and no assurance can be given that any such application will be successful.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (excepting sentences in italics) apply to the Global Depositary Receipts, and are endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (“GDRs”) represented by this certificate are each issued in respect of 5 (five) ordinary shares of nominal value RUR 0.5 each (the “Shares”) in JOINT STOCK COMPANY URALKALI (the “Company”) pursuant to and subject to an agreement dated 15 August 2006 and made between the Company and The Bank of New York (*now known as The Bank of New York Mellon*) in its capacity as depositary (the “Depositary”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions of the GDRs (the “Conditions”), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, and references to the “Custodian” are to ING Bank (Eurasia) or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Master Regulation S GDR, evidencing Regulation S GDRs, and by interests in a Master Rule 144A GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs While in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement (which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and further issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part B (Certificate and Agreement of Person Receiving Deposited Property upon Withdrawal In Relation to the Rule 144A GDRs Pursuant to Condition 1 and Clause 3.6 of the Deposit Agreement) to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

- 1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- 1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of: (a) SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement (which is described in the following paragraph) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) SCHEDULE 4, Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement (which is described in the second following paragraph) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. However, the Depositary shall (unless otherwise notified by the Company), restrict acceptance of such deposit of Shares where the Company notifies the Depositary in writing that such deposit would result in the Company's incompliance with the securities laws in any jurisdiction. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States.

The certificate to be provided in the form of SCHEDULE 4, Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with applicable restrictions on transfer.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different rights from the Shares corresponding to the outstanding GDRs or any further such GDRs which are otherwise not fungible with the outstanding GDRs, will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and

cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be, other than in satisfaction of such Pre-Release), (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by GDRs outstanding at any time as a result of Pre-Release will not normally exceed thirty% of the total number of Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case-by-case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection with a Pre-Release transaction, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement.

2. Suspension of issue of GDRs and of withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a US Securities Exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict

the withdrawal of Deposited Shares where the Company notifies the Depository in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and ownership

The GDRs are in registered form, each representing 5 (five) Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depository and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"). There shall be no transfer of Regulation S GDRs by an owner thereof to a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "**QIB**") except in a transaction meeting the requirements of Rule 144A and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.6 of the Deposit Agreement and (ii) instructs the Depository to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash distributions

Whenever the Depository shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depository shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8 (*Conversion of foreign currency*). The Depository shall, if practicable in the opinion of the Depository, give notice to the Holders of its receipt of such payment in accordance with Condition 23 (*Notices*), specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depository, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 (*Distribution of any payments*) and 11 (*Withholding taxes and applicable laws*); provided that:

- (a) in the event that the Depository is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depository will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depository, and any balance remaining shall be retained by the Depository beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash distributions*) to the Holders entitled thereto.

6. Distributions other than in cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 (*Cash distributions*) to the Holders entitled thereto.

7. Rights issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23 (*Notices*), of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash distributions*) to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in United States dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
 - (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
 - (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4 (*Cash distributions*), 5 (*Distributions of shares*), 6 (*Distributions other than in cash or shares*), 7 (*Rights issues*) or 10 (*Capital reorganisation*) (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Company nor the Depositary shall be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of foreign currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any payments

- 9.1 Any distribution of cash under Condition 4 (*Cash distributions*), 5 (*Distributions of shares*), 6 (*Distributions other than in cash or shares*), 7 (*Rights issues*) or 10 (*Capital reorganisation*) will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23 (*Notices*), in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8 (*Conversion of foreign currency*)) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Luxembourg, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relevant Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4 (*Cash distributions*), 5 (*Distributions of shares*), 6 (*Distributions other than in cash or shares*) and 9 (*Distribution of any payments*) with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding taxes and applicable laws

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4 (*Cash distributions*), 5 (*Distributions of shares*), 6 (*Distributions other than in cash or shares*), or 10 (*Capital reorganisation*) or to be subscribed under Condition 7 (*Rights issues*) or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed that, to the extent permitted by applicable laws, it shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to take such action as may be required in obtaining or filing the same, to the extent that doing so is reasonably practicable and does not involve unreasonable expense to the Company. The Depositary shall not distribute GDRs

representing such Shares, Shares, other securities or other property to be deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company, and such assistance does not require the Depository to take any action in conflict with market practice or in a capacity other than its capacity as Depository, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting rights

- 12.1 Holders will have the right to instruct the Depository with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with the terms of this Condition 12 (*Voting rights*) and Clause 5 (voting of shares) of the Deposit Agreement. The Company will notify the Depository of any resolution to be proposed at a General Meeting of the Company and the Depository will vote or cause to be voted the Deposited Shares in the manner set out in Condition 12 (*Voting rights*).

The Company has agreed with the Depository that it will promptly provide to the Depository sufficient copies, as the Depository may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depository to vote for or against each and any resolution specified in the agenda for the meeting, which the Depository shall send to any person who is a Holder on the record date established by the Depository for that purpose (which shall be the same as the corresponding record date for the Shares set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depository in accordance with Condition 23 (*Notices*). The Company has also agreed to provide to the Depository appropriate proxy forms to enable the Depository to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depository by such record date as the Depository may specify.
- 12.3 The Depository will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that the relevant portion of the Deposited Shares will be voted for and the relevant portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depository is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depository shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depository will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depository from a Holder (either because no voting instructions are returned to the Depository by a Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified

by the Depositary, the Depositary shall have no obligation to, and shall not, exercise any voting rights attaching to such Deposited Shares.

- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall appoint the Custodian or any other person designated by the Depositary as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 (*Voting rights*) if (i) it requests that the Company procures that the Depositary receives an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that the vote cast under such voting arrangement is valid and binding on the Company under Russian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 (*Voting rights*) but that in doing so the Depositary will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 (*Voting rights*) and Clause 5 (voting of shares) of the Deposit Agreement as each may be amended from time to time in order to comply with applicable Russian law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Documents to be furnished, recovery of taxes, duties and other charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise, at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16 (*Depositary's fees, costs and expenses*), and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23 (*Notices*).

14. Liability

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason

of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5 (*Distributions of shares*), 6 (*Distributions other than in cash or shares*), 7 (*Rights issues*), 10 (*Capital reorganisation*), 13 (*Documents to be furnished, recovery of taxes, duties and other charges*) and 21 (*Termination of Deposit Agreement*) or any such conversion as is referred to in Condition 8 (*Conversion of foreign currency*) in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof. The Company shall, subject to all applicable laws, have no responsibility whatsoever to any Holders, or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22 (*Amendment of Deposit Agreement and Conditions*), be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the general director of the Company or by a person duly authorised by the general director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and provided that the Depositary shall exercise reasonable care in the selection of any delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition, which includes the power to sub-delegate, shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any

business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3 (*Transfer and ownership*), the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and delivery of replacement GDRs and exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's fees, costs and expenses

- 16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not represented by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
- (vi) for transferring interests from and between the Master Regulation S GDR and the Master Rule 144A GDR: a fee of US\$0.05 or less per GDR;
- (vii) a fee of US\$0.02 or less per GDR for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, *provided however* that no fee will be assessed under this provision to the extent a fee of US\$0.02 per GDR was charged in such calendar year pursuant to paragraph (iv) above; and
- (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions, together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, and where the Company can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listing is suspended, to use its reasonable efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian provided that the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary, provided

that, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23 (*Notices*). Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and termination of appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; provided that no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as Depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the resigning Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

- 21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 (*Resignation and termination of appointment of the Depositary*) and the Deposit Agreement that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23 (*Notices*).
- 21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to (i) the provisions of Condition 1.1 and upon compliance by it with Condition 1, (ii) payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and (iii) payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 (*Amendment of Deposit Agreement and Conditions*)) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1 (*Withdrawal of Deposited Property and further issues of GDRs*), the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22 (*Amendment of Deposit Agreement and Conditions*), an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares, provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.
- 23.3 So long as GDRs are listed on the Official List and admitted for trading on the London Stock Exchange or another stock exchange, all notices to be given to Holders generally will also be published in accordance with the rules of the London Stock Exchange or such other stock exchange, as the case may be.

24. Reports and information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, send to the Depositary six copies in the English language by mail, or one copy in the English language by facsimile or electronic transmission as agreed between the Company and the Depositary (and shall make available to the Depositary, Custodian and any Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the London Stock Exchange, or any other EEA Regulated Market, in accordance with Clause 7.1 and Condition 18 (*Listing*), as soon as practicable following the publication or availability of such communications.
- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3 For so long as any of the GDRs remains outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depository in English on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depository may reasonably request. If such notice is not furnished to the Depository in English, either by the Company or the Custodian, the Depository shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depository may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depository shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depository

The Depository shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depository.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing law

- 28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in SCHEDULE 3 (Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) and SCHEDULE 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depository and the Holders to elect that Disputes are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Corporation Service Company as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depository of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without

prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs are evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with the Bank of New York, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited. The Master Rule 144A will be registered in the name of Cede & Co as nominee for DTC, and will be held by The Bank of New York, London branch, as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Terms and Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Terms and Conditions of the Global Depositary Receipts shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (i) Euroclear or Clearstream, Luxembourg, or any successor to them (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) notifies Uralkali in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”); or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive registered form (provided that the Depositary shall have no obligation to so determine or to attempt to so determine).

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Condition 3, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of Uralkali under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, distributions and voting rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from Uralkali. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR represented by the Master Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee of the common depositary (or its nominee) for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR and to DTC with respect to the Master Rule 144A GDR for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of material Russian and United Kingdom tax consequences of ownership of the Shares is based upon laws, regulations, decrees, rulings, income tax treaties, administrative practice and judicial decisions in effect at the date of this Prospectus. However, legislative, judicial or administrative changes or interpretations may be forthcoming that could, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a Share holder. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Shares, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY. INVESTORS IN GDRs ARE URGED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO INVESTING AS TO THE PARTICULAR RUSSIAN FEDERAL TAX AND UNITED KINGDOM TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE GDRs OR THE SHARES, IN LIGHT OF THEIR PARTICULAR FACTS AND CIRCUMSTANCES, AS WELL AS THE APPLICABILITY AND EFFECT OF STATE, PROVINCIAL AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Taxation in the Russian Federation

The following is a general summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDRs and to the purchase, ownership and disposition of such GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this Prospectus. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of the Prospectus. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions and municipalities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective holders should consult their own advisers regarding the tax consequences of investing in the GDRs and no representations with are hereby made to any particular holder with respect thereto.

General

Many aspects of Russian tax law, including Russian tax rules applicable to GDRs, are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change (including with a retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates. In practice, the interpretation of tax law by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different Russian courts relating to the same or similar circumstances may be inconsistent or contradictory.

For the purposes of this summary, a “non-resident holder” means a holder of GDRs who is:

- an individual actually present in the Russian Federation for an aggregate period of less than 183 calendar days (including days of arrival to Russia and departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered

interrupted for an individual's short term absences (of less than 6 months) from Russia for medical treatment or education in any 12 month period; or

- a legal entity not organised under Russian law, which purchases, holds and/or disposes of the GDRs otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

For the purposes of this summary, a "Russian resident holder" is a holder of GDRs who is not qualified to be a non-resident holder defined in the previous paragraph.

Russian tax residency rules may be affected by an applicable double tax treaty. Based on published comments that have been made by the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

Taxation of Acquisition of the GDRs

The acquisition of GDRs should not generally give any rise to Russian tax liabilities for non-resident or Russian resident holders. However, a taxable material gain may arise in certain circumstances for individuals if GDRs are purchased at a price that is below the market value as determined in accordance with the Russian tax legislation. Such material gain (calculated as the positive difference, if any, between the market value (calculated under a specific procedure for the determination of market value of securities for tax purposes) and the actual acquisition cost) will constitute taxable income in the hands of the relevant individuals. Personal income tax on such income is levied at the rate of 13% for a Russian resident and of 30% for a non-resident individual, which may be subject to reduction or elimination under the applicable double tax treaty.

Taxation of Dividends

A Russian legal entity that pays dividends is generally obliged to act as a tax agent to withhold tax from such dividends and remit the amount of tax due to the state budget of the Russian Federation. The status of the recipient of the dividends will determine the withholding tax rate that must be applied. At present, there is no legislative guidance on how dividends paid to the holders of GDRs should be treated for tax purposes and all prospective investors are urged to consult their own tax advisers.

Russian resident holders

Dividends paid by the Company to a Russian tax resident holder of shares underlying the GDRs that is either an individual or a legal entity should generally be subject to Russian withholding tax at a rate of 9%. The effective rate may be lower than 9% owing to the fact that tax is required to be withheld by applying the basic tax rate (9%) to the positive difference, if any, between: (i) the dividends to be paid (other than to non-resident companies and non-resident individuals); and (ii) dividends received by the distributing legal entity (except for those that are subject to 0% tax rate as discussed below) in the current and preceding tax periods from other Russian legal entities (to the extent that such dividends were not previously taken into account in the computation of any withholding tax charge).

Dividends received by Russian companies may be subject to Russian withholding tax at a rate of 0% provided that: (i) the recipient is a legal entity that owns (either directly or indirectly through a holding of depositary receipts) at least 50% of the share capital of the paying legal entity, and is entitled to receive dividends equal to at least 50% of the total amount of the dividends paid by such legal entity; (ii) at the date the decision to pay dividends is made the recipient legal entity had owned such shares or depositary receipts for a continuous period of at least 365 calendar days; (iii) the acquisition cost of such participation in the share capital constitutes more than RUR 500 million (approximately US\$ 17 million), although, since this provision was abolished as of January 2011, it should not apply to dividends accrued as a result of 2010 and subsequent periods; and (iv) the paying legal entity is not resident in any of the jurisdictions included in the list of tax havens by the Ministry of Finance of the Russian Federation. It should be noted that there is some uncertainty with respect to the practical application of this exemption.

There is also some uncertainty in respect of the rate of withholding tax applicable to dividends payable to a holder who is a Russian permanent establishment of a foreign legal entity. Currently the Tax Code stipulates the application of a 15% withholding tax rate in such a case. However, according to clarifications

issued by the Russian tax authorities and arbitration court practice, a reduced 9% withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign legal entity, provided that there is a double tax treaty concluded between the Russian Federation and the country of tax residency of the foreign legal entity containing the appropriate non-discrimination provisions. However, as the Tax Code does not specifically provide for the application of the reduced tax rate in such situations and non-discrimination cases are still very rare in Russian tax practice, no assurance can be given that any claim made for the application of the 9% tax rate would not be challenged by the Russian tax authorities.

It is important to emphasise that, except as described above with respect to the application of the Russian participation exemption rules to dividends, there is no other legislative guidance in relation to the taxation of dividends payable to Russian resident holders of GDRs (either individuals or legal entities). In the absence of a specific provision in Russian tax legislation as to how dividends payable on the shares underlying the GDRs owned by Russian resident holders should be taxed, there is a risk that the dividends payable on the underlying shares could be subject to a withholding tax rate of 15%, which is the current domestic rate that applies to dividends payable to non-resident holders that are legal entities or organisations. There is also no established procedure for obtaining the refund of tax withheld from dividends payable through the Depositary to Russian resident holders of GDRs.

Russian resident holders of GDRs should consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of GDRs.

Non-resident holders

Dividends paid to a non-resident holder will generally be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent.

A double tax treaty between the Russian Federation and the country of tax residence of the non-resident holder may potentially reduce the dividend withholding tax, provided that the necessary requirements to qualify for the treaty relief and certain administrative requirements under the Russian tax legislation are met. For example, the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the “**United States – Russia Tax Treaty**”) provides for reduced withholding rates on dividends paid to U.S. holders who qualify as U.S. tax residents entitled to the benefits under this treaty and are the beneficial owners of such dividends. Under this treaty, a 5% withholding tax rate would apply to dividends payable to U.S. holders that are companies owning at least 10% of the Company’s voting shares and a 10% withholding tax rate applies to dividends paid to other U.S. holders. The Convention between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains provides for a 10% withholding tax rate on dividends paid to UK holders who are UK tax residents entitled to the benefits of this treaty and are the beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

Notwithstanding the foregoing, treaty relief may be denied to non-resident holders of GDRs because of the absence of any official interpretative guidance as to the beneficial ownership concept in the existing Russian tax legislation and the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the shares under Russian law. In 2005 and subsequent years, the Russian Ministry of Finance issued clarifications providing that a holder of depositary receipts should be treated as the beneficial owner of the underlying shares for the purpose of the double tax treaty provisions applicable to the taxation of dividends payable with respect to the underlying shares, provided that the tax residence of the holder of depositary receipts is duly confirmed. However, in the absence of any specific provision in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is not known how the Russian tax authorities would ultimately treat the GDRs holders in this regard. Given the uncertainty in this area of Russian tax law, it is likely that the reduced dividend withholding tax rate provided by the relevant double tax treaties will not apply and that tax will be withheld at the domestic tax rate of 15% that applies to dividends payable on the shares underlying the GDRs. While non-resident holders of GDRs may apply for a refund of a portion of the withholding tax under the applicable double tax treaty, there is no guarantee that the Russian tax authorities will grant such a refund. See “– Refund of Tax Withheld” below.

Taxation of capital gains

Russian resident holders

Legal entities. Capital gains arising from a disposal (including a sale) of GDRs should be taxable at the regular Russian corporate income tax rate of 20%

Russian tax legislation contains a general requirement that the profit and losses arising from transactions in securities quoted on a stock exchange should be calculated and accounted for separately from the profit and losses arising from other transactions. Therefore, Russian resident holders that are legal entities may be only able to offset the losses arising in respect of a sale of GDRs that are quoted on a stock exchange, or to carry such losses forward (for the period of up to 10 years) and offset them against future capital gains realised on a sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer licence. The Tax Code also establishes special rules for the calculation of the tax base for the purposes of transactions with securities.

Individuals. Under Russian law, income arising from a sale, exchange or other disposition of the GDRs by an individual who is a Russian resident holder must be declared on such holder's annual tax return and will be subject to tax at a rate of 13%; such tax is required to be paid by such individual personally. If an individual holder acts via a professional intermediary (such as a trustee, dealer, broker or other intermediary acting to the benefit of the individual holder), the tax may be withheld at the source of payment. The tax base in respect of a sale of the GDRs by an individual is calculated by deducting from the sale proceeds the documentary confirmed acquisition cost of the securities including the cost of the securities and the expenses associated with the purchase, keeping and sale of these securities). Similarly as applicable to legal entities or organisations, Russian tax legislation contains a requirement that a financial result in respect of activities connected with securities quoted on a stock exchange should be calculated separately from a financial result in respect of trading in non-quoted securities. Russian resident holders may carry forward losses arising from dealing with the quoted securities or derivatives whose underlying assets are represented by the quoted securities, stock indices or other derivatives on quoted securities to offset future capital gains from the sale, exchange or other disposal of other quoted securities or derivatives whose underlying assets are represented by the quoted securities, stock indices or other derivatives on quoted securities for the period of up to 10 years. No loss carry-forward is available for non-quoted securities and derivatives.

Non-resident holders

Legal entities. The Tax Code provides for a special exemption for capital gains realised by a foreign legal entity, otherwise than through a permanent establishment in Russia, on the disposal of shares of Russian companies or GDRs that are circulated (i.e. listed and traded) on a foreign stock exchange if such shares or GDRs were disposed of on that foreign stock exchange. Therefore, as long as the GDRs remain listed on the Official List and admitted to trading on the London Stock Exchange, gains arising from the sale, exchange or other disposal of GDRs on the London Stock Exchange by non-resident holders that are legal entities that have no permanent establishment in Russia with which such disposal may be connected, should not be subject to taxation in Russia.

As for disposal of GDRs other than on the London Stock Exchange, a non-resident holder generally should not otherwise be subject to any Russian taxes in respect of capital gains realised on a sale, exchange or other disposal of the GDRs, if the Company's immovable property located in Russia represents 50% or less of its assets. The Company believes that its immovable property located in Russia does not currently, and will not in the future, constitute more than 50% of the Company's assets. If this continues to be the case, the exemption from tax should be available. However, because the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property owned by the Company and located in Russia will not constitute more than 50% of the Company's assets as of the date of the sale of the GDRs by non-resident holders.

If more than 50% of the Company's assets were to consist of immovable property located in Russia, legal entities or organisations that are non-resident holders of the GDRs should be subject (except as described above) to a 20% withholding tax on the capital gain realised from the sale or other disposal, being the

difference between the sale or other disposal price and all expenses relating to the acquisition, holding and disposal of the GDRs paid by the non-resident holder, provided that the non-resident holder is able to present documentary evidence confirming such expenses. If a non-resident holder is not able to present documentary evidence confirming expenses related to the acquisition, holding and disposal of the GDRs, Russian withholding tax should be withheld at 20% of the gross proceeds.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for non-resident holder – legal entities qualifying for the relevant treaty benefits.

Under the United States – Russia Tax Treaty, capital gains from the sale of shares by U.S. holders should be exempt from taxation in Russia, unless 50% or more of the fixed assets of the Company consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the United States – Russia Tax Treaty referred to above, is no more beneficial for a U.S. holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such non-resident holders-legal entities to seek to obtain the benefit of the United States – Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the GDRs.

Under the UK – Russia Tax Treaty, capital gains from the sale of shares by UK holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange.

There is a risk that the tax agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the non-resident holders – legal entities selling the GDRs. If there is an applicable double tax treaty, non-resident holders that are legal entities may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained.

Where the GDRs are sold by legal entities or organisations to persons other than a Russian company or a foreign company with a registered Russian permanent establishment, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser would be able to withhold the tax and remit it to the Russian Federal Treasury.

Non-resident holders that are legal entities or organisations should consult their own tax advisers with respect to tax consequences arising as a result of disposal of the GDRs and on the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposal of the GDRs.

Individuals. A non-resident holder, who is an individual, should not generally be subject to Russian tax in respect of capital gains realised on a sale, exchange or other disposal of GDRs, provided that the proceeds of such sale, exchange or disposal are not received from a source within Russia. Russian tax law considers the place of sale as an indicator of source. Accordingly, the proceeds received from a sale of the GDRs outside Russia by an individual who is a non-resident holder should not be treated as Russian source income and, therefore, should not be taxable in Russia. However, the Russian tax law gives no clear indication as to how the place of sale of the GDRs should be determined in this respect.

In the event that the proceeds from a sale, exchange or disposal of GDRs are deemed to be received from a source within Russia, a non-resident holder that is an individual may be subject to Russian tax in respect of such proceeds at a rate of 30% of the gain (such gain being computed as the sales price less any available documented cost deduction, including the acquisition price of the GDRs and other documented expenses, such as depositary expenses and brokers fees), subject to any available double tax treaty relief, provided that the necessary requirements to qualify for the treaty relief and the appropriate administrative requirements under the Russian tax legislation have been met.

For example, holders of GDRs that are eligible for the benefits of the United States – Russia Tax Treaty are generally not subject to tax in Russia on any capital gain arising from the disposal of GDRs, provided

that the gain is not attributable to a permanent establishment or a fixed base that is or was located in Russia and provided further that less than 50% of the Company's fixed assets consist of immovable property situated in Russia (as defined in the treaty).

The taxable base is required to be calculated in Roubles and, therefore, may be affected by fluctuations in the exchange rates of the currencies used at the time of the acquisition and the sale of the GDRs, the currency of sale of the GDRs and Roubles. The tax may be withheld at source from payment only if the individual acts via a professional intermediary (such as trustee, dealer, broker or other intermediary acting to the benefit of the individual holder), otherwise the non-resident individual shall be liable to file a tax return and pay the tax due.

Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences arising as a result of any disposal of the GDRs and the receipt of proceeds from source within Russia in respect of such disposal.

Taxation of capital gains from sale or other disposal of shares acquired after 1 January 2011

Starting from 1 January 2011, the sale or other disposal (including redemption) of shares in a Russian legal entity that are quoted on a stock exchange may be subject to profits tax at a 0% rate if at the date of such sale or other disposal, the holders of such shares who are legal entities or individuals either Russian residents or non-residents, have continuously held these shares on the basis of the right of ownership or another proprietary right for more than five years and provided that during the entire holding period the shares have been treated as relating to the high-technology (innovation) sector of the economy. At present, there are no rules to be established by the Russian Government setting out the criteria that could be used to determine if a particular sector is the qualifying high-technology (innovation) sector for the purposes of this exemption and it is unclear as to whether this exemption could apply to the GDRs representing qualifying underlying shares. In any case, this beneficial tax treatment should apply to the shares acquired after 1 January 2011.

Double Tax Treaty Procedures

Where a non-resident holder of GDRs receives income from a Russian source, the Russian dividend withholding tax (if applicable under Russian domestic tax law) may be reduced or eliminated in accordance with the provisions of a double tax treaty. The Tax Code does not require a non-resident holder to obtain a tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for the benefits under the applicable tax treaty.

However, in order for a non-resident holder who is an individual, or legal entity, to benefit from the applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, a non-resident holder is required to provide a tax residence confirmation issued by the competent tax authority of the relevant treaty country (duly apostilled or legalised, and translated into Russian). The tax residency confirmation needs to be renewed on an annual basis, and provided before the first payment of income in each calendar year.

In addition, an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of the uncertainties regarding the form and procedures for providing such documentary proof, individuals, in practice, may not be able to obtain advance treaty benefits on receipt of proceeds from a source within Russia, and it can be extremely difficult to obtain a refund.

Refund of Tax Withheld

If double tax treaty relief is available but Russian tax has nevertheless been withheld at the source of payment, an application for the refund of the taxes withheld may be made within three years from the end of the tax period in which the tax was withheld for non-resident holders.

In order to obtain a refund, the non-resident holder is required to file with the Russian tax authorities, among other documents, a duly notarised, apostilled and translated certificate of tax residence issued by the

competent tax authority of the relevant treaty country at the time the income was paid, as well as documents confirming receipt of such income and the withholding of Russian tax. In addition, a non-resident holder who is an individual is required to provide appropriate documentary proof of tax payments made outside of Russia with respect to which such tax refund is claimed. The supporting papers shall be provided within one year after the year to which the treaty benefits relates for non-resident holders who are individuals.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code. Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties.

Prospective non-resident holders who are individuals or legal entities should consult their own tax advisers should they need to obtain treaty relief on any payments received with respect to the GDRs.

Certain United Kingdom Tax Considerations

The following is a general summary of certain United Kingdom tax considerations relating to the acquisition, ownership and disposition of GDRs by persons who are resident (and in the case of individuals, ordinarily resident and domiciled) in the UK for tax purposes. This summary is based, except where indicated in relation to proposed changes in law, on current UK law and practice, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary is for general information only and does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under UK law; in particular this summary does not apply to the following:

- investors who are not the absolute beneficial owners of GDRs or Shares;
- investors who do not hold GDRs as capital assets;
- special classes of investor such as dealers and tax-exempt investors;
- investors that are insurance companies, collective investment schemes or persons connected with Uralkali; or
- investors that control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, a 10% or greater interest in Uralkali.

Further, this summary assumes that (i) there will be no register in the UK in respect of GDRs or Shares; (ii) GDRs or Shares will not be issued or held by a depositary or custodian incorporated in the UK; (iii) Shares are not paired with shares issued by a company incorporated in the UK; and (iv) if any dividends are distributed to any Uralkali Shareholders, the profits in respect of which Uralkali will make such dividend distributions (if any) do not reflect the results of any transactions or of one or more of a series of transactions which achieve, or have the purpose or one of the main purposes of achieving, a reduction in UK tax. For the purposes of this summary references to a “GDR” include an interest in GDR represented by book-entries in DTC, Euroclear and Clearstream, as applicable.

CURRENT AND PROSPECTIVE GDR HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES AND THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRs.

Taxation of dividends

Dividend payments in respect of Uralkali GDRs may be made without withholding or deduction for or on account of UK income tax. As discussed in the paragraphs headed “– Taxation in the Russian Federation – Taxation of Dividends – Non-Resident Holders”, such dividends will generally be subject to Russian withholding taxes. Credit may be given in computing an investor’s UK tax liability for any Russian tax withheld in respect of such dividend payments, subject to specific rules relating to the calculation and availability of such credit, including a requirement that all reasonable steps are taken to minimise the amount

of Russian tax on such dividends. See the paragraphs headed “– Taxation in the Russian Federation – Double Tax Treaty Procedures” for information on the operation of any treaty relief that may be available to GDR holders in respect of any such Russian tax.

Corporate GDR Holders

Dividends received by a company that is within the charge to UK corporation tax (by being resident in the UK for tax purposes or carrying on a trade through a permanent establishment in the UK to which its holding of GDRs is attributable) should generally be exempt from UK corporation tax. Such an investor may, however, elect for any such dividend to be taxable if it so wishes.

Individual GDR Holders

Dividends received by an individual investor who is resident, ordinarily resident and domiciled in the UK for tax purposes, will generally be subject to UK income tax on the gross amount of any dividend paid before the deduction of any Russian withholding taxes. With respect to the 2011–2012 tax year, such dividends will be subject to tax at the rate of 10% for basic rate taxpayers whose annual income does not exceed the basic rate threshold, 32.5% for higher rate taxpayers whose annual income is above the basic rate threshold but below £150,000 (“higher rate threshold”) and 42.5% for additional rate taxpayers with income above the higher rate threshold. UK resident individuals will be entitled to a tax credit equal to one ninth of the dividend received (grossed up for foreign taxes, if any) reducing the effective rate of tax on such dividends to 0% for basic rate taxpayers, 25% for higher rate taxpayers and to approximately 36% for additional rate taxpayers. UK resident individuals should note that on 31 March 2011 the UK Government published the first draft of the Finance Bill 2011 that will, if enacted, set the basic rate threshold at £35,000 for the 2011–2012 tax year.

Taxation of disposals

The disposal of GDRs should be treated as a disposal of the underlying Shares for UK tax purposes. This analysis is based on the assumption that the Depositary acts as a mere nominee for the investor or as a bare trustee of the Shares and therefore, for capital gains purposes, the investor should be treated as holding the Shares directly and the nominee or bare trustee ignored.

It is possible that Her Majesty’s Revenue & Customs (“**HMRC**”) will treat the disposal of GDRs as the disposal of two separate assets, namely (i) the beneficial interest in the underlying Shares and (ii) the GDRs comprising the rights the GDR holder has against the Depositary pursuant to the Deposit Agreement. However, even if HMRC do take such a view, HMRC’s published practice indicates that the GDRs should be regarded as having no value and there should therefore only be a gain or loss on the disposal of the underlying Shares.

Corporate GDR Holders

The disposal of the GDRs by an investor which is within the charge to corporation tax in respect of its holding of GDRs may, depending on the investor’s circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss. Such an investor should be entitled to an indexation allowance which applies to reduce capital gains to the extent that such gains arise due to inflation. Indexation allowance may reduce a chargeable gain but will not create an allowable loss.

Individual GDR Holders

As regards an individual investor who is resident, ordinarily resident and domiciled in the UK for tax purposes, the principal factors that will determine the capital gains tax position on a disposal of the GDRs are the extent to which the investor realises any other capital gains in the tax year in which the disposal is made, the extent to which the investor has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “annual exemption”).

The annual exemption for individuals with respect to the 2011–2012 tax year is expected to be set at £10,600 following the enactment of the Finance Bill 2011 and, under current legislation, this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail

prices index. Investors should be aware that the UK Parliament is entitled to withdraw this link between the level of the annual exemption and the retail prices index or even to reduce the level of the annual exemption for future tax years below its current level.

The current rates of capital gains tax are 18% for basic rate taxpayers and 28% for higher and additional rate taxpayers.

An individual investor who ceases to be resident or ordinarily resident in the UK for a period of less than 5 years and who disposes of his GDRs during that period may also be liable on returning to the UK for UK taxation on capital gains despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

As discussed under the heading “– Taxation in the Russian Federation – Taxation of Capital Gains – Non-Resident Holders”, certain capital gains may be subject to Russian tax. Credit against UK tax may be given for Russian tax, subject to the UK tax rules regarding calculation and availability of such credit, including taking all reasonable steps to minimise the amount of Russian tax on such capital gains. See the paragraphs headed “– Taxation in the Russian Federation – Double Tax Treaty Procedures” for information on the operation of any treaty relief that may be available to GDR holders in respect of any such Russian tax.

Provision of information

It should be noted that persons in the UK paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Dividend payments in respect of the underlying Shares may constitute “foreign dividends” for this purpose.

Stamp duty and stamp duty reserve tax

No liability to UK stamp duty or stamp duty reserve tax will arise on the issue, exchange or transfer of, or agreement to transfer GDRs provided that (i) any instrument of transfer is executed and retained outside the UK and does not relate to any property situate, or to any matter or thing done or to be done, in the UK and (ii) no other action is taken in the UK by or on behalf of any seller or buyer of the GDRs.

Inheritance tax

GDRs beneficially owned by an individual may (subject to certain exemptions and reliefs) be subject to UK inheritance tax on the death of the individual or, in certain circumstances, if GDRs are the subject of a gift or other transfer of value by the individual.

Holders of GDRs should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold GDRs through trust arrangements.

Other UK tax considerations

Cancellation of the current Admission and re-admission of the GDRs to the Official List and to trading on the Regulated Market will not of itself be treated as a taxable event for UK tax purposes.

Persons who are not resident or ordinarily resident (or, if resident or ordinarily resident, are not domiciled) in the UK for tax purposes, including those individuals and companies who trade in the UK through a branch, agency or permanent establishment, and who acquire GDRs in the course of that trade, are recommended to seek the advice of professional advisers in relation to their taxation obligations.

SETTLEMENT AND DELIVERY

Custodial and depository mechanisms have been established among Euroclear, Clearstream and DTC to facilitate cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream are represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited as nominee of The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC are represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC. As necessary, the Depository adjusts the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs are held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC are reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, are responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary is responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream and the nominee for DTC. The Depositary is responsible for ensuring that payments received by it from Uralkali for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary is also responsible for ensuring that payments received by it from Uralkali for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, NY 10274, United States of America. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

Uralkali does not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see “Terms and Conditions of the Global Depositary Receipts” and “Summary of Provisions Relating to the GDRs While in Master Form”.

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream are conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and are settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC occur in the ordinary way in accordance with DTC rules and are settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs held through DTC and (ii) increase the amount of book-entry interests in the GDRs held through Euroclear and Clearstream.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least two business days prior to

the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs held through Euroclear and Clearstream and (ii) increase the amount of the book-entry interests in the GDRs held through DTC.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, as the case may be, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Uralkali, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary was constituted in 1784 in the State of New York and operates under the laws of the State of New York. The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286, United States of America and at The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

INDEPENDENT AUDITORS

The consolidated financial statements of Uralkali for the years ended 31 December 2010, 2009 and 2008, incorporated by reference in this Prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, an independent auditor, of White Square Office Center, Butyrsky Val 10, Moscow 125047, Russian Federation. ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*).

The consolidated financial statements of Silvinit for the years ended 31 December 2010, 2009 and 2008, included in this Prospectus, have been audited by ZAO KPMG, independent auditors, Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123317, Russian Federation. ZAO KPMG is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*).

EXPERTS

SRK, independent experts with regard to mining assets, have prepared the SRK Uralkali Report and the SRK Silvinit Report regarding the reserves and resources of Uralkali and Silvinit, respectively. The registered address of SRK is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK has given and not withdrawn its written consent to the inclusion of the SRK Uralkali Report and the SRK Silvinit Report in this document, in the respective forms and the contexts in which they appear, and has authorised the contents of those parts of this document that consist of the SRK Uralkali Report or the SRK Silvinit Report for the purposes of Prospectus Rule 5.5.4R(2)(f).

GENERAL INFORMATION

- (1) Uralkali was incorporated in the Russian Federation on 14 October 1992, as an open joint stock company for an unlimited duration, and it operates under the laws of the Russian Federation. Uralkali has its registered office at: Pyatiletki Street 63, Berezniki, Perm Region, 618426, Russian Federation; telephone no. +7(34242)96070. Uralkali is registered in the Unified State Register of Legal Entities in Russia under main state registration number 1025901702188.
- (2) The following is a list of Uralkali's principal subsidiaries and joint ventures, their date of establishment, registered addresses, and principal business activities, together with Uralkali's direct and indirect ownership of the share capital or ownership interests, as the case may be:

Entity	Date of Establishment (incorporation)	Registered office address	Activity	Direct or indirect ownership (%)
Subsidiaries				
Uralkali Trading S.A.....	04.11.2004	Avenue Des Margines 12 1213, Petit-Lancy, Geneva Switzerland	Trading	100
Uralkali Trading (Gibraltar) Limited.....	01.12.2004	57/63 Line Wall Road, Gibraltar	Administrative services	100
UKT Chicago Inc. (USA).....	11.03.2008	Chicago, Illinois, USA	Trading representative	100
Uralkali Trading Fertilizantes Brasil LTDA.....	15.03.2005	Rua Sao Joaquim No.249, Loja 13, Liberdade, CEP 01508-001, Sao Paulo, SP, Brazil	Trading representative	100
LLC SP Kama	03.06.1991	Pyatiletki Street 63, Berezniki, Perm Region, 618426 Russia	Leasing	100
LLC SMT BShSU	03.10.2003	Lokomotivny pereulok 8, Berezniki, Perm Region, 618400, Russia	Construction	100
CJSC Uralkali -Technology	27.07.2005	Sverdlova Street 74, Berezniki, Perm Region, 618426 Russia	Dormant	100
OJSC Baltic Bulker Terminal	28.04.2000	Elevatornaya ploshadka 28-AS, Ugolnaya Gavan, Saint-Petersburg, 198096 Russia	Maritime terminal	100
CJSC Avtotranskali	08.10.2007	Parizhskoj kommuny Street 4, Berezniki, Perm Region, 618400, Russia	Transportation	100
LLC Satellit-Service	08.08.2005	Pyatiletki Street 63, Berezniki, Perm Region 618426, Russia	IT services	51
LLC Vagonnoe Depo Balahontsi.	29.05.2003	Pyatiletki Street 63, Berezniki, Perm Region, 618426 Russia	Repairs	100

Entity	Date of Establishment (incorporation)	Registered office address	Activity	Direct or indirect ownership (%)
Subsidiaries				
CJSC Novaya Nedvizhimost	14.05.2007	Lokomotivny pereulok 8, Berezniki, Perm Region, 618400, Russia	Repair and maintenance	100
OJSC Kamskaya Mining Company	17.10.2007	17a Permskaya street, Solikamsk, Perm Region, 618540, Russia	Mining	99.9
Joint-ventures				
CJSC Belarusian Potash Company	20.12.2005	Melnikaite Street 2, Minsk, 1805B1	Trading	50

- (3) It is expected that the GDRs will be re-admitted to the Official List on or about 21 June 2011. Application has been made for the GDRs to be traded on the Regulated Market of the London Stock Exchange. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (4) Except in relation to implementation of the Combination as described in “The Combination of Uralkali and Silvinit” on page 41 and, in February 2011, the placement of the Rouble Bonds in a total amount of RUR 30 billion and the loan of RUR 12 billion entered into with Sberbank (see “Operating and Financial Review – Liquidity and Capital Resources – Borrowings” on page 75), there has been no significant change in the financial or trading position of the Uralkali Group since 31 December 2010.
- (5) Except in relation to implementation of the Combination as described in “The Combination of Uralkali and Silvinit” on page 41, there was no significant change in the financial or trading position of the Silvinit Group from 31 December 2010 until 17 May 2011, being the date on which the Merger was registered with the Russian state authorities and Silvinit ceased to exist.
- (6) This Prospectus will be made available to the public by Uralkali at the offices in London of Debevoise & Plimpton LLP, Tower 42, Old Broad Street, London EC2N 1HQ and at the registered office of Uralkali. In addition, the following documents will be on display at those offices of Debevoise & Plimpton LLP until the date of admission to the Official List and to trading on the Regulated Market:
- Uralkali’s Charter;
 - the Deposit Agreement and Deed Poll;
 - the Uralkali Financial Statements and the Silvinit Financial Statements;
 - the SRK Uralkali Report and the SRK Silvinit Report.
- (7) The GDRs are not denominated in any currency and have no nominal or par value. The Deposit Agreement, pursuant to which the GDRs were issued, and in which rights relating to the GDRs are set out, is governed by English law.
- (8) If certificates in definitive form are issued in respect of the GDRs, Uralkali will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
- (9) The ISIN for the Regulation S GDRs is US91688E2063, the Common Code for the Regulation S GDRs is 026803543 and the CUSIP number for the Regulation S GDRs is 91688E206.

- (10) The ISIN for the Rule 144A GDRs is US91688E1073, the Common Code for the Rule 144A GDRs is 026803446 and the CUSIP number for the Rule 144A GDRs is 91688E107.
- (11) The London Stock Exchange trading symbol for the GDRs is URKA and the PORTAL identification number is P91688E107.
- (12) The ISIN for the Shares is RU0007661302 and the SEDOL is 4095831.

GLOSSARY OF TECHNICAL TERMS

“available production”	The Combined Group’s estimate of its capacity for potash production (taking into account projected stoppages for planned repair and maintenance) in the relevant annual or other specified period.
“carnallite”	Salt mineral, $\text{KMgCl}_3 \times 6 \text{H}_2\text{O}$.
“feasibility study”	A detailed study of the economics of a project based on technical calculations and specific mine designs undertaken to a sufficiently high degree of confidence to justify a decision to construction.
“g/t”	Grammes per tonne.
“Grade”	The quantity of ore of metal in a specific quantity of rock.
“Grade Factor”	A factor applied when converting resources to reserves, which considers the ore losses and dilution associated with the mining operation and reduces the predicted grade to reflect this.
“Granular”	Granular muriate of potash.
“Indicated Mineral Resources”	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
“Inferred Mineral Resources”	That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability.
“JORC Code”	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, setting out minimum reporting standards, recommendations and guidelines, as most recently outlined in the 2004 edition prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
“Measured Mineral Resources”	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

“Ore”	Mineral bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediate foreseeable economic conditions.
“Ore Reserves”	The economically mineable material derived from a Measured and/or indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified. Ore Reserves are subdivided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
“Pink MOP”	Pink muriate of potash.
“Probable Ore Reserves”	Economically mineable material derived from a Measured/Indicated Mineral Resource. It is estimated with a lower level of confidence than a proved Ore Reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
“Proved Ore Reserves”	Economically mineable material derived from a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
“structural capacity”	The maximum production capacity that the Combined Group believes could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if the Combined Group were able to process all the ore that could be mined using the Combined Group’s existing mine shaft structures after certain improvements to the ore hoisting and shaft ventilation systems. Available production is less than structural capacity, as the Combined Group does not currently have the processing equipment to process, and does not have the hoisting and ventilation systems to lift, all of the ore it could mine using the existing mine shaft structures.
“silvinitite”	Evaporite containing the main minerals sylvite and halite.
“White MOP”	White muriate of potash.

APPENDIX I

MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF URALKALI'S MINING ASSETS

MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF URALKALI'S MINING ASSETS

Report Prepared for:
THE BOARD OF DIRECTORS
OPEN JOINT STOCK COMPANY URALKALI
63 Pyatiletki Street
Berezniki, Perm Region
Russia 618426

Report Prepared by



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MARCH 2011



SRK Version 08/01



MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF URALKALI'S MINING ASSETS

Report Prepared for
**THE BOARD OF DIRECTORS
OPEN JOINT STOCK COMPANY URALKALI
63 PYATILETKI STREET
BEREZNIKI, PERM REGION
RUSSIA 618426**

SRK Project Number: U4293

**SRK Consulting (UK) Ltd
5th Floor Churchill House
17 Churchill Way
Cardiff, UK
CF10 2HH**

**Tel : +44 29 20 34 81 50
Fax : +44 29 20 34 81 99
cardiff@srk.co.uk
www.srk.co.uk**

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MARCH 2011

Report Authors
Nick Fox
John Miles
Chris Gilchrist
Patrick McKelvey
Craig Watt

Reviewed by:
Mike Armitage

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MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF URALKALI'S MINING ASSETS

1 INTRODUCTION

1.1 Background

SRK Consulting (UK) Limited (SRK) has been commissioned by the board of directors of Open Joint Stock Company Uralkali (Uralkali or the Company) to prepare a Mineral Experts Report (MER) on the Mineral Resources and Ore Reserves of the Company's mining assets (the Mining Assets).

This MER has been structured on a technical discipline basis into sections on geology, Mineral Resources and Ore Reserves, mining engineering/design, mineral processing, tailings and waste management and disposal, infrastructure, environmental and social management and manpower. The report also contains sections commenting upon Mining Licence issues and the potash industry in general and also summarises the Technical-Economic Parameters (TEP) upon which the reported Ore Reserve is based.

The Mineral Resource and Ore Reserve estimates for the Mining Assets are reported in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code).

1.2 Verification, Validation and Reliance

This MER is dependent upon technical, financial and legal input from the Company. The technical information as provided to, and taken in good faith by SRK, has not been independently verified by means of re-calculation. SRK has however:

- Conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets and therefore the stated Ore Reserve, which included:
 - inspection visits to the mining operations, processing facilities, surface structures and associated infrastructure between 2006 and 2010 and most recently in December 2010;

- meetings and discussions with Uralkali management and staff;
 - an examination of historical information and results made available by Uralkali in respect of the Mining Assets;
 - a review and where considered appropriate by SRK, modification of the Company's estimates and classification of Mineral Resources and Ore Reserves as at 1 January 2011; and
 - a review and, where considered appropriate by SRK, modification of the 20 year production forecasts contained in Uralkali's Business Plan (the Business Plan). The Company produces a long range Mining Field Development Plan which covers the projected life of each asset, as part of the feasibility study for the development of that asset, and a Detailed Mining Plan, which covers the current calendar year, for each asset which is updated each year. It is these plans which form the basis of the Business Plan reviewed by, and hence Ore Reserve derived by, SRK.
- Accepted macro-economic parameters and commodity prices provided by the Company and relied on these as inputs into the verification of the Company's reserves.
 - Satisfied itself that such information is both appropriate and valid as reported herein. SRK considers that with respect to all material technical-economic matters, it has undertaken all necessary investigations to ensure compliance with the JORC Code.

SRK has placed reliance on Urakali that all technical and financial information provided by Uralkali to SRK is both valid and accurate for the purpose of compiling this MER.

1.3 Limitations, Reliance on Information, Declarations, Consent and Copyright

1.3.1 Limitations

The Company has agreed that, to the extent permitted by law, it will indemnify SRK and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of any material negligence, wilful misconduct or breach of law. The Company has also agreed to indemnify SRK and its employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except to the extent SRK or its employees and officers have been materially negligent or acted with wilful misconduct or in breach of law in which case SRK shall bear such costs.

The Company has confirmed in writing to SRK that to its knowledge the information provided by the Company was complete and not incorrect or misleading in any material aspect. SRK has no reason to believe that any material facts have been withheld and the Company has confirmed to SRK that it believes it has provided all material information.

The achievability of the Business Plan, budgets and forecasts are neither warranted nor guaranteed by SRK. The forecasts as presented and discussed herein have been proposed by the Company's management and adjusted where appropriate by SRK, and cannot be assured. Notably they are necessarily based on economic assumptions, many of which are beyond the control of the Company.

1.3.2 *Reliance on Information*

SRK's opinions given in this document are effective at 1 January 2011 and are based on information provided by the Company throughout the course of SRK's investigations, which in turn reflects various technical-economic conditions prevailing at the date of this report and Uralkali's expectations regarding the potash market, potash prices and exchange and inflation rates as at the date of this report. These and the underlying TEPs can change significantly over relatively short periods of time.

1.3.3 *Declarations*

SRK will receive a fee for the preparation of this MER in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the listing and SRK will receive no other benefit for the preparation of this report. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Company's Mineral Resources and Ore Reserves.

SRK does not have, at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with the Company or the Mining Assets and consequently considers itself to be independent of the Company.

1.3.4 *Consent and Copyright*

SRK consents to the issuing of this report in the form and context in which it is to be included in the preliminary and final prospectuses for an international offering of securities of the Company.

Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of SRK regarding the form and context in which it appears.

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive property of SRK. It is a criminal offence to publish this document or any part of the document under a different cover, or to reproduce and/or use, without written consent, any technical procedure and/or technique contained in this document. The intellectual property reflected in the contents resides with SRK and shall not be used for any activity that does not involve SRK, without the written consent of SRK.

1.4 *Qualification of Consultants*

The SRK Group comprises over 1,000 staff, offering expertise in a wide range of resource and engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, MER and independent feasibility studies on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs.

This MER has been prepared by a team of consultants sourced from the SRK Group's office in Europe over a two month period. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, underground mining, rock engineering, potash processing, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mineral economics.

The individuals listed below have provided the material input to this MER, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

- Mike Armitage: CEng, PhD MIMMM, CGeol;
- John Miles: MIMMM, CEng;
- Chris Gilchrist: PhD (Eng), CEng, FIMMM;
- Patrick McKelvey: BSc, MSc, CGeol;
- Craig Watt: BEng, MEng, CEng;
- Nick Fox: MSc, ACA ProfGradIMMM.

The Competent Person who has supervised the production of this MER is Dr Mike Armitage, who is the Chairman of the SRK Group. Dr Armitage is a mining geologist with over 25 years experience in the mining industry and has been responsible for the reporting of Mineral Resources and Ore Reserves on various properties internationally during the past 20 years. He also has a significant amount of experience in Russia and the Former Soviet Union (FSU) having managed the preparation of many due diligence studies and MERs on behalf of companies with projects in these countries and also investment institutions seeking to finance projects in these countries.

2 ASSET SUMMARY

The Mining Assets are located on the left bank of the River Kama in the vicinity of the town of Berezniki. The underground workings of one of the non-operational mines, Mine 1, are located beneath the town itself. The closest regional centre is city of Perm located approximately 200 km south of Berezniki with a population in excess of 1 million people. The climate is continental with temperatures generally varying from -30°C in winters to +30°C in summers. The relief is slightly undulated with birch and conifer pine forest as the main vegetation type.

The Company's main administrative offices are in Berezniki, although it also has a representative office in Moscow. Figure 2-1 is a map showing the location of Perm and Berezniki.

Uralkali operates two potash mines, both of which exploit the north-south striking and westerly dipping Verkhnekamskoye, or 'Upper Kama,' potassium and magnesium salt deposit. All of Uralkali's assets are located in the southern half of the sub-outcrop of the deposit while another company, Open Joint Stock Company Silvinit (Silvinit), operates a similar sized operation on the central portion of the sub-outcrop.

Uralkali was privatised in 1992 and is currently one of the major global potash producers, ranking fifth in terms of production capacity, exporting more than 90% of its products, and selling its products worldwide but predominantly in the developing countries.

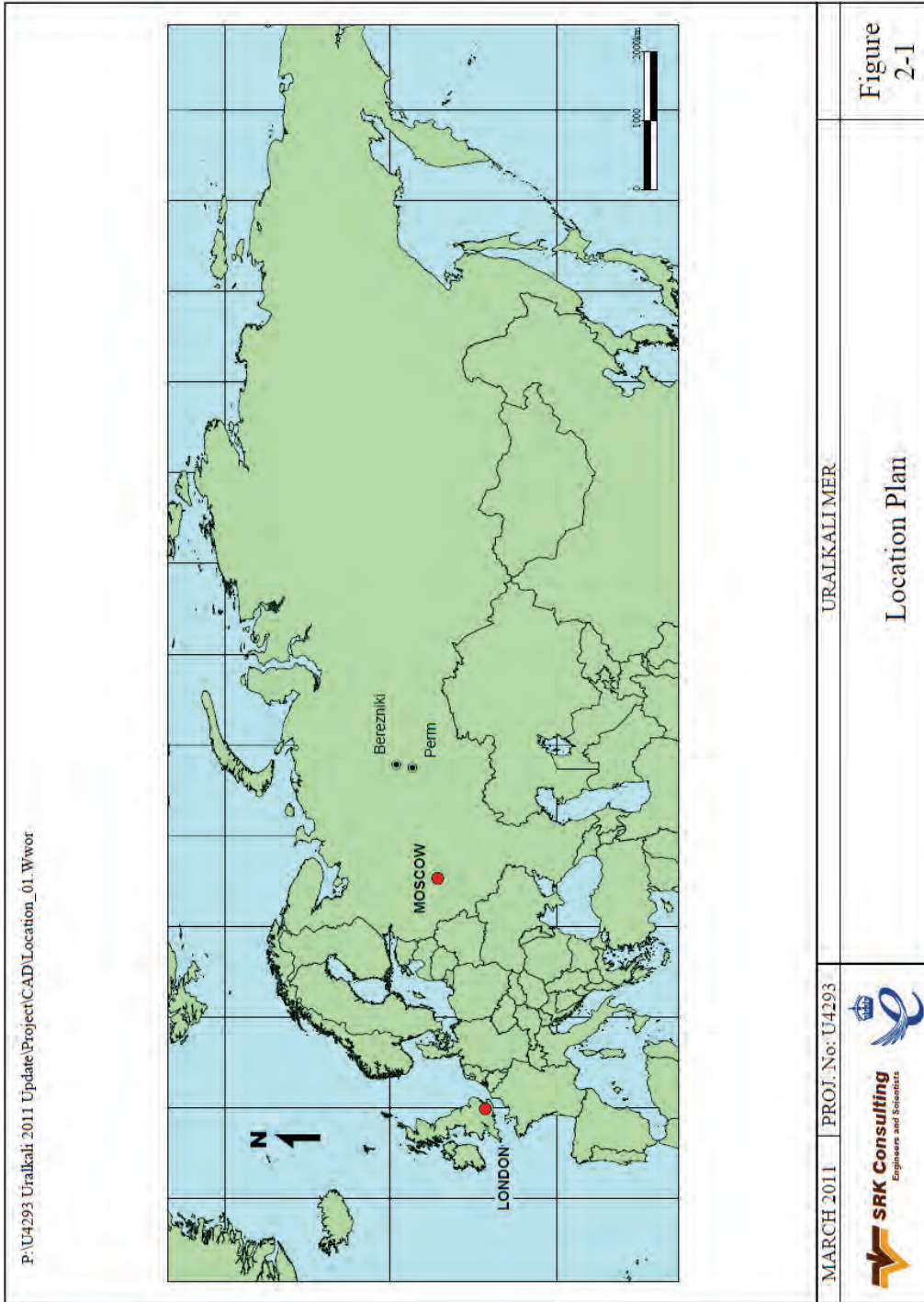
The Mining Assets comprise two operating mines, two closed mines, six operating process plants at four sites and one advanced stage exploration/feasibility study stage project. The Company's two operating mines comprise the Durymansky and Bygelsko-Troitsky mines, generally termed Mine 2 and Mine 4 respectively. Both of these mines deliver ore to their own plant sites, however, two further plant sites, Plant 1 and Plant 3, which are located at Mine 1 and Mine 3 respectively continue to be utilised with ore delivered by road or rail. Both Mine 1 and Mine 3 are now closed due to previous flooding incidents and have been abandoned. Flooding of potash mines is a rare, yet regular occurrence worldwide. Mine 1 operated from 1954 but flooded late in 2006 while Mine 3 operated from 1973 until flooding in 1986. Mine 2 has been operating since 1970, and Mine 4 since 1987.

Uralkali's only other potential mining asset is Ust-Yaivinsky, or Mine 5. This is a fully explored prospect for which feasibility studies are ongoing to assess the viability of establishing a third operating mine with a capacity of the order of 8 million tonnes per annum (Mtpa) Run of Mine (RoM) ore, which will be accessed via a vertical shaft system in a similar manner to that at the other mines. While Uralkali currently envisages making a decision on the development of this mine during the term of the Business Plan reviewed by SRK, these studies are still ongoing.

In addition to the above assets, Uralkali will have the opportunity to acquire further potash resources, by bidding for additional mining licences immediately to the south and east of the current operating mines as these are made available. These assets have not been reviewed by SRK in compiling this report, but SRK believes Uralkali is in a good position to be awarded

these and they do therefore represent upside potential to the Mineral Resources presented here.

Figure 2-1: Location Plan



3 MINING TITLE AND LAW

3.1 Introduction

SRK has not reviewed the mining licences held by the Company from a legal perspective. Consequently, SRK has relied on advice by the Company to the effect that the Company is entitled to mine all material falling within its respective license areas and that all necessary statutory mining authorisations and permits are in place. SRK's review has rather been restricted to confirming that the stated Mineral Resources and Ore Reserves in this document are within the respective licence areas and understanding the technical work required to be done by Uralkali to maintain the licences and so ensure that these requirements are satisfied by Uralkali's Business Plan.

The comments in this section of the report refer to the mining licences only. Details relating to relevant environmental permits are included in Section 11 of this report.

3.2 Russian Legislation

All subsoil situated within the territory of Russia is deemed state property. The use of such property is controlled and regulated by a variety of state authorities through an intricate system of federal and regional licensing laws and regulations. The responsibilities, however, are not clearly divided between federal and regional authorities, regulation is often unclear or contradictory and not all the significant provisions of laws or regulations are enforced in letter and spirit.

The most fundamental law governing subsoil use in Russia as a whole is the Law of the Russian Federation No. 2395-I "On Subsoil", dated 21 February 1992 (the Subsoil Law). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and contains the rules governing the issuance, transfer, surrender and revocation of mineral licences.

Detailed rules relating to licensing in Russia are set out in the Subsoil Law and in a number of regulations issued by the Russian federal government through its ministries and agencies. Regulations passed by various regions of Russia also play an important part.

The licences themselves typically only set out the basic terms of the arrangement, notably the name of the licensee, the licence area and the term of the licence, and the mineral rights granted there-under. Notwithstanding this, the key terms and conditions, including those concerning work programmes (which are essentially the licensee's developmental commitments and its applicable milestones or deadlines, that is, its Business Plan), fiscal levies payable by the licensee, geological data ownership, safety, abandonment and confidentiality are documented in a licensing agreement entered into between the licensee and the relevant federal or regional authorities which is deemed to be an integral part of a licence. Compliance with the terms of the licensing agreement is a requirement for the validity of the licence. While holders of licences are in practice often able to obtain waivers and amendments to the licensing agreements, the grant of such waivers and amendments falls within the discretionary powers of the relevant federal/regional authorities and is therefore not guaranteed.

The Federal Agency for Subsoil Use (the Federal Agency) is the principal authority responsible for regulating the activities of the Russian mining sector. The Federal Service for Environmental Technological and Nuclear Supervision also plays an important part in the functioning of the Russian mining sector. Amongst other things, it controls the technical aspects of mineral deposit exploitation, issues instruments creating mining allocations, determines the boundaries of mining allotments (mining allotments define the subsoil blocks from which natural resources forming the subject matter of any licence may be exclusively extracted) and grants licences covering hazardous industrial production.

A significant number of exploration and production licences in Russia were issued between 1992 and 1993 on a tender-free basis pursuant to Section 19 of the “Regulations for the Procedure of the Licensing the Use of Mineral Resources” (approved by resolution of the Supreme Soviet on 15 July 1992) which essentially permitted the then state-owned mining companies to retain their pre-1992 primary mineral rights. This process ensured the stability of the Russian mining sector during a difficult transitional period through the continued involvement of legal entities possessing the necessary expertise. Most of the new production licences issued since 1992 have been granted on the basis of a tender or auction, now the most common mode of issuance of a production licence under the provisions of the Subsoil Law.

A number of current licensees obtained their licences through transfers from one entity to another permitted under certain circumstances specified in the Subsoil Law (such cases, in particular, include corporate reorganisations and establishment of a subsidiary at least 50% of which is owned by the original licensee and subject to simultaneous transfer of assets necessary to continue mining).

There is an extensive list of grounds for termination of the right to subsoil use, which in light of the general interpretation of such grounds, allows a great degree of discretionary power to the Federal Agency and regional authorities over the activities of subsoil users.

It is noteworthy that, in practice, the expression “violation of the material terms of the licence” as used by the relevant regulatory bodies from time to time, is often interpreted quite broadly, which makes it necessary for licence holders to exercise extra care and caution in their compliance with the terms of their licensing agreements. Obtaining and maintaining in force the licences required for a successful exploration and production operation in Russia typically involves a series of detailed filings. Even minor errors or omissions in respect of any documents that must form part of such filings amount in theory to illegal subsoil use, although in practice such violations are widely encountered.

In practice, if a material violation of a subsoil use licence comes to the attention of the appropriate federal or regional authorities, the typical action taken is the issuance by the Federal Agency of a written direction to the licensee to cure the violation within three months. If the licensee fails to cure the violation within this time period, the Federal Agency may revoke the licence. The most common practice in such circumstances, however, is for the two parties to reach a compromise by waiving or amending the terms of the licence so as to accommodate the violation in exchange for the licensee incurring additional obligations which were not part of the original licence.

3.3 Uralkali Mining Licences

The principal details of the Company’s licences are summarised in Table 3-1 below. The licences for the two operating mines were re-negotiated in 2001 and are valid until April 2013. The licence for Mine 5 was registered in April 2004 and is valid until April 2024.

Table 3-1: Uralkali Mining and Exploration Licenses

Deposit	Registration No.	Period (Years)	Expiry Date	Licence Type	Area (ha)
Mine 2	01362	12	April 2013	Mining-Potassium, and rock salts	6,725
Mine 4	01363	12	April 2013	Mining-Potassium, magnesium, and rock salts	18,360
Mine 5	12328	20	April 2024	Exploration and Mining – Potassium and rock salts	Not stated

SRK has seen copies of the licences and confirms that the Mineral Resources and Ore Reserves stated in this report fall within the boundaries of such licences.

The licenses for the operating mines will expire within the term of the reviewed 20 year Business Plan even though these mines are planned to continue operating beyond this time and have resources to support this. It should be expected that Uralkali will obtain extensions to these licences in due course on application as long as it continues to fulfil its licence obligations.

4 OVERVIEW OF THE POTASH INDUSTRY

4.1 Sources of Potash

Potash is a potassium (K) bearing evaporite, or salt, which along with other salts, the most common of which are gypsum, anhydrite, carnallite and halite, forms almost exclusively within partly or fully restricted marine basins which have been subjected to high rates of evaporation. The key to the deposition of the salts and the formation of the resulting salt beds is that the rate of evaporation of the sea water must exceed the rate at which the basin is replenished by new sea water. Most deposits are therefore thought to have formed in hot arid humid environments and indeed, most Quaternary and Recent deposits occur between 15° and 35° latitude in equatorial elevated plateaus, arctic deserts, and rain shadows of high mountain ranges and continental regions.

Potash itself is typically found in relatively thin, often gently-folded beds, associated with carbonates, calcium sulphate, halite and magnesium sulphates. The most common ore minerals are sylvinite (KCl+NaCl), carnallite (KCl·MgCl·6H₂O) and sylvite (KCl) although the term potash refers to any potassium bearing mineral or ore which has potential to be mined. While potash deposits are found throughout the geological column, by far the majority of the deposits currently exploited, including those currently being mined by Uralkali, are of Palaeozoic age.

In terms of stratigraphy, the potash ores are generally deposited in layers where the least soluble mineral (halite or NaCl) is usually found in the footwall as it was deposited first, i.e. prior to the potassium and magnesium salts. Sylvinite (KCl + NaCl) is normally found above the halite and carnallite, if present, is found in the roof. This sequence is often repeated where the ancient sea has undergone partial re-dissolution and re-evaporation. Considerable folding and plastic deformation is also often present. Carnallite is a friable and deliquescent mineral with little strength, therefore it is often necessary to leave valuable potash in the roof where carnalitic deposits exist.

Being typically soft and gently dipping, most deposits are mined via a room and pillar type mining method. Steeply dipping variations of open stoping may be used and there are also some cases where the ease of dissolution is taken advantage of and solution mining is employed. Owing to the greater strength of the halite in the footwall, long-term mine infrastructure for ore and personnel transport is usually constructed in this horizon some 30-40 metres beneath the orebody itself and the latter is accessed via ramps at strategic locations.

4.2 Uses

Over 95% of the potash currently mined and processed is sold commercially for direct application use as a fertiliser in the granular form when mixed with nitrogen and phosphate compounds or for further processing from the standard form to produce compound fertilizers with other nutrients. Potassium is a key nutrient for plant growth, which promotes or maintains enzyme activation, efficient use of water, photosynthesis, transport of sugars, starch formation, high-energy plant growth compounds, resistance to diseases and the effect of drought. There are no substitutes for potassium as a nutrient in the fertilizer industry and it cannot be recycled. Small amounts of potash are used in the chemicals industry primarily in the manufacture of potassium hydroxide and chlorine gas which is used variously in the making of a range of products including medicines, dyes, detergents, glass products, ceramics and explosives.

The quality or grade of potash is typically expressed in terms of K_2O content, or its equivalent in terms of potassium content. This is a higher specification than KCl, which is also sometimes used, the formula to convert the two being $K_2O = KCl * 0.61$.

Uralkali has also historically processed and sold a small amount of carnallite, which is used as a source of magnesium metal and is often found in association with sylvinite ores but which is low grade with respect to KCl content. This is a requirement of Uralkali's mining licence and not material to the business of Uralkali. Uralkali is not, however, assuming any carnallite production in its future projections.

4.3 Potash Production

World potash production in 2009 was estimated at 34 million tonnes (Mt) KCl (Source US Geological Survey), however this was an exceptional year due to poor global economic conditions. Production in 2008 was 59 Mt KCl and had risen back to some 53Mt KCl during 2010 which was close to the estimated global production capacity of 67 Mt. Canada, Russia, Belarus, Germany, Israel, Jordan, and the USA are currently the major producing countries and account for over 90% of total world production. Canada alone accounts for one-third of world production while the combined output of Russia and Belarus accounts for a further third. Uralkali currently represents some 9.5% of world potash production based on 2010 production levels.

With production concentrated in a very small number of countries, but consumption spread throughout the world, it is not surprising that potash is traded internationally in large tonnages and over great distances. The two major centres of production, Saskatchewan in Canada and the eastern Urals of Russia are both situated thousands of kilometres inland. Transportation is typically a major logistical exercise involving long rail journeys and ocean freighting in large bulk carriers and the tasks of trans-shipment and warehousing are all key parts of these operations.

Today, most of the large companies carry out their own sales and marketing or form joint marketing groups such as Canpotex (PCS, Mosaic, Agrium) and Belarus Potash Company (Uralkali and Belaruskali) to coordinate export sales and shipments. Since potash is consumed not only by large fertilizer manufacturers in the production of compound fertilizers, but also in direct application by farmers, farmer's groups, or agricultural organisations, sales are typically handled by large distributing organisations in the consuming countries such as Sinochem in China, IPL in India, and Bunge in Brazil.

4.4 Potash Prices

One of the main indicators for potash price is the FOB Vancouver price for Standard Grade Canadian potash, equivalent to Uralkali's Pink Standard (PMOP) product, railed from Saskatchewan and stored to await loading and export. The Vancouver spot price for this product remained at around USD120 per tonne between 1995 and 2003, but has since soared to levels of around USD600 per tonne (contract) and even USD1,000 per tonne (spot) in early 2008 (Source USGS). Production levels and prices subsequently fell during 2009 due to the worldwide financial crisis and the Vancouver spot price (Standard MOP, FOB) fell to USD486 in August 2009. The continuation of the global financial crisis exerted further downward pressure on the price, however this remained around the USD350 to USD400 level during 2010. Global producers subsequently decreased production rates during 2009 in an effort maintain prices, however, it is generally accepted that worldwide demand should resume its forecast increase of 5% annually and exceed 60-65 Mtpa (KCl) by 2013/2014. Accordingly it is expected that prices will also continue to increase.

Uralkali sells the standard market products: white, pink and granular muriate of potash to both domestic and export markets. Russian potash export prices have typically been very much in line with, perhaps slightly lower than, Canadian prices. Russian domestic prices were historically controlled to an even lower level, however, this is changing and the margin between export and domestic prices is closing. Uralkali's own data suggests that FOB prices have risen from levels of between USD45-65 per tonne in 2001 to some USD525 per tonne in 2008 before falling to some USD430 per tonne in 2009 and further to USD340 per tonne in 2010. Uralkali envisages that the price may increase to some USD385 per tonne in 2011 and to some USD425 per tonne by 2013.

There is a strong feeling among potash suppliers that the recent price increases had been long overdue as compensation for years of low prices. Certainly factors such as increases in energy and transportation charges have played a significant part in increasing delivered costs and SRK considers it unlikely that prices will return to the former low levels. The major potash marketing groups Canpotex and Belarus Potash Company now account for a significant proportion of the internationally traded market. This gives strong bargaining power to the suppliers.

Although the consumers are many and widespread they have amongst their number several large fertilizer manufacturers and distribution groups and in certain cases (China and India, for example) national governments are involved. The industry is thus delicately poised with suppliers keen to hang on to the hard-won existing new orders and looking for further price rises but currently meeting resistance from the buyers.

Sales are typically via short term contracts and spot sales. The longest term off-take agreement is 12 months, being more typically 3 to 6 months.

While there will be periodic fluctuations in demand as a function of a variety of political and weather related issues, and while increased consumption cannot be guaranteed, the demand for fertilizers and hence potash is related to the population growth and the need for more efficient food production, and should therefore be expected to continue to grow steadily in worldwide terms into the future. Consumption in the developing world has been growing at over 5.5% per annum since 1980 and the developing world now accounts for 64% of total world potash fertilizer consumption. China, Brazil, India, and the Association of South East Asian Nations (ASEAN) countries are prominent as the major consumers and importers of potash in the developing world. The increasing interest in biofuels as an alternative, sustainable energy source, is set to further underpin the growth forecast for potash volumes.

Overall, SRK considers Uralkali to be in a good position. It is one of the world's largest producers, has one of the lowest operating costs, is well-placed to expand production to meet increasing demand in the future and has a demonstrated marketing track record as evidenced by the fact that it has increased its market share over the past ten years despite strong competition.

5 GEOLOGY

5.1 Introduction

This section summarises the geological setting and the geology of the orebodies being and planned to be exploited by Uralkali and gives SRK's comments regarding the geological assumptions made by Uralkali which form the basis of the resource estimates presented in Section 6 of this report.

As already commented in this report, Uralkali currently operates two operating mines, Mine 2 and Mine 4, and has an exploration and mining licence for one further asset, Mine 5. All of these exploit, or are planned to exploit, the Verkhnekamskoye Potassium and Magnesium bearing Salt Deposit (Verkhnekamskoye), which comprises a thick sedimentary sequence of flat to gently dipping bedded evaporites. The different mines variously extract up to three different potassium rich horizons, or seams, in these. Mine 2 is currently working the Red 2 and AB Seams, while Mine 4 has also extracted some of the B Seam. It is planned that Mine 5 will work both the Red 2 and AB Seams.

5.2 Deposit Geology

Verkhnekamskoye is one of the largest potassium bearing evaporite deposits in the world and, in addition to the potash and magnesium resources currently being mined by Uralkali, also contains both oil deposits and rock salt (halite). The oil deposits which are stratigraphically below the potash being mined by Uralkali are currently not being exploited due to the Company's mining activities but there is oil extraction activity in the region to the south of Uralkali's licence areas.

The potash deposit is Permo-Carboniferous in age (it is considered to have formed some 250 million years ago) and is comprised of a series of some 15 different horizons separated by halite. These horizons vary from a few centimetres to a few metres in thickness and are composed of largely sylvinite, halite and carnallite. Verkhnekamskoye is the only such deposit currently being mined in Russia and extends laterally along strike for some 100 km north-south by 35 km east-west covering a total area in plan view of some 3,500 km². Only a handful of the wider horizons, the thickest and most extensive termed Red 2 and AB are potentially amenable to mining and it is these horizons that are being targeted by Uralkali.

5.3 Ore Genesis

The rocks that comprise the Verkhnekamskoye deposit are generally accepted to have been deposited from a shallow sea, the Solikamsky Sea, which was located at the foot of Ural mountains. The climatic conditions in the area at the time would have been arid and the rate of evaporation consequently high, optimum conditions for evaporite formation. It is likely that the deposit would have taken tens of thousands of years to form. Subsequent to the formation of the deposit, the ongoing erosion of the Ural mountains covered the deposit with further sediments which now overlie the orebodies currently being mined and which are, in turn, now several hundred metres below ground level.

5.4 Orebody Model

Uralkali has not used a computerised geological modelling or mine design software package to generate its resource and reserve estimates, but has rather derived these using classical, hard copy, Russian methodology. Very little of the available data is therefore in electronic form. It has not therefore created three dimensional models of the orebodies but has, in its calculations, effectively assumed that the orebodies are roughly flat lying–shallow dipping, that the top and bottom contacts are geologically defined, that they are continuous between borehole intersections and underground exposures and that the chemistry of the individual zones varies gradually between borehole intersections and underground exposures.

5.5 SRK Comments

SRK considers the geology as interpreted by Uralkali to reflect available data and the continuity of the orebodies and grade distribution within these to have been sufficiently well understood for these to form a good basis for resource estimation. Certainly, SRK considers the geological assumptions made by Urakali in generating the estimates given below to be sound and supported by the available data.

6 MINERAL RESOURCES AND ORE RESERVES

6.1 Introduction

This section of the report gives SRK's understanding of the resource and reserve estimates reported by Uralkali, the work done to derive these and SRK's view regarding the tonnes and grade of rock which has the potential to be mined by the existing and planned mining operations (the Mineral Resource) and also the quantity of product expected to be produced as envisaged by the respective Business Plan (the Ore Reserve).

SRK has not independently re-calculated Mineral Resource and Ore Reserve estimates for Uralkali's operations but has, rather, reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by Uralkali and made an opinion on these estimates including the tonnes, grade and quality of the potash planned to be exploited in the current mine plan, based on this review. SRK has then used this knowledge to derive audited resource and reserve statements according to the guidelines and terminology proposed in the JORC Code.

This section presents both the existing Uralkali resource estimates according to Russian standard reporting terminology and guidelines and SRK's audited JORC Code statements. All of these estimates are dated as of 1 January 2011. SRK has restricted its assessment to the resources and reserves at Mine 2, Mine 4 and Mine 5. Mine 1 has been excluded as this has no realistic potential to be re-opened in the foreseeable future.

6.2 Quantity and Quality of Data

The resource and reserve estimates derived by Uralkali are primarily based on exploration drilling undertaken between 1972 and 1998. A specially laid out drilling programme was developed for each mine with the aim of enabling 10% of the contained resources to be assigned to the A category of resources as defined by the Russian Reporting Code, 20% to the B category and 70% to the C1 category. In 2009, exploration drilling from surface started in the eastern portion of Mine 4 with an aim to improve the classification of C2 category resources to C1 category, however, this is ongoing and has not been incorporated into an updated resource estimate at this stage.

The A category is the highest category in the Russian Reporting Code and only used where the stated tonnage and grade estimates are considered to be known to a very high degree of accuracy. The B, C1 and C2 categories are lower confidence categories, with C2 denoting the least level of confidence in the three categories. All of these categories, apart from C2, are acceptable for use in supporting mining plans and feasibility studies. In the case of Uralkali, blocks are assigned to the A category where the drillhole spacing is less than 1km, to the B category where the drillhole spacing is between 1 and 2km and to the C1 category where the drillhole spacing is 2km. Areas drilled at a larger spacing than this, up to a 4km spacing, are assigned to the C2 category, although only a very small proportion of Uralkali's resources have been categorised as such.

As a result of the above process, each mine is drilled on a 2 km by 2 km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring 400 m by 200 m. Uralkali does not upgrade the categorisation of its resources based on this drilling but rather uses this to optimise the mining layouts.

The drillholes, whether drilled from surface or underground, are sampled at intervals of at least 16cm and the samples are crushed and milled under the control of the geology department to produce an approximate 100 g sample prior to submission to the laboratory.

Assaying is carried out at an in-house laboratory. No samples are sent to any independent laboratories, but there is an internal system of check assaying and repeat assaying. Approximately 5% of samples are repeat assayed. All assaying is by classical wet chemistry techniques.

SRK considers that the exploration approach followed by Uralkali has been appropriate and specifically aimed at collecting the data appropriate to the estimation of potash resources and that sufficient data of sufficient quality has been collected to support the resource estimates as derived by Uralkali and as presented here.

6.3 Resource Estimation

6.3.1 Introduction

The most up to date resource statements produced by Uralkali are those derived for the annual 5GR reports produced earlier this year which give the status as of 1 January 2011. The completion of 5GR reports is a statutory requirement. These estimates were produced using standard classical Russian techniques and are essentially based on calculations made in previous years adjusted for mining during 2010. This section therefore comments primarily on these statements.

6.3.2 Uralkali Estimation Methodology

Each seam and each mine is treated separately in the resource estimation procedure. In each case, the horizons are first divided into blocks such that each sub-divided block has reasonably consistent borehole spacing within it; that is more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting “resource block” is then evaluated separately using the borehole intersections falling within that block only.

Specifically, composite K₂O and MgO grades are derived for each borehole that intersected each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting.

A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub block, and any areas where the seams are not sufficiently developed. The aerial coverage of each block is then used with the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block.

The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence of the estimated tonnes and grade.

6.3.3 Uralkali Resource Statements

Table 6-1 below summarises SRK's understanding of the resource statements prepared by Uralkali to reflect the status of its assets as of 1 January 2011. Uralkali's statements are based on a minimum mining width of 2 m and a minimum block grade which dependent on the mine varies between 13.9% and 15.5% K₂O.

Table 6-1: Uralkali Sylvinitic Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	K ₂ O (%)	K ₂ O (Mt)
Mine 2			
A	9.7	31.6	3.1
B	39.4	22.7	8.9
C1	280.2	24.3	68.2
A+B+C1	329.3	24.4	80.2
C2	-	-	-
Mine 4			
A	370.4	21.6	79.9
B	437.6	22.6	98.8
C1	1,016.8	20.6	209.6
A+B+C1	1,824.8	21.3	388.3
C2	310.3	26.8	83.3
Mine 5			
A	169.9	19.0	32.3
B	311.0	19.8	61.7
C1	809.7	19.8	160.4
A+B+C1	1,290.6	19.7	254.4
C2	-	-	-
All Mines			
A	550.0	21.0	115.3
B	788.0	21.5	169.4
C1	2,106.7	20.8	438.2
Grand Total A+B+C1	3,444.8	21.0	723.0
C2	310.3	26.8	83.3

6.3.4 SRK Comments

SRK has reviewed the estimation methodology used by Uralkali to derive the above estimates and the geological assumptions made and considers these to be reasonable given the information available. SRK has also undertaken various re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions and has replicated the estimates derived by Uralkali to within 5%. Overall, SRK considers the resource estimates reported by Uralkali to be a reasonable reflection of the total quantity and quality of material demonstrated to be present at the three assets as of 1 January 2011.

6.3.5 SRK Audited Mineral Resource Statements

Table 6-2 below presents SRK's audited resource statement. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. Definitions for the different categories used by this reporting code are given in the glossary provided. In doing this, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to this.

SRK has not attempted to optimise Uralkali's Business Plan. Consequently, SRK's audited resource statements are confined to those seams that both have the potential to be mined economically and which are currently being considered for mining only.

Table 6-2: SRK Audited Sylvinitic Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	K ₂ O (%)	K ₂ O (Mt)
Mine 2			
Measured	49.1	24.5	12.0
Indicated	280.2	24.3	68.2
Measured + Indicated	329.3	24.4	80.2
Inferred	-	-	-
Mine 4			
Measured	808.0	22.1	178.7
Indicated	1,016.8	20.6	209.6
Measured + Indicated	1,824.8	21.3	388.3
Inferred	310.3	26.8	83.3
Mine 5			
Measured	480.9	19.5	94.0
Indicated	809.7	19.8	160.4
Measured + Indicated	1,290.6	19.7	254.4
Inferred	-	-	-
All Mines			
Measured	1,338.1	21.3	284.7
Indicated	2,106.7	20.8	438.2
Total Measured + Indicated	3,444.8	21.0	723.0
Inferred	310.3	26.8	83.3

6.4 Ore Reserve Estimation

6.4.1 Introduction

Uralkali does not report reserves as these are typically defined by reporting guidelines and terminology developed in Europe, North America and Australia; that is, estimates of the tonnage and grade of total material that is planned to be delivered to the various processing plants over the life of the mine. SRK has therefore derived estimates of such using historical information gained during its site visit regarding the mining losses and dilution experienced during mining to date. SRK has also restricted the resulting estimates to those areas planned to be mined by Uralkali in SRK's adjusted Business Plan during the next 20 years. As commented in Section 3 of this report, the adjusted Business Plan assumes that Uralkali will successfully re-negotiate its Mining Licences in 2013 and the Ore Reserve Statements therefore also assume this will be the case.

6.4.2 Modifying Factors

The Modifying Factors applicable to the derivation of reserves comprise estimates for ore losses and planned and unplanned dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected.

The Modifying Factors considered by SRK to be appropriate for the sylvinitic being mined at each of the assets are shown in Table 6-3 below. The *Tonnage Conversion Factor* takes into account both the percentage of material left behind in pillars and the amount of dilution included when mining the ore and is applied to the in situ resource tonnage to derive the tonnage of material expected to be delivered to the plants. The *K₂O Grade Conversion Factor* accounts for the difference in grade between the in situ resource and the above plant feed tonnage as a result of incorporation within the latter of waste extracted along with this and is therefore applied to the in situ grade to derive the grade of ore expected to be delivered to the plants.

Uralkali undertakes an annual reconciliation to compare the ore tonnes mined each year with the resource that has been sterilized by this mining and it is these figures for the last three years that SRK has reviewed to derive *Tonnage Conversion Factor*. Similarly Uralkali keeps a record of the in situ grade of the material sterilized by mining each year and SRK has compared these with the grade of material reported to have been fed to the plants over the last three years to derive the *Grade Conversion Factor*. Given this, SRK is confident that the Modifying Factors used reflect the geometry of the orebodies being mined and the mining methods currently being used.

Table 6-3: SRK Modifying Factors

Description	Units	Mine 2	Mine 4
Tonnage Conversion Factor	(%)	37.0	46.0
K ₂ O Grade Conversion Factor	(%)	81.0	84.0

6.4.3 SRK Audited Ore Reserve Statements

As with its audited Mineral Resource statements, SRK's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code.

SRK has not attempted to optimise the Uralkali Business Plan. Consequently, SRK's audited Ore Reserve statements are confined to those seams that are currently being considered for mining only and therefore the minimum mining width of 2m and K₂O block cut-off grades of between 13.9% and 15.5% as used by Uralkali. Specifically, for the operating mines, SRK has classed that material reported in Table 6-2 as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported in Table 6-2 as either a Measured and/or Indicated Mineral Resource, and which is planned to be exploited during the following ten years of the Business Plan, as a Probable Ore Reserve.

In the case of Mine 5, SRK has not transferred any of the reported Measured or Indicated Mineral Resource to Ore Reserve status, given that technical work, inclusive of feasibility studies are ongoing to confirm the potential economics of developing this as a separate mine. In addition, no Inferred Mineral Resources have been converted to Ore Reserve.

SRK can confirm that the Ore Reserve defined in Table 6-4 below has been derived from the resource blocks provided to SRK and incorporates sufficient estimates for ore losses and dilution based on actual historical data. The on mine breakeven price to cover all cash operating costs and required to support this statement is USD125 per tonne and full cash operating cost inclusive of all transport is USD205per tonne in January 2011 terms.

The large difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed and partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by Uralkali's 20 year Business Plan. Mine 2 Ore Reserves are fully depleted within the 20 year period of the Business Plan, however, Mine 4 Ore Reserves have the potential to extend beyond the current 20 year period and, at an assumed production rate of 20Mtpa, could extend the mine life up to a further 15 to 20 years.

Table 6-4: SRK Audited Sylvinite Ore Reserve Statement at 1 January 2011

Category	Tonnage (Mt)	K₂O (%)	K₂O (Mt)
Mine 2			
Proved	18.2	19.8	3.6
Probable	102.3	19.8	20.2
Total	120.5	19.8	23.8
Mine 4			
Proved	187.3	18.6	34.9
Probable	199.1	18.5	36.8
Total	386.4	18.5	71.7
All Mines			
Proved	205.5	18.7	38.5
Probable	301.4	18.9	57.0
Grand Total	506.9	18.8	95.5

7 MINE ENGINEERING/DESIGN

7.1 Introduction

Uralkali currently operates two mines which exploit orebodies at depths below surface of between 250m and 450m and which have a total combined capacity of 17.5 Mtpa RoM production, although the actual production achieved in some recent years has been significantly below the design capacities of the mines as a result of reduced and uncertain market demand.

As already commented, the two mines, Mine 2 (Durymansky) and Mine 4 (Bygelsko-Troitsky) principally exploit the AB and Red2 Seams, but Mine 4 mine has, in parts, also exploited the B Seam.

In March 1986, Mine 3 (Balakhontsevsky) was flooded and abandoned following a failure of the overlying strata. In October 2006, Mine 1 (Bereznikovski) was flooded due to the failure of the waterproof complex (WPC) in an old part of the workings that was determined to be the result of abnormal structure and outdated mining procedures. Uralkali is therefore currently reliant on only two mines to supply the Company's production.

Overall, the deposit is fairly uniform and the approach to mine development and production is similar, and the equipment standardised, across both operating sites. Room and pillar with long pillars is the standard mining method with variations to suit the site specific geotechnical conditions.

The ore has a low strength which allows mechanical excavation by means of cutting with pick bits. The uniaxial compressive strength (UCS) values are in the range of 19 to 23 MPa in the Red2 Seam and 16 to 19 Mpa in the AB Seam respectively.

In 2004, Uralkali successfully tendered for the mining licence for a new mine, Mine 5, which is immediately to the south of Mine 1. Uralkali is currently completing a pre-feasibility study and intends to complete a feasibility study within the next few years to assess Mine 5's potential. The conceptual study completed and used in the tender process, outlined Mine 5 as having a potential capacity of the order of 8 Mtpa, accessing this via a new vertical shaft system sunk to a depth of the order of 465m. Uralkali anticipates that the new feasibility study will increase the planned production rate.

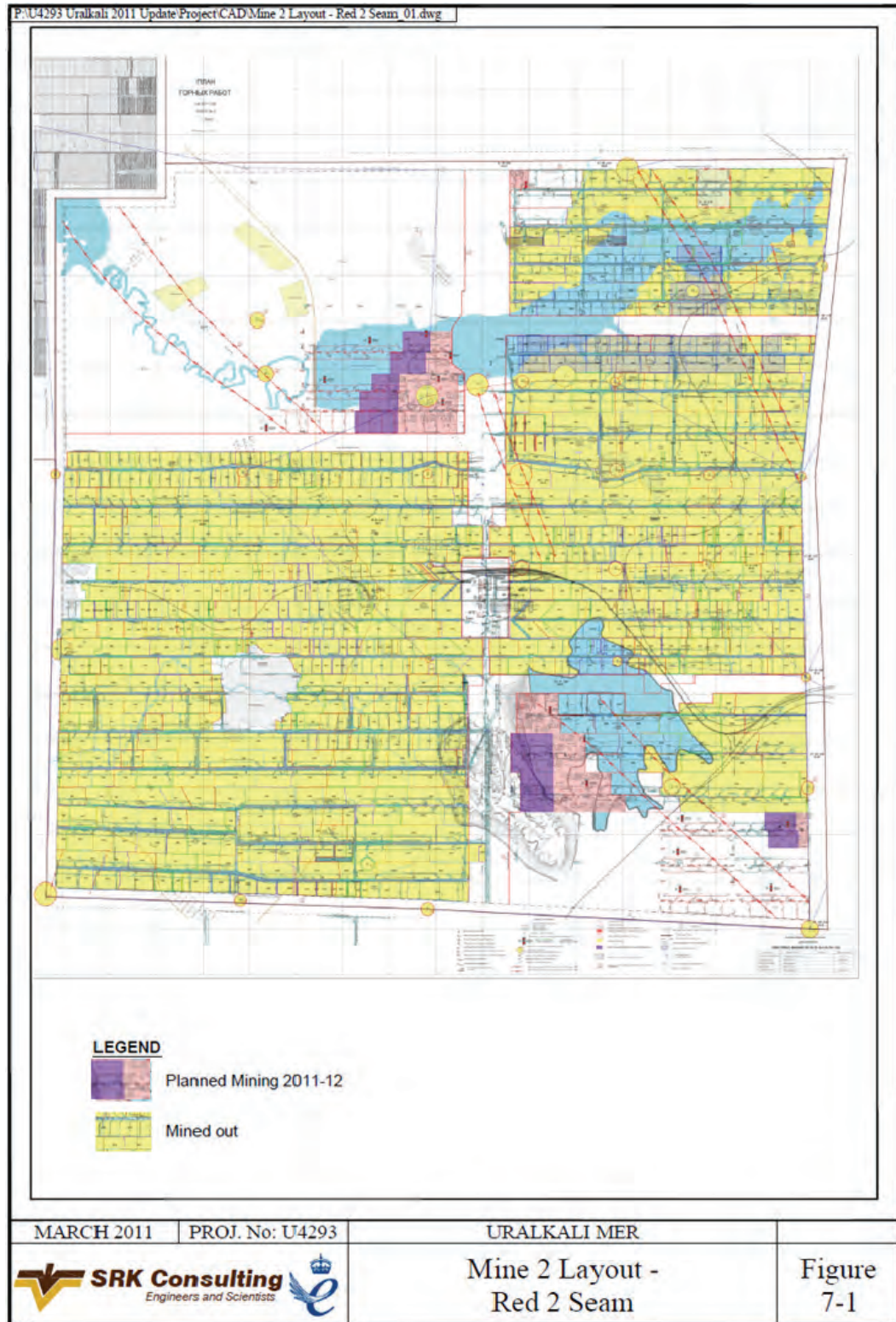
7.2 Mine Descriptions

7.2.1 Mine 2

The Mine 2 licence is situated to the southeast of Mine 1. It is the second oldest mine in the district having been commissioned in 1969. The initial RoM capacity was 4.3 Mtpa from 7 mining panels but between 1971 and 1974. This was increased to 8 Mtpa before being reduced to 6 Mtpa in 1997 to reflect the declining potash demand. In 2010, Mine 2 RoM was 5.9Mt.

The mining licence extends 7.9 km north-south and 7.7 km east-west and covers an area of about 67 km². The schematic mine layout in Figure 7-1 below shows the mined out areas and the production planned for the next two years for the Red2 Seam..

Figure 7-1: Mine 2 Licence with Production Plan



The mining depth of the AB and Red2 Seams at Mine 2 is about 345 m and the average grades of these seams are 37.7% and 36.3% KCl respectively. The thickness of the AB and Red2 seams are 2.5 m and 4.5 m and they contain insolubles of just over 6% and 4% respectively.

7.2.2 *Mine 4*

Mine 4 is the most recently developed, and largest, mine currently operated by Uralkali. The mining licence extends some 12 km north-south and 17 km east-west and covers an area of some 170 km². The mine was commissioned in 1986 at an initial capacity of 3.5 Mtpa sylvinitic ore, but this was increased to 10.5 Mtpa sylvinitic ore between 1987 and 1989, but then decreased to 5.5 Mtpa in 1997. The current RoM production capacity is 14.5 Mtpa and in 2010 Mine 4 RoM production was 12.7Mt.

To store clay residues from the plant, the mine excavates large underground disposal caverns within halite, the development waste for which is stowed underground in old production workings.

The schematic mine layout in Figure 7-2 below shows the , mined out areas and the production planned for the next two years for the Red2 Seam.

Figure 7-2: Mine 4 Mine Tenement with Production Plan



The mining depth at Mine 4 averages approximately 320 m. Three seams are currently considered as mining targets these being B, AB and Red2. The B Seam has an average thickness of about 3 m, KC1 and MgCl₂ grades of around 27% and 0.15% respectively and just over 3% of insolubles. The AB Seam is just under 3 m thick, but has a high KCl grade of

41% and low $MgCl_2$ and insoluble grades of 0.14% and 1.9% respectively. The Red2 Seam is thicker than the AB Seam at 5 m but has a slightly lower mean grade of 33.5% KCl.

7.3 Access Development

Both mines are accessed by vertical shafts. The target seams are covered by chemical and clastic sediments, salt, marl, limestone and poorly consolidated, water bearing material. The shafts have all therefore been constructed by means of the freezing method and were lined in the overburden strata with cast iron tubings. This method allows the sinking through unconsolidated water bearing strata as it creates an immediate permanent hydrostatic lining behind the shaft bottom during construction. In the evaporative measures, the shafts have conventional concrete linings.

Mine 2 has three shafts and Mine 4 four shafts. The deepest shaft is Shaft No 1 at Mine 2 which was sunk to a depth of 474 m.

Underground main and panel development drives provide access from the shafts to the mining panels. These main developments are driven as twin drives or triple drives with regular cut-throughs. There is one conveyor drive and one travel drive per main and panel development.

The main development drives, as well as the near shaft infrastructure excavations, are located in the halite underlying the working seams. The halite provides excellent geotechnical conditions for life of mine excavations. In general, there is no ground support other than occasional spot bolting and bolting of intersections. The middling between the halite infrastructure and the Red 2 seam is typically some 20 m.

The main development drives are mechanically excavated by means of full two rotor continuous miners, which cut a fixed profile. The profiles are determined by the seam, but are designed to accommodate the belt conveyor, provide sufficient clearance for underground mobile plant and vehicles and allow sufficient airflow to the production panels.

Ramps connect the main development level with the in-seam production levels. Drilled ore passes with 0.4 m diameter transfer the ore from the production levels onto the belt conveyors.

Halite development waste is stowed in mined out areas.

7.4 Production Mining

7.4.1 Mining Method

The standard mining method at Uralkali's mines is room and pillar with long pillars. The mining panels are developed by three drive entries in the seams, which are driven above the panel development in the rock salt. Drilled 0.4 m diameter ore passes connect the entries with the conveyor drives on the development level in the rock salt. The rooms are arranged at right angles to the entry development and are generally mined in a retreat mode.

The rooms are force ventilated by auxiliary ventilation systems. Separate exhaust airways in the panels channel the return air to the to the exhaust mains.

The cross-sections of the rooms are determined by the profile of the continuous mining units and the seam heights. The rooms are excavated in one pass, or in wider areas in the Red 2 Seam in two or three passes, with a top cut and eventually one or two bottom cuts.

The contact between the Red 2 Seam and the hangingwall is distinguished by a clay marker band. In some areas, it is necessary to cut into the hangingwall for roof stability reasons.

At Mine 4, the pillars between the rooms are designed as stiff pillars on the assumption that they uniformly support the load of the overlying strata above the pillars and the surrounding rooms.

At Mine 2 the pillars are designed as yielding pillars in combination with a regular abutment area. The yielding pillars are narrower than the stiff pillars, and can only support a limited load. The stress is diverted from the panel onto the wider abutment area with wider pillars, which are designed to support the overburden load without failure. As the rooms are mined out and the mining progresses, the load above the panel is controlled transferred onto the abutment pillars. For example, at the 1800 m long East Panel 20, Block 1, the rooms are 6.1 m wide. The yielding pillars are 2.9 m and 4.4 m wide. In the 400 m long abutment zone next to the main development area, the pillars are 7.9 m wide.

The dimensions for room and pillar panels with stiff pillars at Uralkali's mines are in the following ranges:

- Room Length 150 to 190 m
- Room Width 3 to 12 m
- Pillar Width 3 to 18 m

Room and pillar mining with yielding pillars may allow a higher extraction ratio because of the narrower pillars but it also creates fissures in the roof. These fissures must be prevented from propagating into water bearing strata as this would allow water inflow with catastrophic consequences. The mining depth, the geometry of the salt backs above the worked seams and the rock strengths determine the room and pillar design parameters for panels with yielding pillars and abutment pillars.

7.4.2 *Mining Equipment*

The mining equipment in any one panel typically consists of a continuous miner, a bunker car and an electric shuttle car. The shuttle car hauls the ore from the bunker car behind the continuous miner to the ore passes in the panel access drives. The bunker car behind the continuous miner allows the miner to cut ore, even when the shuttle car is not in position behind the chain conveyor. There are two principal sizes of continuous mining equipment systems at Uralkali's mines: older 15 t; and newer 25 t units. The smaller older units are being phased out and replaced by the larger units.

There are five major models of locally built continuous miners in use. Table 7.1 below summarises the most relevant operating data for the larger units. The pick consumption is low at 8 to 9 picks per kilotonnes of ore.

Table 7-1: Technical Data for Continuous Miners

Continuous Miner Type	Net Cutting Rate (t/min)	Installed Power (kW)	Operating Weight (t)	Cutterhead Width (mm)
Ural 61	3.0	370	52.8	2,950
Ural 10 A	5.0	527	65	4,100
Ural 20 A	6.4	590	82	5,100
Ural 20 R	7.0	745	91	5,100
Marietta-900	10.0	895	123	5,210

The panel equipment runs on 660V but to improve the performance Uralkali is in the process of replacing retired panel equipment with equipment running at 1140V. The higher voltage will also allow the length of the trailing cables of the shuttle cars to be increased which will in turn facilitate increased tramming distances and room length by about 100 m. The upgrade is being undertaken by gradually replacing the old 660V equipment with new 1140V equipment as new panels are being established. The capital expenditure projected by Uralkali allows for this transition.

The mines employ belt conveyors in the underground main haulage of ore and dry backfill material. The conveyor belts have standard widths of 1,000 mm and 1,200 mm in main haulage arteries.

There are very large fleets of auxiliary and personnel and material transport vehicles at each mine site.

7.4.3 *Geotechnical Issues*

The mines do not employ geotechnical engineers with specific responsibility for the geotechnical management of the operation. The geotechnical design of the panel lay-outs and other major design issues is rather outsourced to central mining institutes and academic institutions. This issue is addressed more specifically in Section 8 below.

7.4.4 *Seismicity*

The Verkhnekamskoye deposit has a history of seismic events. The largest event occurred in to the north of Uralkali and Silvinit (neighbouring mine to the north) and it had a magnitude of $m_L=4.7$ and was accompanied by surface subsidence of up to 4 m over an area with a diameter of some 600 m. The cause of the event was reportedly due to poor mining and backfilling practices at Sylvinit. This however did not impact on Uralkali's operations. There is a 5 km sterile block of ground that separates the two mines.

Reported natural seismic events at Uralkali's mines have to date been limited to microseismic events. Each of the mines maintains seismic monitoring stations to monitor the seismic activity. The largest single event at Mine 1, for example over the last twenty years released only 38 kJ, which is an event of $M_L < 0$ on the Richter scale. There has been no reported damage to Uralkali's operations as a result of natural seismic events.

Mining induced seismicity can be mitigated by strategies to avoid abutment stress concentrations. These strategies include placement of backfill, increased rigid pillar sizes and the use of mining sequences which avoid the creation of temporary regional pillars with increased abutment stresses.

7.4.5 *Outbursts*

The rapid desorption of the gases in the salts of the Verkhnekamskoye deposit can result in violent stress reliefs in the form of gas and salt outbursts (gas-dynamic events). Telltales for potential gas dynamic events are rock spalling, rock popping, high gas emissions from holes, chip emission of rock in boreholes and roof sagging at the generation of open fissures.

There are certain areas with an increased outburst potential, for example seam areas with increased clay content, sharp changes in seam height, transition zones from sylvinitic to carnallitic ore, discontinuity of salt layers and open fissures.

The Mining Institute of the Ural section of the Russian Academy of Sciences (UrO RAN) developed an empirical methodology to predict outburst potential. This has been used for decades and has repeatedly proved to be materially accurate. The methodology considers the gas concentration in the salt, the seam thickness and the mineralogical composition of the ore. The outburst potential is quantified by empirical formulas, specific to each seam. If the outburst potential F_r is >0 , the area is classified as outburst hazard area.

Mining in the identified outburst hazard areas is controlled by certain restrictions on the panel design, production sequencing and the operation. The pillars have to be stiff and adjacent panels have to be sequenced to minimise abutment stress concentrations. Short gas drainage holes also need to be drilled, continuous miners are operated by remote control and continuous observations and measurements are taken by the operators and mine officials in charge.

7.4.6 *Backfill*

Backfill is not an integral part of the mining method. It was only applied in mine workings underneath the city of Berezniki and large surface structures to mitigate mine subsidence damage. Plant residues were backfilled as hydraulic backfill.

Development waste from mine development, all of which is halite, is also stowed underground in mined out areas however this immediate waste backfill does not have any geotechnical functions.

Clay slurries from the plant at Mine 4 are disposed into underground caverns constructed in halite. These caverns are 30 m wide by 25 m high and between 200 and 400 m long. The caverns are excavated in several cuts by means of continuous miners. Caverns are intermittently filled with the slurry. As the clay slowly settles, the clear liquid on top is pumped back to the surface.

7.4.7 Ventilation

The mines have two or three intake shafts and one exhaust shaft. All shafts are primarily located in the centre of the respective lease areas. The intake air flows from the intake shafts through the main development drives below the seams to the active panels. Exhaust air from the panels flows back through the ventilation drives to the exhaust shafts.

Development and blind production faces are ventilated by means of conventional pressure auxiliary ventilation equipment with auxiliary fan and vent ducting.

The salts of the deposit contain free and sorbed combustible gases. The gas content and qualitative gas composition vary over the deposit ranging from 1.5 to 1.7 m³ gas per m³ rock. Desorption of these gases at slow rates results in gas emissions into the mine workings which if uncontrolled could result in fire, or an explosion, and in violent stress relief in the form of gas and salt outbursts. This has, however, never occurred at Uralkali's operations.

The ventilation practices for the management of explosive gases in the air are similar to the gas management in western countries and in SRK's opinion appropriate. The major gases measured and monitored on a regular basis are methane and hydrogen. The specific procedures used include regular gas measurements by mine officials and continuous gas measurements on diesel equipment. Where gas concentrations exceed the given thresholds the mining equipment is isolated from its respective power source.

Gas monitoring is a preventive measure. In most cases gases are not detected and very seldom are established thresholds exceeded.

UrO RAN developed a methodology to predict gas release rates, classify mining areas in hazard groups and determine ventilation requirements. Uralkali uses this methodology to manage the potential hazards associated with the occurrence of gas.

The total ventilation requirements of the mines as at July 2007 are shown in Table 7-2. During winter the intake air is heated with hot water.

Table 7-2: Ventilation Requirements

Mine	Total Airflow (m ³ /min)
Mine 2	20,442
Mine 4	28,553

7.4.8 Uralkali Business Plan Projections

The Uralkali Business Plan assumes a build up in mining production over the next three years from Mine 2 and Mine 4. This is primarily as a result of improvements to the shafts and does not require the opening of any new operations or material changes in mining methods. Specifically between 2011 and 2013 it assumes that the mines will together increase their ore production from some 18.6 Mt in 2010 to 26.7 Mt in 2013 with the majority of the ore being derived from Mine 4 (19.9 Mt).. The build-up in production at each of the mines is required to meet both the Business Plan requirement and accommodate the loss of Mine 1. Uralkali is commencing with the detailed planning required to meet the

production increases at each of the mines which will principally require additional mining fleet, improvements to the hoisting facilities and an increase in ventilation capacity. No formal documentation is however available on these aspects and the work is at a relatively early stage. Notwithstanding this, a total of 6.8 billion Roubles has been expended up to the end of 2010 on mining expansion related capital items including equipment, underground development, hoists and ventilation. A further 5.6 billion Roubles is budgeted for these areas for the period from 2011 to 2013.

SRK has discussed the plans and projects at site with the respective Uralkali engineers. In terms of the increase in mining systems, this is being achieved through replacement of the smaller 15t mining units with larger 25 t mining units. Compared to the current fleet of 54 units, some 72 will be required at full production. The mining lease area at each of the mines is extensive and SRK does not envisage any material problems with the increase in mining systems and work places required to meet the increased production at either Mine 2 or Mine 4. There are a total of five rock hoists used at Uralkali's operations comprising two rock hoists at two shafts at Mine 2 and three rock hoists at two shafts at Mine 4. Uralkali intends to replace each of these rock hoists in turn as well as make the necessary improvements in shaft steelwork, underground skip loading, the size of the skips and the headgear discharge facilities. The increased hoisting capacity will be realised by a combination of larger skips, faster travelling speeds and shorter skip loading times. The ventilation requirements at each of the mines to support the increased production have not been assessed in any detail and this work is planned to be outsourced to an appropriate Institute. Mine 4 is the focus of the majority of the capacity increase and improvements to the ventilation capacity at Mine 2 are likely to be small.

7.4.9 *SRK Comments*

The room and pillar mining method used inclusive of the mechanical excavation techniques and long pillar layouts is a simple and suitable mining method given the geological and geotechnical conditions characteristics of the Verkhnekamskoye deposit. The introduction of larger mining units (25 t systems) to replace the historical 15t systems will lead to commensurate increases in productivity and cost as the same labour is required. The production increases envisaged at each of the mines is considered by SRK to be achievable by the necessary increases in the number of mining systems and is compatible with the size and nature of the deposit. Adjustments to the Uralkali Business Plan have been made by SRK to accommodate a lower production build-up that is compatible with the hoist replacement schedule and higher capital costs associated with the low level of technical work that was completed by Uralkali at the time of SRK's visit. The overall objective to increase production from the current 18.6 Mt to some 26.7 Mt is considered achievable by SRK considering the deposit and mining method.

SRK has also recommended to Uralkali that it establishes an in-house geotechnical capability at the operations to take a proactive approach to geotechnical monitoring and design particularly with regard to reducing risk of water inflows. This is commented upon further below. The support of the Business Plan projections as contained in this report is made on the assumption that this aspect will be addressed as a matter of priority.

8 HYDROGEOLOGY AND GEOTECHNICS

8.1 Conceptual Model of Groundwater Inflow

The potash workings are located at a depth below surface of between 425 and 450 m. The evaporites are overlain by a varied sequence of sedimentary rocks, some of which are significant aquifers. Table 8-1 presents a summary of the stratigraphic column.

Table 8-1: Summary Stratigraphic Column

Age	Maximum Thickness (m)	Name	Lithology	Hydrogeology
Quaternary	20		Fluvioglacial sediments	Limited permeability and groundwater flow. Low yield and weakly mineralised
	100		Sedimentary - comprising clays, shales, mudstones, sandstones & marls.	Low yield due to heterogeneity and compartmentalization of aquifers. Isolated aquifers can be connected by faults. TDS approx. 200-300 mg/l.
Permian	50		Limestone/sandstone	Boreholes produce up to 50 l/s of 200-500 mg/l (TDS) water. CaHCO ₃ water dominated. Recharged by precipitation and cross aquifer flow
	40	Terrigenous-carbonate complex	Limestone marl	Very permeable, contains a lot of water especially in anticlinal structures. Lower marl less permeable and water often perched in limestone Mineralisation approximately 200-500 mg/l TDS, CaHCO ₃ type - recharged by precipitation and cross aquifer flow
	50	Salt marl complex	Marl overlying thin gypsum beds & thin salt in lower sections	Upper part is an aquifer of fissured marls containing NaCl brines up to 50-300 g/l Head of 150m above base of mine. Lower section is primarily halite and is termed the Waterproof complex (WPC).
	100-110	Evaporite beds (Potash)	Upper 25m is Transition Zone - halite alternating with marls and gypsum	Small amounts of brine associated with sedimentation & diagenesis Small amounts of minewater due to condensation from ventilation air (especially in summer)

In summary

- The basal deposits comprise an approximate 400m thickness of halite;
- The mineable deposits comprise approximately 100m of sylvinite and carnallite. Two zones are mined, the lower 15-35m thick sylvinite zone and the upper sylvinite-carnallite zone;
- A transition zone comprised of alternating halite, gypsum and marl of approximately 25m thickness forms the roof of the mineable strata. Above this is a salt/clay/marl unit of approximately 50m thick. Together, these two units comprise the Waterproof Complex (WPC). This is the key unit for the protection of the mine from inflows;
- Above the WPC is approximately 100m of limestone-marl and limestone-sandstone. These units are highly permeable and contain relatively fresh groundwater;
- Up to 100m of varied sedimentary deposits overlain by recent fluvioglacial unconsolidated units, complete the sequence.

The WPC contains fractures and faults of tectonic origin and localised fractures caused by salt deformation. Faults can cut across evaporite beds forming connections between the workings and brines of the transitional zone. Some deep faults have closed or attenuated due to salt movement, although these can be reactivated by mining induced stress.

Mining induced fracturing can be caused by local settlement in the mine. In addition, deformation of the roof can lead to foliation of stratified sediments. A connection between mining induced fractures and faults in the aquifers above the WPC has the potential to create a permeable pathway for brines to the mine. Downward flowing brines are then replaced by fresher groundwater from overlying strata; these undersaturated waters have the potential to create further dissolution in the evaporite strata leading to uncontrollable inflows

8.2 Inflow Prevention

8.2.1 Introduction

Water inflows are a significant risk to potash mines. Globally, it is estimated that approximately 40% of potash mines are lost to water inflow. There are three elements to management of inflows in evaporate mines these are:

- investigation and risk assessment;
- geotechnical design to minimise risk; and
- post inflow water management.

These separate elements are summarised below.

8.2.2 *Investigation and Risk Assessment*

The geological department at the mines consists of approximately 200 staff, organised into:

- four mining sections;
- one drilling section;
- one geophysical surveying section;
- one monitoring team;
- one surveying team; and
- a Chief Hydrogeologist with seven staff, including one each at Mine 4 and Mine 2.

The geological department undertakes a detailed set of geological and hydrogeological studies including:

- borehole drilling and sampling;
- geophysical surveys – including seismic, gravity and resistivity;
- geological and hydrogeological mapping;
- underground mapping and sampling;
- hydrochemistry and water quality assessments; and
- specific research projects into geology, hydrogeology and water inflow.

The hydrogeology department has a good understanding of the interaction of the various layers in the sequence, the presence and nature of groundwater bodies and the characteristics of groundwater flow. For the purposes of protection against water inflows, geological interpretations are focussed on the identification of anomalies. These anomalies comprise a set of geological, geophysical and hydrogeological features of the orebody and WPC which together define one of four risk categories. Specific mining strategies are then defined by the State Mining Institute (Rostekhnadzor) for each anomaly set. The anomaly standards have undergone at least six revisions since 1960 and a new set is due to be implemented in 2012.

8.2.3 *Geotechnical Design*

Geotechnical design services are undertaken on behalf of the mine by a mining design institute in Perm. Site specific data which are input to the design process include geophysical, geological, hydrogeological surveys undertaken by Uralkali. In addition, laboratory testing is carried out on borehole and core samples.

Once the design process is complete and approved, a particular pillar design is often used for at least a year before alteration. The design engineer from Perm makes a weekly visit but there is no geotechnical or rock mechanics specialist working permanently at the mine to make a day to day check of conditions. In addition, the mine itself does not appear to undertake any in-situ monitoring to check movement and stress in the pillars and roof.

It is reported that the pillars in Mine 2 continue to be designed as yielding. While in some cases yielding pillars may be more suitable than stiff pillars, as they can allow the roof to deform gradually, this is in spite of yielding pillars being identified as a key component of the inflow mechanisms at Mines 1 and 3. Uralkali has confirmed to SRK that it is now in the process of establishing more a regular geotechnical monitoring and assessment procedure at the operating mines, that the choice of pillar design will be now be assessed on a location specific basis and that should the results of subsequent monitoring be unacceptable then additional support measures will be implemented.

In other potash mines, various techniques for managing inflows once they occur have been attempted, however, most are unsuccessful. The two key methods of water exclusion are:

Grouting – cement grouts have a limited success in potash mine grouting. The chemistry of the grout and potassium chloride are not compatible and an effective bond is not achieved. Hot bitumen grouting has been reported in the literature but its successful application on a potash situation has not been demonstrated.

Separation – this involves the separation of the mine into a set of compartments. Should there be an inflow in one section then that section can be sealed off with watertight bulkheads and the remainder of the mine can be protected. At Uralkali, most the access development is in the lower halite. Consequently, the access drives could be fitted with watertight bulkheads and the potash workings separated by boundary pillars up to 200 m thick. The boundary pillars could be extracted at the end of mining. Should a section flood then the access could be shut off. While the existing mines are already interconnected in the potash and retrofitting such a system would be impracticable, it may be worth considering such a design for Mine 5.

Given the generally unsuccessful management of potash mine inflows once the water has entered the mine, measures to prevent inflow in the first place are very important.

8.3 Inflow Incidents at Uralkali

8.3.1 Mine 3 1986

The sequence of events for this inflow has been described as follows:

- The mine was working the Red 2 seam in the lowest part of the mine. There was approximately 100m of salt above the workings.
- Due to the thickness of protecting salt above Red 2, the mine was considered safe and a yielding pillar design was used, that is, rooms of 5.3 m wide and 5.5 m high with 3.8m thick pillars.
- In January 1986 a jet of brine developed in one section with smaller leaks in another. Over the next two days there were leaks in another section. On 8 March the flow rate increased and personnel were brought to surface;
- Hydrochemical patterns showed a continuing contribution of recent fresh water to the inflow.

- Post inflow investigations suggested that:
 - a deep fault was present in the overlying halite;
 - this fault had attenuated or healed with slow salt movement;
 - the fault was intersected by exfoliation fractures in the WPC caused by settlement induced by the yielding pillar method;
 - brine entered the mine as the attenuated fault was reactivated and increased the size of the permeable path for brine from the halite layer;
 - increasing dissolution and collapse caused increasing flow of fresh water thus causing further dissolution and eventual serious inflow;
 - when flow increased to serious levels the capture zone grew vertically and horizontally and collected ever growing volumes of fresh water, up to 750,000 m³/d;
 - increased velocity also caused washing out of loose sediment; and
 - resulting dissolution and collapse led to the formation of a large sinkhole at the surface.

8.3.2 Mine 1 2006

The sequence of events for this inflow has been described as follows:

- The inflow occurred where the 4th and 5th western panels join the barrier pillars of boreholes 17 & 37.
- Post inflow investigations have revealed that there is a previously unknown anomaly type at this location. The characteristics of this were that:
 - There was a significant lateral change in the lithology of the salt/marl complex that is, the WPC, where marl had been replaced by clay of lower strength;
 - The presence of the clay had resulted in an extended fracture and shear deformation zone about 60m high and 2km long;
 - The upper part of the carnallite zone had been replaced by halite which, led to uplift of the potash units and a relaxation of the overlying WPC; and
 - in the area of borehole 17, a fold in the salt caused the formation of compression and shear deformation zones.
- The anomaly type is not on the list of those identified in the standards to which Uralkali worked at that time, namely "Directives for the protection of mines from flooding and for the protection of undermined structures in the conditions of the Verkhnekamsk deposit of potassium salts" (1990, 1994, 2004).
- Two sylvinitic seams have been mined out in the area of the inflow (the AB seam in 1964-1965 and the Red2 seam in 1976-1977) and while the panels in both cases were mined in accordance with the then Directives, these did not take into account the geological structure of the WPC and did not place any limits on the number of working seams and the degree of the load on the room pillars.

- Combined mining of two seams led to an increased load on the room pillars and significant deformations in the WPC.
- Therefore, mining induced settlement caused fractures which coincided with an area of weakness and fracturing in the WPC, the combination of these two situations caused a connection between the mine and overlying brine.
- A sinkhole began developing at the surface in late July 2007.

8.3.3 *Summary*

The features common to both inflows are:

- the affected areas were in old workings, mined under earlier versions of the state Directives for water protection;
- previously unidentified anomaly sets meant that there was an unidentified weakening of the WPC, with the potential to create permeable connections to the mine;
- over extraction of potash ore led to fractures in the mine roof which connected with the weakness in the WPC;
- brine entered the mine, followed by fresher groundwater which dissolved a larger pathway, so leading to an uncontrollable inflow; and
- collapse of the cavern dissolved in the halite led to the formation of a sinkhole at surface.

8.4 **SRK Comments**

There is already a detailed understanding of the geology and groundwater flow mechanisms at the Uralkali operations. The full range of geological, hydrogeological and geophysical techniques have been applied to define a realistic conceptual model for mine inflows and to identify the specific anomalous conditions which may give rise to risk of inflows.

These anomalies, however, have historically been defined in relation to standards set by the State Mining Institute and in both the 1986 and 2006 incidents previously unclassified anomaly types were a key part of the inflow mechanism. This rigid classification has meant that anomalies which do not fit the pattern may have been missed from the analysis and have led to over undersized pillar designs or over-extraction of ore. Notably, the 2006 incident has been explained as an unavoidable occurrence because all necessary interpretations and anomaly descriptions had been undertaken according to the Directives in force at the time. The standards and instructions have been updated in light of the inflow incidents at Uralkali and a new set is due to be issued in 2012.

The other key element of inflow management is geotechnical design and associated mining strategies. This aspect has also tended to comprise an assessment against set standards. Notably, geotechnical designs have been commissioned from the State Mining Institute in Perm and then implemented at the mine and there has been little proactive alteration of pillar designs and ore extraction to fit actual conditions and limited routine inspection and in situ geotechnical monitoring to check that the system is behaving as expected.

In potash mines worldwide, backfilling has been seen to reduce deformation after mining and will therefore help protect the integrity of the WPC. SRK has recommended to Uralkali that backfilling is increased as much as possible in the existing mines.

Notwithstanding the above, and in response to the most recent inflow, Uralkali has completed a review of its geotechnical and hydrological monitoring and assessment procedures and is now in the process of establishing more appropriate expertise on site with a view to being more proactive in terms of collecting, and assessing hydrological and geotechnical data and then reviewing its pillar designs and mining procedures on an ongoing basis. In particular, Uralkali proposes to:-

- 1) Undertake a formal risk assessment at both operating mines along with a re-assessment of those areas which were mined under less stringent conditions. This work will comprise the mapping of all anomalies (both those identified in the Directives and others), together with pillar designs and areas of settlements and stress (based on actual monitoring data). In particular, those areas which were mined under earlier standards (particularly Mine 2) will be reviewed and the necessary support implemented, if warranted.
- 2) Implement an ongoing process of geotechnical and hydrological mapping and assessment at the operating mines with a view to ensuring that the choice of future pillar designs will be assessed on a location specific basis, that these will be the subject of ongoing monitoring and that should the results of this monitoring be unacceptable then additional support measures implemented.
- 3) Assign the responsibility for prevention of water inflows to one person who will co-ordinate ongoing hydrogeological and geotechnical investigations and recommend alterations to mining strategies, if required.

SRK is in agreement with the results of Uralkali's review and supports the new procedures planned. While the risk of further inflows will remain, this is an inherent issue for all operating potash operations. Uralkali's procedures, once fully implemented, should however ensure that it is doing all it is appropriate to do to manage this risk and that the potential for further inflows is reduced as much as is possible given current knowledge.

9 MINERAL PROCESSING

9.1 Introduction

There are processing plants at each of the existing and historical mine sites, namely Plants 1, 2, 3 and 4. The plants consist of two chemical processing units, two flotation processing plants, a carnallite plant for the production of magnesium chloride brine and a plant for sodium chloride solution preparation. Although Mines 1 and 3 no longer produce ore, the processing plants are still utilised and ore is delivered to these production units by road and rail.

Plant processing routes and production outputs for 2010 are given below Table 9-1.

Table 9-1: Processing Routes and Production Outputs, 2010

Plant No.	Type	Ore source	Total potash product tonnes	Granular potash product tonnes
1	Chemical	Mine 4	345,000	-
2	Flotation	Mine 2	1,538,000	447,000
3	Flotation	Mine 4	1,619,000	864,000
4	Chemical	Mine 4	1,600,000	-

The carnallite plant situated at Mine 1 receives ore from the neighbouring Silvinit mine to produce 600,000 tpa concentrated brine. This is sold to a magnesium metal production facility in Berezniki. This plant also produces approximately 2.8 Mm³ concentrated NaCl brine per annum which is sold to a nearby soda ash production facility.

Two different enrichment processes are used to treat the sylvinite ore:

- a chemical or hot leach and recrystallization route that produces white muriate of potash (WMOP which is >97%KCl); and
- a flotation route that produces pink muriate of potash (PMOP which is >95.6%KCl).

Both the PMOP and WMOP products are produced in powdered form. The chemical route was selected for Plants 1 and 4 because of the need by the local chlor-alkali industry for high grade (97-98% KCl) potash. This need has since decreased and Plant 4 presently produces a lower grade (95-96% KCl) product for agricultural use in addition to maintaining a high-grade stream. The product grade (% KCl) from these plants can be manipulated within the crystallization circuit with the lower grade output generally leading to higher recoveries. As these products have been recrystallised, they lose the pink iron-staining which is typical of potash recovered by the flotation method. In order to satisfy some customers, it is necessary to add red dye to the white potash.

Chemical plants generally have a higher KCl recovery than flotation plants owing to the higher efficiency of dissolution compared with the flotation of individual KCl grains and should therefore have greater than 90% recovery whilst flotation plants are generally lower at 85-88%.

At Plant 2 and Plant 3, there is an extension to the process that converts a proportion of the PMOP to granular muriate of potash (GMOP). Following a recent upgrade to the compaction systems at Plant 3, the total granular capacity of the company has been increased to approximately 1.4 Mt and is set to increase further to 1.7 Mt during 2011.

9.2 Processing Plants and Flowsheets

9.2.1 Plant Descriptions

The processes and equipment employed by Uralkali to enrich sylvinites are similar to those used in other parts of the world. The chemical process has been in use in the German and French potash industries since the early part of the 20th century and even the flotation process has been in use for over 80 years.

The technology and equipment used varies modestly from country to country depending on the mineralogy of the ore treated. This is particularly the case with respect to the level of water insolubles (insolubles) in the ore body. These insolubles include clay and anhydrite minerals which were either co-precipitated with the potash minerals or were physically entrained as they settled with the potash crystals. The clay minerals are the most troublesome as they interfere with the surface chemistry in the froth flotation route and require extensive dewatering in both process routes in order to recover valuable KCl brine.

For carnallite enrichment, only the chemical process is employed. At Plant 1 there is also a process that produces a NaCl brine solution as a by-product from tailings dumped from the Plant 1 chemical enrichment plant.

SRK visited Plant 3 (flotation) and Plant 4 (chemical) as part of this review and both appeared to be in good condition despite the wet nature of the process and extremely corrosive properties of the process streams. The plant structures appeared sound and there was evidence in places of an ongoing structural element replacement programme. Plant exteriors were generally constructed of brick and concrete which clad a network of structural steel beams and purlins on the interior. Unlike many Western plants, these plants were generally spacious which would facilitate capacity upgrades (if required) as well as ease of maintenance and cleaning. Noise levels within the plant appeared to be acceptable and the levels of airborne dust were low.

9.2.2 Flotation Enrichment Process

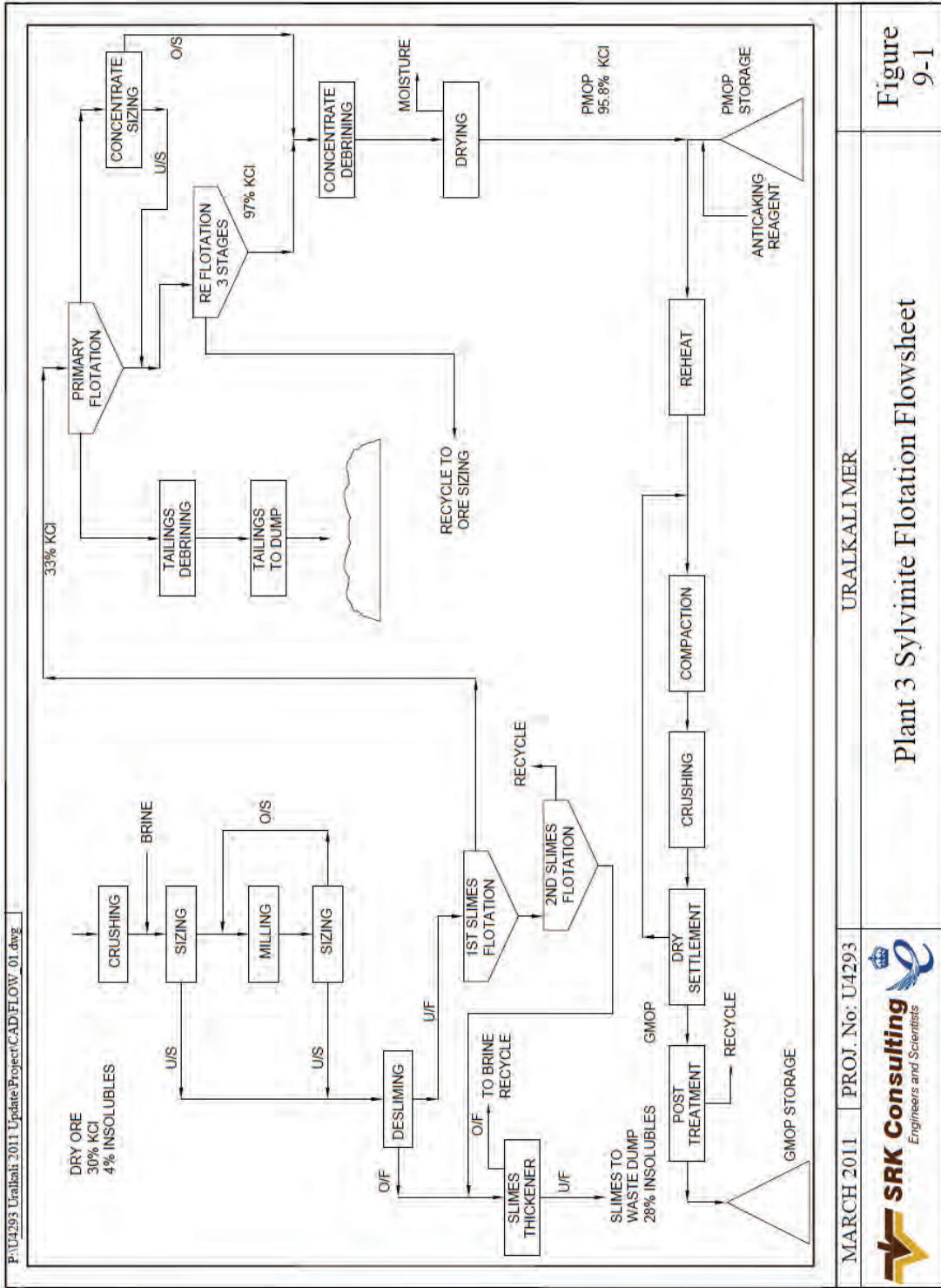
Figure 9-1 is an example flotation flowsheet from Plant 3. The process comprises the mechanical separation, by crushing and sizing in a saturated brine solution, of the sylvinites mineral constituents KCl, NaCl, and insolubles, principally anhydrite, gypsum, kieserite, calcium and magnesium carbonates and clays. The separation process relies on the targeted mineral surface being conditioned by chemical reagents and adopting a characteristic that allows it to attach itself to an air bubble within an ore/ brine slurry and thus float to the surface and be removed mechanically from the surface froth.

As noted above, the insolubles are always problematic as they interfere with the surface chemistry of the KCl mineral flotation. Uralkali has adopted a process within its flotation plants to remove insolubles, after initial mechanical desliming, by froth flotation to give an insoluble, or slimes, concentrate which is thickened and pumped to slimes dams. In the case of Mine 4, it is partly sent to the slimes dams and partly backfilled underground. Valuable KCl brine can be returned to from the supernatant liquor once the clays have consolidated. Carnallite slimes are also backfilled.

The slurry, now with reduced insoluble content, is amenable to conventional KCl flotation. The KCl is collected as froth whilst the NaCl fraction remains to be thickened, debrined and dumped.

The KCl froth is thickened and debrined in horizontal belt filters prior to being dried (0.1% moisture) to a powdered form of PMOP. The horizontal belt filters were capable of yielding a product containing 6% moisture by weight which is a very low value by industry standards. This vastly reduces energy consumption in the driers and gives consistency in the drier operation.

Figure 9-1: Typical Flowsheet for Flotation Enrichment



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Plant 3 Sylvinitic Flotation Flowsheet

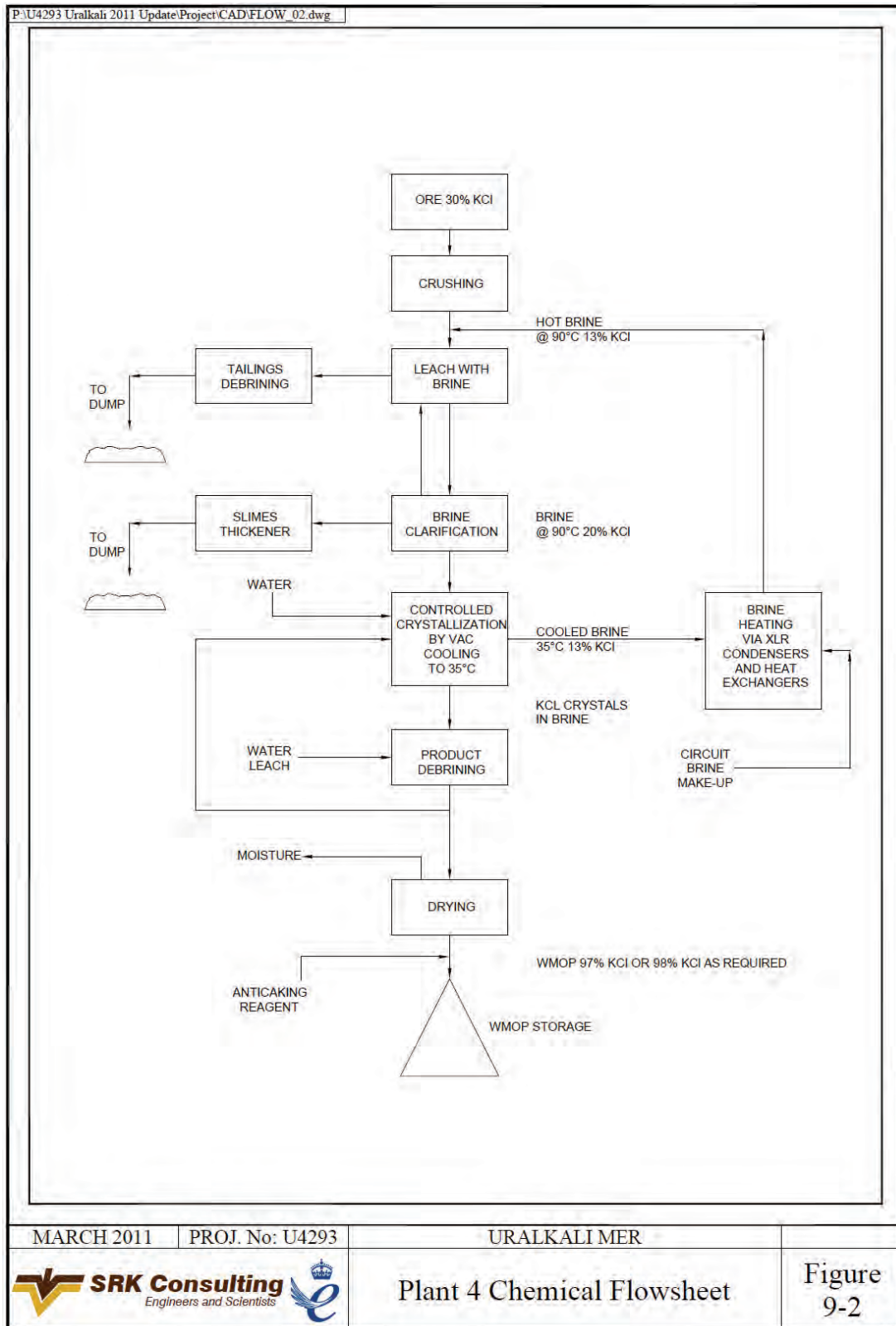
Figure 9-1

Plants 2 and Plant 3 have a facility to convert a significant proportion of the powdered standard grade potash to granular potash. The standard potash is reheated to 120°C-130°C and delivered to compactors which essentially comprise two parallel large diameter rolls some 20mm-25mm apart between which the material is fed. The rolls subject the heated potash to the high pressures (approximately 50 kN/cm²) necessary to create a continuous board known as “flake”. The flake is crushed and sized to yield potash granules (approximately 2-4 mm). The granules formed are angular with sharp corners that on subsequent re-handling can break down to create dust which is wasteful. Uralkali has recently invested in a method of post treatment that seals the granule surfaces. This is known as “glazing” and is the best available method to ensure product quality. The hot granules exiting the compaction process are sprayed with under-saturated brine which partially dissolves the granule surface. The granules are then re-heated which rapidly dries the partially dissolved layer, thus forming a protective “glaze” around the particle. Breakage in handling is further prevented by the addition of a 10:1 mineral oil/amine mixture prior to storage. This has the effect of reducing friction between adjacent granules during handling. Despite the fact that granular product is dropped from height onto the floor within the storage warehouses, the product quality observed was excellent. It was also reported that granular potash can be re-screened at the port to remove any dust which may have formed during transport.

9.2.3 *Chemical Enrichment*

Figure 9-2 is an example chemical flowsheet from Plant 4. The basis of this method of enrichment lies in the fact that KCl is very much more soluble in hot than cold water, that NaCl is slightly less soluble at higher temperatures and that the insolubles have no significant solubility. After crushing and sizing, the sylvinite ore is leached in large stirred tanks with unsaturated brine at 90°C. KCl passes into solution leaving the NaCl remaining as solid with the insolubles which are removed from the solution by thickening and filtration and subsequently disposed.

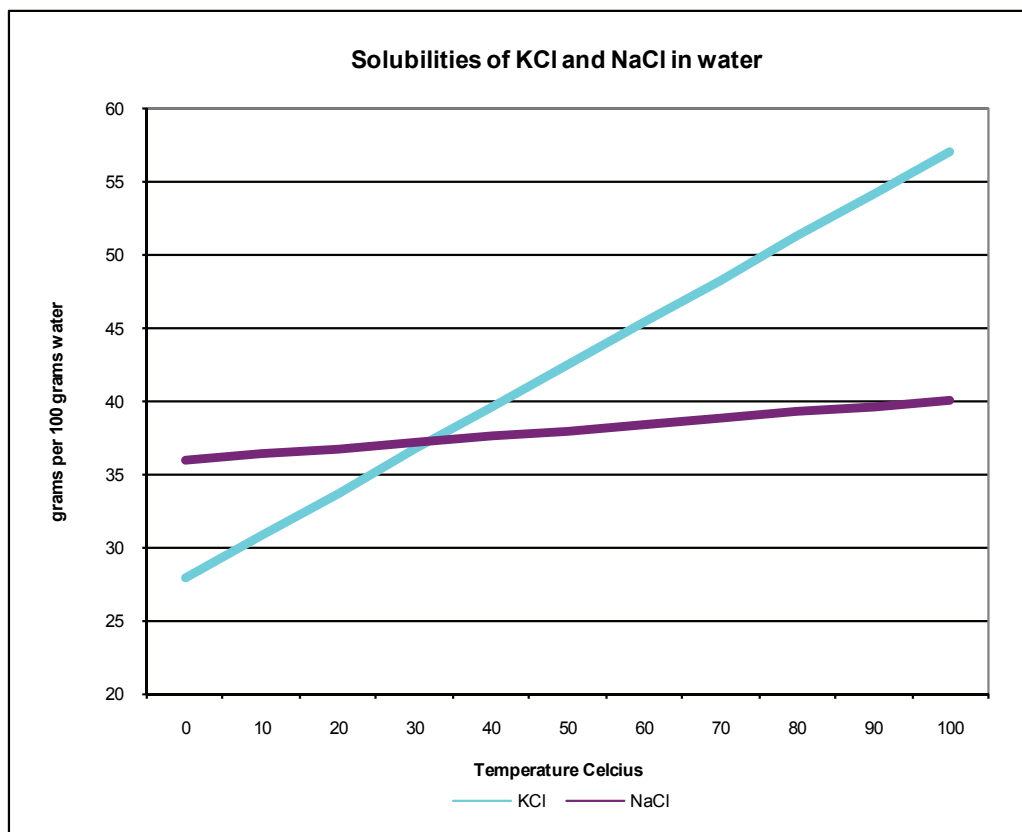
Figure 9-2: Typical Flowsheet for Chemical Enrichment (Plant 4) for WMOP Product



9.3

Figure 9-3 below shows the greater solubility of KCl at elevated temperature compared to NaCl. This is exploited in the halurgic plant in two ways. Firstly, the introduction of high temperature brine to sylvinitic ore will preferentially dissolve KCl and leave most of the NaCl in the solid form, allowing the NaCl to be filtered out and disposed. Secondly, as the brine is subsequently cooled and evaporated in the vacuum crystallisers, KCl crystals will form preferentially while the NaCl will remain in solution.

Figure 9-3: Solubilities of KCl and NaCl in water



After dissolution of the RoM ore, the remaining saturated brine, containing 20% KCl with some slime insolubles, is clarified and the slimes thickened and dumped. The brine is cooled through a number of crystallizers (14 stages at Plant 1 and 7 stages at Plant 4). The seed crystals of KCl which form are slowly grown as the temperature falls, stage by stage to 35°C and the KCl concentration in the brine drops to 13%.

After the final stage of crystallization the slurry is thickened and white KCl crystals are separated from the remaining brine in basket-type centrifuges. The addition of water leaches out some of the remaining NaCl to upgrade the product to the desired KCl specification. The centrifuge cake is subsequently dried to form WMOP.

The economics of this process depend on recovering a high proportion of the heat given up during the cooling cycle. The unsaturated brine discharged from thickeners and centrifuges is pumped back to the crystallizer cooling circuit where it recovers some of the heat from the

cooling cycle. After further heating with steam heat exchangers, it returns as hot (90°C) unsaturated brine to the leach tanks.

9.4 Plant Performance

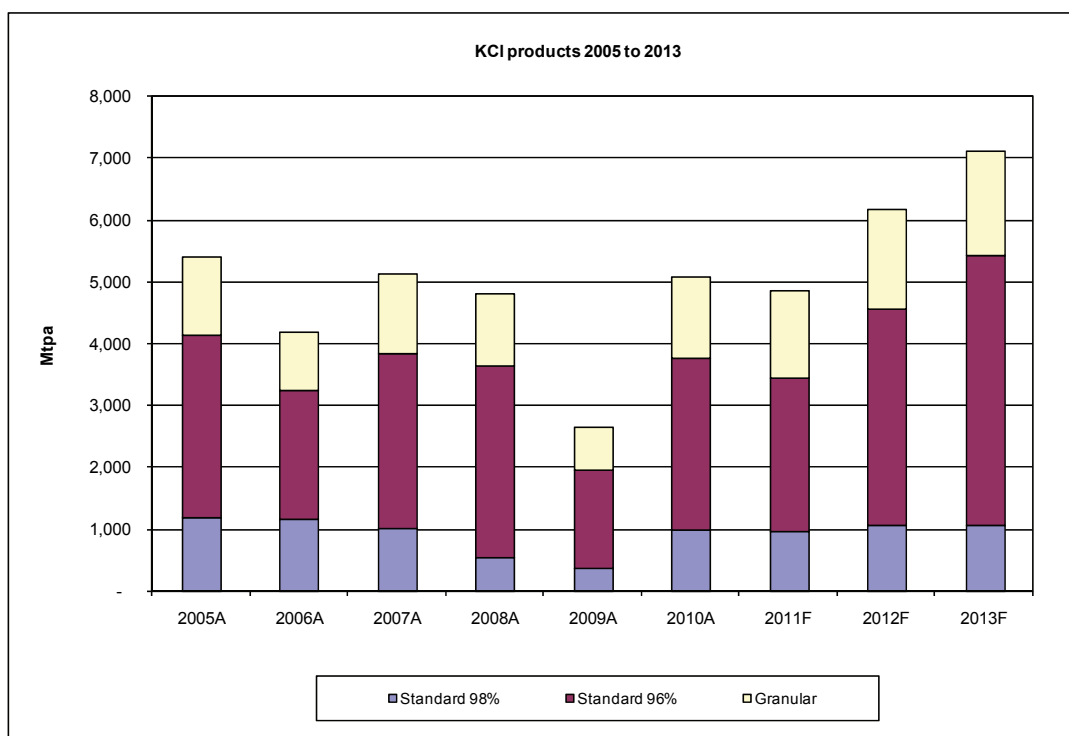
Plant 1 started production in 1954, Plant 2 in 1969, Plant 3 in 1973 and Plant 4 in 1992. All four plants ran at reduced capacity during 2009 because of low product sales caused by the world financial crisis and the fact that total plant capacity was greater than mine output because of the loss of two mines to flooding. The plants were operated at full capacity during 2010 (in excess of 5 Mtpa product) and it is intended to further increase output to over 7 Mtpa product by 2013.

Plant ore throughputs in 2010 are summarised below in Table 9-2 while Figure 9-4 shows the actual total product tonnages split by type from 2005 through to 2010 and the planned output from 2011 to 2013.

Table 9-2: Processing Throughputs 2010

Plant No.	Feed Tonnage (kt)	Recovery
1	1,195	WMOP and PMOP total recovery of 87.8%
2	5,886	PMOP total recovery of 84.9%
3	6,127	PMOP total recovery of 85.2%
4	5,362	WMOP total recovery of 89.2%

Figure 9-4: Product Tonnages Split by Type 2005 to 2013

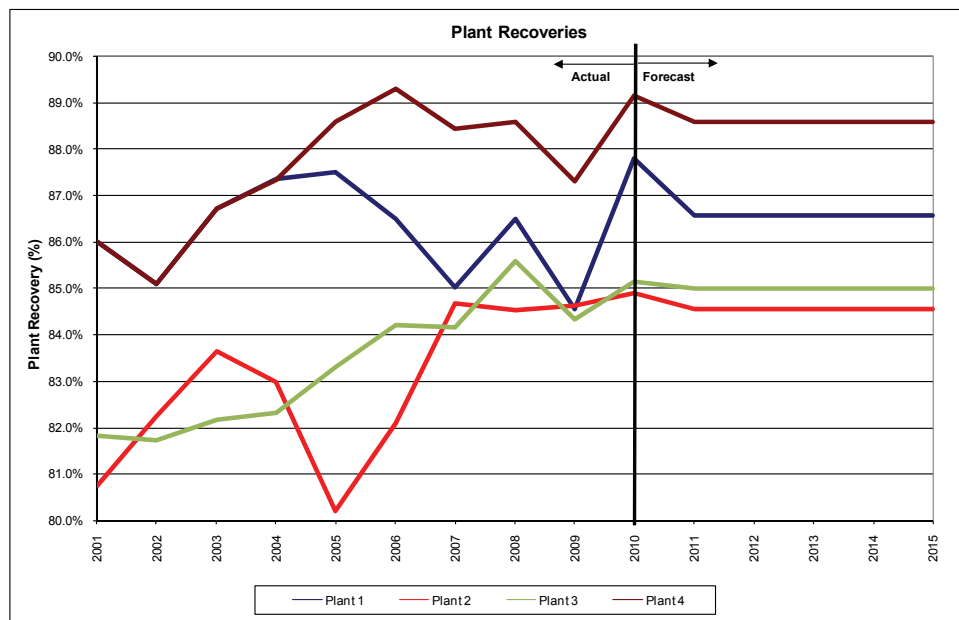


The main parameter, apart from the level of KCl in the ore that affects flotation plant recovery is the amount of insoluble material that enters the plant and the subsequent efficiency of removal prior to KCl flotation.

The highest insoluble levels are encountered in Plant 2 with a range of between 4.8 and 5.8%. Plants 1, 3 and 4 receive ore within a range of between 3.2 and 4.2%.

Historical evidence shows total plant recovery has been on target every year since 2001. Individual plant performance follows this trend except for an anomaly at Plant 2 in 2005 when recovery was about 3% below forecast. This was mainly the result of high insolubles content in the RoM ore. Average total combined plant recovery has improved from 82.5% in 2001 to 85.0% in 2006 and on to 86.4% in 2008. Recovery fell in 2009 to 85.2% however this was likely due to inefficient operation at the reduced throughput levels necessitated during the global recession. The average recovery increased once more to a satisfactory 86.75% in 2010 and is predicted to remain at these levels for the foreseeable future. Figure 9-5 shows the recoveries by plant from 2001 to 2010 and expected recoveries to 2015.

Figure 9-5: Recovery by Plan 2001 to 2015



Recovery in the flotation plants can also be affected, but to a lesser extent, by a number of other factors such as the efficiency of flotation reagents, the levels of $MgCl_2$ in mined ore and temperature variations in the brine.

Recent improvements to reagent addition regimes and control procedures, flotation feed desliming and tailings dewatering, have improved the recovery values on flotation plants, however, SRK considers that further improvements can be made by investing in the latest technology flotation cells at Plants 2 and 3.

The brine /ore equilibrium is affected by both $MgCl_2$ and temperature variations that result from changes in atmospheric temperature. A variation will result in small losses of KCl from uncontrolled precipitation or conversely re-solution of KCl. The level of $MgCl_2$ in the run of mine ore from Mine 4 appears to be controlled below 0.3% while a slightly higher level is tolerated at Mine 2 of 0.5% but in both cases temporary deviations from this are possible.

Higher recoveries are typically reported for the chemical process Plants 1 and 4 as these are less sensitive to KCl feed grade and the level of insolubles. The chemical plants are also affected by $MgCl_2$ and brine temperature variations in a similar manner to the flotation plants. The temperature variations are more a function of the efficiency of the crystallizer cooling cycle rather than ambient conditions.

9.5 Sampling

9.5.1 Routine Sampling

The ore feed to the plants is sampled by an automatic sample cutter from the head of conveyor(s) feeding crushed material to the plants. A cut is made every half-hour. The sample is then reduced by riffle splitter prior to retaining for 24 hour bulk analysis of constituents. Uralkali has adopted ISO9001:2000 quality control procedures which will cover all aspects of ore and product monitoring to an international standard.

Process control samples are taken around the various circuits to assess performance of the individual parts of the process and to control the quality of final products. No on-stream analysers were observed within the process plants (for example Courier type) which SRK considers would facilitate a real-time knowledge of the composition of critical process streams and therefore lead to improved plant control. The present situation involves submitting samples to the laboratory and awaiting the results of analysis. This turn-around time could be up to two hours.

All purchased chemicals, for example flotation conditioning reagents, anti-caking chemicals are routinely tested to ensure conformity with internal standards before being used in the processes.

9.6 Uralkali Business Plan

9.6.1 General

Uralkali's overall business plan, market permitting, is to increase KCl product output capability from the current level of 5.5 Mtpa to 7.2 Mtpa by 2013 and further to 7.6 Mtpa by 2019 through completing major plant expansions and improving plant recovery.

Specifically the first phase of the Uralkali Business Plan (to 7.2 Mtpa) incorporates the expansion of production at Plant 2 from the current level of 1.5 Mtpa of Product to 2.4 Mtpa by an extensive programme of replacement with more up to date and efficient process equipment together with the re-commissioning of an additional process stream. Uralkali undertook an expansion of production at Plant 3 during 2009-2010, based on a similar programme to that envisaged for Plant 2, involving the replacement of some of the least efficient sections of the compaction plant. SRK understands that these capital expansion projects at Plant 2 are largely complete.

A capacity increase of potash production at the Plant 4 to 1.5 Mtpa product was achieved by 2010 and a further more significant increase to 3.0Mtpa product by March 2012 is currently underway. The preparation for commissioning of a train of 7 Lurgi crystallisers was viewed at Plant 4 by SRK in late 2009. These crystallisers were part of the original installation in 1992 but were never put into operation. A new Siemens process control package has been installed at this plant and the older relay-rack type control room is currently being phased out. This should achieve the increase of production at Plant 4 to the planned 3.0Mtpa.

A new gas turbine Combined Heat and Power (CHP) unit has been installed at Plant 4. This comprises two GEC-Alsthom units with a combined electrical output of 25.8 MW, the exhaust gases from which are passed to a waste heat boiler for the generation of process steam for Plant 4. This plant also has a Siemens control system. A second CHP unit previously installed at Plant 1 is to be moved to Plant 4 to cope with the additional energy demands, however, no timescale was given for this development.

Work to improve product storage at Plant 4 was seen to be in progress. Owing to recent uncertainties in the potash market, an additional 150,000 tonnes storage capacity was installed at Plant 2 and 4 using two “Pneumatic” storage facilities. These are heavy-duty canvas “tents” which are inflated by two permanently-operational fans. These were inspected during the visit and appear to offer a good, low-cost solution.

SRK is confident that the plans described by Uralkali should enable the planned increases to be realised provided that the capacity of Plant 4 can be increased by March 2012 following the commissioning of the second crystalliser train. SRK saw no evidence to suggest that there were any significant impediments from a process viewpoint.

9.6.2 *Capital Expenditure*

The most significant element of capital expenditure for processing is the construction and commissioning of the second production line at Plant 4 which will double potash output at this facility to 3.0 Mtpa. A total of 5.55 billion Roubles has been expended in the period 2008 to 2010 and a further 1.8 billion Roubles will be committed in 2011 before the commencement of operations in early 2012.

In conjunction with the expanded output, the Company intends to commit 2.95 billion Roubles during 2011-2013 for the expansion of salt piles and tailings disposal facilities. The timing of these expansions appears to be in accordance with the planned production increases.

In order to ensure a satisfactory delivery of the expanded production output, the Company anticipates an expenditure of 6.75 billion Roubles during 2011-2014 for the expansion of rail-yards and product loading facilities as well as for the purchase of additional rail wagons.

There is also a very significant provision in sustaining capital expenditure to cater for the modernisation and replacement of major equipment.

9.6.3 *Plant Recovery*

Uralkali has improved metallurgical recovery at all its plants of the order of 2.0-3.0% during the period 2001 to 2010; the average recovery value in 2010 being 86.75%. The recovery value is forecast to remain at these levels for the foreseeable future. Given the historical plant performance and the consistency of the sylvinite ore feed, SRK considers these values to be achievable.

Further, SRK believes that the recovery levels at Plants 2 and 3 (flotation process) could be increased from the current 85% level to approximately 87%-88% by investment in new flotation technology to replace the existing, outdated cells. A 1% increment in recovery at these two plants combined could add significant value to the operations.

9.7 **Summary Comments**

Historically, the operating plants have received an ore feed with remarkably steady sylvinite and insoluble content and this is likely to continue into the future. This, combined with the generally standard processing techniques used, should enable Uralkali to continue to produce international standard products for the duration of the Business Plan and most likely beyond this.

The plant expansions currently being, and planned to be, constructed and also the improvements in the current equipment already underway should facilitate the increases in capacity envisaged by the Business Plan. The recent investment in a compaction plant to increase the granular (GMOP) capacity together with a post treatment specifically designed to improve quality at point of sale is very important because of the increased demand for higher quality GMOP. The investment in CHP to reduce heating energy costs should also help insulate the Company to some extent from future increases in energy costs which is particularly important in the light of the expansion overall of WMOP production where a significant extra level of energy input is necessary.

The ongoing expansion of the Plant 4 appears to be making satisfactory progress and SRK considers that the objective of reaching full, expanded output by March 2012 is achievable.

Overall, SRK is confident that the processing assumptions made in the Business Plan are sound and reasonable.

10 INFRASTRUCTURE

The Mining Assets require extensive infrastructure to support them, which includes warehouses at the plants themselves, tar road access to the mines and plants, power supply from the national grid, gas pipelines, as well as a railway operations and a bulk terminal at the port of St Petersburg which incorporates a 240,000 tonne warehouse. Overall storage capacity at the Uralkali sites in Berezniki totals some 300,000 tonnes with a further 240,000 tonnes available at the Baltic Bulk Port Terminal located in St. Petersburg.

The tar roads provide all weather access to the mine sites for supplies and for the mine personnel who commute to the mines from Berezniki.

The railway rolling stock consists of around 3,800 mineral trucks for the bulk shipment of product and around 250 dumping trucks for the internal transport of ore from Mine 2 and Mine 4 to the Plant 3 site. There are 7 shunting locos and the rolling stock is maintained in Uralkali's repair works.

Uralkail's own Baltic Bulk Terminal in St Petersburg has a design capacity of 6.2Mt. The railway unloading facilities are able to handle 800 railway trucks per day. The terminal has two berths with ship loading equipment units, which can handle 1,500t each. The draft of 11 m allows the loading of bulk carriers with a capacity of up to 40,000t.

The tailings disposal facilities are engineered facilities which have been situated on clay stratum which acts as a natural barrier against vertical movement of tailings effluent towards the groundwater table beneath the site. In addition to this natural clay barrier some of the facilities have artificial liners on both the base and side slopes. At Mine 1 for example the liner consists (from bottom up) of a polyethylene plastic liner encased between an upper and lower protection layer of ruberoid. A 2m thick layer of sand is placed on top of the upper ruberoid layer to act as a drainage layer (for lateral movement), with a final 0.3m layer of crush stone placed on top of sand drainage layer. Tailings effluent is siphoned from the facility and passed through a small treatment/dosing plant before being return to the facility. There are also some small lined ponds located adjacent to the treatment/dosing plant to allow storage in emergency/accident situations.

11 HEALTH, SAFETY, ENVIRONMENTAL AND COMMUNITY

11.1 Introduction

This section of the report provides information on the Health, Safety, Environment and Community (HSEC) aspects Uralkali's operations, including the legal framework, operational compliance, description of HSEC systems and identification of any potential risks, liabilities and opportunities associated with its current practices. This section of the report is primarily based on a series of site visit conducted between June 2006 and December 2010, interviews with environmental and health safety representatives and a review of information made available by Uralkali.

The major regional water body is the Kama River, located to the west of the deposit which is an important national water resource for fishery, industrial and domestic needs. The local stream network is extensive in the area of the Uralkali's industrial operation with several natural lakes and streams belonging to the catchment area of the Kama River.

The Uralkali operation has undergone significant change in terms of the number of employees decreasing from approximately 13,000 in 2005 to approximately 8,000 in 2009 due to outsourcing of services.

11.2 Legislation

11.2.1 *Environmental Law*

The current legislative framework in the field of environmental protection in Russia consists of a set of federal laws and many "under-law" legislative acts (Governmental Regulations, Directives, etc) for each of those laws. The Russia environmental laws considered by SRK to be important to the Mining Assets comprise:

- Federal Law "About Environmental Protection" (2002);
- Federal Law "On Environmental Impact Assessment (Ecological Expertise)" (1995);
- Federal Law "On Specially Protected Natural Territories" (1995);
- Federal Law "On Atmospheric Air Protection" (1999);
- Federal Law "On Wastes of Production and Consumption" (1998);
- Water Code of Russian Federation (2007),;
- Forest Code of Russian Federation (1997); and
- Land Code of Russian Federation (2001).

In Russia, the most common environmental regulatory requirements for mining enterprises such as Uralkali are the:

- 1) preparation of ecological expertise inclusive of appropriate Environmental Impact Assessments (EIAs) for planned activities which may cause negative environmental impacts;

- 2) maintaining the quality of the environment such as atmospheric air, water, soil and conditions for living organisms;
- 3) protection of, and mitigation against, excessive negative impact to the environment;
- 4) monitoring and evaluation of impacts to the environment to determine compliance with discharge permits for air emission, water discharges, and waste disposal;
- 5) payment of fines for environmental pollution (where compliance limits are exceeded) (polluter pays principle); and
- 6) payment of monies for certification of operations by the environmental compliance control authority.

Environmental protection is controlled through the application of a number of nationally defined Maximum Admissible Concentrations (MACs) for parameters in the receiving environment (air, soil, water, etc), discharges or emissions of substances at concentrations above which can result in legal action and claims for compensation against the operator. To SRK's knowledge, Uralkali has to date only received small fines for discharge/emission of substances above permitted levels and these problems appear to have been rectified quickly and no further action was taken against Uralkali by the compliance authorities. To SRK's knowledge, Uralkali has not been subject to legal action or claims for compensation.

Uralkali appears to comply with the remainder of the above regulatory requirements.

Recently there has been some change in the federal laws "About Environmental Protection" and "On Environmental Impact Assessment (Ecological Expertise)" and there is now one combined law for "construction" or "design" expertise, which includes limited consideration of the environmental issues. The by-law "Regulation about OVOS", which outlines the procedure of Environmental Impact Assessment (EIA), defines that an OVOS report should be developed for new projects and be submitted to the state environmental expertise department. In practice it appears that the OVOS report (EIA) no longer needs to be approved by the state environmental expertise department. The regional authority, however, can use this by-law if it wishes to control environmental matters. It is understood that Uralkali is required to submit relevant environmental documentation to regional authorities in Permskaya oblast.

Other recent changes to Russian laws and regulations mean that:

- Forest land now can be only rented and the local (regional) administration is responsible for enforcing this change. This change is, however, very recent and unlikely to affect Uralkali's operations which are on its own land.
- The buffer zones for rivers have been decreased in size to a maximum of 200 m and the list of the activities that are prohibited within the buffer zones has been reduced.
- Licenses for the abstraction of water use have been replaced by contracts with the local administration, following approval for water abstraction.

11.2.2 *Health and Safety Law*

There are numerous documents related to safety issues in Russia. These documents describe both general requirements and specific requirements for particular industries or production processes. In the area of labour protection, the Russian Federation Constitution states that free labour is guaranteed in a healthy and safe environment, and a minimal wage is established. The right for individual and group labour disputes is recognized, including the right to strike.

The basis of Russian legislation in the safety area is formed by the following main federal laws:

- Federal law “On industrial safety of hazardous production facilities” (1997);
- Federal law “On fire safety” (1994);
- Federal law “On radiation safety of population” (1996); and
- Federal law “On safety of hydrotechnical facilities (1997)”.

A number of regulatory controls were developed to support the laws, also of a general nature and for particular industries. Tailings facility operation is controlled by the “Safety Rules for Hydrotechnical Facilities for Accumulation of Liquid Production Wastes”, and radiation safety is similarly controlled by a specific Standard.

Along with the general standards contained in the Constitution, specific provisions of labour legislation are included in the Labour Code of the Russian Federation. Certain provisions in the area of labour and labour conditions are regulated by federal, regional or industry specific documents. The Russian Labour Code defines employees rights and labour conditions (duration of work time, compensation for sick leave and vacation, etc.), as well as the employees’ and employers’ rights for workers organisations. Labour conditions need to meet the requirements of national legislation and payment for labour should be free of any discrimination.

The Labour Code of the Russian Federation contains the minimal requirements to labour conditions, notably:

- Labour relations are regulated by personal or group labour agreements, the terms and conditions of which can be changed only with the agreement of both parties;
- A person over 18 years of age can be employed without any limitations (younger persons may be hired with certain limitations on the labour conditions);
- Employer must provide accommodation for employees working by shifts, and transportation to the work place (travelling time is considered as work time). The duration of a shift should not exceed one month although in exceptional situations, at certain facilities the duration of a shift can be extended by the employer to three months with consideration of trade union committee opinion;

- The duration of the work time cannot exceed 40 hours a week. Duration of overtime work should not exceed four hours during two consecutive days, or 120 hours a year. Annual vacation is 28 calendar days though in some cases (for example where the working conditions are difficult and in the Far North areas) employees are entitled to additional vacation;
- Special state guarantees and conditions exist for those working in extremely harsh conditions (Far North and similar territories).

11.2.3 *Corporate Obligations*

Uralkali promotes sustainable practices within its operations relating to social responsibility, the environment and safety. Performance on these issues is reported in its Annual Reports. Below is a brief summary of Uralkali's approach to sustainability practices.

Sustainability

Uralkali ensures the sustainability of its business: by increasing economic efficiency, maintaining environmental integrity and ensuring social justice and stability. The goals of sustainability are achieved through the implementation of its own quality assurance and environmental protection policies, which ensure strict compliance with process regulations and environmental laws. These policies also prescribe the use of modern technology to ensure the most efficient usage of natural resources and ongoing monitoring of the Company's production processes. Uralkali has also established social development programmes in the regions it operates within.

Social Responsibility

Uralkali regards social investments as key to the successful development of the business. This is achieved through complying with international best practice on social responsibility, industry standards on product quality, business processes and corporate governance.

Uralkali conducts and supports social and charitable projects in a number of different fields, both locally and nationally. Its social responsibility initiatives fall into two separate categories:

- 1) Projects that aim at improving the living conditions of its employees, their families and the people of Berezniki.
- 2) Sponsorship and charitable assistance for projects related to culture, education, healthcare and sports.

Projects within the Berezniki area include: road repair and urban infrastructure development; equipment renovation at healthcare facilities and educational institutions; organisation of charitable acts for veterans and senior citizens; organisation of holidays, festivals, sporting and youth events in the town; restoration of cultural, historic and spiritual heritage sites; increasing safety on our streets and tackling street crime.

Environment

Uralkali is committed to environmental responsibility and is implementing sustainability practices. Since 2002, the Company has operated an integrated quality management and ecological management system, certified in accordance with the GOST R ISO 14001 and ISO 14001 standards. Uralkali conforms to Russian and International standards of environmental responsibility, which is reflected by the award of certificates from the Russian Scientific and Research Institute for Certification and from SGS (Switzerland).

Uralkali has successfully managed the risk of its operating processes on the environment as a result of the following improvements:

- 1) A reduction of almost two and a half times in energy pollutants, which has been achieved by the conversion of production facilities to gas and the upgrading of gas and dust collectors.
- 2) A reduction of 4.7 times in water borne sewage as a result of water recycling, a disciplined decrease in fresh water consumption and technical advancement.
- 3) A nearly twofold fall in the amount of overall waste created.

Uralkali is currently making plans to work alongside leading scientific and research institutes to further develop its environmental initiatives.

Uralkali also educates its employees about environmental practices through training and testing in this area. In addition, the Company conducts regular inspections and audits to check compliance with regulations.

Safety

Uralkali ensures rigorous compliance of its production processes with standards covering health, industrial compliance and fire safety. Workplaces are certified in accordance with international standards to maintain high levels of safety during production. . The success of these initiatives is reflected in the fact Uralkali has significantly reduced its accident rate over the last ten years.

11.3 Compliance

All operating mines in Russia are required to have licences for water usage (including wastewater discharges) and permits for air emissions and waste disposal. These licences and permits, which are issued by the local offices of the Federal Service for Environmental, Technological and Nuclear Supervision, are based initially on the predictions made in the original EIA or OVOS. Where no original EIA exists or where the operation has changed in some way (such as an increase in production), the permits are based on the findings of technical studies prepared by the applicant. Information available at this time of the review demonstrated that Uralkali's operation has the required permits and they are currently valid for their operation.

While no EIA documentation for the operation has been made available for review the expenditure records for planned research and development activities/services provided by

Uralkali indicate technical studies are regularly undertaken by the Company to improve environmental operations and ensure compliance with permits.

11.3.1 *Environmental Licenses and Permits*

Water Use and Discharge: Uralkali holds licences and permits for the disposal of wastewaters, water use for berth confinement and holding anchorage and water abstraction for industrial supply. The current permits for discharge and use of water are valid until August 2011.

Solid Wastes: Uralkali possesses the state permit (N-662) for the period April 2010 to April 2015 for activities related to collection, handling, storage and disposal of domestic and industrial liquid and solid wastes, including hazardous waste and waste rock materials. Each year the Company is required to report on volumes of solid wastes and rock salt by-pass products.

Air Emissions: Uralkali has state permits for the emission of hazardous (polluting) substances into atmospheric air for each mine site, which are valid to 2011, 2012 and 2013.

11.3.2 *State Environmental Audits*

Between 2006 and 2009, 7 state authority inspections audits were carried out on the Mining Assets by ROSTECHNADZOR (Federal Agency for Technical Regulation and Metrology) and GOSPOZHARNADZOR (Federal Agency for Fire Control). The inspections mainly related to GOST standards (air, water and waste), consumer goods and fire safety. For GOST standards 296 non-compliance items were identified and a total of 285 have currently been rectified. For consumer goods 49 non-compliance items were identified and a total of 43 have currently been rectified. For fire safety 127 non-compliance items were identified and a total of 119 have currently been rectified. In total, 25 non-compliance items are still to be rectified.

Based on the finding of the state authority inspection the timber cladding on warehouses was considered to be a fire hazard. Uralkali has undertaken a programme to remove the timber cladding and is also replacing old warehouse buildings. In addition, in 2008 the Company completed a fire risk register for all buildings which are now labelled according to their fire risk as high, medium or low.

11.3.3 *Independent Environmental Audits*

Since 2002, the Company has operated an integrated quality management and ecological management system, certified in accordance with the GOST R ISO 14001 and ISO 14001 standards. Uralkali conforms to Russian and International standards of environmental responsibility, which is reflected by the award of certificates from the Russian Scientific and Research Institute for Certification and from SGS (Switzerland).

Between 2003 and June 2006, for example, nine audits of environmental management were conducted by the VNIIS SERTSEM (Moscow) and SGS (Switzerland) certifying authorities, following which certificates of compliance with State GOST R ISO 14001-1998 and international ISO 14001:1996 requirements were awarded to Uralkali. During the audits, 35 notifications were received from VNIIS SERTSEM and 7 statements of non-compliance from SGS. Corrective measures were then implemented to address each of these.

In February 2006, the Company underwent a re-certification audit of environmental management for compliance with ISO 14001:2004 requirements. From this audit, 16 notifications were received with no statements of non-compliance. Corrective actions have been undertaken in 14 cases whilst 2 cases are currently under consideration.

In April 2006, VNIIS SERTSEM issued to Uralkali the national certificate of compliance for the Company's Environmental Management System (EMS) with international ISO 14001:2004 requirements. The certificate was issued with the recommendations from SGS certifying authorities. In February 2010, an audit of the EMS were conducted by the VNIIS SERTSEM, to assess conformity to requirements of GOST R ISO 14001-2007 and international ISO 14001:2004. During the audits, three notifications were received from VNIIS SERTSEM.

Annual reports are normally prepared for the Berezniki Administration on the Uralkali activities in the field of environmental protection.

11.3.4 Occupational Health and Safety

Uralkali fulfils its responsibility to its employees and the community on provision of safe labour conditions and safe operation of hazardous production facilities.

The main principle of the policy of Uralkali for health and safety is acknowledgment and provision of the priority of the employees' health and life as related to production activities.

An Occupational Health and Safety (OH&S) Policy was implemented by Uralkali in 2005 for its entire operation. Certification of this document was obtained from relevant state authorities under the 'Regulation on system of management of industrial safety and labour protection'. Uralkali plans to obtain certification to ISO 18000 requirements by 2012.

Uralkali currently holds 13 licenses for performance of the required types of activity relating to health and safety, in accordance with the requirements of Federal Law No 128-FL "On Licensing of Individual Types of Activity". Evidence of these licences has been provided to SRK.

Uralkali's 44 Hazardous production facilities are registered in the state registry in accordance with Federal Law No 116-FL "On Production Safety of Hazardous Production Facilities". The documentation provided indicated that the most recent registration of these occurred on 21 October 2009. SRK assumes that all registration of these facilities has been renewed, however, no formal documented evidence has been provided to confirm this has occurred.

11.4 HSEC Management

11.4.1 *Environmental Management*

Uralkali has implemented a programme of modernisation throughout its operations in the past few years which has resulted in significant improvements in environmental management and occupational health and safety.

Each year Uralkali undertakes environmental studies to support its initiatives on sustainability and to improve the Company's overall performance. For example, in 2008 the Company implemented 17 projects aimed at reducing air pollution, water conservation, waste management and increasing environmental awareness amongst its employees. Some of the projects implemented are listed below:

1. **Air pollution** – Drying units at Plants 3 and 4 were changed from fuel oil to gas power resulting in a reduction in SO₂ emissions.
2. **Water conservation** – completed the construction of aerated spillways and a return system of filtering brine on the Lenva River resulting in improved water quality discharges to the river.
3. **Land Protection** – approximately 900m² of land reclamation was completed in 2008.
4. **Waste management** – the production of salt brine out of halite wastes at Mine 1 resulted in a reduction in surface waste disposal by more than 1 Mt.

Uralkali has developed internal documentation for the regulation of environmental and health and safety aspects of its operations. These documents relate to management procedures such as roles and responsibilities and exchange of information, planning and auditing requirements, environmental induction and work place instructions, prevention of industrial accidents and solid waste management (including hazardous wastes).

Each site has an installed surface water and groundwater monitoring network and established monitoring plans. The monitoring of air quality (atmospheric) is conducted at least annually at each site by Uralkali for compliance with discharge limits and calculation of discharge quantities for the subsequent year. Independent monitoring is also conducted by state departments on a bi-annual basis.

11.4.2 *Health and Safety Management*

The Health and Safety Department of Uralkali was formed in 2006 by the order of the General Director. At present, the Department includes four sections (Labour Safety, Analysis and Information Methodological Provision, Production Control, Work Place Certification) employing a total number of 39 people.

Uralkali carries out work on labour safety in accordance with the Labour Code of the Russian Federation, Federal Law No 116-FL "On Labour Safety at Hazardous Production Facilities" (1997) and the developed Labour Safety Control System

The labour safety control system in Uralkali includes the following basic local normative documents:

- Provision on the Labour Safety Control System in OJSC Uralkali.
- Provision on Organization and Performance of Production Control over Observing Labour Safety Requirements at Hazardous Production Facilities of OJSC Uralkali.
- Provision on Functional Obligations of the Employees of OJSC Uralkali in the Labour Safety Control System.

In SRK's opinion, Uralkali's operations demonstrate good environmental and health and safety management principles in accordance with Russian requirements and GIIP.

11.5 HSEC Issues

Asbestos building materials: Fibrous cement sheeting and corrugated roof tiles were observed in a number of locations at Mine 4, and these building materials are likely to contain asbestos fibres due to their appearance and age. While the fibrous cement sheeting and roof tiles (primarily external) are not considered to pose a significant risk to workers presently, this material should be removed and this could be a significant investment. SRK has recommended that a full assessment of historical building materials be undertaken to determine the full extent of what may be required to be done.

Land subsidence and resettlement: Following the flooding and closure of Mine 1, the issue of surface subsidence needed to be addressed to protect near-by residential properties and state owned infrastructure (railway and gas pipeline). A commission was established by the Russian Federal Government to investigate the cause of the mine flooding. The investigation by the governments Safety and Technical Inspection Department (Rostekhnadzor) concluded the accident that resulted in mine flooding and surface subsidence was a natural disaster due to the failure of natural geological anomalies and therefore could not have been prevented by Uralkali. In addition, the federal government recognised that the City of Berezniki was planned and constructed prior to the decision to commission Mine 1 and therefore Uralkali could not be held responsible for the location of the city in relation to reserves associated with Mine 1.

A decree in November 2007 by the Russian Federation Government and the Government of the Perm territories established that Uralkali has no responsibility or obligations to conduct or provide funding for the resettlement of residents or protection or relocation of state owned infrastructure. However, Protocol No. 01-15/5-k (dated 3 July 2007) obligates Uralkali to undertake permanent monitoring of the sink hole and subsidence areas (zone of influence) and to report to government bodies and technical institutes responsible for managing the situation. In this regard Uralkali established monitoring (seismic, sensors in the mine, satellite imagery and air quality) in October 2006 immediately after the collapse some 9 months prior to the obligations specified in Protocol No. 01-15/5-k. Urakali is actively working with the government bodies by providing monitoring information to allow for the situation to be resolved satisfactorily for all interested and affected parties.

SRK was informed that the Government of the Perm territories has provided the initial allocation of funding (Stage 1) in the order of USD26M for the construction of new apartments and payment of compensation to residents affected. SRK is of the opinion that Uralkali has acted in an appropriate manner in managing potential financial liabilities and social risks associated with the flooding and surface subsidence of Mine 1. It is not foreseen that the issues associated with Mine 1 will impact on Uralkali's planned future operations provided monitoring obligations are continued in accordance with the requirements of Protocol No. 01-15/5-k.

Salt rock by-pass product dumps: Uralkali currently has approximately 255 Mt of halite ores and 31 Mt of overburden halite clay in dumps. Uralkali's records show that approximately 4.5 Mt per annum of this by-pass product has been utilised for different needs such as industrial salts, brines, road grit etc. Technical studies are being conducted into the possibility of burying this material in rock seams as backfill and for pumping of excess solutions into mine workings but no remediation plans or provision of funds for the removal and/or remediation of the salt rock dumps have been allowed for in Uralkali's Business Plans at present. Uralkali complies with Russian regulatory requirements for the management of these by product dumps.

Air emissions: The highest emission amounts are associated with potassium and sodium chlorides, nitrogen dioxide, carbon monoxide and sulfur dioxide. Generally, pollutant emissions are kept within the allowed limits and no fines have been issued to the Company. Whilst air pollution control technologies at the site are appropriate for the operation, it is considered that replacement or upgrading of some technologies will be required in the next 10 years, primarily due to age.

Ground water contamination: Uralkali complies with Russian regulations for the use and protection (management) of groundwater resources. This includes the monitoring and remediation in the form of groundwater extraction pumping to prevent impact of local waterways from off-site groundwater plumes originating from rock salt by-pass product dumps. SRK has reviewed the remediation techniques used for these plumes and is confident that good practice is being implemented. However, in SRK's opinion, the current extent of plumes has the potential to cause elevated concentrations of salinity resulting in increased salt concentrations in soils, thus affecting soil fertility or potential groundwater uses. SRK believes that further investigation should be made to assess the extent and nature of ground water plumes and so determine the potential costs that may be associated with remediation.

Slimes Dam liner system: Uralkali has lined the slimes dam in line with Russian regulations. In SRK's opinion, the liner design and materials used by Uralkali are consistent with international good practice for containment ponds of this nature. However, at least some of these appear to have been installed more than 20 years ago and may be approaching the end of their functional life. Seepage to subsurface soils and groundwater may be occurring. It is not clear if groundwater is being monitored near these facilities and SRK has recommended that this be investigated further.

Site Infrastructure Effects Due To Future Production Increases:

- 1). **Salt rock dumps:** It is proposed to dispose of this salt rock by-pass material at Mines 2, as Mines 1 and 3 are closed due to flooding and land subsidence and Mine 4 is too close to the city and therefore Uralkali does not wish to cause further problems to groundwater or visual impacts. Expansion of dump 2 was originally planned prior to an increase in production at these sites and there is sufficient land available at these sites to handle wastes produced from mining for at least 20 years.
- 2). **Tailings dams:** Facilities 2 and 3 are approximately 60% full and have sufficient capacity to years 2013/14, while facility 4 is approximately 20% full and has capacity until year 2018. It is planned to undertake the following actions approximately three years before the existing dams reach their full capacities:
 - a) increase dam wall heights at facilities 2 and 3;
 - b) dispose of brines by pumping them into groundwater; and
 - c) remove settled clay from the bottom of facilities.

As a result of available land for salt rock by-product disposal and proposed changes to the tailings facilities the increased production at plants 2, 3 and 4 does not appear to impact significantly on these infrastructure items.

Health and safety issues: Uralkali's operations comply with the Russian OH&S regulations and the requirements of the category in which their operation has been classified by law. Significant improvements in health and safety have been made in the last five years, particularly in relation to increased senior management support, development of policy and decrease in the number of accidents recorded for the operation.

Closure planning and costing: While the Company does not have documented closure and rehabilitation plans for the Mining Assets in accordance with acceptable international standards, there is a proposed methodology for closure involving dissolving salt rock (brines) and pumping into groundwater, groundwater extraction pumping for control of contaminant plumes, re-profiling, capping and revegetation of salt rock by-pass dumps.

SRK recognises that the Company has stated its material compliance with the environmental standard of the appropriate regulatory authorities in the Russian Federation. The Company has not been specifically requested by the regulatory authorities to develop a closure plan nor establish a liquidation fund at this stage of operations. In the absence of overall closure costs for Uralkali's operations, SRK has undertaken a conceptual closure costing exercise (assuming that the mines close at the end of the current Business Plan period) and provision for this closure funding has been included in the TEPs for the purpose of verifying the Company's reserves.

11.6 Summary

Uralkali operates in compliance with environmental and social laws and regulations currently in place in Russia. The Company has undertaken a programme of modernisation and significant improvements in environmental and health and safety practices have been achieved through the introduction of international good practice.

SRK considers that the Uralkali is proactively improving and managing HSEC aspects of its operations and implementing international standards.

SRK has added a provision for closure costs to the Business Plan for the purpose of the confirming the viability of the reserves.

12 MANAGEMENT, MANPOWER AND STRUCTURE

SRK understands that the current number of employees is around 8,000 and this has reduced significantly from around 13,000 in 2005 as a result of Uralkali's policy to outsource certain services previously undertaken in-house.

Uralkali has an established management structure that has brought many changes to the Company during the last decade and that has been responsible for the increase in production. For the purposes of this report SRK assumes that this will continue in the future.

SRK met with personnel in Moscow and Berezniki and found a healthy ratio of new and established personnel.

13 BUSINESS PLAN ASSUMPTIONS

13.1 Introduction

This section of the report presents discussion and comment on the TEPs, specifically the production schedules, operating costs and capital expenditures, assumed by the Uralkali Business Plan which SRK has reviewed and where considered appropriate adjusted. The Ore Reserve Statement presented in Section 6 of this report is based on this reviewed Business Plan.

13.2 Basis of Technical Economic Parameters

The generation of a Business Plan requires substantial technical input and detailed analysis and is critically dependent upon the assumptions of the long-term commodity prices and sustained operating expenditure, potential expansion and/or reduction in the Mineral Resource and Ore Reserve and the return on capital expenditure programmes.

The basis of forward projections of operating costs for mature mining operations are generally based on the previous financial year's performance, with certain modifications for inflation, projected improvements in productivity and other cost reduction initiatives. In the case of Uralkali, future costs have been estimated for 2011 and 2012 with changes to future costs based on a proportional basis relative to the change in production levels.

SRK's review has been limited to technical aspects directly associated with the mining and mineral processing operation at Uralkali. SRK has not reviewed the non-technical financial assumptions associated with the fiscal regime in Russia, including, but not exclusively, assumptions regarding taxation, royalties, depreciation and redemption of VAT payments.

TEPs include:

- Product sales;
- Operational overheads and distribution operating costs;
- Environmental and closure costs;
- Capital expenditure;
- VAT movements;
- Working capital movements.

The Business Plan takes no account of loan and interest assumptions or any residual value in the plant and facilities at the end of the Business Plan.

The key forecasted TEPs assumed for SRK's Business Plan are shown below in Table 13-1.

Table 13-1: Key Forecasted TEPs

Year	Sales				Operating Expenditure			Capital Expenditure		Total Expenditure (USDm)
	WMOP (kt)	PMOP	GMOP (kt)	Carnallite (kt)	Operating (USDm)	Distribution (USDm)	Overheads (USDm)	Project (USDm)	Sustaining (USDm)	
2011	1,556.3	1,896.2	1,399.4	1.4	527.7	376.4	188.8	271.9	104.8	1,469.6
2012	2,467.9	2,044.3	1,614.6	-	554.3	580.3	167.4	192.5	166.7	1,661.1
2013	3,423.6	1,979.4	1,688.0	-	640.2	668.8	214.7	208.2	183.3	1,915.2
2014	3,450.0	1,977.6	1,690.0	-	640.2	668.8	172.0	135.1	200.0	1,816.1
2015	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	25.3	216.7	1,722.0
2016	3,450.3	1,977.7	1,690.1	-	640.2	668.8	170.4	25.6	233.3	1,738.3
2017	3,449.7	1,977.5	1,689.9	-	640.2	668.8	171.8	46.9	233.3	1,761.0
2018	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	68.4	233.3	1,781.9
2019	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	22.3	233.3	1,735.7
2020	3,450.3	1,977.7	1,690.1	-	640.2	668.8	170.4	22.3	233.3	1,735.0
2021	3,449.7	1,977.5	1,689.9	-	640.2	668.8	171.8	22.3	233.3	1,736.4
2022	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	22.3	233.3	1,735.7
2023	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	22.3	233.3	1,735.7
2024	3,450.3	1,977.7	1,690.1	-	640.2	668.8	170.4	22.3	233.3	1,735.0
2025	3,449.7	1,977.5	1,689.9	-	640.2	668.8	171.8	22.3	233.3	1,736.4
2026	3,450.0	1,977.6	1,690.0	-	640.2	668.8	171.1	22.3	233.3	1,735.7
2027	3,450.0	1,977.6	1,690.0	-	640.2	668.8	290.9	22.3	233.3	1,855.5
2028	3,544.5	1,557.8	1,591.1	-	584.5	611.9	248.9	22.3	233.3	1,700.9
2029	3,450.0	541.3	1,250.0	-	471.4	496.4	163.0	22.3	233.3	1,386.4
2030	3,450.0	541.3	1,250.0	-	471.4	496.4	216.1	22.3	233.3	1,439.5
Total	66,192.4	36,246.7	32,453.1	1.4	12,211.6	12,593.8	3,526.9	1,241.3	4,371.5	33,945.1

13.3 Production

Figures 13-1 to 13-3 show the forecast mine production, plant feed profiles and final products for sylvinitic mining and relevant products which are forecast by Uralkali from 2011 to 2030, plus actual production information from 2005 to 2010, where available.

Figure 13-1: Sylvinitic Production by Mine

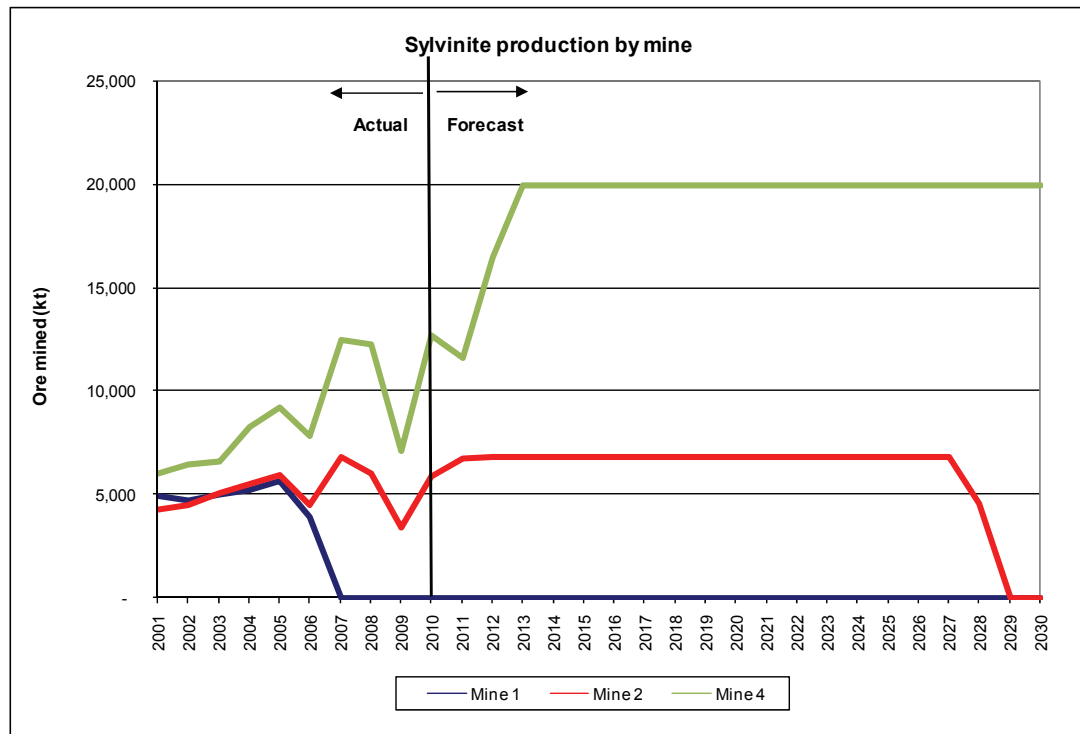


Figure 13-2: Sylvinite processing by plant

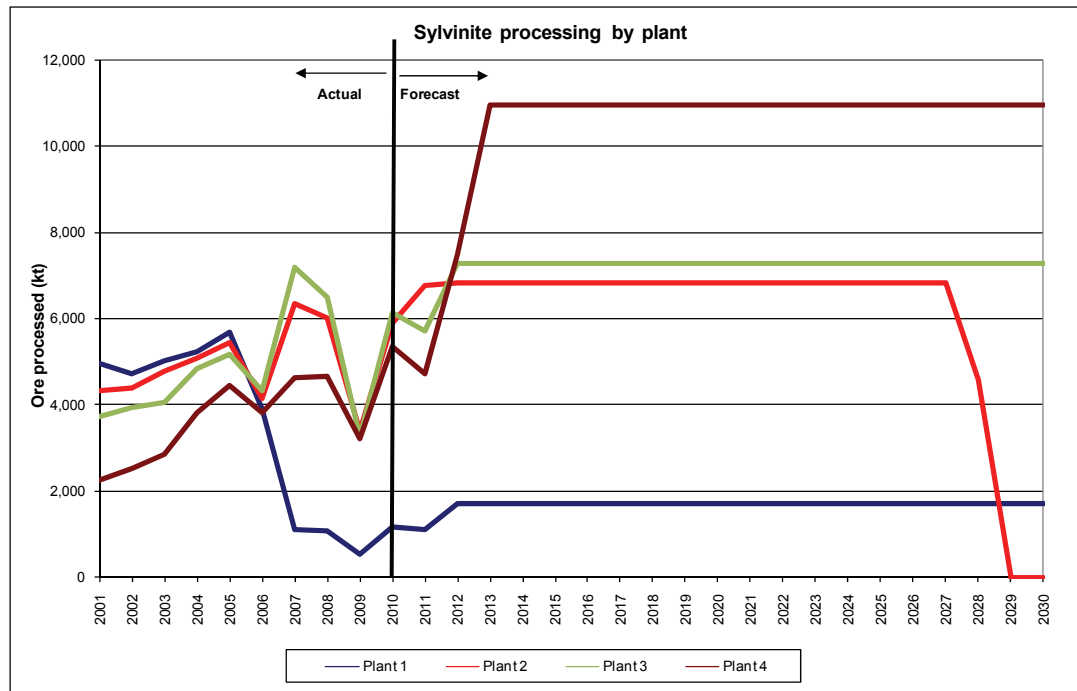
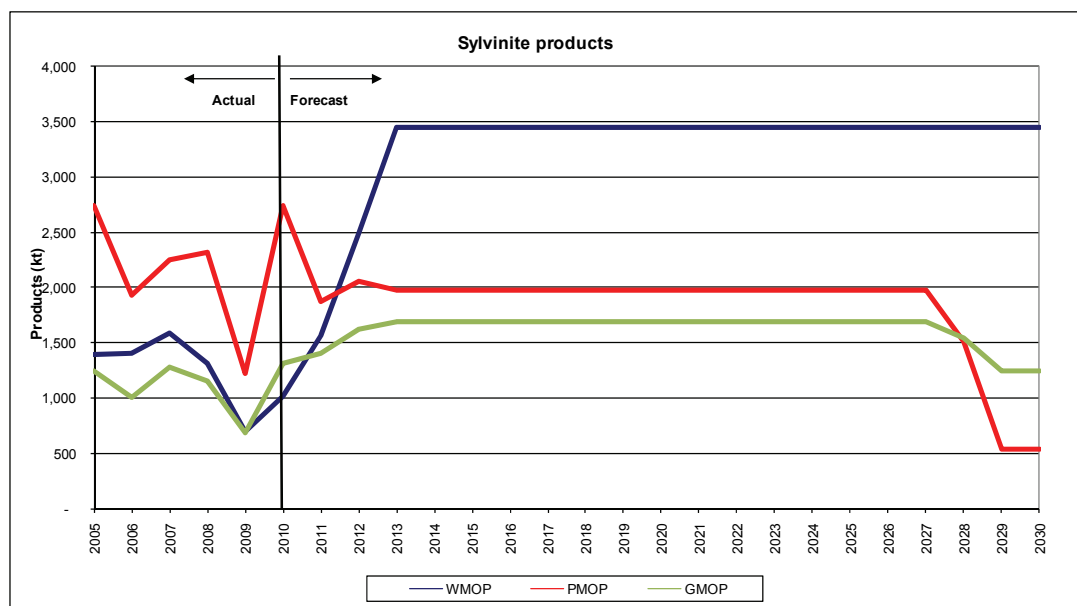


Figure 13-3: Sylvinite Products



13.4 Operating Costs

Uralkali has estimated the future operating costs based on the current forecast for 2011 to 2012 and these have been increased in future years in proportion to the changes in production levels envisaged. Uralkali has provided operating costs for the operations as a whole and inclusive of all transport costs to the point of sale. Figure 13-4 shows the total actual operating costs from 2007 to 2010 and forecast operating costs from 2011 to 2030 while Figure 13-5 shows the unit operating costs per tonne of total products produced over the same periods.

Total cash operating costs per tonne of potash produced are in the region of USD205 per tonne, this however includes components for the trading company administration costs and further delivery costs for sales by rail (DAF basis – Delivered at Frontier) and shipping sales (CFR/FOB basis – Cost and Freight/Free on Board) . Excluding these items gives a cash operating costs per tonne of potash produced are in the region of USD125 per tonne, which is low by industry standards. This is illustrated below in Figure 13-6.

Figure 13-4: Uralkali Total Operating Costs

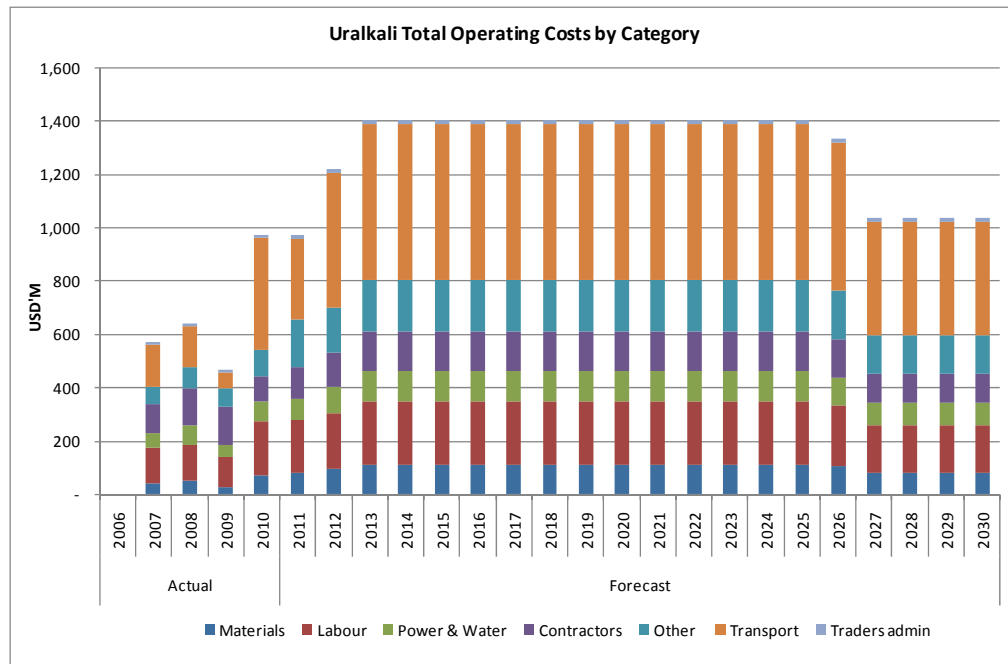


Figure 13-5: Uralkali Unit Operating Costs per Tonne Product

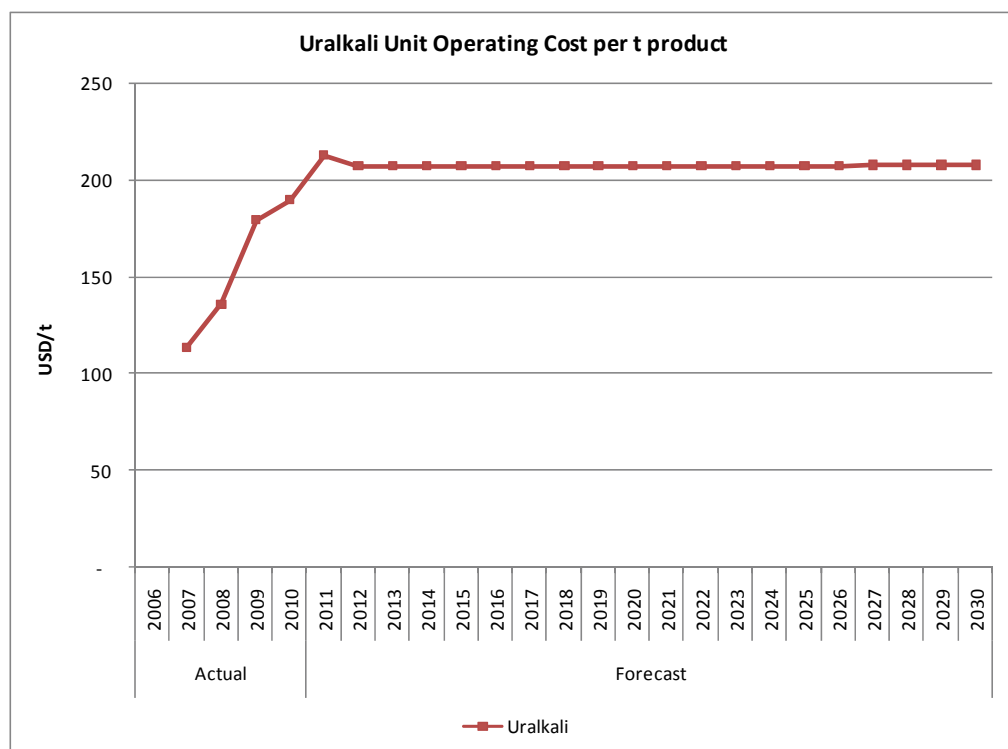
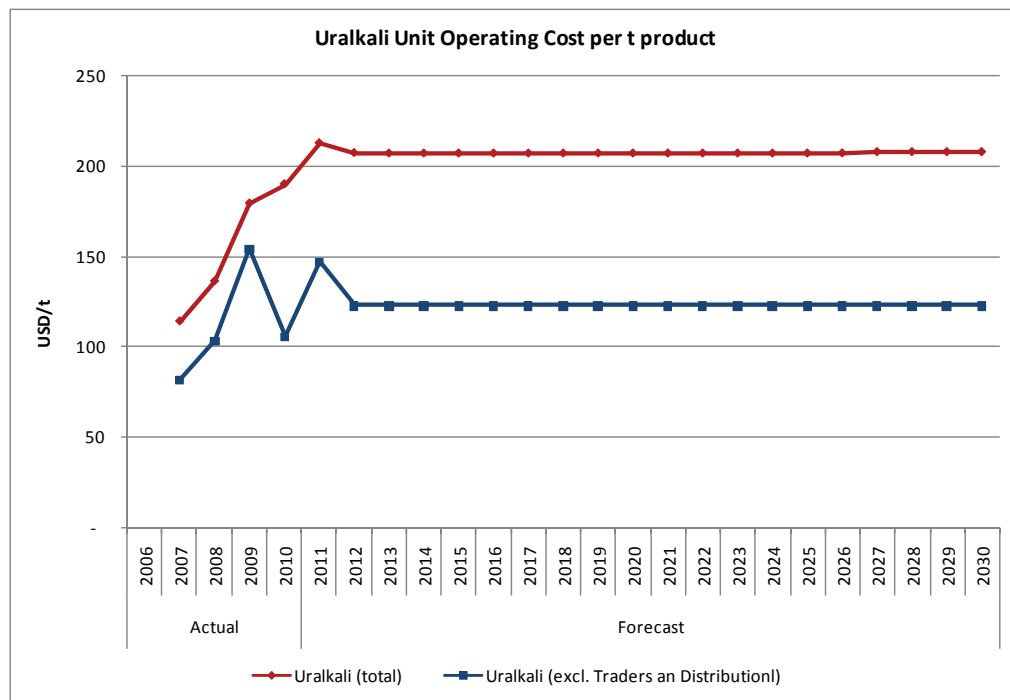


Figure 13-6: Uralkali Unit Operating Costs per Tonne Product (comparison)



13.5 Capital Costs

Uralkali has allowed for capital expenditure in the following areas over the period of the Business Plan:

- Standard Product mining and processing expansions – USD327.6M;
- Granular Product processing expansions – USD9.3M;
- Infrastructure – USD465.1M;
- Operating Cost reduction capital – USD14.0M;
- Other capital – USD70.9M;
- Sustaining Capital – USD4,371.5M (approximately USD218.5M per annum)

13.6 SRK Comments

While there are risks and opportunities associated with the Business Plan as reviewed by SRK, SRK is confident that the Ore Reserve Statement presented in this report is based on achievable forecasts of production and capital and operating costs.

14 RISKS AND OPPORTUNITIES

14.1 Risks

There are a number of risks and opportunities to which all mining projects are exposed. For mining projects such as those operated by Uralkali these include:-

- product prices, exchange rate fluctuations and inflation rates;
- country risk including political and economic stability in the longer term;
- changes to future legislation (tenure, mining activity, labour, health and safety and environmental);
- general mining and processing risks relating to industrial accidents, labour disputes, human resource management, and safety performance; and
- project development risks associated with planned capital expenditures for expansion and improvement programmes for which technical studies have been begun or completed, but for which future production rates are yet to be achieved.

In addition to the above, SRK considers that specific risks to the Mining Assets as envisaged by Uralkali's Business Plan include:

- The possibility that increases in the product prices forecasted by Uralkali may be optimistic. The break even price required for the Ore Reserve statement included in this report is some USD205/tonne in January 2011 terms. Historical prices for potash are given in Section 4 of this report.
- The possibility that the projected increases in capacity and/or production may not be achieved or may result in over supply. While potash demand is projected to increase over the coming years, Uralkali is planning to increase its capacity significantly, assuming it will increase its market share and will therefore remain very sensitive to market conditions;
- Mining risks, specifically the potential for further mine flooding, falls of ground, gas explosions, increased levels of insolubles and clays. SRK considers that an in-house geotechnical capability needs to be established at its operations to conduct monitoring and modify the geotechnical design as appropriate.
- The possibility that the projected increase in capacity at Mine 4 as well as at the various process plants may not be achieved within the timeframes envisaged.
- Fuel/power cost increases. Uralkali has an advantage being a lower operational cost than the potash industry average. Rail transport costs, however, which are a significant proportion of Uralkali's costs, are not in Uralkali's direct control.
- The possibility that the potential environmental impacts of Uralkali's mining, processing and waste disposal activities may prove to be more significant than envisaged by Uralkali and may require additional costs to mitigate against both prior to and following closure.

14.2 Opportunities

SRK considers that specific opportunities for the Mining Assets not incorporated within Uralkali's Business Plan include:

- The potential, subject to the completion of a positive feasibility study, of the development of Mine 5 and the consequent increased production capacity and Ore Reserve following this.
- The fact that Mine 4 has a demonstrated Mineral Resource which could support mining for a long time, tens of years, beyond the current 20 year Business Plan.
- The potential for the acquisition of further licences to the south and east of Mine 4 and Mine 5 which could either increase capacity or extend the life of the operation significantly beyond even the potential life of Mine 4 and Mine 5.
- The potential for increased mining grades and therefore reduced processing costs and increased recoveries in future years as other areas of the mines are accessed.
- The potential for productivity improvements and consequent reductions in the required labour force as these are introduced.
- The potential to reduce operating costs from those projected following the capacity increases at each of the mines and plants and use of larger mining systems.
- The potential for improving the mining and processing efficiencies and generally optimising the operations as currently carried out.

15 CONCLUDING REMARKS

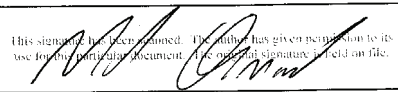
The Verkhnekamskoye potash deposit is one of the largest potassium bearing evaporite deposits in the world, is very amenable to mining and processing and has the potential to support potash mining operations for many years to come. Uralkali has been exploiting this deposit for many years and has developed appropriate mining and processing practices which should enable it to continue doing so for many years beyond its current 20 year Business Plan. In addition to this, Uralkali is well positioned to increase its capacity if required through expansions of its existing facilities or the opening of additional mines and process facilities.

While SRK has highlighted certain technical risks associated with Uralkali's operations, the main factors which will determine Uralkali's medium to long term future, are the demand for potash and the prices Uralkali will receive for its products. While it appears likely that prices will continue to gradually increase in the medium term clearly this remains subject to negotiations with consumers and cannot be guaranteed.

Notwithstanding the above, Uralkali is already a low cost producer of potash, has the potential through productivity and management improvements to reduce these costs further in real terms and remain a low cost producer relative to its competitors, and therefore maintain its position in the industry in the event of any demand downturn.

SRK considers that should the Ore Reserve as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this report, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

For and on behalf of SRK Consulting (UK) Ltd



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Dr Mike Armitage
Chairman



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Nick Fox
Senior Resource Geologist

Glossary

“5GR”	Annual report lodged with governmental agencies, indicating the resources depleted during the previous year
“Assaying”	The analysis of minerals, rocks and mine products to determine and quantify their constituent parts
“Business Plan”	Refers to Uralkali’s financial model
“Competent Person”	As defined in the JORC Code, a ‘Competent Person’ is a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists, or of a ‘Recognised Overseas Professional Organisation’ (“ROPO”) with a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which that person is undertaking
“Evaporite”	Sediment deposited from a saline solution as a result of extensive or total evaporation of water
“Feasibility study”	A detailed study of the economics of a project based on technical calculations and specific mine designs undertaken to a sufficiently high degree of confidence to justify a decision to construction
“g/t”	Grammes per tonne
“GMOP”	Granular muriate of potash
“Geotechnics”	A branch of engineering which determines the factors influencing the stability of excavations
“Grade”	The quantity of ore or metal in a specific quantity of rock
“Grade Factor”	A factor applied when converting resources to reserves, which considers the ore losses and dilution associated with the mining operation and reduces the predicted grade to reflect this.

“International Environmental Standards”	Environmental and social standards derived from a number of documents including but not limited to, the World Bank Group (WBG) Pollution Prevention and Abatement Handbook, the International Finance Corporation (IFC) Performance Standards and the WBG/IFC environmental health and safety guidelines. In addition, there are various supporting documents generated by these organisation and major mining companies and associations that provide further guidance on acceptable practice in the mining industry.
“JORC Code”	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, setting out minimum reporting standards, recommendations and guidelines, as most recently outlined in the 2004 edition prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
“LoMp”	Life of mine plan.
“Ore”	Mineral bearing rock that contains one or more minerals, at least on of which can be mined and treated profitably under current or immediate foreseeable economic conditions.
“Tonnage Conversion Factor”	A factor applied when converting resources to reserves, which takes into account both the percentage of material left behind in pillars and the amount of dilution included when mining the ore and is applied to the in situ resource tonnage to derive the tonnage of material expected to be delivered to the plants.
“Grade Conversion Factor”	A factor applied when converting resources to reserves, which accounts for the difference in grade between the in situ resource and the plant feed tonnage as a result of incorporation within the plant feed tonnage of waste extracted along with this and is therefore applied to the in situ grade to derive the grade of ore expected to be delivered to the plants.
“PMOP”	Pink muriate of potash
“ROPO”	Recognised Overseas Professional Organisation

“(Ore) Reserves”	<p>The economically mineable material derived from a Measured and/or indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified. Ore Reserves are subdivided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.</p>
“(Proved Ore) Reserves”	<p>Economically mineable material derived from a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.</p>
“(Probable Ore) Reserves”	<p>Economically mineable material derived from a Measured/Indicated Mineral Resource. It is estimated with a lower level of confidence than a proved Ore Reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.</p>
“(Measured Mineral) Resources”	<p>That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.</p>

“(Indicated Mineral) Resources”	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
“(Inferred Mineral) Resources”	That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability.
“RoM”	Run of Mine. Used to describe the ore which is mined and transported to the processing plant or stockpile/s.
“Russian reporting system”	The Russian system for reporting resources, centred on the TEO (technical economic characterisations) and the TER (technical economic calculations), the under the guidelines of the GKZ (State Commission for Mineral Reserves). This is the equivalent of, for example, the JORC Code.
“TEC”	Total employee costed
“WMOP”	White muriate of potash

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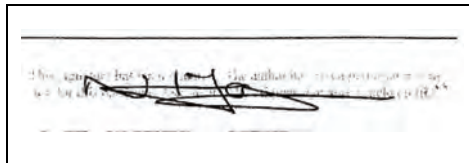
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Alexander Kalinin Viktor Belyakov	OJSC Uralkali	1	12/04/11	Nick Fox

Approval Signature:



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APPENDIX II

**MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES
AND ORE RESERVES OF SILVINIT'S MINING ASSETS**

A MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF SILVINIT'S MINING ASSETS

Report Prepared for:

OPEN JOINT STOCK COMPANY SILVINIT

Client Address

Open Joint Stock Company Silvinit
14 Mira Str.
Solikamsk
618540
Perm Territory
Russia

Report Prepared by



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MARCH 2011



SRK Version 09/03



A MINERAL EXPERT'S REPORT ON THE MINERAL RESOURCES AND ORE RESERVES OF SILVINIT'S MINING ASSETS

Report Prepared for

**OPEN JOINT STOCK COMPANY SILVINIT
14 MIRA STR.
SOLIKAMSK
618540
PERM TERRITORY
RUSSIA**

SRK Project Number: U4376

**SRK Consulting (UK) Ltd
5th Floor Churchill House
17 Churchill Way
Cardiff, UK
CF10 2HH**

**Tel : +44 29 20 34 81 50
Fax : +44 29 20 34 81 99
cardiff@srk.co.uk
www.srk.co.uk**

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MARCH 2011

Report Authors
Nick Fox
John Miles
Chris Gilchrist
Patrick McKelvey
Craig Watt

Reviewed by:
Mike Armitage

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March 2011

A MINERAL'S EXPERT REPORT ON THE MINERAL RESOURCE AND ORE RESERVES OF SILVINIT'S MINING ASSETS

1 INTRODUCTION

1.1 Background

SRK Consulting (UK) Limited (SRK) has been commissioned by the Management of Open Joint Stock Company Silvinit (Silvinit or the Company) to prepare a Mineral Experts Report (MER) on the Mineral Resources and Ore Reserves of the Company's mining assets (the Mining Assets).

This MER has been structured on a technical discipline basis into sections on geology, Mineral Resources and Ore Reserves, mining engineering/design, mineral processing, tailings and waste management and disposal, infrastructure, environmental and social management and manpower. The report also contains sections commenting upon Mining Licence issues and the potash industry in general and also summarises the Technical-Economic Parameters (TEP) upon which the reported Ore Reserve is based.

The Mineral Resource and Ore Reserve estimates for the Mining Assets are reported in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code).

1.2 Verification, Validation and Reliance

This MER is dependent upon technical, financial and legal input provided by the Company. While this technical information has been accepted in good faith by SRK and has not been independently verified by means of re-calculation, SRK has:

- Conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets and therefore the stated Ore Reserve, which included:
 - inspection visits to the mining operations, processing facilities, surface structures and associated infrastructure between November and December 2010;
 - meetings and discussions with Silvinit management and staff;
 - an examination of historical information and results made available by Silvinit in respect of the Mining Assets;
 - a review and where considered appropriate by SRK, modification of the Company's estimates and classification of Mineral Resources and Ore Reserves as at 1 January 2011; and
 - a review and, where considered appropriate by SRK, modification of the 20 year production forecasts contained in Silvinit's Business Plan (the Business Plan). The Company produces a long range Mining Field Development Plan which covers the projected life of each asset, as part of the feasibility study for the development of that asset, and a Detailed Mining Plan, which covers the current calendar year, for each asset which is updated each year. It is these plans which form the basis of the Business Plan reviewed by, and hence Ore Reserve derived by, SRK.
- Accepted macro-economic parameters and commodity prices provided by the Company and relied on these as inputs into the verification of the Company's reserves.
- Satisfied itself that such information is both appropriate and valid as reported herein. SRK considers that with respect to all material technical-economic matters, it has undertaken all necessary investigations to ensure compliance with the JORC Code.

SRK has placed reliance on Silvinit that technical and financial information provided by Silvinit to SRK is both valid and accurate for the purpose of compiling this MER.

1.3 Limitations, Reliance on Information, Declarations, Consent and Copyright

1.3.1 Limitations

The Company has agreed that, to the extent permitted by law, it will indemnify SRK and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of any material negligence, wilful misconduct or breach of law. The Company has also agreed to indemnify SRK and its employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except to the extent SRK or its employees and officers have been materially negligent or acted with wilful misconduct or in breach of law in which case SRK shall bear such costs.

The Company has confirmed to SRK that to its knowledge the information provided by the Company was complete and not incorrect or misleading in any material aspect. SRK has no reason to believe that any material facts have been withheld and the Company has confirmed to SRK that it believes it has provided all material information.

The achievability of the Business Plan, budgets and forecasts are neither warranted nor guaranteed by SRK. The forecasts as presented and discussed herein have been proposed by the Company's management and adjusted where appropriate by SRK, and cannot be assured. Notably they are necessarily based on economic assumptions, many of which are beyond the control of the Company.

1.3.2 *Reliance on Information*

SRK's opinions given in this document are effective at 1 January 2011 and are based on information provided by the Company throughout the course of SRK's investigations, which in turn reflects various technical-economic conditions prevailing at the date of this report and Silvinit's expectations regarding the potash market, potash prices and exchange and inflation rates as at the date of this report. These and the underlying TEPs can change significantly over relatively short periods of time.

1.3.3 *Declarations*

SRK will receive a fee for the preparation of this MER in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the listing and SRK will receive no other benefit for the preparation of this report. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Company's Mineral Resources and Ore Reserves.

SRK does not have, at the date of this report, and has not had within the previous two years, any shareholding in or other relationship with the Company or the Mining Assets and consequently considers itself to be independent of the Company.

1.3.4 *Consent and Copyright*

SRK consents to the issuing of this report in the form and context in which it is to be included in the preliminary and final prospectuses for an international offering of securities of the Company.

Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of SRK regarding the form and context in which it appears.

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1.4 Qualification of Consultants

The SRK Group comprises over 1,000 staff, offering expertise in a wide range of resource and engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, MER and independent feasibility studies on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs.

This MER has been prepared by a team of consultants sourced from the SRK Group's office in Europe over a four month period. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, underground mining, rock engineering, processing, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mineral economics.

The individuals listed below have provided the material input to this MER, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

- Mike Armitage, PhD, MIMMM, CGeol, CEng;
- Nick Fox, MSc, ACA, ProfGradIMMM;
- John Miles, MIMMM, CEng;
- Chris Gilchrist, PhD (Eng), FIMMM, CEng;
- Patrick McKelvey, BSc, MSc, CGeol;
- Craig Watt, BEng, MEng, CEng;

The Competent Person who has supervised the production of this MER is Dr Mike Armitage, who is the Chairman of the SRK Group. Dr Armitage is a mining geologist with over 25 years experience in the mining industry and has been responsible for the reporting of Mineral Resources and Ore Reserves on various properties internationally during the past 20 years. He also has a significant amount of experience in Russia and the Former Soviet Union (FSU) having managed the preparation of many due diligence studies and MERs on behalf of companies with projects in these countries and also investment institutions seeking to finance projects in these countries.

2 ASSET SUMMARY

The Mining Assets are located on the left bank of the River Kama in the vicinity of the town of Solikamsk and are located some 20km north of the town of Berezniki where the Mining Assets of Open Joint Stock Company Uralkali (Uralkali) are located. The underground workings of one of the mines, Mine 1, are located beneath the town itself. The closest regional centre is city of Perm located approximately 220km south of Solikamsk with a population in excess of 1 million people. The climate is continental with temperatures generally varying from -30°C in winters to +30°C in summers. The relief is slightly undulated with conifer pine forest as the main vegetation type.

The Company's main administrative offices are in Solikamsk, Figure 2-1 is a map showing the location of Perm and Solikamsk.

Silvinit operates three potash mines, all of which exploit the north-south striking and westerly dipping Verkhnekamskoye, or 'Upper Kama,' potassium and magnesium salt deposit. All of Silvinit's assets are located in the central portion of the sub-outcrop of the deposit while Uralkali operates a similar sized operation on the southern half of the sub-outcrop.

Silvinit was privatised in 1992 and is currently one of the major global potash producers, ranking sixth in terms of production capacity, exporting approximately 80% of its products, and selling its products worldwide but predominantly in developing countries.

The Mining Assets comprise three operating mines, four operating process plants which are located at three sites and process sylvinit and carnallite bearing ores, and one early stage exploration project.

The Company's three operating mines comprise Mine 1, Mine 2 and Mine 3. Each mine delivers ore to its own plant site: Plant 1, Plant 2 or Plant 3 respectively. Mine 1/Plant 1 commenced operating in 1934, Mine 2/Plant 2 commenced operating in 1973 and Mine 3/Plant 3 commenced operating in 1983. In addition to mining sylvinit ore, Mine 1 also mines carnallite ore and delivers this to a dedicated facility for processing located at the site of Plant 1.

Silvinit's other potential mining asset is Polvodovsky, an advance stage exploration prospect. This is a prospect that is currently being explored and which is subject to an ongoing study aimed at assessing the viability of establishing a fourth operating mine, which will be accessed via a vertical shaft system in a similar manner to that at the other mines.

Figure 2-2 shows a general locality plan of the Silvinit assets.

Figure 2-1: Regional Location Plan

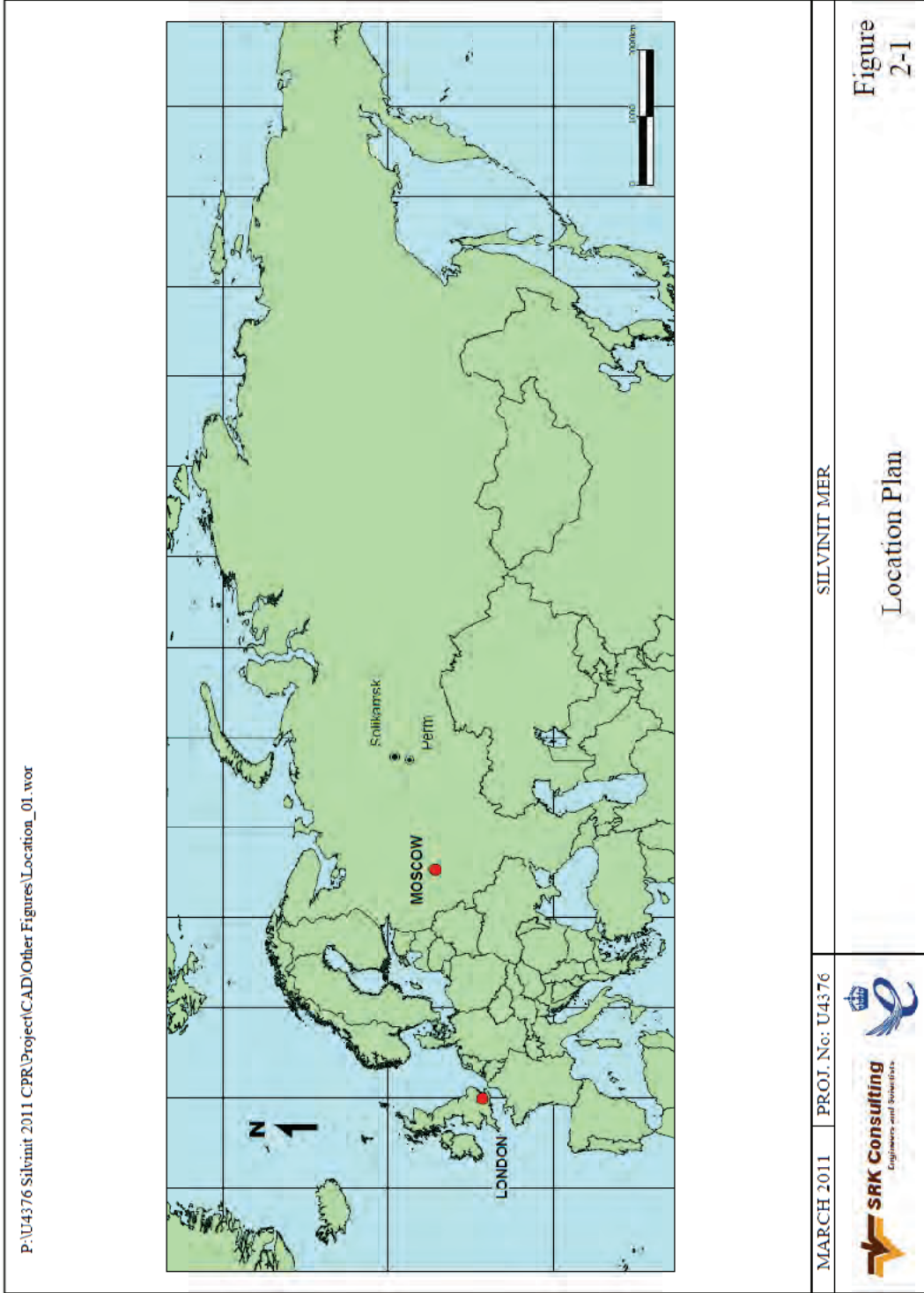
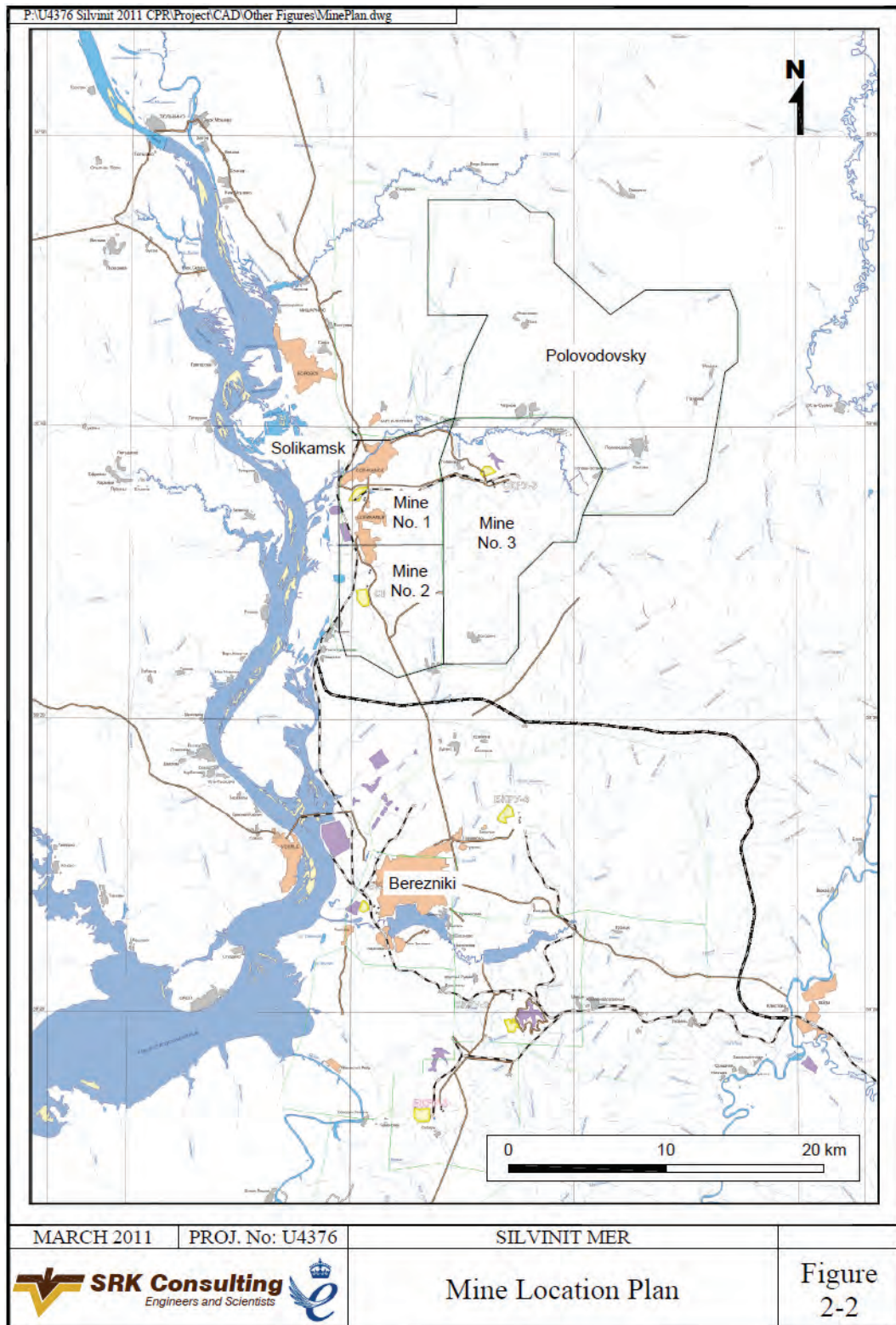


Figure 2-2: Site Location Plan



3 MINING TITLE AND LAW

3.1 Introduction

SRK has not reviewed the mining licences held by the Company from a legal perspective. Consequently, SRK has relied on advice by the Company to the effect that the Company is entitled to mine all material falling within its respective license areas and that all necessary statutory mining authorisations and permits are in place. SRK's review has rather been restricted to confirming that the stated Mineral Resources and Ore Reserves in this document are within the respective licence areas and understanding the technical work required to be done by Silvinit to maintain the licences and so ensure that these requirements are satisfied by Silvinit's Business Plan.

The comments in this section of the report refer to the mining licences only. Details relating to relevant environmental permits are included in Section 11 of this report.

3.2 Russian Legislation

All subsoil situated within the territory of Russia is deemed state property. The use of such property is controlled and regulated by a variety of state authorities through an intricate system of federal and regional licensing laws and regulations. The responsibilities, however, are not clearly divided between federal and regional authorities, regulation is often unclear or contradictory and not all the significant provisions of laws or regulations are enforced in letter and spirit.

The most fundamental law governing subsoil use in Russia as a whole is the Law of the Russian Federation No. 2395-I "On Subsoil", dated 21 February 1992 (the Subsoil Law). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and contains the rules governing the issuance, transfer, surrender and revocation of mineral licences.

Detailed rules relating to licensing in Russia are set out in the Subsoil Law and in a number of regulations issued by the Russian federal government through its ministries and agencies. Regulations passed by various regions of Russia also play an important part.

The licences themselves typically only set out the basic terms of the arrangement, notably the name of the licensee, the licence area and the term of the licence, and the mineral rights granted there-under. Notwithstanding this, the key terms and conditions, including those concerning work programmes (which are essentially the licensee's developmental commitments and its applicable milestones or deadlines, that is, its Business Plan), fiscal levies payable by the licensee, geological data ownership, safety, abandonment and confidentiality are documented in a licensing agreement entered into between the licensee and the relevant federal or regional authorities which is deemed to be an integral part of a licence. Compliance with the terms of the licensing agreement is a requirement for the validity of the licence. While holders of licences are in practice often able to obtain waivers and amendments to the licensing agreements, the grant of such waivers and amendments falls within the discretionary powers of the relevant federal/regional authorities and is therefore not guaranteed.

The Federal Agency for Subsoil Use (the Federal Agency) is the principal authority responsible for regulating the activities of the Russian mining sector. The Federal Service for Environmental Technological and Nuclear Supervision also plays an important part in the functioning of the Russian mining sector. Amongst other things, it controls the technical aspects of mineral deposit exploitation, issues instruments creating mining allocations, determines the boundaries of mining allotments (mining allotments define the subsoil blocks from which natural resources forming the subject matter of any licence may be exclusively extracted) and grants licences covering hazardous industrial production.

A significant number of exploration and production licences in Russia were issued between 1992 and 1993 on a tender-free basis pursuant to Section 19 of the "Regulations for the Procedure of the Licensing the Use of Mineral Resources" (approved by resolution of the Supreme Soviet on 15 July 1992) which essentially permitted the then state-owned mining companies to retain their pre-1992 primary mineral rights. This process ensured the stability of the Russian mining sector during a difficult transitional period through the continued involvement of legal entities possessing the necessary expertise. Most of the new production licences issued since 1992 have been granted on the basis of a tender or auction, now the most common mode of issuance of a production licence under the provisions of the Subsoil Law.

A number of current licensees obtained their licences through transfers from one entity to another permitted under certain circumstances specified in the Subsoil Law (such cases, in particular, include corporate reorganisations and establishment of a subsidiary at least 50% of which is owned by the original licensee and subject to simultaneous transfer of assets necessary to continue mining).

There is an extensive list of grounds for termination of the right to subsoil use, which in light of the general interpretation of such grounds, allows a great degree of discretionary power to the Federal Agency and regional authorities over the activities of subsoil users.

It is noteworthy that, in practice, the expression “violation of the material terms of the licence” as used by the relevant regulatory bodies from time to time, is often interpreted quite broadly, which makes it necessary for licence holders to exercise extra care and caution in their compliance with the terms of their licensing agreements. Obtaining and maintaining in force the licences required for a successful exploration and production operation in Russia typically involves a series of detailed filings. Even minor errors or omissions in respect of any documents that must form part of such filings amount in theory to illegal subsoil use, although in practice such violations are widely encountered.

In practice, if a material violation of a subsoil use licence comes to the attention of the appropriate federal or regional authorities, the typical action taken is the issuance by the Federal Agency of a written direction to the licensee to cure the violation within three months. If the licensee fails to cure the violation within this time period, the Federal Agency may revoke the licence. The most common practice in such circumstances, however, is for the two parties to reach a compromise by waiving or amending the terms of the licence so as to accommodate the violation in exchange for the licensee incurring additional obligations which were not part of the original licence.

3.3 Silvinit Mining Licences

The principal details of the Company’s licences are summarised in Table 3-1 below. The licences for the three operating mines were re-negotiated in 2001 and are valid until 2013. The licence for Polovodovsky was registered in 2008 and is valid until 2018.

Table 3-1: Silvinit Mining and Exploration Licenses

Deposit	Registration No.	Period (Years)	Expiry Date	Licence Type	Area (ha)
Mine 1	01439	12	01.04.2013	Mining ¹	4,447
Mine 2	01440	12	01.04.2013	Mining ²	5,038
Mine 3	01441	12	01.04.2013	Mining ²	11,001
Polovodovsky	14511	10	01.07.2018	Exploration and Mining ²	27,100

1: Potassium salts, magnesium salts and rock salt

2: Potassium salts and rock salt

SRK has seen copies of the licences and confirms that the Mineral Resources and Ore Reserves stated in this report fall within the boundaries of such licences.

The licenses for the operating mines will expire within the term of the reviewed 20 year Business Plan even though these mines are planned to continue operating beyond this time and have resources and reserves to support this. It should be expected that Silvinit will obtain extensions to these licences in due course on application as long as it continues to fulfil its licence obligations.

4 OVERVIEW OF THE POTASH INDUSTRY

4.1 Sources of Potash

Potash is a potassium (K) bearing evaporite, or salt, which along with other salts, the most common of which are gypsum, anhydrite, carnallite and halite, forms almost exclusively within partly or fully restricted marine basins which have been subjected to high rates of evaporation. The key to the deposition of the salts and the formation of the resulting salt beds is that the rate of evaporation of the sea water must exceed the rate at which the basin is replenished by new sea water. Most deposits are therefore thought to have formed in hot arid humid environments and indeed, most Quaternary and Recent deposits occur between 15° and 35° latitude in equatorial elevated plateaus, arctic deserts, and rain shadows of high mountain ranges and continental regions.

Potash itself is typically found in relatively thin, often gently-folded beds, associated with carbonates, calcium sulphate, halite and magnesium sulphates. The most common ore minerals are sylvinite (KCl+NaCl), carnallite (KCl·MgCl·6H₂O) and sylvite (KCl) although the term potash refers to any potassium bearing mineral or ore which has potential to be mined. While potash deposits are found throughout the geological column, by far the majority of the deposits currently exploited, including those currently being mined by Silvinit, are of Palaeozoic age.

In terms of stratigraphy, the potash ores are generally deposited in layers where the least soluble mineral (halite or NaCl) is usually found in the footwall as it was deposited first, i.e. prior to the potassium and magnesium salts. Sylvinite (KCl + NaCl) is normally found above the halite and carnallite, if present, is found in the roof. This sequence is often repeated where the ancient sea has undergone partial re-dissolution and re-evaporation. Considerable folding and plastic deformation is also often present. Carnallite is a friable and deliquescent mineral with little strength, therefore it is often necessary to leave valuable potash in the roof where carnallitic deposits exist.

Being typically soft and gently dipping, most deposits are mined via a room and pillar type mining method. Steeply dipping variations of open stoping may be used and there are also some cases where the ease of dissolution is taken advantage of and solution mining is employed. Owing to the greater strength of the halite in the footwall, long-term mine infrastructure for ore and personnel transport is usually constructed in this horizon some 30-40 metres beneath the orebody itself and the latter is accessed via ramps at strategic locations.

4.2 Uses

Over 95% of the potash currently mined and processed is sold commercially for direct application use as a fertiliser in the granular form when mixed with nitrogen and phosphate compounds or for further processing from the standard form to produce compound fertilizers with other nutrients. Potassium is a key nutrient for plant growth, which promotes or maintains enzyme activation, efficient use of water, photosynthesis, transport of sugars, starch formation, high-energy plant growth compounds, resistance to diseases and the effect of drought. There are no substitutes for potassium as a nutrient in the fertilizer industry and it cannot be recycled. Small amounts of potash are used in the chemicals industry primarily in the manufacture of potassium hydroxide and chlorine gas which is used variously in the making of a range of products including medicines, dyes, detergents, glass products, ceramics and explosives.

The quality or grade of potash is typically expressed in terms of K_2O content, or its equivalent in terms of potassium content. This is a higher specification than KCl, which is also sometimes used, the formula to convert the two being $K_2O = KCl * 0.61$.

Silvinit also mines, processes and sells a small amount of carnallite, which is used as a source of magnesium metal and is often found in association with sylvinit ores, but which is low grade with respect to KCl content. This is not material to the business of Silvinit.

4.3 Potash Production

World potash production in 2009 was 34 million tonnes (Mt) KCl (Source US Geological Survey), however, this was an exceptional year due to the global financial crisis. Production in 2008 was some 59 Mt KCl and had risen back to some 53Mt KCl during 2010 which was close to the estimated global production capacity of 67 Mt. Canada, Russia, Belarus, Germany, Israel, Jordan, and the USA are currently the major producing countries and account for over 90% of total world production. Canada alone accounts for one-third of world production while the combined output of Russia and Belarus accounts for a further third. Silvinit currently represents some 9.5% of world potash production based on 2010 production levels.

With production concentrated in a very small number of countries, but consumption spread throughout the world, it is not surprising that potash is traded internationally in large tonnages and over great distances. The two major centres of production, Saskatchewan in Canada and the eastern Urals of Russia, are both situated thousands of kilometres inland. Transportation is typically a major logistical exercise involving long rail journeys and ocean freighting in large bulk carriers and the tasks of trans-shipment and warehousing are all key parts of these operations.

Today, most of the large companies carry out their own sales and marketing or form joint marketing groups such as Canpotex (PCS, Mosaic, Agrium) and Belarus Potash Company (Uralkali and Belaruskali) to coordinate export sales and shipments. Notwithstanding this, Silvinit undertakes all its sales through an independent third party, International Potash Company, based in Moscow. Since potash is consumed not only by large fertilizer manufacturers in the production of compound fertilizers, but also in direct application using granular blended fertilizers, sales are typically handled by large distributing organisations in the consuming countries such as Sinochem in China, IPL in India, and Bunge in Brazil.

4.4 Potash Prices

One of the main indicators for potash price is the FOB Vancouver price for Standard Grade Canadian potash, equivalent to Silvinit's Pink Standard (PMOP) product, railed from Saskatchewan and stored to await loading and export. The Vancouver spot price for this product remained at around USD120 per tonne between 1995 and 2003, but has since soared to levels of around USD600 per tonne (contract) and even USD1,000 per tonne (spot) in early 2008 (Source USGS). Production levels and prices subsequently fell during 2009 due to the global financial crisis and the Vancouver spot price (Standard MOP, FOB) fell to USD486 in August 2009. The continuation of the global financial crisis exerted further downward pressure on the price, however, this remained around the USD350-400 level during 2010. Global producers subsequently decreased production rates during 2009 in an effort maintain prices, however it is generally accepted that worldwide demand should resume its forecast increase of 5% annually and exceed 60-65 Mtpa (KCl) by 2013/2014. Accordingly it is expected that prices will also continue to increase.

Silvinit sells the standard market products: white, pink and granular muriate of potash to both domestic and export markets. Russian potash export prices have typically been very much in line with, perhaps slightly lower than, Canadian prices. Silvinit's own data suggests that FCA plant prices have risen from levels of between USD80-85 per tonne in 2004 to some USD415 per tonne in 2008 falling to USD285/t in 2009 and further to USD255/t in 2010. Silvinit envisages that the price may increase to around USD385 per tonne over the next 5 years.

There is a strong feeling among potash suppliers that the prices increases experienced from 2007 onwards had been long overdue as compensation for years of low prices. Certainly factors such as increases in energy and transportation charges have played a significant part in increasing delivered costs and SRK considers it unlikely that prices will return to the former low levels. The major potash marketing groups Canpotex and Belarus Potash Company now account for a significant proportion of the internationally traded market. This gives strong bargaining power to the suppliers.

Although the consumers are many and widespread they have amongst their number several large fertilizer manufacturers and distribution groups and in certain cases (China and India, for example) national governments are involved. The industry is thus delicately poised with suppliers keen to hang on to the hard-won existing new orders and looking for further price rises but currently meeting resistance from the buyers.

Sales are typically via short term contracts and spot sales. The longest term off-take agreement is 12 months, being more typically 3 to 6 months.

While there will be periodic fluctuations in demand as a function of a variety of political and weather related issues, and while increased consumption can not be guaranteed, the demand for fertilizers and hence potash is related to the population growth and the need for more efficient food production, and should therefore be expected to continue to grow steadily in world wide terms into the future. Consumption in the developing world has been growing at over 5.5% per annum since 1980 and the developing world now accounts for 64% of total world potash fertilizer consumption. China, Brazil, India, and the Association of South East Asian Nations (ASEAN) countries are prominent as the major consumers and importers of potash in the developing world. The increasing interest in biofuels as an alternative, sustainable energy source is set to further underpin the growth forecast for potash volumes.

Overall, SRK considers Silvinit to be in a good position. It is one of the world's largest producers, has one of the lowest operating costs, is well-placed to expand production to meet increasing demand in the future and has a demonstrated marketing track record as evidenced by the fact that it has increased its market share over the past ten years despite strong competition.

5 GEOLOGY

5.1 Introduction

This section summarises the geological setting and the geology of the orebodies being and planned to be exploited by Silvinit and gives SRK's comments regarding the geological assumptions made by Silvinit which form the basis of the resource estimates presented in Section 6 of this report.

As already commented in this report, Silvinit currently operates three mines, Mine 1, Mine 2 and Mine 3 respectively, and has an exploration and mining licence for one further asset, Polovodovsky. All of these exploit, or are planned to exploit, the Verkhnekamskoye Potassium and Magnesium bearing Salt Deposit (Verkhnekamskoye), which comprises a thick sedimentary sequence of flat to gently dipping bedded evaporites. The different mines variously extract up to three different potassium rich horizons, or seams, in these termed B, AB and Red2 in order of increasing depth.

5.2 Deposit Geology

Verkhnekamskoye is one of the largest potassium bearing evaporite deposits in the world and, in addition to the potash and magnesium resources currently being mined by Silvinit, also contains both oil deposits and rock salt (halite). The oil deposits which are stratigraphically below the orebodies being mined by Silvinit are currently not being exploited due to the Company's mining activities but there is oil extraction activity in the region to the south of Silvinit and Uralkali's licence areas.

The potash deposit is Permo-Carboniferous in age (i.e. it is considered to have formed some 250 million years ago), lies approximately 250-400m below surface and is comprised of a series of some 15 different horizons separated by halite. These horizons vary from a few centimetres to a few metres in thickness and are composed of largely sylvinite, halite and carnallite. Verkhnekamskoye is the only such deposit currently being mined in Russia and extends laterally along strike for some 100 km north-south by 35 km east-west covering a total area in plan view of some 3,500 km². Only a handful of the wider horizons, the thickest and most extensive termed B, AB and Red2, are potentially amenable to mining and it is these horizons that are being targeted by Silvinit. Across Silvinit's currently active mines the B seam is on average some 6m thick, the AB seam some 3.5-4m thick and the Red2 is some 5m thick. The B seam lies on average some 2m above the AB seam which in turn is some 5m above the lowermost Red2 seam.

5.3 Ore Genesis

The rocks that comprise the Verkhnekamskoye deposit are generally accepted to have been deposited from a shallow sea, the Solikamsky Sea, which was located at the foot of Ural mountains. The climatic conditions in the area at the time would have been arid and the rate of evaporation consequently high, optimum conditions for evaporite formation. It is likely that the deposit would have taken tens of thousands of years to form. Subsequent to the formation of the deposit, the ongoing erosion of the Ural mountains covered the deposit with further sediments which now overlie the orebodies currently being mined and which are, in turn, now several hundred metres below ground level.

5.4 Orebody Model

Silvinit has not used a computerised geological modelling or mine design software package to generate its resource and reserve estimates but has rather derived these using classical, hard copy, Russian methodology. Little of the available data is therefore in electronic form. It has not therefore created three dimensional models of the orebodies but has, in its calculations, effectively assumed that the orebodies are roughly flat lying–shallow dipping, that the top and bottom contacts are geologically defined, that they are continuous between borehole intersections and underground exposures and that the chemistry of the individual zones varies gradually between borehole intersections and underground exposures.

5.5 SRK Comments

SRK considers the geology as interpreted by Silvinit to reflect available data and the continuity of the orebodies and grade distribution within these to have been sufficiently well understood for these to form a good basis for resource estimation. Certainly, SRK considers the geological assumptions made by Silvinit in generating the estimates given below to be sound and supported by the available data.

6 MINERAL RESOURCES AND ORE RESERVES

6.1 Introduction

This section of the report gives SRK's understanding of the resource and reserve estimates reported by Silvinit, the work done to derive these and SRK's view regarding the tonnes and grade of rock which has the potential to be mined by the existing and planned mining operations (the Mineral Resource) and also the quantity of product expected to be produced as envisaged by the respective Business Plan (the Ore Reserve).

SRK has not independently re-calculated Mineral Resource and Ore Reserve estimates for Silvinit's operations but has, rather, reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by Silvinit and made an opinion on these estimates including the tonnes, grade and quality of the potash planned to be exploited in the current mine plan, based on this review. SRK has then used this knowledge to derive audited resource and reserve statements according to the guidelines and terminology proposed in the JORC Code.

This section presents both the existing Silvinit resource estimates according to Russian standard reporting terminology and guidelines and SRK's audited JORC Code statements. All of these estimates are dated as of 1 January 2011.

6.2 Quantity and Quality of Data

The deposits were discovered in 1925. Each has been subjected to a number of exploration and drilling campaigns as follows:

- Mine 1 – 7 phases between 1925 and 1990 (including exploration outside the current mining lease);
- Mine 2 – 7 phases between 1925 and 2002 (including exploration outside the current mining lease); and
- Mine 3 - 7 phases between 1957 and 1975;

Exploration was generally undertaken by State enterprises based in Solikamsk and Berezniki.

The resource and reserve estimates derived by Silvinit are primarily based on exploration drilling undertaken between 1925 and 2002. There is no exploration drilling currently being undertaken from surface at the operating mines, however, exploration is currently being undertaken at the Polovodovsky site.

The total number of exploration holes and metres drilled at each site is as follows:

- Mine 1 – 53 holes for some 18,600 m;
- Mine 2 – 192 holes for some 5,700 m (of which some 95 are from underground);
- Mine 3 – 117 holes for some 45,250 m; and

- Polovodovsky – 152 holes for some 50,800 m

Core drilling, whether drilled from surface or underground, were drilled with a diameter of either 92 mm or 112 mm for surface holes and 76 mm for underground holes. Holes were sampled at intervals between 10 cm and 6 m, averaging between 105 cm to 130 cm. Core recovery through the sylvinite horizons is reported to be good at an average of 84-85%, while the recovery through the carnallite horizon at Mine 1 is reported to be 74%.

Core is split in half with one half retained for reference and the other half crushed, milled and split under the control of the geology department to produce a small sample (100 g) for submission to the laboratory for assay.

Assaying is carried out at an in house laboratory using classical wet chemistry techniques. Approximately 5-6% of samples are repeat assayed internally while a similar percentage are sent to an external laboratory for check assaying, which SRK understands to be at the neighbouring Uralkali mine laboratory.

A total of 423 samples have been taken for density measurements using the water displacement method.

SRK considers that the exploration approach followed by Silvinit has been appropriate and specifically aimed at collecting the data appropriate to the estimation of potash resources and that sufficient data of sufficient quality has been collected to support the resource estimates as derived by Silvinit and as presented here.

6.3 Resource Estimation

6.3.1 Introduction

The most up to date resource statements produced by Silvinit are those derived for the annual 5GR reports produced earlier this year which give the status as of 1 January 2011. The completion of 5GR reports is a statutory requirement. These estimates were produced using standard classical Russian techniques and are essentially based on calculations made in 2006 and adjusted for mining in each year subsequent to this. This section therefore comments primarily on these statements.

6.3.2 Silvinit Estimation Methodology

Each seam and each mine is treated separately in the resource estimation procedure. In each case the horizons are first divided into blocks such that each sub-divided block has reasonably consistent borehole spacing within it; that is, more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting “resource block” is then evaluated separately using the borehole intersections falling within that block only. Block boundaries for the estimates at the operating mines are determined using a cut-off grade within drillholes of a minimum grade of 15% KCl and a maximum grade of 5% MgCl₂ for sylvinite ore. For Polovodovsky the same KCl cut-off grade is used, however, the MgCl₂ cut-off grade is lower at 1%.

Specifically, composite KCl and MgCl₂ grades are derived for each borehole that intersected each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting.

A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub block, and any areas where the seams are not sufficiently developed. The aerial extent of each block is then multiplied by the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block.

The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence of the estimated tonnes and grade. Figures 6-1, 6-2 and 6-3 show plan views of the resource block outlines, as defined when the resources were re-estimated in 2006, for each operating mine and Polovodovsky for the B, AB and Red2 seams respectively.

The A category is the highest category in the Russian Reporting Code and only used where the stated tonnage and grade estimates are considered to be known to a very high degree of accuracy. The B, C1 and C2 categories are lower confidence categories, with C2 denoting the least level of confidence of the three categories. All of these categories, apart from C2, are acceptable for use in supporting mining plans and feasibility studies. In the case of Silvinit, blocks are assigned to the A category where the drillhole spacing is less than 1,200m, to the B category where the drillhole spacing is up to 2,400m and to the C1 category where the drillhole spacing is up to 4,000 m. Areas drilled at a larger spacing than this, but on average with a spacing of no less than 4,000 m are assigned to the C2 category, though only a very small proportion of Silvinit's resources have been categorised as such.

As a result of the above process, each mine is drilled on an approximate 2.4km by 2.4km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring from 100m by 300m or in cases up to 400 m by 800 m. Silvinit does not upgrade the estimation or categorisation of its resources based on this underground drilling on a regular basis but rather uses this to optimise the mining layouts.

The first resource estimates undertaken and approved for each site were as follows:

- Mine 1 and 2 – 1952;
- Mine 3 – 1962; and
- Polovodovsky – 1975

The resource estimates at each of the active mines have undergone various updates since this time, the most recent of which was in 2006. These estimates were approved by the State Committee for Reserves and take into account all surface and underground drilling data available at that time. While exploration is ongoing at Polovodovsky, the first estimate produced in 1975 has not been updated since this time.

Figure 6-1: Resource Blocks (2006), B seam

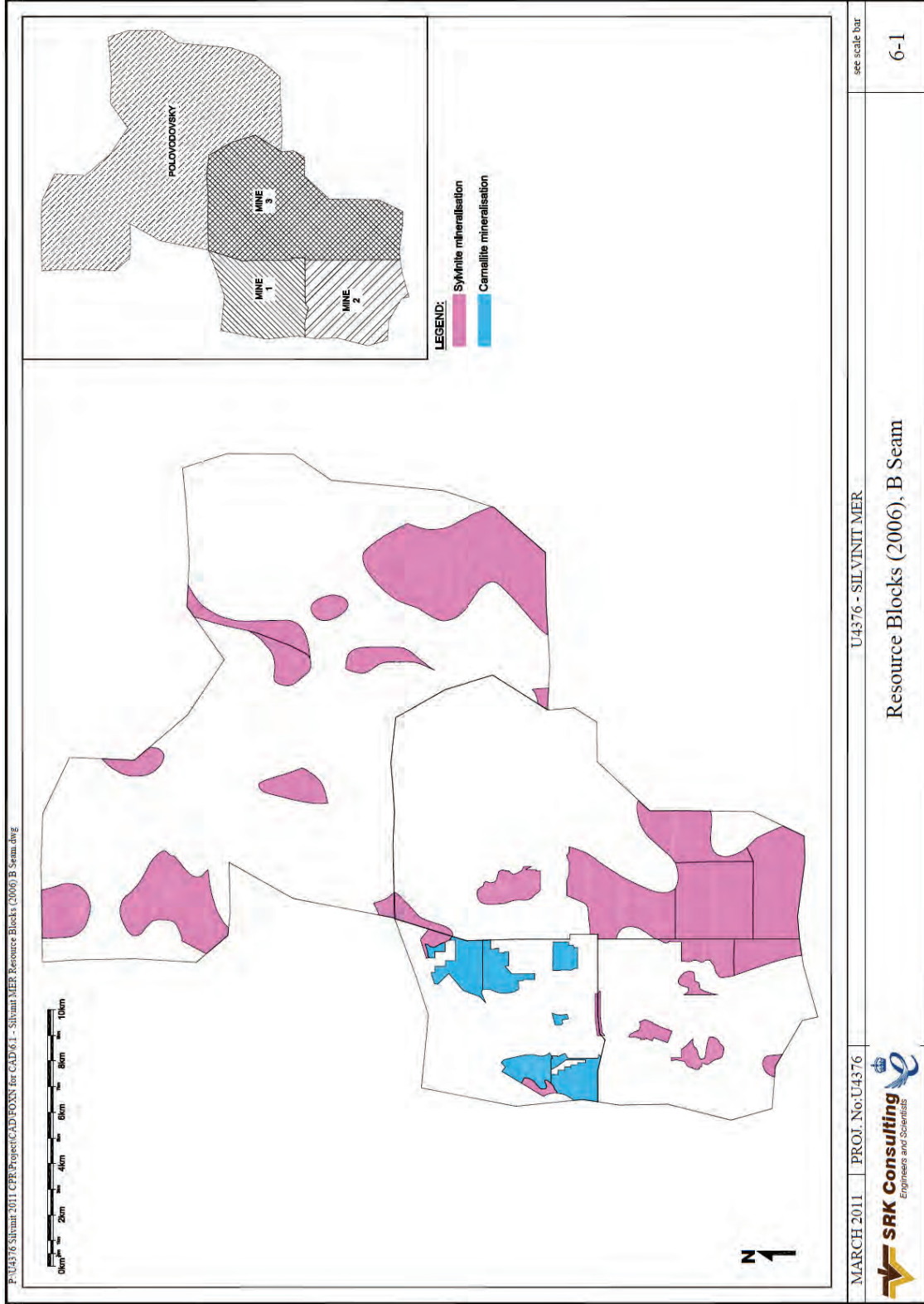


Figure 6-2: Resource Blocks (2006), AB seam

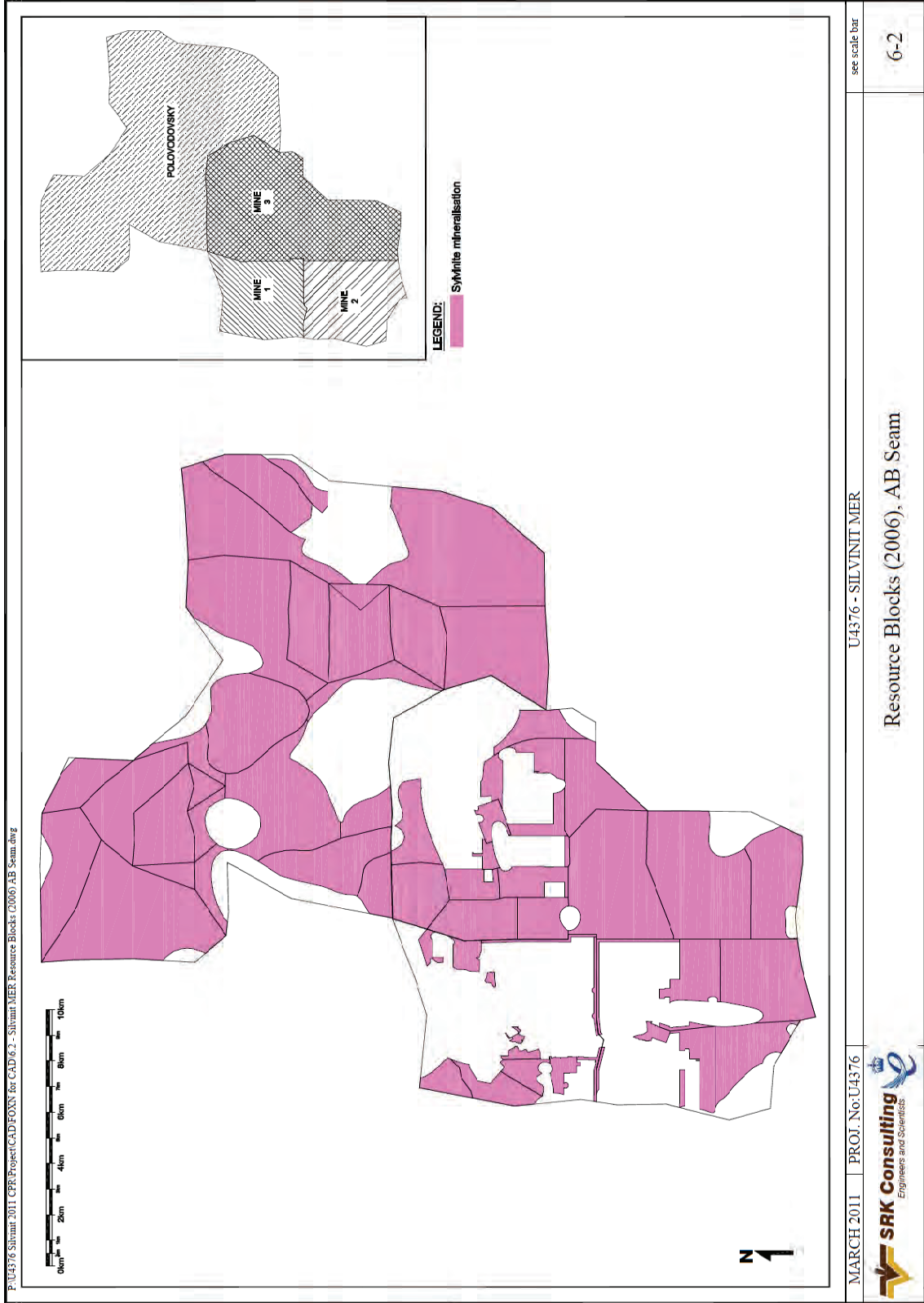
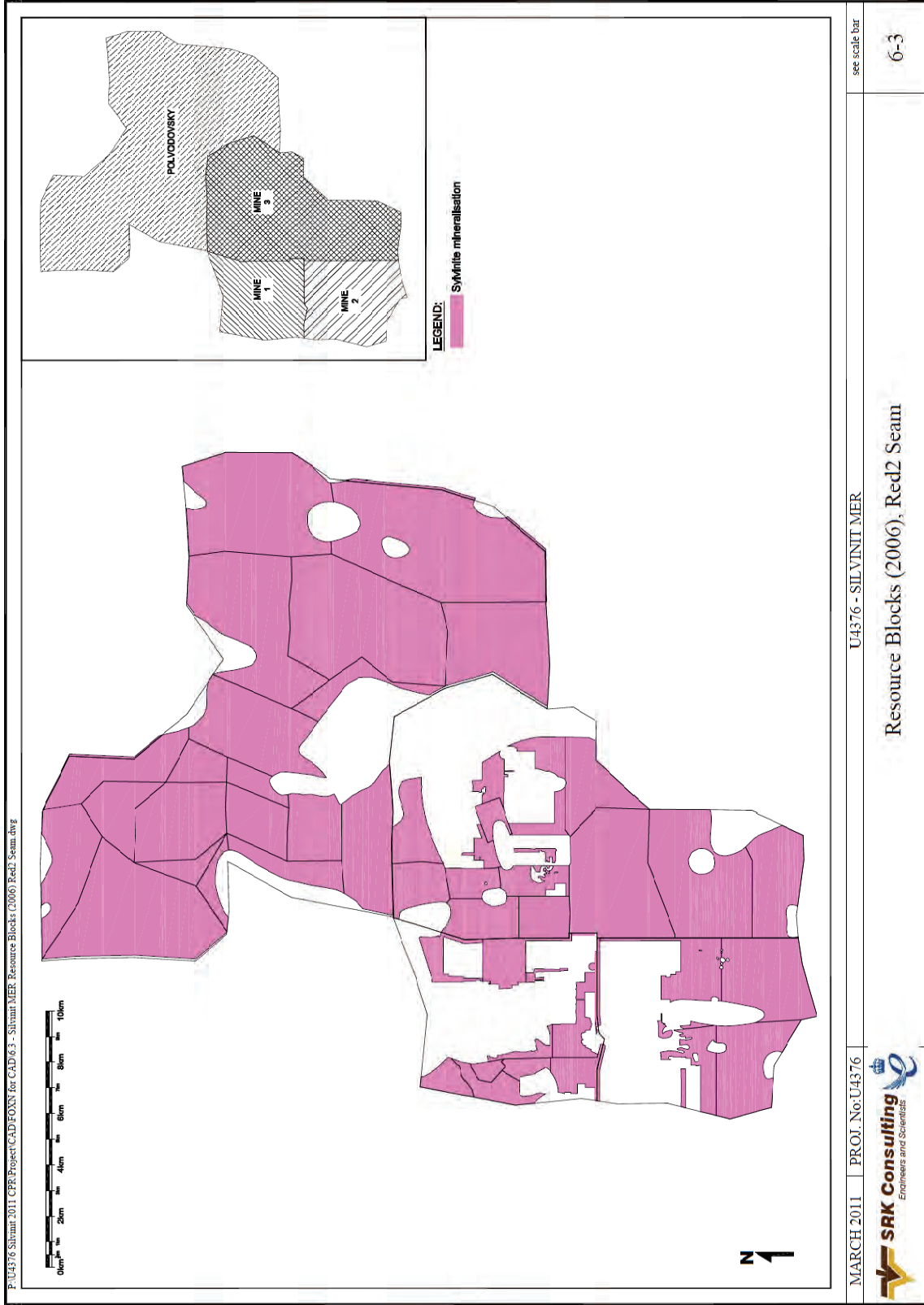


Figure 6-3: Resource Blocks (2006), Red2 seam



6.3.3 Silvinit Resource Statements

Table 6-1 and 6-2 below summarise SRK's understanding of the sylvinitite and carnallite resource statements respectively prepared by Silvinit to reflect the status of its assets as of 1 January 2011. In addition to this material, Silvinit also extracts and sells a certain amount of halite and other salts. The revenues from the sale of these products is, however, not material to Silvinit's cash flows and has not therefore been included in these tables or commented on in any detail in this report. Silvinit's statements are based on a minimum mining width of 2 m for all sites and a minimum block grade of 21% KCl and maximum MgCl₂ grade of 1% for sylvinitite ore and a minimum grade of 17%MgCl₂ for carnallite ore. The maximum block grade of MgCl₂ at the Polovodovsky site is 0.5%

Table 6-1: Silvinit Sylvinitite Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	K ₂ O (%)	K ₂ O (Mt)
Mine 1			
A	138.5	17.6	24.3
B	16.2	15.3	2.5
C1	86.0	16.3	14.0
A+B+C1	240.7	17.0	40.8
C2	-	-	-
Mine 2			
A	166.0	19.1	31.7
B	86.6	14.0	12.1
C1	279.9	18.6	52.2
A+B+C1	532.5	18.0	96.0
C2	-	-	-
Mine 3			
A	118.7	17.5	20.8
B	72.1	18.8	13.5
C1	1,264.3	17.4	220.3
A+B+C1	1,455.1	17.5	254.6
C2	-	-	-
Polovodovsky			
A	-	-	-
B	694.1	16.7	115.8
C1	2,379.4	17.4	413.9
A+B+C1	3,073.5	17.2	529.7
C2	260.8	15.3	39.8
Total			
A	423.2	18.1	76.8
B	868.9	16.6	143.9
C1	4,009.7	17.5	700.4
Grand Total A+B+C1	5,301.8	17.4	921.1
C2	260.8	15.3	39.8

Table 6-2: Silvinit Carnallite Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	MgCl ₂ (%)	MgCl ₂ (Mt)
Mine 1			
A	137.1	23.7	32.5
B	32.2	20.8	6.7
C1	-	-	-
A+B+C1	169.3	23.2	39.2
C2	-	-	-
Total			
A	137.1	23.7	32.5
B	32.2	20.8	6.7
C1	-	-	-
C2	-	-	-
Grand Total A+B+C1	169.3	23.2	39.2
C2	-	-	-

6.3.4 SRK Comments

SRK has reviewed the estimation methodology used by Silvinit to derive the above estimates and the geological assumptions made and considers these to be reasonable given the information available. SRK has also undertaken various re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions.

Overall, SRK considers the resource estimates reported by Silvinit to be a reasonable reflection of the total quantity and quality of material demonstrated to be present at the four assets as of 1 January 2011.

6.3.5 SRK Audited Mineral Resource Statements

Tables 6-3 and 6-4 below present SRK's audited resource statement for sylvinite and carnallite respectively. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. Definitions for the different categories used by this reporting code are given in the glossary provided. In doing this, SRK has reported those blocks classified as A or B by Silvinit as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to this.

SRK has not attempted to optimise Silvinit's Business Plan. Consequently, SRK's audited resource statements are confined to those seams that both have the potential to be mined economically and which are currently being considered for mining only.

Table 6-3: SRK Audited Sylvinit Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	K ₂ O (%)	K ₂ O (Mt)
Mine 1			
Measured	154.7	17.3	26.8
Indicated	86.0	16.3	14.0
Measured + Indicated	240.7	17.0	40.8
Inferred	-	-	-
Mine 2			
Measured	252.6	17.3	43.8
Indicated	279.9	18.6	52.2
Measured + Indicated	532.5	18.0	96.0
Inferred	-	-	-
Mine 3			
Measured	190.8	18.0	34.3
Indicated	1,264.3	17.4	220.3
Measured + Indicated	1,455.1	17.5	254.6
Inferred	-	-	-
Polovodovsky			
Measured	694.1	16.7	115.8
Indicated	2,379.4	17.4	413.9
Measured + Indicated	3,073.5	17.2	529.7
Inferred	260.8	15.3	39.8
Total			
Measured	1,292.1	17.1	220.7
Indicated	4,009.7	17.5	700.4
Total Measured + Indicated	5,301.8	17.4	921.1
Inferred	260.8	15.3	39.8

Table 6-4: SRK Audited Carnallite Mineral Resource Statement at 1 January 2011

Category	Tonnage (Mt)	MgCl ₂ (%)	MgCl ₂ (Mt)
Mine 1			
Measured	169.3	23.2	39.2
Indicated	-	-	-
Measured + Indicated	169.3	23.2	39.2
Inferred	-	-	-
Total			
Measured	169.3	23.2	39.2
Indicated	-	-	-
Inferred	-	-	-
Total Measured + Indicated	169.3	23.2	39.2
Inferred	-	-	-

6.4 Ore Reserve Estimation

6.4.1 Introduction

Silvinit does not report reserves as these are typically defined by reporting guidelines and terminology developed in Europe, North America and Australia; that is, estimates of the tonnage and grade of total material that is planned to be delivered to the various processing plants over the life of the mine. SRK has therefore derived estimates of such using historical information gained during its site visit regarding the mining losses and dilution experienced during mining to date. SRK has also restricted the resulting estimates to those areas planned to be mined by Silvinit in SRK's adjusted Business Plan during the next 20 years. As commented in Section 3 of this report, the adjusted Business Plan assumes that Silvinit will successfully re-negotiate its Mining Licences in 2013 and the Ore Reserve Statements therefore also assume this will be the case.

6.4.2 Modifying Factors

The Modifying Factors applicable to the derivation of reserves comprise estimates for ore losses and dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected.

The ore losses primarily comprise material left behind in pillars, while the grade factor represents the relationship between the grade of the ore delivered to the plant and the in-situ grade. The ore losses associated with boundary, shaft, primary underground infrastructure and drillhole pillars are accounted for in the calculation of Mineral Resources. The ore losses used in the conversion of resources to reserves reflect the mining pillars remaining behind in the mining panels. SRK has been provided with the ore losses incurred at each of Silvinit's mines and seams for the last 10 years and this is tabulated below in Table 6-5.

Table 6-5: Historical Mining Losses

Year	Units	Mine 1 Sylvinit	Mine 2 Sylvinit	Mine 3 Sylvinit	Mine 1 Carnallite
2000	%	55.2	58.1	56.0	66.4
2001	%	57.4	56.5	55.3	66.6
2002	%	59.8	55.6	55.7	66.4
2003	%	58.5	56.2	56.4	65.3
2004	%	60.6	58.3	57.8	67.3
2005	%	60.4	57.9	57.7	66.5
2006	%	60.6	58.3	56.0	67.8
2007	%	60.6	58.8	55.8	68.4
2008	%	60.1	57.2	55.2	69.1
2009	%	60.4	55.6	55.5	67.6
2010	%	59.8	56.9	55.5	70.2
Total	%	59.4	57.2	56.1	67.4
5 Year Average	%	60.3	57.4	55.6	68.6

Similarly, the waste dilution encountered through mining predominantly due to the necessity to follow the hangingwall contact of the seam and undulations as a percentage of the in-situ ore mined is tabulated below in Table 6-6.

Table 6-6: Historical Mining Dilution

Year	Units	Mine 1 Sylvinit	Mine 2 Sylvinit	Mine 3 Sylvinit	Mine 1 Carnallite
2000	%	7.9	10.4	8.5	2.6
2001	%	7.0	9.7	8.8	3.5
2002	%	6.3	8.8	9.9	2.9
2003	%	6.4	8.5	10.7	2.6
2004	%	6.6	7.9	9.4	2.7
2005	%	5.6	8.0	9.4	2.9
2006	%	5.9	7.3	10.3	2.9
2007	%	6.1	8.3	10.3	2.8
2008	%	5.8	8.9	9.9	2.9
2009	%	5.5	9.2	10.7	2.7
2010	%	5.7	8.6	13.0	2.7
Total	%	6.3	8.7	10.1	2.8
5 Year Average	%	5.8	8.5	10.8	2.8

The historical mining losses and dilutions are highly consistent as would be expected given the homogenous nature of the orebodies being mined and the fact that the mining method has remained constant. In addition to the dilution factor, SRK has compared the in-situ grades with the ore reported have been fed to the plants to derive grade factors reflecting the relationship between the two. The mined and processed grades for the last five years plus an average grade factor are presented in Table 6-7 and Table 6-8 below for sylvinit and carnallite respectively.

Table 6-7: Historical Mined and Processed Grades, Sylvinit Ore

Year	Units	Mine 1		Mine 2		Mine 3	
		Mine	Process	Mine	Process	Mine	Process
2006	%KCl	26.9	25.4	28.4	26.1	28.4	24.9
2007	%KCl	27.4	25.0	30.8	27.4	27.7	24.7
2008	%KCl	27.0	25.0	30.4	27.0	28.9	25.2
2009	%KCl	26.3	23.7	30.6	26.4	29.4	25.4
2010	%KCl	26.4	24.6	29.6	26.1	28.8	25.1
Total	%KCl	26.8	24.7	30.0	26.6	28.6	25.0
Grade Factor (%)		92.3		88.7		87.5	

Table 6-8: Historical Mined and Processed Grades, Carnallite Ore

Year	Units	Mine 1	
		Mine	Process
2006	%KCl	25.1	24.3
2007	%KCl	24.7	23.9
2008	%KCl	24.8	24.0
2009	%KCl	24.8	23.6
2010	%KCl	24.7	23.6
Total	%KCl	24.8	23.9
Grade Factor (%)		96.2	

The Modifying Factors considered by SRK to be appropriate for the sylvinit and carnallite ore being mined at each of the mines based on the five year historical performance are summarised in Table 6-9 below, though the dilution has been further increased above the five year historical value to reflect the results of the grade reconciliation undertaken by SRK as presented above.

Table 6-9: SRK Modifying Factors

Year	Units	Mine 1	Mine 2	Mine 3	Mine 1
		Sylvinit	Sylvinit	Sylvinit	Carnallite
Ore Loss	%	60	57	56	69
Extraction Factor	%	40	43	44	31
Dilution	%	8	12	14	4

6.4.3 *SRK Audited Ore Reserve Statements*

As with its audited Mineral Resource statements, SRK's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code.

SRK has not attempted to optimise the Silvinit Business Plan. Consequently, SRK's audited Ore Reserve statements are confined to those seams that are currently being considered for mining only and reflect the minimum mining width of 2m and K₂O block cut-off grades of 13% (21% KCl) as used by Silvinit. Specifically, for the operating mines, SRK has classed that material reported in Table 6-2 as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported in Table 6-2 as either a Measured and/or Indicated Mineral Resource, and which is planned to be exploited during the following ten years of the Business Plan, as a Probable Ore Reserve.

In the case of Polovodovsky, SRK has not transferred any of the reported Measured or Indicated Mineral Resource to Ore Reserve status, given that technical studies are ongoing to confirm the potential economics of developing this as a separate mine. In addition no Inferred Mineral Resources have been converted to Ore Reserve.

SRK can confirm that the Ore Reserve defined in Tables 6-10 and 6-11 below have been derived from the resource blocks provided to SRK and incorporate sufficient estimates for ore losses and dilution based on actual historical data. The break-even price required to support this statement is USD125/tonne in January 2011 terms. This is calculated as the price required to cover all cash operating costs including distribution.

The differences between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed and partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed, which SRK has taken to be that material planned to be mined during the period covered by Silvinit's 20 year Business Plan. All three mines have the potential to extend the mine life beyond the current 20 year period covered by the Business Plan. At the currently assumed production rates, Mine 1 and Mine 2 could potentially extend for a further 5 and 6 years respectively while Mine 3 could extend the mine life in excess of a further 20 years.

Table 6-10: SRK Audited Sylvinit Ore Reserve Statement at 1 January 2011

Category	Tonnage (Mt)	K ₂ O (%)	K ₂ O (Mt)
Mine 1			
Proved	41.7	16.0	6.7
Probable	41.8	15.7	6.5
Total	83.5	15.8	13.2
Mine 2			
Proved	97.8	15.5	15.2
Probable	97.9	16.4	16.0
Total	195.7	15.9	31.2
Mine 3			
Proved	95.7	15.8	15.1
Probable	122.1	15.3	18.7
Total	217.8	15.5	33.8
Total			
Proved	235.2	15.7	36.9
Probable	261.8	15.7	41.2
Grand Total	497.0	15.7	78.2

Table 6-11: SRK Audited Carnallite Ore Reserve Statement at 1 January 2011

Category	Tonnage (Mt)	MgCl ₂ (%)	MgCl ₂ (Mt)
Mine 1			
Proved	8.8	22.3	2.0
Probable	-	-	-
Total	8.8	22.3	2.0
Total			
Proved	8.8	22.3	2.0
Probable	-	-	-
Grand Total	8.8	22.3	2.0

7 MINE ENGINEERING/DESIGN

7.1 Introduction

Silvinit currently operates three mines which exploit orebodies at depths below surface of between 250 m and 400 m. The combined production rate in 2010 was 21.3 million tonnes per annum (Mtpa) run of mine (RoM) production of sylvinite ore and 0.5 Mtpa of carnallite ore which is sold to the adjacent magnesium plant. Actual production achieved in some recent years has been significantly below the design capacities of the mines as a result of reduced and uncertain market demand.

All three mines exploit the B, AB and Red2 seams, for sylvinite ore with carnallite ore production limited to the B seam at Mine 1. Overall, the deposit is fairly uniform and the approach to mine development and production is similar, and the equipment standardised at all the operating sites. Room and pillar with long pillars is the standard mining method with variations to suit the site specific geotechnical conditions.

The ore has a low strength which allows mechanical excavation by means of cutting with pick bits. The uniaxial compressive strength (UCS) values are in the range of 19 to 23 MPa in the Red2 seam and 16 to 19 Mpa in the AB Seam respectively.

Detailed mining planning is usually only undertaken one year in advance such that Silvinit is currently working off a detailed plan which covers production for 2011. Beyond this period no detailed mining plans are produced, however, more schematic plans are produced which generally demarcate the area that will be mined for each mine and each seam until the end of the mine life.

7.2 Mine Descriptions

7.2.1 Mine 1

The Mine 1 license area is located to the west of the property and is approximately 6.3 km by 6.3 km in extent thereby covering a total area of 45 km². Mine 1 is bounded by Mine 2 to the south and Mine 3 to the east. Mine 1 commenced operation in 1934 at a production rate of 1.5 Mtpa of sylvinite ore, with carnallite ore introduced in 1936 at a rate of 0.4 Mtpa. The current design capacity of the Mine 1 complex is 4.55 Mtpa and 0.68 Mtpa for sylvinite and carnallite ore respectively.

Prior to the global financial crisis production of sylvinite and carnallite ore was 4.5 Mtpa and 0.7 Mtpa respectively. In 2009, sylvinite production reduced to 1.8 Mtpa but has since been increased due to positive market conditions for potash. For 2011 the planned production for sylvinite ore is 4.07 Mt at a grade of 25.1% KCl and it is also planned that this will be increased slightly to 4.18 Mtpa from 2012. The planned production of carnallite ore in 2011 is 0.44 Mt at grade of 22.3% MgCl₂ and will be maintained at this level for the duration of the Business Plan.

Mining for sylvinitite is conducted from the B, AB and Red2 seams whilst carnallite ore is extracted from the B seam. The average thickness of the sylvinitite B, AB and Red2 seams planned in 2011 is 3.6 m, 3.2 m and 5.4 m respectively. The average thickness of the carnallite B seam is 8.0 m.

The Red 2 seam provides the majority of the sylvinitite ore and for 2011 the contribution of the total production from this will be 3.4 Mt (84% of the total) with the B seam (9%) and AB seam (7%) providing the balance. A significant amount of backfilling is undertaken and the plan for 2011 is to backfill some 2.85 Mt.

The depth of the Red 2 seam varies from some 260 m to 350 m below surface with moderate dips of less than some 5°.

7.2.2 *Mine 2*

The Mine 2 license area is located to the southwest of the property and comprises an area of approximately 8.6 km by 7.3 km (50.4 km²). Mine 2 is bounded by Mine 1 to the north and Mine 3 to the east, produces only sylvinitite ore and commenced operation in 1973 at a production rate of 7.0 Mtpa, although the nominal capacity is reported to be 8.0 Mtpa.

Prior to the global financial crisis, the production of sylvinitite ore from Mine 2 was between 8.4 and 8.8 Mtpa but this was reduced to 6.2 Mtpa in 2009 due to the global financial crisis before being increased again due to positive market conditions for potash in 2010. For 2011 the plan is to mine some 9.68 Mt at a mean grade of 25.2% KCl and it is planned this will be increased slightly in subsequent years so as to provide 9.79 Mtpa from 2012 onwards.

Mining for sylvinitite is conducted from the B, AB and Red2 seams and although the thickness of the seams varies from some 2-8 m the average thickness for each seam is some 5.7 m, 4.4 m and 5.9 m respectively. The depth of the seams varies from some 200m to 330m below surface with moderate dips of some 3-5°.

For 2011 the planned contribution from the B, AB and Red2 seams is 1.45 Mt (15% of the total), 4.16 Mt (43%), and 4.07 Mt (42%) respectively. Backfilling is also undertaken at Mine 2 and the plan for 2011 is to backfill some 2.90 Mt.

7.2.3 *Mine 3*

The Mine 3 license area is located to the east of Mine 1 and Mine 2 and covers an area of some 16.4 km by 8.9 km (or some 110.3 km²). Mine 3 is bounded by Mine 1 and Mine 2 to west. It commenced operation in 1983 at a production rate of 4.4 Mtpa of sylvinitite but this has since been progressively increased through the commissioning of further sections to some 10 Mtpa. The current design capacity of Mine 3 is 12.6 Mtpa.

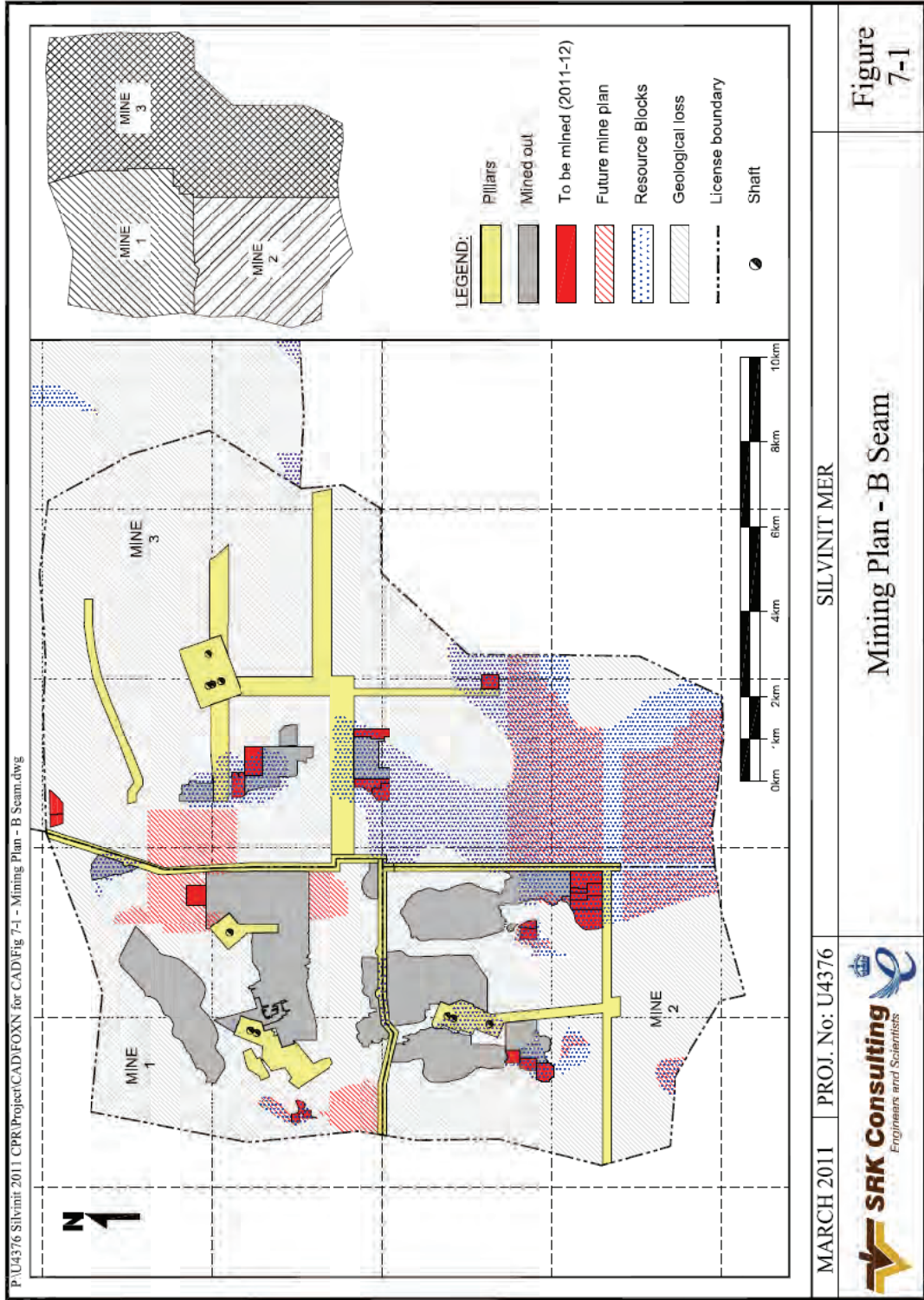
Prior to the global financial crisis production of sylvinitite ore varied between 9.5 and 10.2 Mtpa which reduced to 6.6 Mtpa in 2009 due to the global financial crisis but has since been increased. The planned production during 2011 is 10.5 Mt at a mean grade of 24.5% KCl and it is envisaged that this will increase slightly to 10.9 Mtpa from 2012.

The B, AB and Red 2 seams and are all mined and although the thickness of the seams varies between some 2 and 8 m the average thickness of each is some 3.8 m, 3.0 m and 4.2 m respectively. The depth of the seams varies from some 250 m to 380 m below surface and they dip at moderate angles of between 3 and 5°.

The production plan for 2011 assumes the mining of 2.0 Mt (19%), 3.8 Mt (36%), and 4.7 Mt (45%) from the B, AB and Red2 seams respectively. Backfilling is also undertaken at Mine 3 and the plan for 2011 is to backfill some 1.85 Mt.

Figures 7-1, 7-2 and 7-3 below are plan views of all 3 mines for the B, AB and Red2 seams respectively indicating the areas mined out to date, the locations of boundary and shaft pillars, the areas to be mined according to the short term mining plan (2011-12), the areas to be mined over the long term mining plan and the underlying resource blocks.

Figure 7-1: Mining Plan, B seam



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Mining Plan - B Seam

Figure
7-1

Figure 7-2: Mining Plan, AB seam

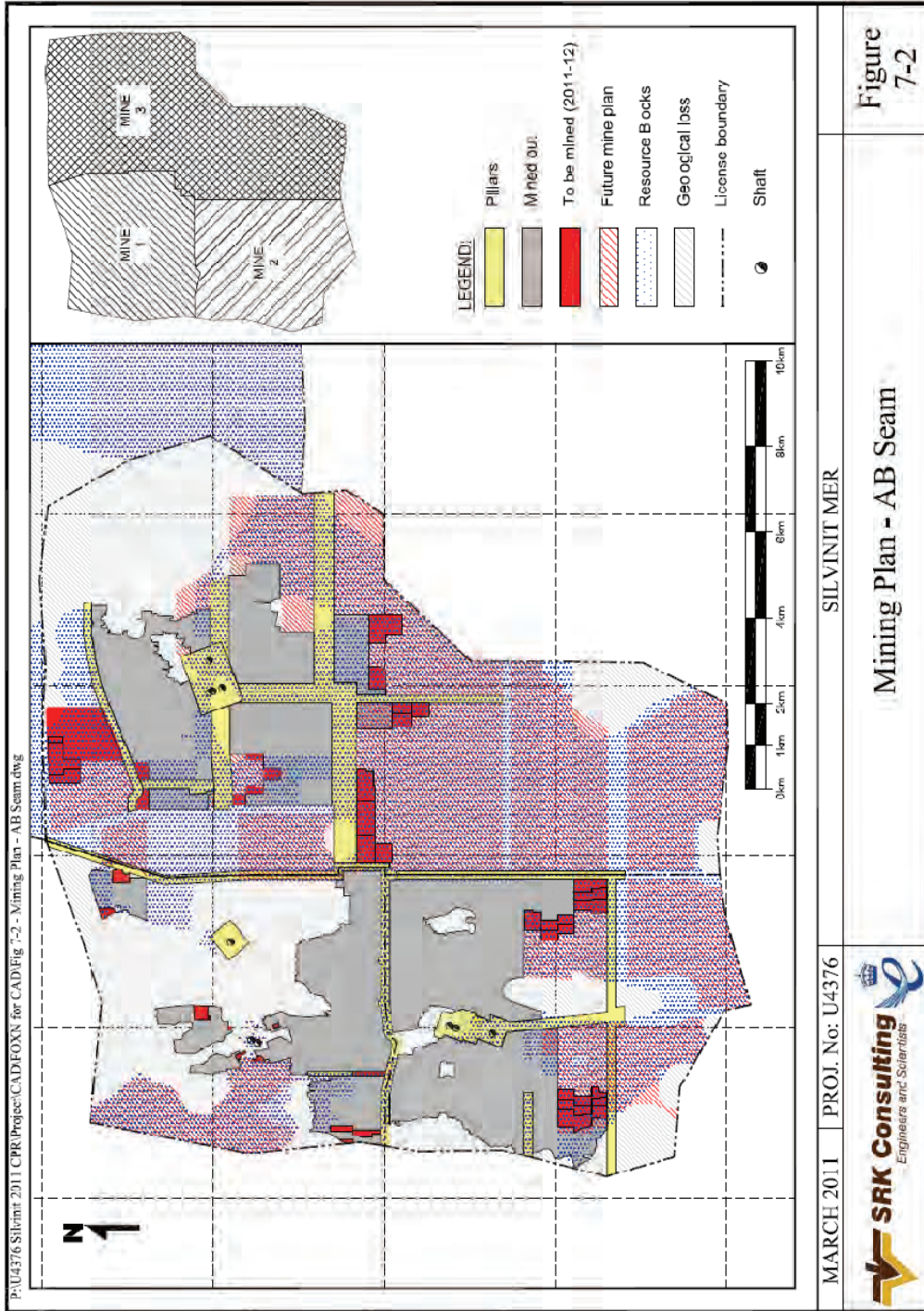
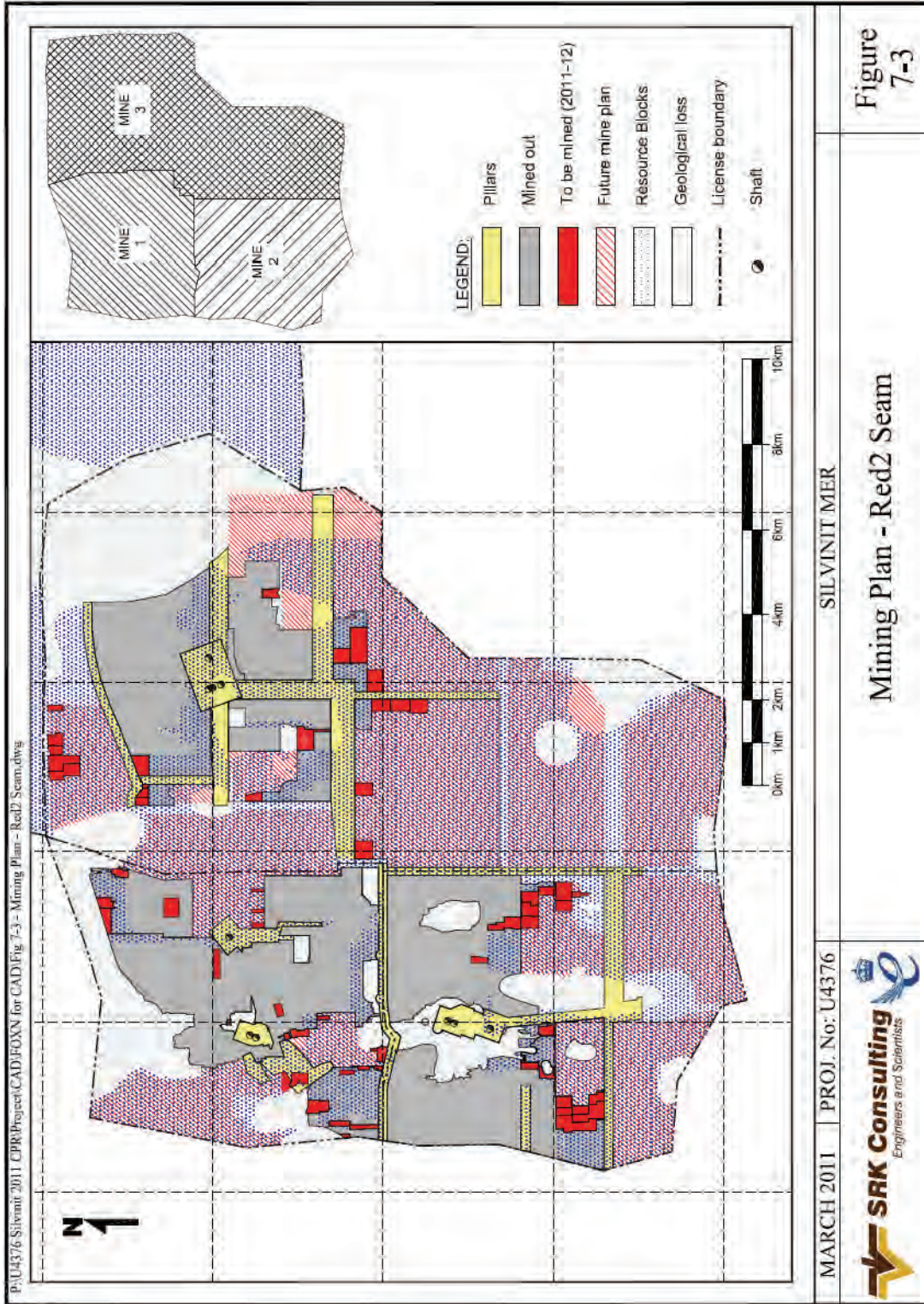


Figure 7-3: Mining Plan, Red2 seam



7.3 Access Development

The mines are all accessed by vertical shafts. The target seams are covered by chemical and clastic sediments, salt, marl, limestone and poorly consolidated, water bearing material. The shafts have all been constructed by means of the freezing method and were lined in the overburden strata with cast iron tubings. This method allows the sinking through unconsolidated water bearing strata as it creates an immediate permanent hydrostatic lining behind the shaft bottom during construction. In the evaporative measures, the shafts have conventional concrete linings.

Mine 1 has three shafts comprising a men, material and hoisting shaft for sylvinit ore and one for carnallite ore as well as a ventilation shaft. The deepest shaft which is used for sylvinit production is 400 m in depth and equipped with two 24 t skips capable of hoisting 4.5 Mtpa and commenced production in 1978. The carnallite production shaft was commissioned in 1998 and the ventilation shaft in 1932. The ventilation shaft and carnallite production shaft are located as a single complex towards the centre of the license area and are used as intake shafts. The sylvinit production shaft is located to the east of the license area and used for return ventilation. The shaft complexes are connected by a number of haulages and drives installed on the halite layer below the potash seams. The shafts and hoisting equipment have undergone rehabilitation by Silvinit over the last 5-10 years.

Mine 2 also has three shafts comprising a men and material shaft and a hoisting shaft located in a complex some 1.5 km south of the northern boundary and a combined men, material and hoisting shaft located some 0.8 km to the south of the main complex. The dedicated hoisting shaft in the main complex is equipped with two winders each with two 20.5 t skips and is capable of hoisting 8.0 Mtpa. The southern shaft is equipped with a single rock hoisting winder with two 25 t skips and is capable of hoisting 4.0 Mtpa. The total hoisting capacity of Mine 2 is therefore 12.0 Mtpa based on a calendar of 327 days per year and 18 hours per day of hoisting. The men and material shaft in the north is used as the main intake airway and the ore hoisting shaft as the main return airway. The southern shaft is not used for ventilation purposes. The shaft complexes are connected by a number of drives and haulages located within the halite layer below the potash seams. There are two levels of infrastructure development at Mine 2 installed at the -143 mRL to the east and the -220 mRL elevations.

Mine 3 has a total of four shafts comprising two rock hoisting shafts, a men and material shaft and a combined men, material and hoisting shaft. However one of the rock hoisting shafts is not operational and requires a further 80m of sinking and can be brought into production once equipping and commissioning is completed which is currently expected to be during 2015-16.. All the shafts are situated in the same complex which is located in the northern half of the license area. The operational dedicated hoisting shafts is equipped with two winders each and two 25 t skips and is capable of hoisting 10.4 Mtpa whilst the rock hoist in the combined men, material and hoisting shaft is capable of some 0.7 Mtpa. The total hoisting capacity of Mine 3 is therefore 11.1 Mtpa. The two men and material shafts are used as the main intake airways and the rock hoisting shafts as return airways. The shafts are connected by a number of drives and haulages located within the halite layer below the potash seams.

Each license area is divided into principal areas and accessed by main development drives from the shafts with the panel conveyor drives installed generally at right angles to the main conveyor development. The section conveyor drives are generally installed on 400 m centres and the length determined by the mine boundaries or geotechnical conditions pertinent to the water protection layer but typically some 1.5-4.0 km. The boundary between adjacent mines is 200 m in width. The accesses are principally developed as single or twin drives with regular connections to ensure through ventilation, flexibility and a means of egress in the event of an emergency. Transport underground is principally by conveyor for ore and rubber tired mobile equipment for men and materials. Electric locomotives are however used at Mine 1 for the transport of carnallite ore on the -143 mRL.

The main development drives, as well as the near shaft infrastructure excavations, are typically located in the halite underlying the working seams. The halite provides excellent geotechnical conditions for life of mine excavations and in general there is no ground support in this material other than occasional spot bolting and bolting of intersections. The middling between the halite infrastructure and the Red 2 seam is typically some 20-25 m thick.

The main development drives are mechanically excavated by means of full two rotor continuous miners, which cut a fixed profile. The profiles are determined by the seam, but are designed to accommodate the belt conveyor, provide sufficient clearance for underground mobile plant and vehicles and allow sufficient airflow to the production panels.

Ramps connect the main development level with the in-seam production levels. Drilled small diameter ore passes transfer the ore from the production levels onto the belt conveyors.

Any halite development waste is stowed in mined out areas and hydraulic backfill is piped to the underground workings from surface. The underground workings are equipped with power and compressed air reticulation.

7.4 Production Mining

7.4.1 Mining Method

The stoping section is accessed by ramps from the halite layer below the lowest seam and the central panel access in the seam is driven parallel and above the conveyor drive. The standard mining method at Silvinit's mines is room and pillar with long pillars. Panel sections are installed at 200m centres and the rooms excavated from the panel drives at right angles. The cross-sections of the rooms are determined by the profile of the continuous mining units and the seam heights. The rooms are excavated in one pass, or in wider areas in the Red2 Seam in two or three passes, with a top cut and eventually one or two bottom cuts.

The width of the rooms is dependent on the dimensions of the continuous mining machine, the seam heights and the geotechnical constraints in terms of extraction. The standard width of the rooms for the smaller Ural 10A continuous miner is 4.3 m whilst those for the larger Ural 20A and Ural 20R are 5.3 m and 5.5 m respectively. The configuration of mining may lead to a standard room and pillar width or larger rooms and pillars depending on the geotechnical procedures. The rooms are arranged in right angles to the entry development and are generally mined in a retreat mode. The upper seam is advanced ahead of the lower seam where more than one seam is mined in an area.

The pillars between the rooms at the mines are generally designed as stiff pillars on the assumption that they uniformly support the load of the overlying strata above the pillars and the surrounding rooms. In certain areas the roof is allowed to yield.

The dimensions for room and pillar panels with stiff pillars at the mines are in the following ranges:

- Room Length 190 to 200 m
- Room Width 4.3 to 9 m
- Pillar Width 4.7 to 21.5 m

The rooms are force ventilated by auxiliary ventilation systems. Separate exhaust airways in the panels channel the return air to the to the exhaust mains.

7.4.2 Mining Equipment

The mining equipment in any one panel typically consists of a continuous miner, a bunker car and an electric shuttle car. The shuttle car hauls the ore from the bunker car behind the continuous miner to the ore passes in the panel access drives. The bunker car behind the continuous miner allows the miner to cut ore, even when the shuttle car is not in position behind the chain conveyor. There are two principal sizes of continuous mining equipment systems at Silvinit’s mines: older 15 t (Ural 10A); and newer 25 t units (Ural 20A and Ural 20R) with principal design specifications summarised below in Table 7-1.

Table 7-1: Technical Data for Continuous Miners

Continuous Miner Type	Net Cutting Rate (t/min)	Installed Power (kW)	Operating Weight (t)	Cutterhead Profile (m ²)
Ural 10 A	5.0	527	65	10.2
Ural 20 A	6.4	590	82	15.3
Ural 20 R	7.0	745	91	15.7

The complement of continuous mining units at Silvinit’s mines is summarised below in Table 7-2

Table 7-2: Complement of Continuous Miners

Description	Mine 1	Mine 2	Mine 3	Total
Mining				
Ural 10A	7	-	13	20
Ural 20A	2	1	-	3
Ural 20R	9	19	18	46
Sub-total	18	20	31	69
Development				
Ural 10A	1	-	-	1
Ural 20A	2	3	3	8
Ural 20R	-	1	4	5
Sub-total	3	4	7	14
Total	21	24	38	83

The mines employ belt conveyors in the underground main haulage of ore and dry backfill material. The conveyor belts have standard widths of 1,000 mm and 1,200 mm in main haulage arteries. There are large fleets of auxiliary and personnel and material transport vehicles at each mine site to support the mining operation.

7.4.3 *Geotechnical Issues*

The mines do not employ geotechnical engineers with specific responsibility for the geotechnical management of the operation. The geotechnical design of the panel lay-outs and other major design issues is rather outsourced to central mining institutes and academic institutions. This issue is addressed more specifically with regards to water inflow management in Section 8 below.

7.4.4 *Seismicity*

The Verkhnekamskoye deposit has a history of seismic events. The largest event occurred at Silvinit's Mine 2 on 5 January 1995 and the resulting earthquake had a magnitude of $mL=3.8$ and was accompanied by surface subsidence of up to 4.5 m over an area with a diameter of some 600 m. The cause of the event was reportedly due a combination of geological, geotechnical, mining and mining engineering factors.

Subsequently reported natural seismic events at Silvinit's mines have been limited to microseismic events. Each of the mines maintains seismic monitoring stations to monitor the seismic activity which have been operational since 1999 and there has been no subsequent reported damage to Silvinit's operations as a result of natural seismic events.

Mining induced seismicity can be mitigated by strategies to avoid abutment stress concentrations. These strategies include placement of backfill, increased rigid pillar sizes and the use of mining sequences which avoid the creation of temporary regional pillars with increased abutment stresses.

7.4.5 *Outbursts*

The rapid desorption of the gases in the salts of the Verkhnekamskoye deposit can result in violent stress reliefs in the form of gas and salt outbursts (gas-dynamic events). Telltales for potential gas dynamic events are rock spalling, rock popping, high gas emissions from holes, chip emission of rock in boreholes and roof sagging at the generation of open fissures.

There are certain areas with an increased outburst potential, for example seam areas with increased clay content, sharp changes in seam height, transition zones from sylvinitic to carnallitic ore, discontinuity of salt layers and open fissures.

The Mining Institute of the Ural section of the Russian Academy of Sciences (UrO RAN) developed an empirical methodology to predict outburst potential. This has been used for decades and has repeatedly proved to be materially accurate. The methodology considers the gas concentration in the salt, the seam thickness and the mineralogical composition of the ore. The outburst potential is quantified by empirical formulas, specific to each seam. If the outburst potential Fr is >0 , the area is classified as outburst hazard area.

Mining in the identified outburst hazard areas is controlled by certain restrictions on the panel design, production sequencing and the operation. The pillars have to be stiff and adjacent panels have to be sequenced to minimise abutment stress concentrations. Short gas drainage holes also need to be drilled, continuous miners are operated by remote control and continuous observations and measurements are taken by the operators and mine officials in charge.

7.4.6 *Backfill*

Hydraulic backfill is used extensively at all three of Silvinit's mines as part of the mining method as well as for particular protection. The principal reasons for backfilling are:

- to protect surface infrastructure such as the town of Solikamsk;
- reduce subsidence;
- maintain the integrity of the water protecting layer; and
- improve ventilation control and underground environmental conditions .

The tailings material is slurried on surface adjacent to the shaft and directed to areas underground through pipes installed in the shafts. The mined areas allocated to backfill are filled to some 75-85% of their potential volume.

In addition to the hydraulic backfill development waste from mine development, all of which is halite, is also stowed underground in mined out areas however this immediate waste backfill does not have any geotechnical functions. The quantity of backfill planned for 2011 at each of the mines is summarised below in Table 7-3.

Table 7-3: Backfill Plan for 2011

Description	Mine 1 (Mt)	Mine 2 (Mt)	Mine 3 (Mt)	Total (Mt)
Hydraulic Fill	2.66	3.00	1.81	7.47
Mud Waste	0.15	0.10	0.04	0.29
Development Waste	0.05	0.34	-	0.39
Total	2.85	3.44	1.85	8.14

The amount of backfill at Mine 1, 2 and 3 compared to the production planned for 2011 comprises 70%, 35% and 20% respectively. The quantity of backfill at Mine 1 however includes some 0.9 Mt of backfill adjacent to drillhole intersections and beneath the town of Solikamsk. At Mine 1 which has been in operation since 1934 some 50.6 Mm³ of the 101.5 Mm³ of voids have been backfilled, equivalent to 50%. The backfilling practices employed are appropriate and the strength and quantity of backfilling is very good.

7.4.7 Ventilation

The mines typically have two main intake shafts using the men and material shafts and a single exhaust shaft which generally utilises the rock hoisting shaft. The shafts are generally located in the centre of the respective lease areas although for Mine 1 the return air shaft is located to the west of the license area. The intake air flows from the intake shafts through the main development drives below the seams to the active panels. Exhaust air from the panels flows back through the ventilation drives to the exhaust shafts. The exhaust shafts are equipped with fans located at surface. Development and blind production faces are ventilated by means of conventional pressure auxiliary ventilation equipment with auxiliary fan and vent ducting.

The salts of the deposit contain free and sorbed combustible gases. The gas content and qualitative gas composition vary over the deposit ranging from 0.15 to 0.2 m³ gas per m³ rock for the sylvinitic seam and 1.2 m³ gas per m³ rock for the carnallite seam at Mine 1. Desorption of these gases at slow rates results in gas emissions into the mine workings which if uncontrolled could result in fire, or an explosion, and in violent stress relief in the form of gas and salt outbursts.

The ventilation practices for the management of explosive gases in the air are similar to the gas management in western countries and in SRK's opinion appropriate. The major gases measured and monitored on a regular basis are methane and hydrogen. The specific procedures used include regular gas measurements by mine officials and continuous gas measurements on diesel equipment. Where gas concentrations exceed the given thresholds the mining equipment is isolated from its respective power source.

Gas monitoring is a preventive measure. In most cases gases are not detected and very seldom are established thresholds exceeded.

UrO RAN developed a methodology to predict gas release rates, classify mining areas in hazard groups, undertake geophysical investigations and determine ventilation requirements.

Silvinit uses this methodology to manage the potential hazards associated with the occurrence of gas.

The total ventilation requirements of the mines for 2011 are shown in Table 7-4 in comparison to the installed capacity. During winter the intake air is heated with hot water.

Table 7-4: Ventilation Requirements

Description	Maximum Capacity (m ³ /min)	Installed Capacity (m ³ /min)	2011 Airflow (m ³ /min)
Mine 1	35,830	17,350	9,083
Mine 2	35,400	23,500	13,033
Mine 3	35,200	23,400	18,683

7.4.8 *Silvinit Business Plan Projections*

The Silvinit Business Plan assumes slight increases in the long term mining production to that planned for 2011 and reaching 4.2 Mtpa, 9.8 Mtpa and 10.9 Mtpa of sylvinit ore from Mine 1, Mine 2 and Mine 3 respectively from 2012. Carnallite ore production, which is limited to Mine 1, is planned at some 0.4 Mtpa and is comparable to that historically produced. The quantity of sylvinit ore planned at Mine 1 is comparable to that historically produced whilst production at Mine 2 and Mine 3 is some 10% and 5% higher than that previously achieved respectively. The planned production for Mine 2 and Mine 3 is however within the hoisting capacity of the shaft facilities which is some 12.0 Mtpa and 11.1Mtpa respectively.

The mining lease area at each of the mines is extensive and the halite development and supporting infrastructure is well established and considered by SRK as capable of supporting the Business Plan projections. The production at any one shaft is obtained from a number of separate production areas which lessens risk. Silvinit has invested in upgrading mining equipment at each of the mines with a positive impact on the average age of continuous miners, shuttle and bunker cars. Additional equipment is planned to be replaced in 2011. Work is also undertaken on the shafts, steel work, concrete and water proof lining and facilities including repairs and modifications where necessary.

The average grade of sylvinit and carnallite ore planned to be mined in Silvinit's Business Plan is the same each year and equivalent to that planned for 2011 at 24.9% KCl and 22.3% MgCl₂ respectively. The grade planned is equivalent to a fully diluted grade and comparable with that historically achieved. The Business Plan projections for Silvinit's operations have been limited by SRK to a period of 20 years to 2030. There is remaining mineral resource at each of the mines which could support continued production beyond this period particularly at Mine 3. In order to maintain production capacity, the southern part of the Mine 3 license area is planned to be accessed and mined through the Mine 2 facilities. This will extend the life of Mine 2 beyond that indicated by the Ore Reserves contained within the license area.

7.4.9 *SRK Comments*

The infrastructure of shafts and underground development as well as the mining operations at each of Silvinit's mines are well established. The underground mining layout, equipment and mining techniques are proven and similar to those used at adjacent operations. The room and pillar mining method uses mechanical excavation techniques and long pillar layouts and is a simple and suitable mining method given the geological and geotechnical conditions characteristics of the Verkhnekamskoye deposit.

The production rates planned at each of the mines of 4.2 Mtpa, 9.8 Mtpa and 10.9 Mtpa for Mine 1, Mine 2 and Mine 3 respectively for sylvinit ore are comparable to those historically achieved and within the capacity of the shaft hoisting systems in operation. The total production rate for sylvinit ore is 24.3 Mtpa is also comparable to the company's production rate of 23.2 Mtpa achieved before the global financial crisis of 2008 and 2009. Production of carnallite ore is planned to be maintained at 0.4 Mtpa which is also comparable to that historically achieved and limited by the capacity and production plan for the nearby magnesium plant. The grade planned to be mined is fully diluted and incorporates sufficient allowance for dilution from mining.

There has been a focus on replacing mining equipment and on-going refurbishment of the principal shaft and hoisting facilities at each of Silvinit's mines over the last few years. Although maintenance of the production rate is dependent on continued investment in equipment, SRK consider that there is sufficient equipment and facilities in place to meet the requirements of the company's Business Plan. Extraction ratios at each of the mines are some 40-44% and comparable to those achieved at other operations and in accordance with detailed mine design and technical procedures. The conditions underground are good and the extensive use of backfill is well managed and appears to lessen the risks associated with mining induced subsidence and potential damage to the water protection layer. Although there remains an element of risk associated with seismicity and water ingress, SRK is confident that the procedures and techniques followed by Silvinit management are appropriate to provide confidence of continued mining at the production rates planned.

8 HYDROGEOLOGY AND WATER INFLOW

8.1 Conceptual Model of Groundwater Inflow

8.1.1 *Lithology and Stratigraphy*

The Silvinit potash deposits are part of the Permian Verhnekamsky basin formed approximately 275 million years ago. This basin extends for approximately 100km in a N-S direction and 35km in a E-W direction. The evaporate deposits can reach a total thickness of around 500m. The potash ore occurs in several layers (seams) in the upper part of the evaporites. In the lowermost potash horizons, the potash mineralisation is sylvinite, whereas the upper horizons are mineralised by carnallite with varying amounts of sylvinite, especially in the lower part. Beside the potash minerals the potash layers contain halite.

The evaporate units are overlain by marls, carbonate rocks and varied coloured argillite and sandstone of upper Permian age (formed approximately 275 to 250 million years ago) and underlain by thick halite.

Table 8-1 shows summary of the stratigraphic sequence beneath Soliakamsk.

In summary

- The potash units are towards the top of the evaporate sequence, underlying them is approximately 400m of halite;
- The mineable deposits comprise approximately 100m of sylvinite and carnallite. Two zones are mined, the lower 15-35m thick sylvinite zone (including the Red2 and AB seams) and the upper sylvinite-carnallite zone (including the B seam);
- A transition zone comprised of alternating halite, gypsum and marl of approximately 25m thickness forms the roof of the mineable strata – it is. Above this there is a salt/clay/marl unit approximately 50m thick. Together, these two units comprise the Water Protecting Layer (WPL). This is a barrier which protects the mine from overlying fresh water.
- Above the WPL is approximately 100m of limestone-marl and limestone-sandstone. These units are highly permeable and contain relatively fresh groundwater;
- Up to 100m of varied sedimentary deposits overlain by recent fluvio-glacial unconsolidated units, complete the sequence.

The WPL contains fractures and faults of tectonic origin and localised fractures caused by salt deformation. Faults can cut across evaporite beds forming connections between the workings and brines of the transitional zone. Some deep faults have closed or attenuated due to salt movement, although these can be reactivated by mining induced stress.

Table 8-1: Summary Stratigraphic Column

Age	Maximum Thickness (m)	Name	Lithology	Hydrogeology
Quaternary	18-20		Fluvioglacial sediments. Sand, loams with rubble and pebble inclusion.	Limited permeability and groundwater flow. Low yield and weakly mineralised
Permian	0-60		Sedimentary - comprising multicoloured clays, shales, mudstones, sandstones & marls.	Low yield due to heterogeneity and compartmentalisation of aquifers. Isolated aquifers can be connected by faults. .
	70-100	Terrigenous-carbonate complex	Limestone/sandstone	Boreholes produce up to 50 l/s of 200-500 mg/l (TDS) water. CaHCO ₃ water dominated. Recharged by precipitation and cross aquifer flow
			Limestone marl	Very permeable, contains a lot of water especially in anticlinal structures. Lower marl less permeable and water often perched in limestone
	50-90	Salt marl complex	Marl overlying thin gypsum beds & thin salt in lower sections	Upper part is an aquifer of fissured marls. Head of 150m above base of mine.
	15-20	Halite		
	50-70	Sylvinite & Carnallite (& Halite)	Upper 25m is Transition Zone - halite alternating with marls and gypsum	Small amounts of brine associated with sedimentation & diagenesis
	20-30	Sylvinite (& Halite)		
	400	Halite		

8.1.2 Groundwater Occurrences

The evaporites are overlain by a varied sequence of sedimentary rocks, some of which are significant aquifers. Groundwater occurs in the quaternary soft rocks, the varied coloured clay and sandstones, the carbonate rocks and the upper part of the marl formation. The lower part of the marl formation contains rock salt layers and is usually dry. In some drill holes these rock salt layers have not been found and it is assumed that in these parts the lower part of the marl is groundwater bearing. The evaporite sequence usually is dry with occasional small brine pockets.

In the upper Quaternary sediments the major water bearing units are the sandy gravel deposits with yields of between 0.5-1 l/s. However, the key aquifer of interest is the terrigenous carbonate which is thick and highly permeable and contains fresh groundwater approximately 100m above the mine. Well yields of up to 28 l/s are measured with permeabilities of up to 10 m/d underlying Soliakamsk. If circumstances permit, this groundwater has the potential to flow along opened structures, dissolve evaporites and enter the mine.

8.1.3 *The Water Protection Layer*

In the Verkhnekamsky Deposit the mining horizons are separated from the overlying units by the Upper Water Protection layer (WPL). This is a sequence of low permeability units comprising:

- (1) the unmined parts of the carnallite potash ore interval, which has a thickness in the range of 35m to 50m, depending on whether the carnallite horizon ('B-Seam') is mined, but also on local thickness variations;
- (2) the cover rock salt strata varying in thickness between 17m to 22m; and
- (3) the rock salt bearing strata of the lower part of the marl formation, with varying thickness of up to 50m.

Beneath the potash, the Lower WPL consists of the underlying halite with a thickness of the order of 300m. This protects the mine from upward seepage of groundwater and hydrocarbons.

For the Verhnekamsky deposit, the determination of tectonic and/or dissolution structures and the specific geology of the Upper WPL is essential for the safety of the mining operation. These anomalies have been empirically discovered during mining operations and a key part of the work of the geological department is to find and identify them. It is the integrity of the low permeability WPL which is the main defence against water inflow.

The geological anomalies and the required measures to protect against water inflow and surface subsidence are included in the water protection procedures developed by the Mining Institute of the Russian Academy of Science, Rostekhnadzor ('Instructions for Mine Protection from Flooding and Protection of Undermined Objects in Conditions of the Verhnekamsky Potassium Salt Deposit' (hereinafter Instructions)). These legally binding Instructions:

- 1) lay down a series of procedures which need to be implemented to identify zones which might present a chance of failure of the WPL, and
- 2) set out the mining parameters required to be followed so as to minimise deformation of the WPL and subsidence at surface. Relevant mining procedures include geotechnical design of rooms and pillars as well as restrictions on potash extraction.

The Instructions and anomaly standards have been developed in consultation with the mining operations and have undergone at least 6 revisions since 1960. The set of Instructions now in force were developed in 2007 and are currently being updated for a planned issue in 2012.

8.2 **Management of Inflow Risk**

8.2.1 *Introduction*

Water inflows are a significant risk to potash mines. Globally, it is estimated that approximately 40% of potash mines are eventually lost to water inflow.

Mining induced fracturing can be caused by local settlement in the mine. In addition, deformation of the roof can lead to foliation of stratified sediments. Typically, initial water access to a dry mine can be gained through a very thin discontinuity, either activated or induced by mining operations. At the beginning of the process, the discontinuity allows a very small amount of brine to travel from the source of water to the mine through the salt formation. The water has enough time to become saturated long before it reaches the mine, but the pathway enlarges slowly, beginning at the point where the water enters the pathway and progressively reducing head losses. This evolution can remain unnoticed while the brine flow increases slowly, and the line separating unsaturated brine from fully saturated brine slowly progresses to the mine. When it reaches the mine, the process becomes explosive: the flow rate accelerates, preventing full saturation of the brine, which leads to (a) fast dissolution along the pathway and down to the mine, (b) further reduction of head losses, and (c) a still larger flow rate. The explosive feature of the process explains why some potash mines have been abandoned after the onset of an initially limited brine flow.

The WPL is the barrier which separates the mine from overlying groundwater. Maintaining the integrity of this barrier is the key to protection against inflow.

There are four elements to prevention of inflows at the Silvinit operations, these are:

- Investigation and risk assessment;
- Geotechnical design and mining restrictions to minimise deformation
- Monitoring of subsidence and deformation
- Reduction of post mining deformation and subsidence through backfilling

These separate elements are summarised below.

8.2.2 *Investigation and Risk Assessment*

Geological investigation is carried out by the central Geological Department which consists of approximately 40 staff including 26 geologists and 8 geophysicists. There is no in house geotechnical expertise and any geotechnical design work is carried out by a design institute in Perm. There is also a surveying department which undertakes post mining subsidence and deformation monitoring.

The geological department undertakes a detailed set of geological and hydrogeological studies including:

- borehole drilling and sampling;
- geophysical surveys – including seismic, gravity and resistivity;
- geological and hydrogeological mapping;
- underground mapping and sampling;
- hydrochemistry and water quality assessments; and
- specific research projects into geology, hydrogeology and water inflow.

For the purposes of protection against water inflows, geological interpretations are focussed on the identification of anomalies. These anomalies comprise a set of geological, geophysical and hydrogeological features of the orebody and WPL which together define one of four risk categories. Specific mining strategies are then defined by the instructions. The assignment to a type of anomaly zone depends on the nature and quality of the deviation, which depends on:

- (1) the nature of the upper WPL, specifically the presence of impermeable layers, overall thickness, lithological development and structures.
- (2) the lithological development of the potash-seams, for example sylvinite bearing or carnallite bearing potash layers,
- (3) results of geophysical exploration, either from the surface or from underground surveying prior to mining of a panel.

Based on the class of the anomaly zone, mining of the potash horizons in these areas is restricted as follows:

- Group 1 – No production allowed;
- Group 2 – Only one sylvinite seam can be mined;
- Group 3 – Some geotechnical and mining constraints; and
- Group 4 – No restrictions.

After a panel is mined, a further risk assessment is carried out using the actual ground conditions encountered. Depending on the level of risk, there can be further investigation, monitoring or backfilling implemented.

8.2.3 *Geotechnical Design*

Given the generally unsuccessful management of potash mine inflows once the water has entered the mine, measures to prevent inflow in the first place are critical. A key element of this is careful geotechnical design to minimise subsidence and deformation of the WPL.

Geotechnical design services are undertaken on behalf of the mine by a mining design institute in Perm. Site specific data which are input to the design process include geophysical, geological, hydrogeological surveys undertaken by Silvinit. In addition, rock mechanics laboratory testing is carried out on various samples.

Under the Instructions, specific mining parameters are mandatory where there are identified geological anomalies or specific features at surface which may require extra protection from subsidence e.g. buildings, pipelines. The current versions of the Instructions define how and what data must be acquired to identify specific geological, hydrogeological and rock mechanics situations. Permissible deformations are then calculated according to a risk assessment of the nature of the WPL. Following on from this, specific room and pillar designs are defined. The calculations are reviewed on an annual basis and checked against monitoring data.

The aims of the calculation scheme are to balance the mining safety and pillar stability on the one hand with minimal production losses through maximised stable room dimensions on the other hand, with the overarching requirement to avoid unnecessary deformation of the WPL and minimise the flooding risk.

Safety pillars are defined around shafts, drill holes, among districts and mines. Pillars are designed to be stiff not yielding. Yielding pillars have been identified as one of the causes of the 2007 mine inflow at Uralkali. Pillars between panels average 56m in width. Occasionally pillars are cut where monitoring indicates a risk of differential subsidence causing a threat to the integrity of the WPL or unacceptable subsidence at surface.

Silvinit states that each mining panel has its own mining parameters calculated with a review then carried out based on the actual ground conditions encountered.

8.2.4 Monitoring

The Survey Department monitors approximately 100km of survey lines at surface to observe subsidence. Lines are surveyed every two years or more frequently in areas of interest or potential hazard.

The Survey department collates data and sends this to a design institute in Perm. Advice is then forwarded to Silvinit on what actions need to be taken.

8.2.5 Backfilling

Closure of rooms after potash has been extracted can generate large stress redistribution which can allow discontinuities to open and provide access to the mine through created or activated discontinuities. Backfilling rooms can reduce the degree of subsidence and the amount of waste that needs to be stored on surface.

In potash operations worldwide there are typically two materials used for backfilling:

- waste halite from drift development – dry backfill;
- waste halite from potash processing transported as a slurry by pipeline – wet backfill

The advantage generally lies with slurry backfilling which leads to faster compaction and consolidation. Solidification of the slurry material occurs by sedimentation of residual fragments from the suspension and the crystallisation of new solids in pore spaces from the brine. Both wet and dry processes produce an artificial salt rock but the resulting compact material has mechanical characteristics similar to the surrounding material.

Slurry backfilling can achieve filling grades of up to 95% as opposed to a maximum of 90% for dry filling.

Long term measurements from German potash mines reveals the effect of backfilling upon surface subsidence. The German data show total subsidence of up to 3m without backfilling and 1-2 m with backfilling. The lowest subsidence with backfilling is seen when the gap between end of mining and beginning of backfilling is minimised.

At Silvinit, Mine 1 has been backfilling since 1974, Mine 2 since 1984 and Mine 3 since 1990. Over the three mines, 7 Mt of backfill were emplaced in 2010, this is planned to rise to 10 Mt in 2012.

The slurry backfill used at Silvinit consists of a mixture of rock salt residues from the processing plant and brine. The slurry material is mixed at the surface and transported to the mined out panels by gravity and pumping. The solid residues settle in the mined out workings, brine is gathered at the lowest point and pumped back to the surface.

Slurry placement begins on the upper AB seam. Drainage boreholes are drilled into the underlying seams. The slurry then fills up the lowermost panels through these boreholes. Once the lower seams are filled the AB seam will fill up to the highest level of the slurry delivery pipe. Typically Red2 will be 80-90% filled and AB 60-70%. The brine left after the solids have settled out is collected at the lowest point and pumped back to the process plant. Adjacent panels are filled through horizontal boreholes drilled through the pillars.

The impact of backfilling is analysed at Silvinit and has showed that the speed of subsidence is much reduced by backfilling while the final subsidence is around 1m compared to some 3m in an areas which has not been backfilled.

8.3 Inflow Incidents in the Verhnekamsky Basin and Lessons Learned

Silvinit has not lost any mines due to flooding, however, the nearby Uralkali operation has lost two mines in the last 25 years. The features common to both those inflows were:

- The affected areas were in old workings, mined according to earlier versions of the Instructions;
- Previously unidentified anomaly sets meant that there was an unidentified weakening of the WPL, with the potential to create permeable connections to the mine;
- Over extraction of potash ore led to fractures in the mine roof which connected with the weakness in the WPL.

Following the first incident at Uralkali (1986) additional protection measures were included in the next set of regulations in 1994. Changes and amendments were introduced in 2004 and 2008 including more detailed descriptions of geological features, improvements in calculating of geotechnical parameters and methods of protection against surface subsidence.

Following the incidents at Uralkali, a re-assessment was carried out at the Silvinit operation. This included geological and geophysical re-interpretation and monitoring in line with the regulations. It is reported that a post incident risk assessment was carried out after the second inflow incident at Uralkali in 2006. Anomalies were re-assessed and as a result of this the degree of backfilling was increased especially under urban areas.

8.3.1 *SRK Comments*

Protection against water inflows at Silvinit depends on protecting the integrity of the WPL. There are two key elements to this:

1. Weaknesses in the WPL are categorised into a number of anomalies which lead to specific mining parameters to avoid unacceptable deformation of the WPL
2. Mined panels are backfilled to support the roof and prevent unacceptable deformation.

The identification of anomalies requires a great deal of detailed geological interpretation and there is already a detailed understanding of the geology and groundwater flow mechanisms at Silvinit. The full range of geological, hydrogeological and geophysical techniques have been applied to define a realistic conceptual model for mine inflows and to identify the specific anomalous conditions which may give rise to risk of inflows.

While the Instructions are very specific and detailed it remains the case that anomalies have historically been defined in relation to standards set by the State Mining Institute. In the inflow incidents at Uralkali previously unclassified anomaly types were a key part of the inflow mechanism. This rigid classification has meant that anomalies which do not fit the pattern may have been missed from the analysis. Notably, the 2006 incident at Uralkali has been explained as an unavoidable occurrence because all necessary interpretations and anomaly descriptions had been undertaken according to the Instructions in force at the time. That the Instructions are being regularly updated in consultation with the operators in the basin means that new anomaly sets can be incorporated as they are identified. However, SRK considers that a more proactive approach going beyond the Instructions to try and identify new anomaly sets, may help minimise any risk to the WPL.

Silvinit staff put the key reason of the lack of inflows at their operations down to backfilling and subsequent support of the WPL. The wet backfill method they are using tends to be the most effective in providing support. Furthermore, the data provided by Silvinit supports the assertion that backfilling reduces deformation of the roof and subsequent surface subsidence.

SRK is in agreement that the backfilling carried out at Silvinit presents the best method of minimising the chance of water inflows. It is recommended that the amount of backfilling is maximised and the time period between end of mining and start of backfilling is minimised.

While the risk of water inflows will remain, this is inherent in all potash operations. The investigation, assessment, monitoring and backfilling implemented by Silvinit, however, means that this risk is being managed as much as is possible given current knowledge.

9 MINERAL PROCESSING

9.1 Introduction

Each of the three mines at the Silvinit operation has its own mineral processing plant where ore from the underground operations is treated exclusively in its own plant i.e. there is no inter-mine transfer of ore. Two different enrichment processes are utilised, comprising:-

- a chemical process (hot leach) which involves the dissolving of the crushed RoM ore followed by the recrystallisation of a high purity, white muriate of potash (WMOP);
- a flotation process comprising the froth flotation of liberated KCl grains (- 1 mm) to produce a pink muriate of potash (PMOP) containing a minimum of 60% K₂O (95.6% KCl).

Plant 1 processes ore from Mine 1 and utilises the chemical process for the recovery of WMOP whereas the relatively new Plants 2 and 3 use the flotation process to produce PMOP. In addition, Plant 2 incorporates an extension to the process where approximately 50% of its annual PMOP production is converted to granular muriate of potash (GMOP) as a component for use in the manufacture of blended fertilizers.

Plant 1 also incorporates a facility for the production of a mixed MgCl₂/KCl damp cake for onwards supply to a nearby magnesium-metal production facility. This mixed salt is produced from carnallite ore which is mined at Mine 1.

9.2 Processing Plants and Flowsheets

9.2.1 *Plant Descriptions*

The processes within the plants are similar to those employed by other major potash producers. The use of the chemical processing route at Plant 1 is typical of the era in which the plant was constructed (1934). This is also the case for the more recently constructed Plants 2 (1973) and Plant 3 (1983) which utilise the flotation process that has been perfected during the past 50 years. The latter process usually leads to lower operating cost as it is less energy-intensive although the metallurgical recovery levels and final product purity are generally lower.

The technology and equipment used is generally similar across the international potash operations and varies only modestly with respect to the mineralogy of the orebody being exploited. Owing to a greater degree of access to the international community during the past 20 years, Silvinit has been able to compare its equipment with that of its international competitors and has recognised the shortcomings of certain equipment, particularly in the areas of crystallisation and compaction. This has formed the basis for several capital projects where key equipment has been replaced with modern (mostly German) alternatives.

The chemical process is used for carnallite enrichment at Plant 1. This carnallite plant was built in 1936 and is still in operation. Although the core building itself is old, there is significant evidence within the interior to suggest that refurbishments have taken place and are still ongoing. Some of the equipment within the plant is relatively new (for example the

centrifuges) and further upgrading of the relatively inefficient crystallisers and the replacement of open channel launders with pumped systems is planned. The plant is nonetheless fit for purpose and should continue to operate well into the future.

The general condition of the buildings housing Plants 1 and 2 is good and modernisation and refurbishment is ongoing. Unlike western potash plants, these plants are generous in terms of size and maintenance access is easy. Furthermore, it is possible that capacity expansion could be easily accommodated within existing buildings in most cases.

Potash plants generally comprise a “wet end” at the beginning of the process where, depending on the process route, ore dissolution or milling and flotation takes place. The general environment within the wet end is often hot and corrosive and requires a significant amount of maintenance to keep equipment in good condition. The wet ends at Plants 1 and 2 were found to be in comparable condition to those at other operations worldwide.

Table 9-1 shows the typical output from the Silvinit plants combined. The production levels for 2007 are highlighted as these are the most representative of maximum capacity. Outputs fell during 2008 and 2009 because of global financial crisis and reduced offtake by customers.

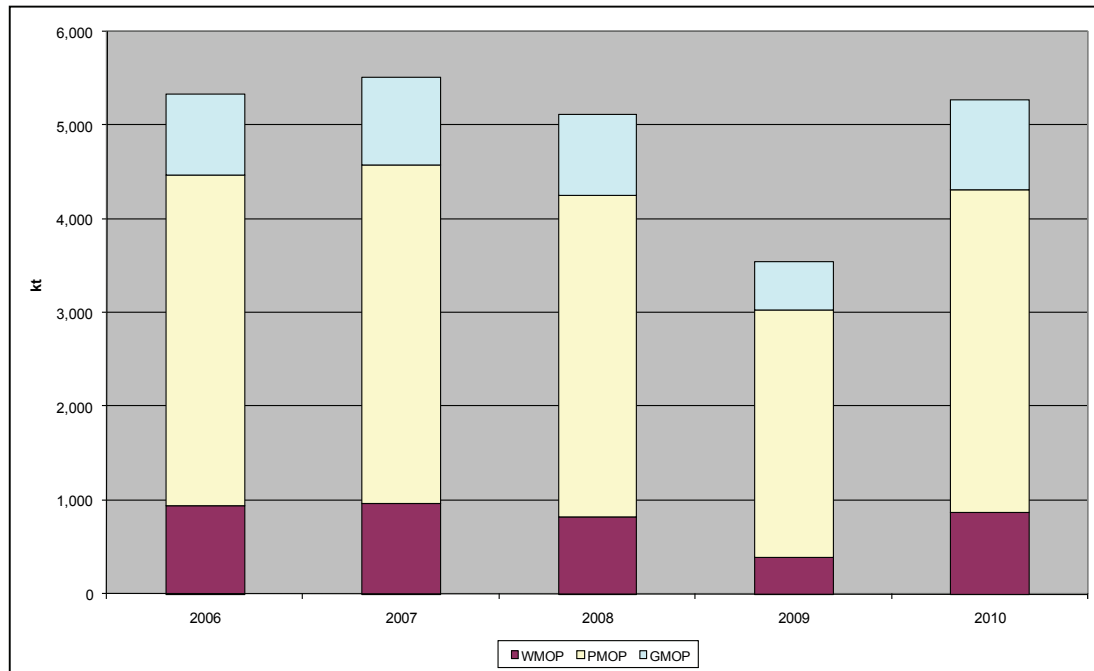
Table 9-1: Silvinit Production Output, 2007

Product	Description	Output 2007 Metric Tonnes KCl units
WMOP 95% KCl	White Muriate of potash, a recrystallised product from Plant 1.	714.7
WMOP 98% KCl	White Muriate of Potash, a recrystallised product from Plant 1.	252.2
PMOP Min. 95.4 % KCl	Pink Muriate of Potash for NPK fertilizer manufacture, otherwise known as “Standard”.	3,613.5
GMOP min. 95.4% KCl	Granular Muriate of Potash (2-4 mm) for blended fertilizer manufacture.	930.3
Total Potash	All types	5,510.7
MgCl ₂ /KCl mixed salt, min. 31.5% MgCl ₂	For production of magnesium metal.	344.8
Halite products (NaCl)	Technical and food grades	583.3

The total potash capacity of the plants is currently therefore in the region of 5.5 Mt KCl units (3.3 Mt K₂O equivalents) which represents approximately 5.8 Mt of saleable potash (at a grade of 95.4% KCl). This represents in excess of 8% of global production capacity.

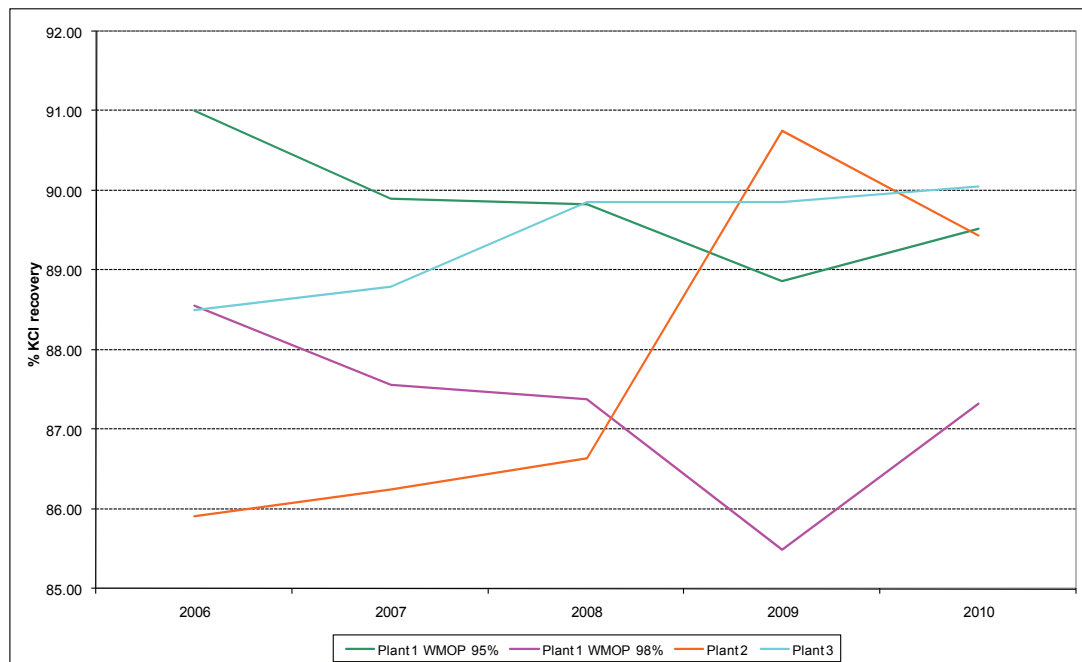
The historical potash production output from the three plants combined is shown below in Figure 9-1. Actual data for 2010 is available to the end of October 2010 with the full year pro-rated on the actual production to date. Production was deliberately restrained during 2008 and 2009 due to the world economic crisis.

Figure 9-1: Silvinit Historical Potash Production, 2006 to 2010



An analysis of reported product specifications over the past five years shows that the products routinely met the required % KCl content. The quality of final products was inspected and appeared to be excellent, especially the granular products which had been well glazed and oiled and appeared strong and dust-free. Quality control measures, including ISO 9001, are utilised.

The metallurgical recovery of KCl units from the ore is exceptionally high at the Silvinit plants. Recovery values for the chemical process are in the region of 88%-91%. This is industry-standard and could be even higher if not for the need to manufacture the 98% KCl grade which tends to reduce recoveries slightly due to the dilution volumes requires to achieve this grade. Plants 2 and 3 which utilise the flotation process have a remarkably high recovery value (89%-90%) due mostly to the extremely low levels of insolubles in the ore (1.5% by mass). These insolubles (mostly clays but with some anhydrites and other unwanted minerals) interfere with the flotation process and carry valuable KCl-laden brine to the tailings facility. The recovery values reported from 2006 to 2010 are shown below in Figure 9-2.

Figure 9-2: Plant Recoveries, 2006 to 2010

Recovery at the chemical process Plant 1 exhibited a 2% downward trend over the period 2006-2009 however this has been arrested and recoveries appear to have normalised. It is understood that operation in the latter half of 2008 and during 2009 was not steady owing to reduced market demand which is reflected in the lower recovery values (stop/start operation). While recoveries for Plant 3 have remained very consistently in the region of 89-90%, which is excellent for a flotation plant, those at Plant 2 have undergone a significant increase in 2009 and 2010. SRK understands that this is the result of a new reagent suite and the upgrading of existing equipment. A 3% recovery improvement at Plant 2 is equivalent to some 60,000 tonnes additional product.

9.2.2 Flotation Enrichment Process

Figure 9-3 shows flotation flowsheet at Plant 2, the flowsheet at Plant 3 being substantially the same. The process comprises the mechanical separation, by crushing and sizing in a saturated brine solution, of the sylvinite mineral constituents, KCl, NaCl, and insolubles (principally anhydrite, gypsum, kieserite, calcium and magnesium carbonates and clays). The separation process relies on the targeted mineral surface being conditioned by chemical reagents and adopting a characteristic that allows it to attach itself to an air bubble within an ore/ brine slurry and thus float to the surface and be collected.

The insolubles are always problematic as they interfere with the surface chemistry of the KCl mineral flotation. Silvinit has adopted a process in both flotation plants to remove insolubles, after initial mechanical desliming, by froth flotation to give an insoluble, or slimes, concentrate which is de-brined and disposed in a slimes dam.

The slurry, now with reduced insoluble content, is amenable to conventional KCl flotation. The KCl is collected as froth using an amine-based collector, whilst the NaCl fraction remains to be thickened, debrined and dumped.

The KCl froth is thickened and debrined on belt filters and centrifuges prior to being dried (0.1% moisture) to a powdered form of PMOP. All driers used at Silvinit are modern, fluid-bed driers which are highly automated and utilise natural gas for combustion.

Plant 2 has the facility to convert a significant proportion of the powdered PMOP to the granular form, GMOP. The PMOP is reheated and fed to compactors which have large diameter rolls. The rolls subject the powder to the high pressures (approximately 50 kN/cm) necessary to create a continuous board or “flake” which is 20-25 mm thick and extremely hard. The board is crushed and sized to form granules (approximately 2-4 mm). The granules formed are angular with sharp corners that on subsequent re-handling break down to create dust that can give significant quality issues. The Silvinit operation incorporates a method of post treatment known as “glazing” that seals the granule surfaces. The granules are further protected from breakage in handling by the addition of approximately 2kg/tonne of light mineral oil. Usually a potash producer will either glaze the product or add oil. As Silvinit applies both methods simultaneously, the plant produces a very high quality granular product that attracts a premium price in the market.

9.2.3 *Silvinit Chemical Enrichment*

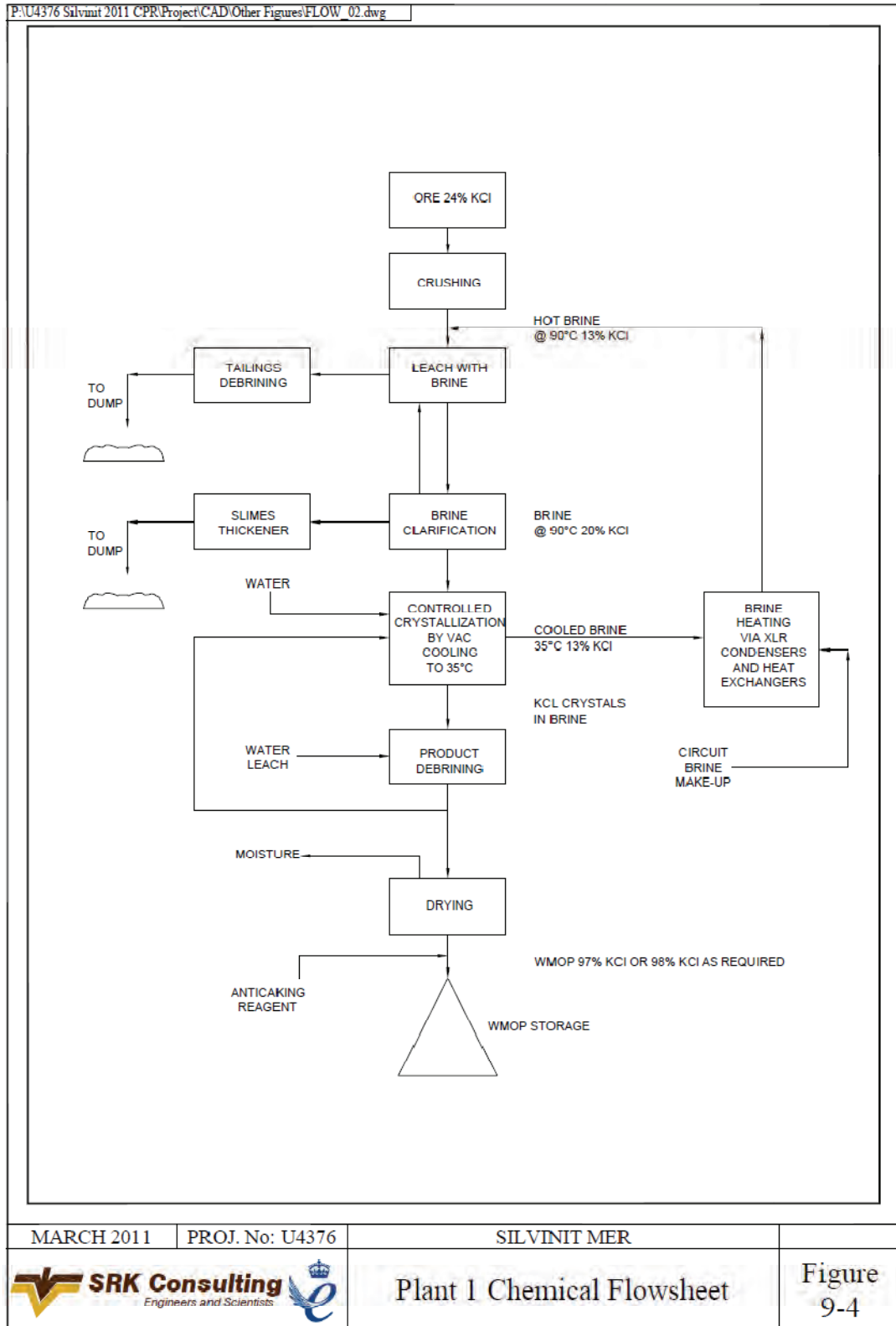
Figure 9-4 shows an example chemical flowsheet from Plant 1. The basis of this method of enrichment lies in the fact that KCl is very much more soluble in hot than cold water, that NaCl is slightly less soluble at higher temperatures and that the insolubles have no significant solubility. After crushing and sizing to minus 6 mm, the sylvinite ore is leached in large stirred tanks with unsaturated brine at 90°C. KCl passes into solution leaving the majority of the NaCl and almost all of the insolubles remaining as solids which are subsequently removed from the solution and dumped.

The remaining saturated brine, containing 20% KCl with some suspended insolubles, is clarified and the slimes thickened and dumped. The brine is cooled through a number of crystallizers (14 stages). The seed crystals of KCl which form are slowly grown as the temperature falls, stage by stage to 35°C and the KCl in the brine drops to 13%.

After the final stage of crystallization the slurry is thickened and white KCl crystals are separated from the remaining brine by centrifuging. The addition of water leaches out some of the remaining NaCl to upgrade the product to the desired KCl specification to 95% KCl or 98% KCl. Leaching with water brings about a slight recovery loss, hence the recovery percentage associated with the production of the 98% KCl product is lower than the corresponding recovery for the 95% KCl product. The centrifuge cake is then dried to form WMOP.

The economics of this process depend on recovering a high proportion of the heat given up during the cooling cycle. The unsaturated brine discharged from thickeners and centrifuges is pumped back to the crystallizer cooling circuit where it recovers some of the heat from the cooling cycle. Heat is not recovered from crystallizers No. 10-14 as the temperature is too low at this point. After further heating with steam heat exchangers, the coolant returns as hot (90°C) unsaturated brine to the leach tanks.

Figure 9-4: Typical Flowsheet for Sylvinit Chemical Enrichment (WMOP product)



9.2.4 Carnallite Chemical Enrichment

A specific facility was commissioned in 1936 for the production of a mixed $MgCl_2/KCl$ feedstock for the manufacture of magnesium metal. Magnesium can be formed in a high-temperature electrolytic process which requires $MgCl_2$ as the source of magnesium and KCl as the electrolyte, hence the need for the mixed salt.

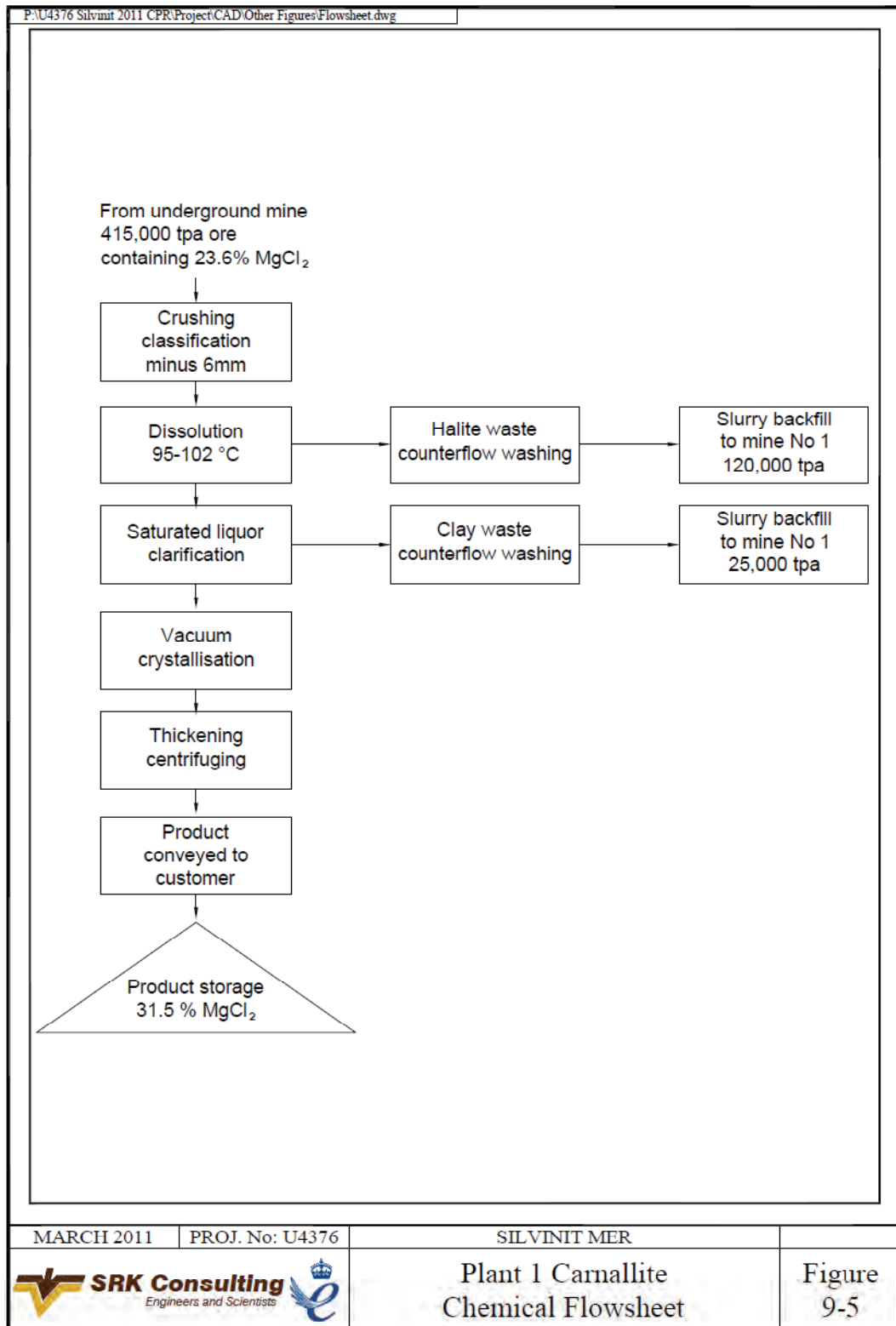
The flowsheet for the production of this salt is shown below in Figure 9-5. This is similar to the chemical enrichment flowsheet for the production of KCl by dissolution and recrystallisation and relies on the extremely high solubility of the $MgCl_2$ compared with that of KCl and $NaCl$.

Carnallite ore is hoisted at the rate of approximately 415,000 tpa from Mine 1 and conveyed to the carnallite plant with a maximum particle size of 80 mm. The average ore grade is 23.6 % $MgCl_2$. This is crushed in closed circuit to minus 6 mm and introduced to hot water (94-102°C) in stirred vessels where the $MgCl_2$ and KCl dissolve into solution, but the majority of $NaCl$ and insolubles remain as solids. The halite waste is thickened and debrined in a countercurrent thickening arrangement and the brine is further clarified to remove fine insolubles which remain in suspension. Since 2003, both the debrined halite and insoluble (clay) wastes are backfilled into Mine 1 using hydraulic transportation.

Clarified concentrated brine is introduced to 5-stage vacuum crystallisation where the temperature is progressively reduced to 44°C while the vacuum pressure is increased to 0.9 kg/m^2 to maintain boiling of the solution. The combination of cooling and supersaturation by evaporation causes the precipitation of $MgCl_2$ and KCl crystals. These are removed from the crystallizers, thickened and centrifuged to recover valuable brine back to the process. The final product is a white, damp-cake containing 31.5% $MgCl_2$, approximately 65% KCl and 3.3 % moisture. The metallurgical recovery of $MgCl_2$ is reported to be 82%.

The product is transported by belt-conveyor to the nearby magnesium plant.

Figure 9-5: Typical Flowsheet for Carnallite Chemical Enrichment



9.3 Sampling and Testwork

9.3.1 Routine Sampling

Ore feed to the plants is regularly sampled by automatic sample cutters from the belt conveyors that feed crushed ore into the plants. These samples are reduced to a manageable size using a riffle splitter prior to analysing the composite sample for its constituents.

Silvinit has adopted the internationally-recognised ISO 9001 (2008) quality control standard for its activities which covers all aspects of ore and product monitoring. The Silvinit on-site Central Laboratory is currently the only laboratory in Russia which is accredited for the control of geological samples of potassium-magnesium salts.

Process control samples are taken at regular intervals from key streams around the process plant to assess the performance of individual unit operations and to control final product quality. Samples are taken manually and analysed using a variety of accepted methods including ICP and flame photometry. Results are fed back to the plant and adjustments are made to the process control parameters if required.

In order to maintain ISO 9001 accreditation, all chemicals and reagents used in the metallurgical process are tested to ensure conformity with internal standards prior to their use.

9.4 Silvinit Business Plan

9.4.1 General

Silvinit's Business Plan assumes that no expansions take place and the production is increased slightly from 2012 compared to the levels forecast for 2011. Notwithstanding this, Silvinit has the capability to increase production capacity at all plants over the next few years should it decide to do so and once appropriate studies have been undertaken and costed.

9.4.2 Plant Recovery

Historical plant recovery values have been discussed above in section 9.2.1 where it was noted that recoveries were in line with expected values except for Plant 1. Unlike the flotation processes utilised at Plants 2 and 3, this plant utilises the chemical process whereby the ore is dissolved in hot brine and KCl is subsequently recrystallised. Process recoveries are typically higher for chemical plants than those utilising flotation, however this is not the case at Silvinit. Recovery losses at plants utilising the chemical process are usually associated with inefficient de-brining of the tailings, that is allowing valuable KCl to be lost with the halite and clay (insoluble) streams. This has clearly been identified by Silvinit and a revised production plan has been constructed in order to elevate recovery to 90%.

The recovery levels at Plants 2 and 3 are extremely high by global standards (> 90%) for flotation-based plants and this is likely caused by a combination of low insoluble levels (< 1.5%) and good process control and no further improvements are needed.

9.5 Summary Comments

The three sylvinitic plants at Silvinit have historically received ore feeds with reasonably steady ore composition and this appears likely to continue well into the future. Combined with the industry-standard processing techniques utilised and the high level of competence shown by operational staff, Silvinit should continue to produce potash products to international standards for the duration of the projected Business Plan and beyond.

Overall, SRK is confident that the processing assumptions made in the Business Plan are reasonable and sound.

10 INFRASTRUCTURE

The Mining Assets require extensive infrastructure to support them, which includes warehouses at the plants themselves, tar road access to the mines and plants, power supply from the national grid, gas pipelines and extensive railway operations.

The tar roads provide all weather access to the mine sites for supplies and for the mine personnel most of whom commute to the mines from Solikamsk.

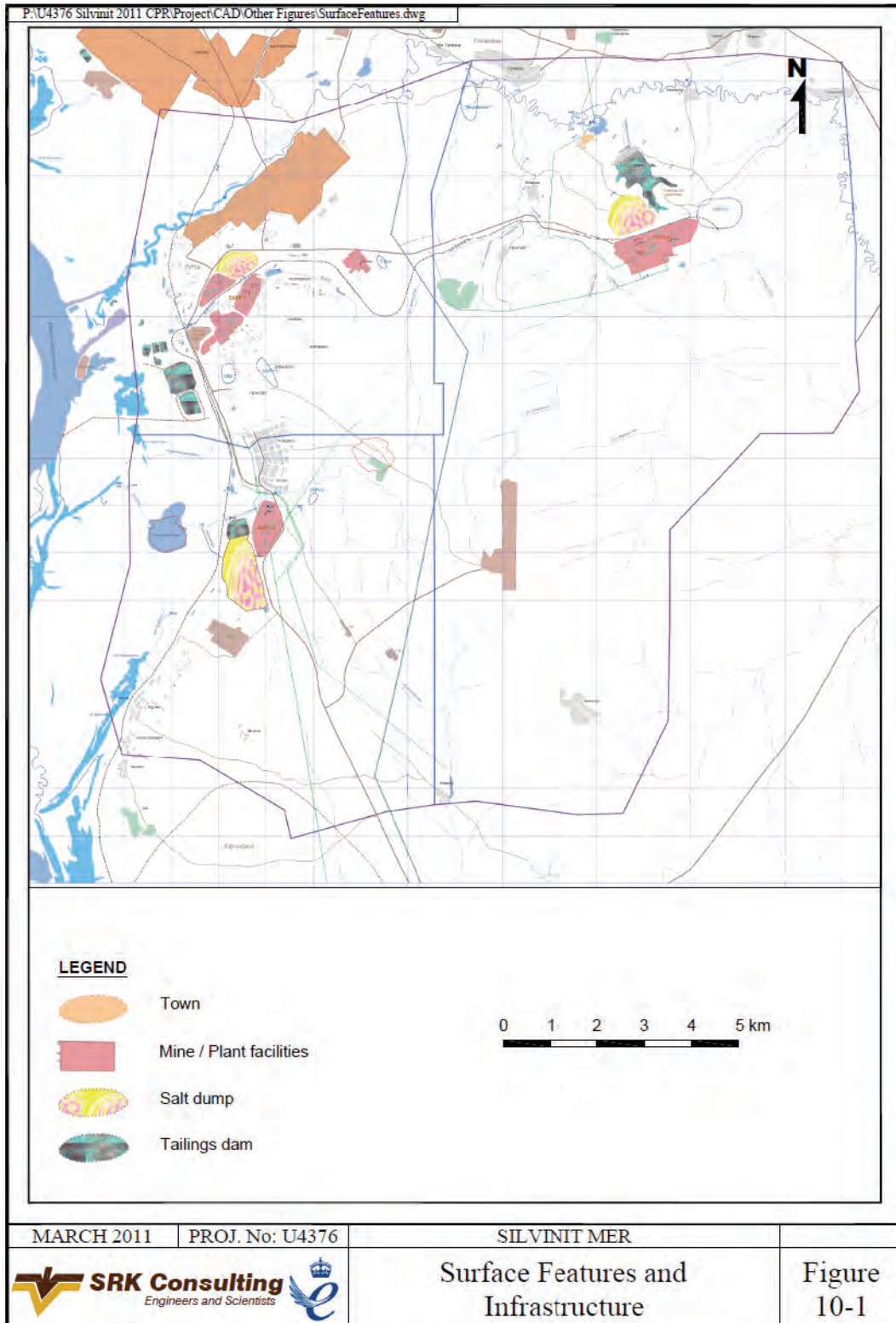
The railway rolling stock consists of around 3,000 mineral trucks for the bulk shipment of product to customers. As Silvinit exports 80% of its production to countries outside of Russia, both rail and sea are important means of transportation. In December 2009, the 53km Yaiva-Solikamsk railway connection was opened which shortened the distance between Solikamsk and Transsib and by-passed the existing mine workings of Uralkali which had previously flooded and collapsed. This new branch line is now situated at distance from the collapsed workings which has de-risked the transportation of products away from the Silvinit operations.

Silvinit operates a small power station at Solikamsk generating up to 12 MVA using two gas turbines. This is a Combined Heat and Power system (CHP) as the waste heat is introduced to boilers for the generation of steam for general heating purposes. It was reported that the power from the station costs approximately 30% less per unit than from the national grid, however the power station can only supply 40% of Silvinit's total requirement of 780 million kWh per annum.

The infrastructure serving the Silvinit operations is well developed and presents no risk to meeting future production targets. For the longer term, it appears there may be scope to expand the power station.

Figure 10-1 below shows the licence boundaries of Mines 1, 2 and 3 and surface features and infrastructure.

Figure 10-1: Surface Features and Infrastructure



11 HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

11.1 Introduction

This section of the report provides information on the Health, Safety, Environment and Community (HSEC) aspects of Silvinit's operations including a description of HSEC systems and any potential risks, liabilities and opportunities associated with its current practices.

The major regional water body is the Kama River which is an important national water resource for fishery, industrial and domestic needs. The local stream network is extensive in the area of Silvinit's industrial operation with several natural lakes and streams belonging to the catchment area of the Kama River, including the Chyornaya and Popovka Rivers.

11.2 Legislation

This section gives a brief summary of Russian legislative requirements in the area of environmental protection and social issues, as well as review of international requirements applicable to the Mining Assets and Silvinit corporate policies.

11.2.1 Major Environmental Law and Standards

Russian environmental legislation includes Federal laws and Codes, as well as subordinate regulatory legislative acts. Labour protection and industrial safety are traditionally treated separately from environmental issues in Russia. The Russia environmental laws considered to be important to the Mining Assets comprise:

- Federal Law "On Environmental Protection" (2002);
- Federal Law "On Environmental Impact Assessment (Ecological Expertise)" (1995);
- Federal Law "On Specially Protected Natural Territories" (1995);
- Federal Law "On Atmospheric Air Protection" (1999);
- Federal Law "On Wastes of Production and Consumption" (1998);
- Water Code of Russian Federation (2007);
- Forest Code of Russian Federation (1997); and
- Land Code of Russian Federation (2001).

Subordinate environmental legislation is subdivided by components (atmospheric air, surface and ground waters, flora and fauna, land, subsoil, soil), and by various issues, such as waste generation and specially protected territories. Russia has a system of federal standards, construction standards and a system of sanitary norms and rules. These standards, norms and rules are mandatory.

The Russian environmental protection system is based on the following two environmental quality standards (criteria):

- **Environmental Quality Criteria.** The main environmental quality criteria used in Russia is the maximum allowable concentration (MACs). MAC is the maximum allowable amount of a substance in water, soil or air. The MAC for air is subdivided into occupational health and safety MACs and ambient air quality MACs (for residential areas, daily average and maximal one-time concentrations are specified). The MAC for water is subdivided into MACs for potable water, fisheries water, recreational and domestic water. The MAC may relate to chemical composition, microorganisms and various types of radiation.
- **Impact Criteria** (such as the allowable volume and type of emissions, discharges, waste generation, etc.). On the basis of approved methodologies and taking account of the process flowchart and equipment parameters, production companies estimate expected discharges, emissions and volumes of generated waste. After the estimates are approved, federal regulators issue permissions for emissions, discharges and waste disposal. These permissions are valid for between 1 and 5 years. The initial estimate of emissions, discharges and waste disposal is undertaken during project design and is updated during operations on the basis of operational inspections.

In Russia the most common environmental regulatory requirements for mining enterprises such as Silvinit are the:

- 1) preparation of ecological expertise inclusive of appropriate Environmental Impact Assessments (EIAs) for planned activities which may cause negative environmental impacts;
- 2) maintaining the quality of the environment such as atmospheric air, water, soil and conditions for living organisms;
- 3) protection of, and mitigation against, excessive negative impact to the environment;
- 4) monitoring and evaluation of impacts to the environment to determine compliance with discharge permits for air emission, water discharges, and waste disposal;
- 5) payment of fines for environmental pollution (where compliance limits are exceeded) (polluter pays principle); and
- 6) payment of monies for certification of operations by the environmental compliance control authority.

Silvinit complies with the above regulatory requirements. Environmental protection is controlled through the application of a number of nationally defined MAC's. Discharges or emission of substances at concentrations above MACs can result in legal action and claims for compensation against the operator. To SRK's knowledge, Silvinit has not received any substantial fines for discharge/emission of substances above permitted levels and has not been subject to legal action or claims for compensation.

Recently there has been some change in the federal laws "On Environmental Protection" and "On Environmental Impact Assessment (Ecological Expertise)". Now there is one combined law for "construction" or "design" expertise, which includes limited consideration of the environmental issues. The by-law "Regulation about OVOS", which outlines the procedure of Environmental Impact Assessment (EIA), defines that an OVOS report should be developed for new projects and be submitted to the state environmental expertise department. In practice it appears that the OVOS report (EIA) no longer needs to be approved by the state environmental expertise department though the regional authority can use this by-law as it wants to control environmental matters. It is understood that Silvinit is required to submit relevant environmental documentation to regional authorities in Permskaya oblast.

There have been other recent changes to Russian laws. Notably:-

- Forest land now can be only rented and the local (regional) administration is responsible for enforcing this change. This change, however, is very recent and unlikely to affect Silvinit's operations which are on its own land.
- The buffer zones for rivers have been decreased in size to a maximum of 200m and the list of the activities that are prohibited within the buffer zones has been reduced.
- Licenses for the abstraction of water use have been replaced by contracts with the local administration, following approval for water abstraction.

11.2.2 *Health and Safety Law*

There are numerous documents related to safety issues in Russia. These documents describe both general requirements and specific requirements for particular industries or production processes. In the area of labour protection, the Russian Federation Constitution states that free labour is guaranteed in a healthy and safe environment, and a minimal wage is established. The right for individual and group labour disputes is recognized, including the right to strike.

The basis of Russian legislation in the safety area is formed by the following main federal laws:

- Federal law "On industrial safety of hazardous production facilities" (1997);
- Federal law "On fire safety" (1994);
- Federal law "On radiation safety of population" (1996); and
- Federal law "On safety of hydrotechnical facilities" (1997).

A number of regulatory controls were developed to support the laws, also of a general nature and for particular industries. Tailings facility operation is controlled by the "Safety Rules for Hydrotechnical Facilities for Accumulation of Liquid Production Wastes", and radiation safety is similarly controlled by a specific Standard.

Along with the general standards contained in the Constitution, specific provisions of labour legislation are included in the Labour Code of the Russian Federation. Certain provisions in the area of labour and labour conditions are regulated by federal, regional or industry specific documents. The Russian Labour Code defines employees rights and labour conditions (duration of work time, compensation for sick leave and vacation, etc.), as well as the employees' and employers' rights for workers organisations. Labour conditions need to meet the requirements of national legislation and payment for labour should be free of any discrimination.

The Labour Code of the Russian Federation contains the minimal requirements to labour conditions, notably:

- Labour relations are regulated by personal or group labour agreements, the terms and conditions of which can be changed only with the agreement of both parties;
- A person over 18 years of age can be employed without any limitations (younger persons may be hired with certain limitations on the labour conditions);
- Employer must provide accommodation for employees working by shifts, and transportation to the work place (travelling time is considered as work time). The duration of a shift should not exceed one month although in exceptional situations, at certain facilities the duration of a shift can be extended by the employer to three months with consideration of trade union committee opinion;
- The duration of the work time cannot exceed 40 hours a week. Duration of overtime work should not exceed four hours during two consecutive days, or 120 hours a year. Annual vacation is 28 calendar day though in some cases (for example where the working conditions are difficult and also in the Far North areas) employees are entitled to additional vacation;
- Special state guarantees and conditions exist for those working in extremely harsh conditions (Far North and similar territories).

11.3 Compliance

11.3.1 Introduction

Silvinit has developed an Environmental Policy for its operations which forms the basis for its environmental management activities within its overall integrated management system. The policy outlines the requirements for managing environmental aspects and minimizing impacts through proactive management plans to target continual improvement and reduction in impacts.

The Independent Ecological Rating Agency and the International Social-Ecological Union placed Silvinit in the top division for the rating of the social-ecological responsibility in 2009, which contains the results of the evaluation of the ecological performance of the largest Russian companies. The rating assessed the Company's overall production, revenue generated and the correlation between saleable product and the impact of waste on the natural environment from the year 2000.

11.3.2 Environmental Licenses and Permits

Silvinit has all the permits required to operate in accordance with the regulations and none of the permit limit where exceeded during 2009. A summary of all the permits Silvinit currently has in place is shown in Appendix 1 to this report. During production, the Company has regularly updated permits for water use (intake and discharge of water), atmospheric emissions and waste disposal. Permits are issued by the regional authorities on the basis of application documentation submitted by the Company.

A list of the main permissions and licenses required by the project is provided in Table 11-1. These permits are used as the basis for calculating the annual fees for environmental protection in accordance with the rates established in the Russian legislation. Along with obtaining environmental permits, the Company is required to perform regular environmental monitoring in accordance with a programme approved by the State agencies.

Table 11-1: Main ecological licenses and permits

Title	Description of justification document	Description of permit
Subsoil	Bid documentation	License for subsoil use
Atmospheric air	Estimates of expected maximum emissions	Permit for atmospheric emission of pollutants
Water intake	Estimate of expected volume, type and source of water needed for the project	License for subsoil use (in the case of ground waters); Agreement for water use (if water intake is from surface water bodies).
Water discharge	Estimates of expected rates and quality of discharges	Permit for the discharge of pollutants into a water body (taking account of point and non-point discharges).
Waste handling and disposal	Estimates of expected volumes and types of waste disposal	Limit for the production and consumption waste disposal; License for handling of hazardous waste

In accordance with Russian legislation, a special sanitary-protective zone needs to be established around mining facilities¹. The size of this zone can vary and is approved by the state agency after reviewing an application from the Company. There should be no residential or weekend houses or garden plots within the sanitary-protective zone.

11.3.3 State Environmental Audits

In 2009, the Federal Service of the Nature Use Supervision of the Permskiy Territory, completed a planned comprehensive audit of Silvinit (Report №9, dated 19.03.2009) for compliance with the mandatory requirements of the RF law on atmosphere protection and waste handling. While some minor infractions were noted, these were promptly addressed by Silvinit.

¹ Resolution of the Chief Sanitary Physician of Russian Federation of September 25, 2007 No. 74 "On implementation of new edition of sanitary-epidemiological rules and standards SanPiN 2.2.1/2.1.1.1200-03 @Sanitary-protective zones and sanitary classification of enterprises, structures and other facilities".

11.3.4 *Integrated Management System Audits (Safety & Health, Environment and Quality)*

In 2006 Silvinit was first in the Russian mining and chemical industry to have its integrated management system (IMS) certified to three international standards: ISO 9001 for quality, ISO 14001 for environmental protection and OHSAS 18001 in health care and labour safety.

In 2009 Silvinit underwent a recertification audit of its IMS to assess conformity to requirements of these three standards. Auditors of the German System of certification "TÜV International Certification" (Thüringen e. V) conducted the audit.

As a result of the audit it was noted that the framework of Silvinit's IMS was methodically correct and that the system was functioning and continually improving. The auditors' conclusions were that the IMS of Silvinit complies with the requirements of the three international standards. The certification body subsequently decided to issue Silvinit a certificate for a period of three years for ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007

11.4 HSEC Management

11.4.1 *Environmental Management*

For the purposes of the operational environmental control of the sources of air emission pollutants Silvinit has developed designs of maximum permissible emission (MPE) to the atmosphere. Silvinit has also established the maximum permissible discharge (MPD) design for pollutants discharged to Usolka River in the sewage from the recuperation and preventive treatment clinic and Potable Water Rational Use and Sewage Discharge Reduction Plan.

Contracts were also awarded for maximum permissible discharge designs for discharges to the Popovka and Chyornaya Rivers. The Chyornaya River permissible discharge limit was approved, while the Popovka River permissible discharge limit is under review.

Operational environmental control (OEC) of the domestic and industrial wastes handling is performed in accordance with Section 26 of the Federal Law of the Russian Federation №89-Ф3 "On industrial and domestic wastes" (as revised on 08.11.2008) dated 24.06.98, Section 13 of the Federal Law of the Russian Federation "On licensing of certain activities" (as amended as of 30.12.2008) and Decree of the Government of the Russian Federation №524 "Regulation on licensing of collection, use, deactivation, transportation, dumping of the industrial wastes" dated 26 August 2006.

For the purpose of OEC of the industrial and domestic wastes handling, Silvinit obtained a license for hazardous wastes handling, developed wastes generation and disposal limit designs and permits for waste disposal. A requirement of the OEC is that waste disposal sites are assessed two to four times a year in order to determine the environmental impact (atmospheric air, surface and underground water, soil).

The sanitary and industrial laboratory (SIL) of Silvinit performs operational environmental analytical control. The SIL Manager reports to Silvinit Chief Engineer Deputy for Environmental Protection. The sanitary and industrial laboratory of Silvinit is certified in the analytical laboratories (centres) accreditation system by the Federal Agency of the Technical Regulation and Metrology, accreditation certificate №POCC RU.0001.510968 dated 23 October 2006, valid until 28 September 2011.

The Environmental Protection Group (EPG) is a structural unit of Silvinit management, headed by the EPG Manager and reports directly to the Deputy Chief Engineer with regards Environmental Protection. The EPG is responsible for ensuring the development and implementation of the atmosphere pollutants emission (MPE) limits, surface water bodies pollutants permissible discharge limits (PDL), industrial and domestic wastes generation and dumping limits. The overall objective of the EPG is to maintain compliance of Silvinit with current environmental law, environmental protection instructions, standards and limits.

11.4.2 *Health and Safety Management*

In accordance with the Section 11 of Federal Law “On industrial safety at hazardous industrial facilities” Silvinit has produced documents regulating the set up of health and safety management systems and operational control. Silvinit operations include some 39 hazardous industrial facilities and over the last 10 years Silvinit has seen a reduction in the number of accidents and lost time days.

11.4.3 *Labour and Community Management*

Silvinit regards interaction with the employees and the community as an integral part of the business. The Company provides competitive wages and good potential for career growth and also offer a wide range of social programmes. The Company also develops its own employee and community programmes and infrastructure and in 2009 some USD4M was spent on social programmes or infrastructure.

11.5 **HSEC Issues**

Potassium salts mining and production belong to the economy sectors that can potentially adversely impact on the environment. This is caused primarily by pollutants emission to the atmosphere, natural water and soil salinisation. In the course of processing at the Silvinit concentrators, industrial wastes are generated. The main industrial wastes are clay-salt tailings and halite wastes. Halite waste is stockpiled in salt dumps and clay-salt tailings is deposited in tailings ponds.

Air Emissions: The main air emission sources cover most areas of the Silvinit operations and support infrastructure. Over 33 pollutants are emitted to the atmosphere, primarily: potassium chloride, sodium chloride, nitrogen dioxide, sulphur dioxide, and carbon oxide. However, according to monitoring results and state environmental audits, the emissions of these pollutants are within MACs and therefore are not contributing to atmospheric pollution of the area.

Surface and groundwater discharges: Silvinit industrial sewage is released through nine discharge points to the Kama, Chyornaya, Usolka, and Popovka Rivers. Pollutants discharged with the sewage comprise: salts (sulphates, chlorides, phosphates, nitrates, nitrites) of potassium, sodium, magnesium, calcium, iron, ammonia; amines, petroleum products, anionic surfactants, suspended solids. Potential sources of the surface and underground water pollution (salinisation) due to infiltration of brine (salt water) solutions are waste dumping sites (salt dumps) and tailings ponds.

Brine run-off and seepage from the on-surface salt dumps is controlled by pipes installed beneath the dumps which capture any run-off/seepage and deliver it to the tailings ponds. From the tailing ponds the brine is re-circulated and used in a process to form a paste like material with the salt by-product from processing which is then spread across the salt waste dump area and allowed to harden. By capturing and re-circulating the brine materials the potential for impaction with groundwater is significantly reduced. However, due to the historical nature of the operation overtime some impact of the groundwater table has occurred. Silvinit actively monitor brine concentrations of the groundwater within its dedicated sanitation zone and monitoring result indicated that these are within MACs.

Soil Contamination: Potential soil pollution sources are surface run-off and seepage from wastes dumping sites (tailings ponds and salt dumps). Impact on the soil (unsaturated zone) such as the subsurface soil environment and floral biotic communities within this zone can be caused by pollutants spreading with the surface runoffs (for example, in case of the significant increase of the precipitation or during intensive snow melting) and infiltration of wastes components. Silvinit has implemented a programme of soil monitoring within its dedicated sanitation zone and monitoring results indicate that concentrations of pollutants within the soil surrounding major sources of potential soil pollution are within MACs.

Salt by-pass product dumps: Silvinit currently has three areas which are utilised for the on-surface placement of salt by-product waste. The combined total amount of material currently in these dumps is approximately 300 Mt. The salt dumps at Mines 2 and 3 are currently still increasing while at Mine 1 the pile is currently stable. There is a priority for the removal of the salt dump at Mine 1 as it occurs within the city limits. Therefore a programme of backfilling within the underground mine working has been implemented which currently produces 2.5Mt of material suitable for backfilling purposes with plans to expand this operation within three years to 4.5Mt.

Based on current production rates of by-product waste and the rate of potential backfilling and the predicted life of operations (>50 years) it is possible that significant in-roads could be made in the removal of existing salt dumps. However, in order to remove from surface all the salt dump material it is expected that backfilling operations would need to continue for a considerable period following the cessation of mining and production. Therefore, it is considered that some reclamation/rehabilitation of the salt dumps at decommissioning and closure will be required unless backfilling operations continue for a period of almost 100 years or additional methods of disposal are employed such as groundwater injection, production of industrial salts, brines or use as road grit. There is no remediation plan or provision of funds for the removal and/or remediation of the salt rock dumps in Silvinit Business Plans, however, SRK has included a provision for this for the purposes of verifying the Company's reserves. Silvinit complies with Russian regulatory requirements for the management of these by-product dumps.

Slimes Dams: The slimes dams associated with the salt by-product dumps are either constructed within an area containing natural occurring clays or have a liner system installed to control brine seepage into the groundwater. The operation of slimes dams through re-circulation of brine back to salt dumps combined with the employment of natural and artificial liner systems appears to have significantly reduced the off-site migration of brine seepage via the groundwater which is reflected in the monitoring results for both soil and groundwater respectively.

Health and safety issues: Silvinit's operations comply with the Russian OH&S regulations and the requirements of the category in which their operation has been classified by law. Significant improvements in health and safety operations have been made in the last few years, particularly in relation to increased senior management support, development of policies and decrease in the number of accidents recorded at each of the three operations. However, in SRK's opinion improvements are still required to improve working conditions such as the further implementation of Personal Protective Equipment (PPE) and lighting, particularly in processing areas, to achieve the minimum standard for a safe working environment in-line with good international practice.

Closure planning and costing: SRK recognises that the Company has stated its material compliance with the environmental standard of the appropriate regulatory authorities in the Russian Federation. The Company has not been specifically requested by the regulatory authorities to develop a closure plan nor establish a liquidation fund at this stage of operations. In the absence of overall closure costs for Silvinit's operations, SRK has undertaken a conceptual closure costing exercise (assuming that the mines close at the end of the current Business Plan period) and provision for this closure funding has been included in the TEPs for the purposes of verifying the Company's reserves.

11.6 SRK Comments

Silvinit operates in compliance with environmental, labour and health and safety laws and regulations currently in place in Russia. Its integrated management system for health and safety, environment and quality is certified to international standards (ISO). The Environmental Protection Group provides strong environmental oversight and monitoring of the operations, and has shown continual improvement in reducing impacts to the environment over the period that information was provided. While further work would be required to bring environmental and health and safety practices at Silvinit's operations up to international good practice, SRK considers that the basic principles of these are already incorporated into Silvinit's operating philosophy and procedures.

Notwithstanding the above, there are some environmental aspects of Silvinit's operations, which by International Environmental Standards, would pose risks and liabilities, and as such would require further assessment, appropriate quantification and if necessary definition of mitigation measures. These primarily relate to mine decommissioning and closure planning, particularly issues related to the existing salt by-product dumps and groundwater contamination. SRK has undertaken a conceptual closure costing estimate based on international requirements and a provision has been made for this in the Business Plan for the purposes of verifying the Company's reserves.

12 MANAGEMENT, MANPOWER AND STRUCTURE

SRK understands that the current number of employees is around 11,000. Though there is potential to reduce this via improved productivity, the Business Plan reviewed by SRK assumes this remains constant.

Silvinit has an established management structure that has brought many changes to the Company during the last decade and that has been responsible for the increase in production. For the purposes of this report SRK, assumes that this will continue in the future.

SRK met with personnel in Solikamsk and found a healthy ratio of new and established personnel.

13 BUSINESS PLAN ASSUMPTIONS

13.1 Introduction

This section of the report presents discussion and comment on the TEPs, specifically the production schedules, operating costs and capital expenditures, assumed by the Silvinit Business Plan which SRK has reviewed and where considered appropriate adjusted. The Ore Reserve Statement presented in Section 6 of this report is based on this reviewed Business Plan.

13.2 Basis of Technical Economic Parameters

The generation of a Business Plan requires substantial technical input and detailed analysis and is critically dependent upon the assumptions of the long-term commodity prices and sustained operating expenditure, potential expansion and/or reduction in the Mineral Resource and Ore Reserve and the return on capital expenditure programmes.

The basis of forward projections of operating costs for mature mining operations are generally based on the previous financial year's performance, with certain modifications for inflation, projected improvements in productivity and other cost reduction initiatives. In the case of Silvinit, future costs have been estimated based on the forecasts costs for 2011.

SRK's review has been limited to technical aspects directly associated with the mining and mineral processing operation at Silvinit. SRK has not reviewed the non-technical financial assumptions associated with the fiscal regime in Russia, including, but not exclusively, assumptions regarding taxation, royalties, depreciation and redemption of VAT payments.

TEPs include:

- Product sales;
- Operational overheads and distribution operating costs;
- Environmental and closure costs;
- Capital expenditure;
- Working capital movements.

The Business Plan takes no account of loan and interest assumptions or any residual value in the plant and facilities at the end of the Business Plan.

The key forecasted TEPs assumed for SRK's Business Plan are shown below in Table 13-1.

Table 13-1: Key Forecasted TEPs

Year	Sales		Operating Expenditure		Capital Expenditure		Total Expenditure (USD'M)
	KCl (kt)	Carnallite (kt)	Operating (USD'M)	Distribution & Administration (USD'M)	Project (USD'M)	Sustaining (USD'M)	
2011	5,587.5	270.0	386.1	393.0	133.5	100.2	1,012.8
2012	5,587.5	270.0	361.8	393.0	71.3	133.3	959.5
2013	5,587.5	270.0	373.9	393.0	53.2	150.0	970.1
2014	5,587.5	270.0	373.9	393.0	37.8	166.7	971.4
2015	5,587.5	270.0	373.9	393.0	60.3	166.7	993.9
2016	5,587.5	270.0	373.9	393.0	-	159.6	926.6
2017	5,587.5	270.0	373.9	393.0	-	167.4	934.4
2018	5,587.5	270.0	373.9	393.0	-	174.8	941.8
2019	5,587.5	270.0	373.9	393.0	-	181.8	948.7
2020	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2021	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2022	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2023	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2024	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2025	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2026	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2027	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2028	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2029	5,587.5	270.0	373.9	393.0	-	188.2	955.1
2030	5,587.5	270.0	373.9	393.0	-	188.2	955.1
Total	111,750.0	5,400.0	7,478.9	7,860.0	356.2	3,470.3	19,165.4

13.3 Production

Figures 13-1 to 13-3 show the forecast mine production, plant feed profiles and final products for sylvinite and carnallite mining and relevant products which are forecast by Silvinit from 2011 to 2030 plus actual production information from 2006 to 2010 where available

Figure 13-1: Sylvinite and Carnallite Production by Mine

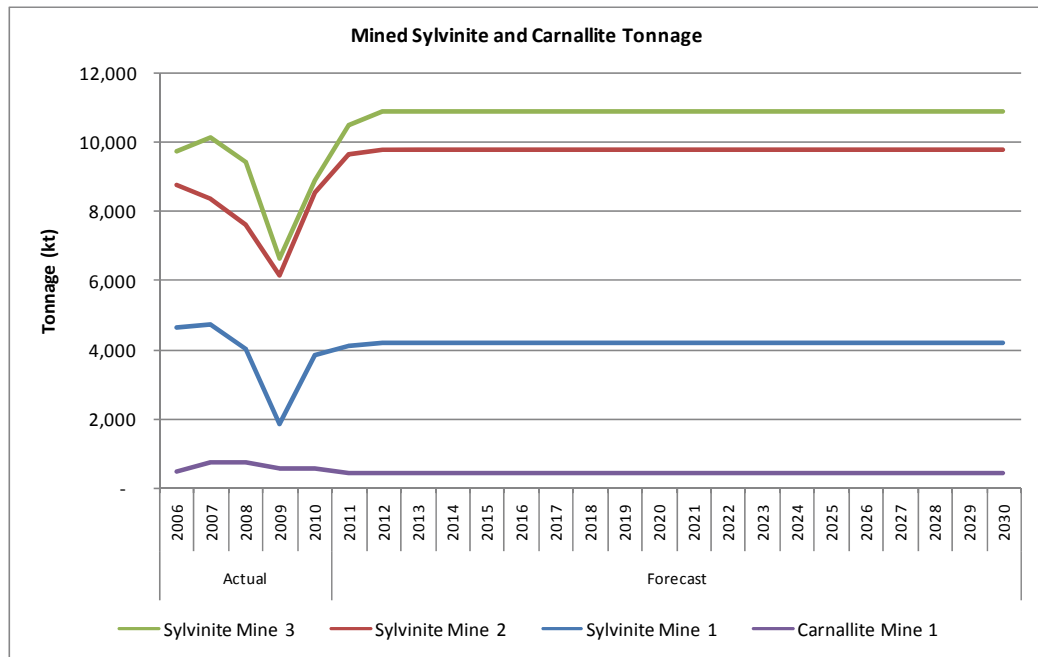


Figure 13-2: Sylvinite and Carnallite Processing by Plant

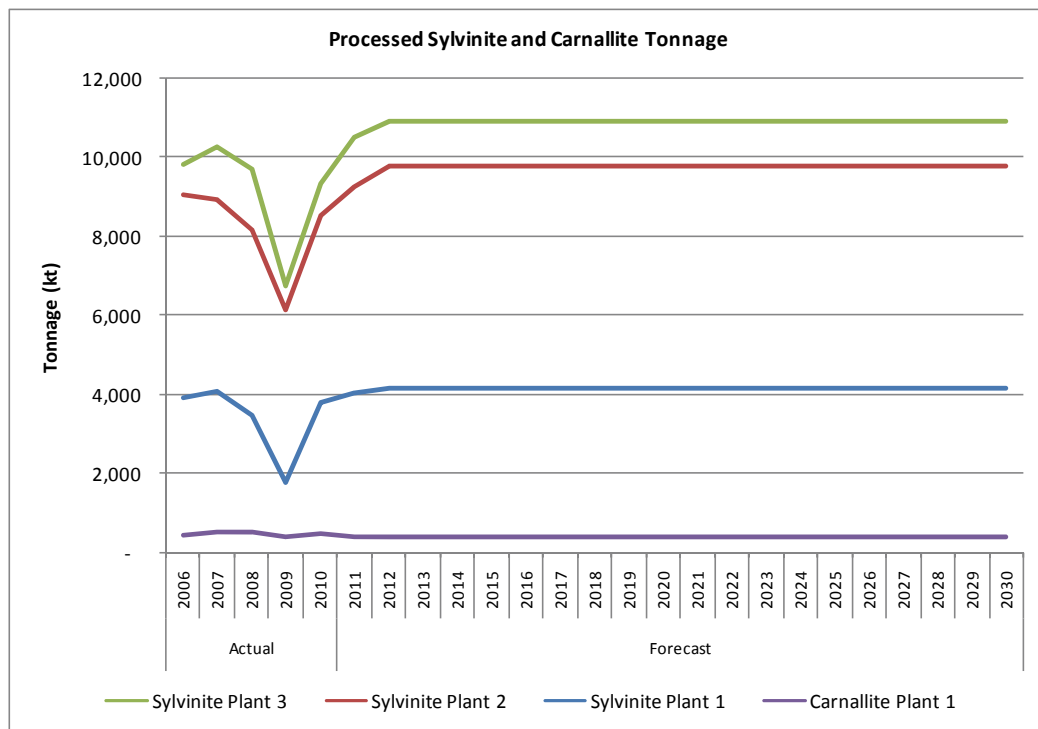
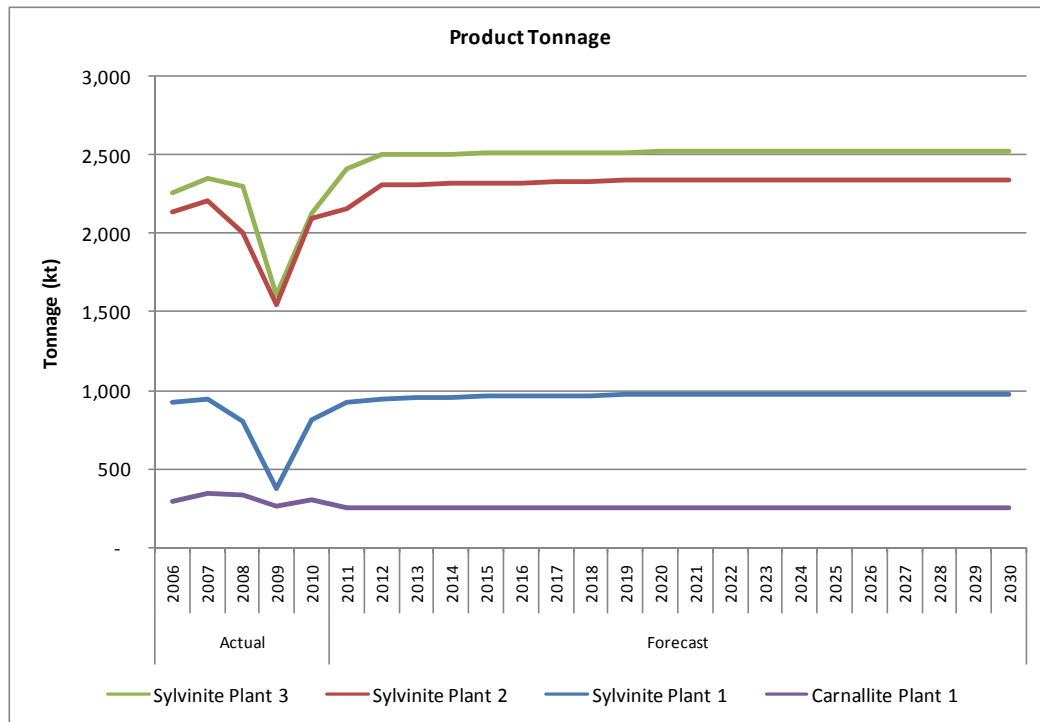


Figure 13-3: Sylvinite and Carnallite Products by Plant



13.4 Operating Costs

Silvinit has estimated the future operating costs based on the current forecast for 2011 and these have been increased/decreased in future years in proportion to the changes in production levels envisaged, as appropriate, at an assumed fixed/variable split of some 70% to 30% respectively. Silvinit has provided SRK with the operating costs for Silvinit as a whole and inclusive of transport costs for sales by rail (DAF basis - Delivered at Frontier) and shipping sales on an FCA plant basis. Figure 13-4 shows the total actual operating costs from 2007 to 2010 and forecast operating costs from 2011 to 2030 while Figure 13-5 shows the unit operating costs per tonne of total products produced over the same periods.

Figure 13-4: Silvinit Total Operating Costs

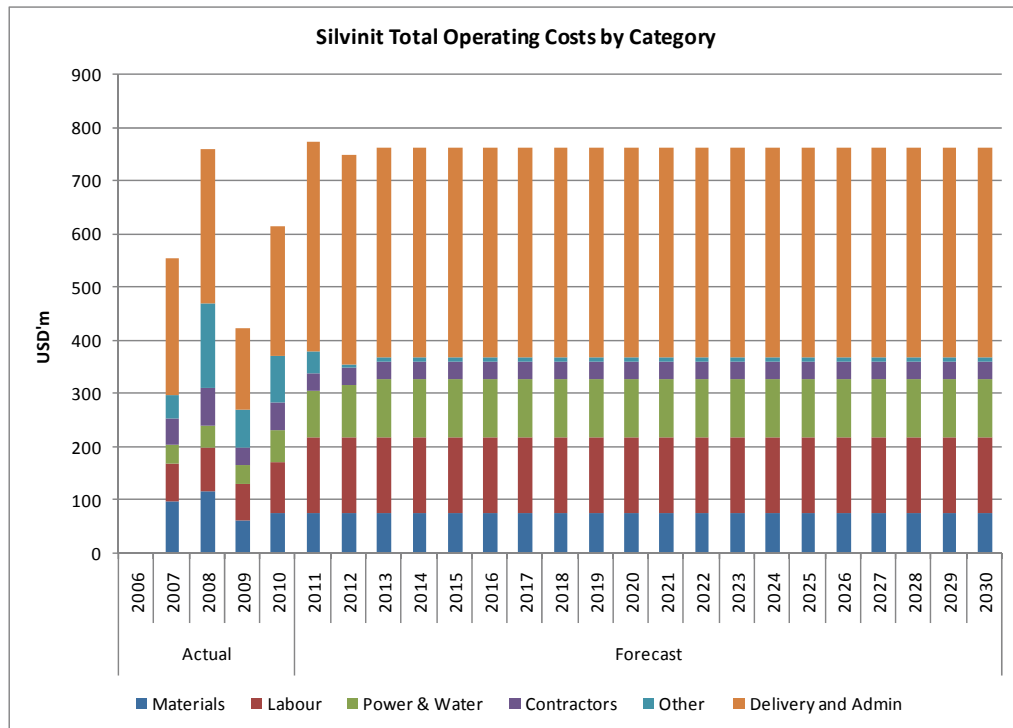
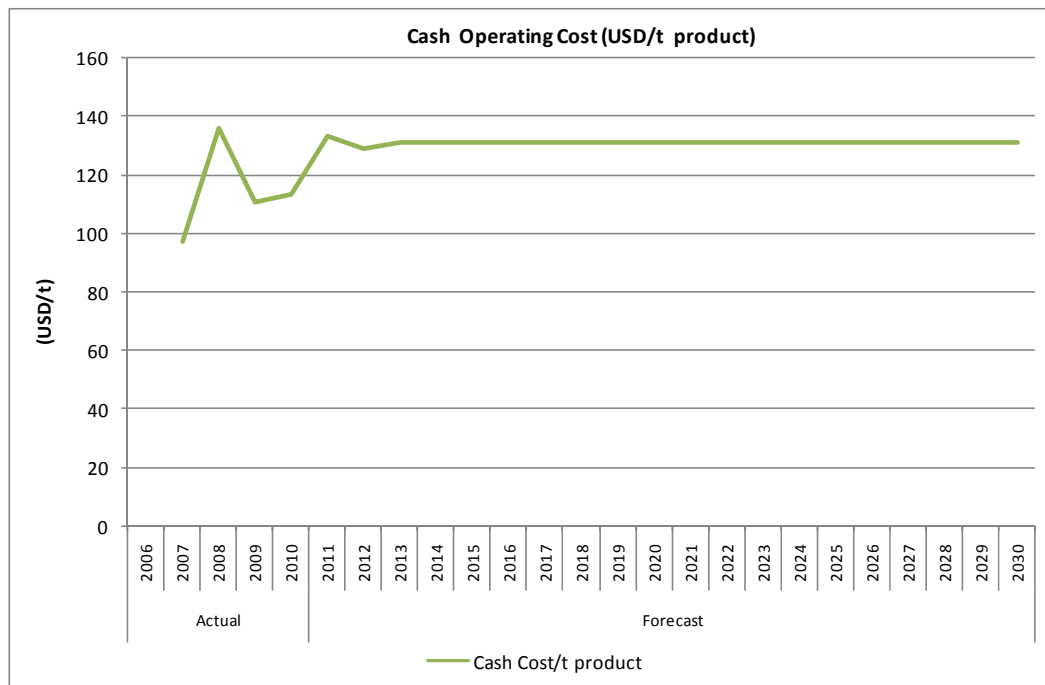


Figure 13-5: Silvinit Unit Operating Costs per Tonne Product



Cash operating costs per tonne of potash produced are in the region of USD125 per tonne which is lower than the global average. The principal components of operating cost at Silvinit are labour, energy, reagents and maintenance materials. With the exception of energy, all other cost inputs are expected to remain in line with 2011 values but have been flexed for the change in production levels assuming a fixed/variable split of 70% and 30% respectively. The rising cost of energy is the greatest threat to operating cost, however, and this has been already anticipated by Silvinit, which has budgeted for an increase in real terms over the next two years. In an attempt to mitigate these increased increasing energy costs, SRK would recommend that Silvinit considers energy-reducing projects and the expansion of the existing power station.

13.5 Capital Costs

Silvinit has allowed for capital expenditure in the following areas over the period of the Business Plan:

- Mining/Processing facilities – USD45.6M
- Infrastructure – USD152.1M
- Operating Cost reduction capital – USD83.5M
- Other capital – USD75.1M
- Sustaining Capital – USD3,470.3M (approximately USD173.5M per annum)

13.6 SRK Comments

While there are risks and opportunities associated with the Business Plan as reviewed by SRK, SRK is confident that the Ore Reserve Statement presented in this report is based on achievable forecasts of production and capital and operating costs.

14 RISKS AND OPPORUNITIES

14.1 Risks

There are a number of risks and opportunities to which all mining projects are exposed. For mining projects such as those operated by Silvinit, these include:-

- Product prices, exchange rate fluctuations and inflation rates;
- Country risk including political and economic stability in the longer term;
- Changes to future legislation (tenure, mining activity, labour, health and safety and environmental);
- General mining and processing risks relating to industrial accidents, labour disputes, human resource management, and safety performance;
- Project development risks associated with planned capital expenditures for expansion and improvement programmes for which technical studies have been begun or completed, but for which future production rates are yet to be achieved.

In addition to the above, SRK considers that specific risks to the Mining Assets as envisaged by Silvinit's Business Plan include:

- The possibility that increases in the product prices forecasted by Silvinit may be optimistic. The break even price required (to cover all cash operating costs including distribution) for the Ore Reserve statement included in this report is some USD125/tonne in January 2011 terms. Historical prices for potash are given in Section 4 of this report.
- Mining risks, specifically the potential for mine flooding, falls of ground, gas explosions, increased levels of insolubles and clays.
- The possibility that the projected increase in capacity at Mine 2/Plant2 and Mine 3/Plant 3 may not be achieved within the timeframes envisaged.
- Fuel/power cost increases. Silvinit has an advantage being a lower operational cost than the potash industry average. Rail transport costs, however, which are a significant proportion of Silvinit's costs, are not in Silvinit's direct control.
- The possibility that the potential environmental impacts of Silvinit's mining, processing and waste disposal activities may prove to be more significant than envisaged by Silvinit and may require additional costs to mitigate against both prior to and following closure.

14.2 Opportunities

SRK considers that specific opportunities for the Mining Assets not incorporated within Silvinit's Business Plan include:

- The potential, subject to the completion of a positive feasibility study, of the development of Polovodovsky and the consequent increased production capacity and also Ore Reserve following this.

- The fact that Mine 3 has a demonstrated Mineral Resource which could support mining for a significant period of time, tens of years, beyond the current 20 year Business Plan.
- The potential for the acquisition of further licences in the surrounding area which could either increase capacity or extend the life of the operation significantly beyond even the potential life of Mine 3 and Polovodovsky.
- The potential for increased mining grades and therefore reduced processing costs and increased recoveries in future years as other areas of the mines are accessed.
- The potential for productivity improvements and consequent reductions in the required labour force as these are introduced.
- The potential to reduce operating costs from those projected following the capacity increases at each of the mines and plants and use of larger mining systems.
- The potential for improving the mining and processing efficiencies and generally optimising the operations as currently carried out.

15 CONCLUDING REMARKS

The Verkhnekamskoye potash deposit is one of the largest potassium bearing evaporite deposits in the world, is very amenable to mining and processing and has the potential to support potash mining operations for many years to come. Silvinit has been exploiting this deposit for many years and has developed appropriate mining and processing practices which should enable it to continue doing so for many years beyond its current 20 year Business Plan. In addition to this, Silvinit is well positioned to increase its capacity if required through expansions of its existing facilities or the opening of additional mines and process facilities.

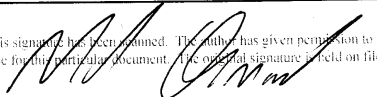
While SRK has highlighted certain technical risks associated with Silvinit's operations, the main factors which will determine Silvinit's medium to long term future, are the demand for potash and the prices Silvinit will receive for its products. While it appears likely that prices will continue to gradually increase in the medium term clearly this remains subject to negotiations with consumers and cannot be guaranteed.

Notwithstanding the above, Silvinit is already a low cost producer of potash, has the potential through productivity and management improvements to reduce these costs further in real terms and remain a low cost producer relative to its competitors, and therefore maintain its position in the industry in the event of any demand downturn.

SRK considers that should the Ore Reserve as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this report, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

For and on behalf of SRK Consulting (UK) Ltd

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Mike Armitage
Chairman, SRK (UK) Ltd

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Nick Fox
Senior Resource Geologist, SRK (UK) Ltd

Appendix 1
SILVINIT ENVIRONMENTAL PERMITS

Appendix 1: Silvinit Environmental Permits

Item	Permit description	Expiry
Emissions to the atmosphere		
1	Permit №445 dated 24.07.2009 for emissions of harmful (polluting) substances to the atmosphere from SKRU-1.	10.07.2014
2	Permit №102 dated 26.12.2007 for emissions of harmful (polluting) substances to the atmosphere from SKRU -2.	31.12.2012
3	Permit №203 dated 02.07.2008 for emissions of harmful (polluting) substances to the atmosphere from SKRU-3.	01.11.2011
4	Permit №523 dated 06.05.2010 for emissions of harmful (polluting) substances to the atmosphere from the Mine Construction Department.	31.12.2014
5	Permit №521 dated 29.04.2010 for emissions of harmful (polluting) substances to the atmosphere from the Industrial Port.	28.02.2015
6	Permit №410 dated 08.04.2009 for emissions of harmful (polluting) substances to the atmosphere from the Procurement Department.	31.12.2011
7	Permit №257 dated 31.10.2008 for emissions of harmful (polluting) substances to the atmosphere from the recuperation and preventive treatment clinic.	31.12.2011
8	Permit №461 dated 22.09.2009 for emissions of harmful (polluting) substances to the atmosphere from the auxiliary farm.	31.12.2011
9	Permit №460 dated 22.09.2009 for emissions of harmful (polluting) substances to the atmosphere from the vehicle shop.	31.12.2011
Sanitary Protection Zone (SPZ)		
10	SKRU-1 SPZ Design	Permanent
11	SKRU-2 SPZ was approved by Ordinance № 898 of the head of city of Solikamsk of Permskiy territory, dated 21.06.2010	Permanent
12	SKRU-3 SPZ was approved by Ordinance № 29 of the head of Solikamsk municipal district, dated 01.02.2010.	Permanent
13	Design of the Industrial Port calculated SPZ was developed and approved by territory department of the Federal Service on Customers' Rights Protection and Human Well-being Surveillance for Permskiy territory	Field monitoring of the atmosphere air condition is ongoing
14	Design of the Procurement Department calculated SPZ was developed and approved by territory department of the Federal Service on Customers' Rights Protection and Human Well-being Surveillance for Permskiy territory	Field monitoring of the atmosphere air condition is ongoing
15	Design of the Mine Construction Department calculated SPZ was developed and approved by territory department of the Federal Service on Customers' Rights Protection and Human Well-being Surveillance for Permskiy territory	Field monitoring of the atmosphere air condition is ongoing
16	Auxiliary farm SPZ Design	Under development
17	Vehicle shop SPZ design	Under development
18	Recuperation and preventive treatment clinic SPZ Design	Under development
Tailings Ponds		
19	SKRU-1 designed / mln. tons accumulated expansion design	2,89 / 2,34 Not required
20	SKRU-2 designed / mln. tons accumulated expansion design	5,45 / 4,79 Not required
21	SKRU-3 designed / mln. tons accumulated expansion design	11,03 / 5,57 Not required
Salt piles		
23	SKRU-1 designed / mln. tons accumulated expansion design	20,5 / 18,28 Not required
24	SKRU-2 designed / mln. tons accumulated Salt pile expansion design is under development. Stage 1 – support of the salt pile Phase 1 of 37.2 mln. tons capacity. Salt pile expansion in the Southern direction – Phase 2 of 38 mln. tons capacity (land issues are in discussion)	102 / 95,2
25	SKRU-3 designed / mln. tons accumulated	149/ 77,04 Not required

Appendix 1: Silvinit Environmental Permits

	Salt pile expansion work design passed the state environmental expert review approved by Order №0383 of the West Ural Department of the Federal Service of Environmental, Process and Atomic Supervision dated 07.07.2010.	
Waste handling		
26	SKRU-1 waste dumping permit № 619 dated 05.02.2010	until 25.05.2014
27	SKRU-2 waste dumping permit № 620 dated 05.02.2010	until 25.05.2014
28	SKRU-3 waste dumping permit № 621 dated 05.02.2010	until 25.05.2014
29	Auxiliary shops waste dumping permit № 607 dated 20.01.2010	until 25.05.2014
30	License OT-48-001295 (59) dated 25.05.2009 for collection, use, deactivation, transportation, dumping of the hazardous wastes	25.05.2014
Pollutants discharge to water bodies		
31	Resolution №59-00.00.00.000-P-PCBX-C-2008-00140/00 dated 26.12.2008 on permission to use a water body of Chyornaya river for sewage discharge from SKRU-1 (through 6 discharge points) (sewage and drainage water).	until 19.12.2013 inclusively
32	Permit №4 dated 26.02.2009 for pollutants discharge into the water bodies of Chyornaya river (through 6 discharge points).	until 19.12.2013 inclusively
33	Resolution №59-00.00.00.000-P-PCBX-C-2009-00192/00 dated 13.04.2009 on permission to use a water body of Popovka river for sewage discharge from SKRU-2 (through 2 sewage discharge points) (sewage).	until 31.12.2011
34	Permit №5 dated 18.05.2009 for pollutants discharge into the water bodies of Popovka river (through 2 discharge points)	until 30.12.2011 inclusively
35	Resolution №59-10.01.01.002-X-PCBX-T-2010-00455/00 dated 31.05.2010 on permission to use a water body of Kama reservoir for sewage discharge from SKRU-2 (drainage water)	until 18.04.2015 inclusively
36	Permit № 27 dated 25.06.2010 for pollutants discharge into the water bodies of Kama reservoir (through 1 discharge point)	until 17.04.2015 inclusively
37	Resolution №59-10.01.01.009-P-PCBX-C-2010-00454/00 dated 25.05.2010 on permission to use a water body of Usolka river for sewage discharge from SKRU-3 (drainage water)	until 07.04.2015
38	Permit №28 dated 25.06.2010 for pollutants discharge into the water bodies of Usolka river (through 1 discharge point)	until 06.04.2015 inclusively
39	Water use license ИЕМ 01098 TP2BX dated 15.11.2006 for the sewage discharge from the recuperation and preventive treatment clinic to Usolka river (through 1 discharge point)	until 15.02.2011

Appendix 2

GLOSSARY

Appendix 2: Glossary

“5GR”	Annual report lodged with governmental agencies, indicating the resources depleted during the previous year
“Assaying”	The analysis of minerals, rocks and mine products to determine and quantify their constituent parts
“Business Plan”	Refers to Silvinit’s financial model
“Competent Person”	As defined in the JORC Code, a ‘Competent Person’ is a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists, or of a ‘Recognised Overseas Professional Organisation’ (“ROPO”) with a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which that person is undertaking
“Evaporite”	Sediment deposited from a saline solution as a result of extensive or total evaporation of water
“Feasibility study”	A detailed study of the economics of a project based on technical calculations and specific mine designs undertaken to a sufficiently high degree of confidence to justify a decision to construction
“g/t”	Grammes per tonne
“GMOP”	Granular muriate of potash
“Geotechnics”	A branch of engineering which determines the factors influencing the stability of excavations
“Grade”	The quantity of ore of metal in a specific quantity of rock
“Grade Factor”	A factor applied when converting resources to reserves, which considers the ore losses and dilution associated with the mining operation and reduces the predicted grade to reflect this.
“International Environmental Standards”	Environmental and social standards derived from a number of documents including but not limited to, the World Bank Group (WBG) Pollution Prevention and Abatement Handbook, the International Finance Corporation (IFC) Performance Standards and the WBG/IFC environmental health and safety guidelines. In addition, there are various supporting documents generated by these organisation and major mining companies and associations that provide further guidance on acceptable practice in the mining industry.
“JORC Code”	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, setting out minimum reporting standards, recommendations and guidelines, as most recently outlined in the 2004 edition prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

Appendix 2: Glossary

“LoMp”	Life of mine plan.
“Ore”	Mineral bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediate foreseeable economic conditions.
“Ore loss” or “extraction Factor”	A factor applied when converting resources to reserves, which considers the non-recoverable in-situ ore, which is in turn a function of the mine design and mining method. In this instance, the loss is essentially the ore left behind in the pillars of the room and pillar mining method.
“PMOP”	Pink muriate of potash
“ROPO”	Recognised Overseas Professional Organisation
“(Ore) Reserves”	The economically mineable material derived from a Measured and/or indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified. Ore Reserves are subdivided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
“(Proved Ore) Reserves”	Economically mineable material derived from a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
“(Probable Ore) Reserves”	Economically mineable material derived from a Measured/Indicated Mineral Resource. It is estimated with a lower level of confidence than a proved Ore Reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

Appendix 2: Glossary

“(Measured Mineral) Resources”	<p>That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.</p>
“(Indicated Mineral) Resources”	<p>That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.</p>
“(Inferred Mineral) Resources”	<p>That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability.</p>
“RoM”	<p>Run of Mine. Used to describe the ore which is mined and transported to the processing plant or stockpile/s.</p>
“Russian reporting system”	<p>The Russian system for reporting resources, centred on the TEO (technical economic characterisations) and the TER (technical economic calculations), the under the guidelines of the GKZ (State Commission for Mineral Reserves). This is the equivalent of, for example, the JORC Code.</p>
“TEC”	<p>Total employee costed</p>
“WMOP”	<p>White muriate of potash</p>

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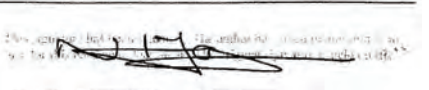
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Name/Title	Company	Copy	Date	Authorised by
Alexander Sharabaiko	OJSC Silvinit	1	12/04/11	Nick Fox

Approval Signature:



A rectangular box containing a handwritten signature in black ink. The signature is written over a horizontal line and is somewhat stylized. There is some faint, illegible text visible in the background of the box.

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APPENDIX III

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ОАО Silvinit

**Consolidated Financial Statements
for the year ended 31 December 2010**

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Independent Auditors' Report

To the management 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.

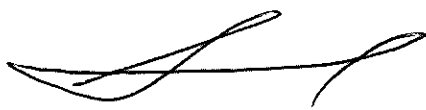
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ZAO KPMG
01 April 2011

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

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

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

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

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		
Balance at 31 December 2008	201	63	(446)	40,603	7	40,428
Total comprehensive income for the year						
Profit for the year	-	-	-	10,517	1	10,518
	-	-	-	10,517	1	10,518
Transactions with owners, recorded directly in equity						
Dividends to shareholders	-	-	-	(2,162)	(1)	(2,163)
Contributions by shareholders	-	429	-	-	-	429
Distributions to shareholders	-	(491)	-	-	-	(491)
	-	(62)	-	(2,162)	(1)	(2,225)
Balance at 31 December 2009	201	1	(446)	48,958	7	48,721

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		
Balance at 1 January 2010	201	1	(446)	48,958	7	48,721
Total comprehensive income for the year						
Profit for the year	-	-	-	11,532	-	11,532
	-	-	-	11,532	-	11,532
Transactions with owners, recorded directly in equity						
Dividends to shareholders	-	-	-	(2,161)	-	(2,161)
Own shares acquired	-	-	(29)	-	-	(29)
Acquisition of non-controlling interest	-	-	-	7	(7)	-
	-	-	(29)	(2,154)	(7)	(2,190)
Balance at 31 December 2010	201	1	(475)	58,336	-	58,063

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

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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

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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 acquiree'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 preference 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	2009
	Mln RUB	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	2009
	Mln RUB	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	2009
	Mln RUB	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	2009
	Mln RUB	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	2009
	Mln RUB	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	2009
	Mln RUB	Mln RUB
<i>Current tax expense</i>		
Current year	3,142	3,073
Adjustment for prior years	(214)	-
	2,928	3,073
<i>Deferred tax (benefit)/expense</i>		
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	%	2009	%
	Mln RUB		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
<i>Cost/Deemed cost</i>					
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
<i>Depreciation and impairment losses</i>					
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)
<i>Net book value</i>					
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	2009
	Mln RUB	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	<u>Mining licenses</u>	<u>Development costs</u>	<u>Other intangible assets</u>	<u>Total</u>
<i>Cost</i>				
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	<u>53,526</u>	<u>74</u>	<u>229</u>	<u>53,829</u>
Additions	-	151	43	194
Capitalised borrowing costs	3,996	-	-	3,996
Balance at 31 December 2010	<u><u>57,522</u></u>	<u><u>225</u></u>	<u><u>272</u></u>	<u><u>58,019</u></u>
<i>Amortisation</i>				
Balance at 1 January 2009	-	-	(137)	(137)
Amortisation	-	-	(32)	(32)
Balance at 31 December 2009	<u>-</u>	<u>-</u>	<u>(169)</u>	<u>(169)</u>
Amortisation	-	-	(31)	(31)
Balance at 31 December 2010	<u>-</u>	<u>-</u>	<u>(200)</u>	<u>(200)</u>
<i>Net book value</i>				
At 1 January 2009	<u>49,165</u>	<u>-</u>	<u>59</u>	<u>49,224</u>
At 31 December 2009	<u>53,526</u>	<u>74</u>	<u>60</u>	<u>53,660</u>
At 31 December 2010	<u><u>57,522</u></u>	<u><u>225</u></u>	<u><u>72</u></u>	<u><u>57,819</u></u>

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 Verkhnekamskoye 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:

	<u>Country of incorporation</u>	<u>Ownership/Voting 2010</u>	<u>Ownership/Voting 2009</u>
ZAO Mezhdunarodnaya Kaliynaya Kompaniya	Russia	-	33%
OAO Galurgiya	Russia	23%	23%
OOO Depo	Russia	25%	25%
IPC UK Limited	Great Britain	-	33%
OAO Solikamsky Magnievyy Zavod	Russia	-	25%
OAO Solikamsiy Stroitelny 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:

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

18 Other investments

	<u>31 December 2010 Mln RUB</u>	<u>31 December 2009 Mln RUB</u>
<i>Non-current</i>		
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)
	<u>552</u>	<u>625</u>

	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	31 December 2009
	Mln RUB	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	31 December 2009
	Mln RUB	Mln RUB
<i>Non-current</i>		
Receivables under finance leases from related parties	99	152
Trade accounts receivable	30	-
Other receivables - third parties	9	8
	138	160
<i>Current</i>		
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	31 December 2009
	Mln RUB	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	Number of ordinary shares	Preference shares	Ordinary shares	Treasury shares
	In thousand	In thousand	Mln RUB	Mln RUB	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	
<i>In thousands of shares</i>	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
<i>Non-current liabilities</i>		
<i>Third parties</i>		
Secured bank loans	31,272	45,359
Unsecured bank loans	-	23
	31,272	45,382
<i>Related parties</i>		
Finance lease liabilities	-	4
	-	4
	31,272	45,386
<i>Current liabilities</i>		
<i>Third parties</i>		
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
<i>Related parties</i>		
Finance lease liabilities	-	10
	-	10
	14,274	3,633

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Mln RUB	2010		2009	
	Year of maturity	Carrying amount	Year of maturity	Carrying amount
<i>Third parties</i>				
<i>Secured bank loans – fixed rate</i>				
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
<i>Secured bank loans – variable rate</i>				
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
<i>Related parties</i>				
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 ОАО Камская Горная Компания, 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:

Mln RUB	2010			2009		
	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 Registrar”, 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	2009
	Mln RUB	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.

Rating	Rating Agency	Cash and cash equivalents		Irrevocable deposits		Bank promissory notes	
		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:

Mln RUB	Carrying amount	
	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:

Mln RUB	Carrying amount	
	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:

Mln RUB	Gross	Impairment	Gross	Impairment
	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 liabilities 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	Carrying Value	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs
Mln RUB							
Non-derivative financial liabilities							
<i>Third parties</i>							
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	-
<i>Related parties</i>							
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								
<i>Third parties</i>								
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	-
<i>Related parties</i>								
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:

Mln RUB	Carrying amount	
	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 contingent 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 provision 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
<i>Transactions</i>				
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	-	-
<i>Outstanding balances</i>				
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
ООО Предприятие МТС ОАО Silvinit	Russia	100%	100%
ООО Silvinit Transport	Russia	100%	100%
ООО ИК "Silvinit-Resurs	Russia	100%	100%
ООО Vodokanal	Russia	100%	100%
ООО Kama-Mineral	Russia	100%	51%
ООО Silvinit-Capital	Russia	100%	100%
ОАО Камская Горная Компания ("КГК")	Russia	100%	100%
ООО Верхнекамский Судостроительный Комплекс	Russia	100%	-

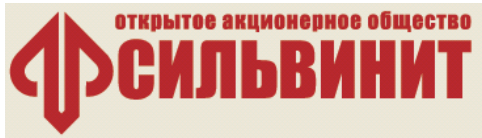
34 Subsequent events

Combination of Silvinit and ОАО 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 ОАО 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.



ОАО Silvinit

**Consolidated Financial Statements
for the year ended 31 December 2009**

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ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors 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 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles 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 opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG.

ZAO "KPMG"
10 June 2010


OAO Silvinit
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

Mln RUR	Note	2009	(Restated) 2008
Revenue	5	33,994	55,402
Cost of sales	6	(8,691)	(10,203)
Gross profit		25,303	45,199
Distribution expenses	7	(3,166)	(5,412)
Export duties	9	(260)	(2,013)
Administrative expenses	8	(1,610)	(1,711)
Other income	11	128	167
Other expenses	11	(1,975)	(1,177)
Results from operating activities		18,420	35,053
Finance income	12	151	148
Finance costs	12	(3,991)	(10,440)
Share of profit of equity accounted investees (net of tax)	16	62	49
Profit before income tax		14,642	24,810
Income tax expense	13	(4,124)	(7,127)
Profit for the year		10,518	17,683
Other comprehensive income			
Revaluation of available-for-sale financial investments, net of tax		-	(504)
Other comprehensive income for the year, net of income tax		-	(504)
Total comprehensive income for the year		10,518	17,179


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 13 to 65.

Mln RUR	Note	2009	(Restated) 2008
Profit attributable to:			
Owners of the Company		10,517	17,685
Non-controlling interest		1	(2)
Profit for the year		10,518	17,683
Total comprehensive income attributable to:			
Owners of the Company		10,517	17,181
Non-controlling interest		1	(2)
Total comprehensive income for the year		10,518	17,179
Earnings per share			
Preference shares	24	RUR 1,016	RUR 1,709
Ordinary shares	24	RUR 1,016	RUR 1,709

These consolidated financial statements were approved by management on 10 June 2010 and were signed on its behalf by:



 Rostyam H. Sabirov
 General Director



 Elena D. Rakintseva
 Chief Accountant

Mln RUR	Note	2009	(Restated) 2008
ASSETS			
Non-current assets			
Property, plant and equipment	14	40,044	37,778
Intangible assets	15	53,660	49,224
Investments in equity accounted investees	16	482	419
Other investments	17	625	621
Prepayments for acquisition of investments	20	1,539	-
Long-term trade and other receivables	21	160	206
Deferred tax assets	18	214	-
Other long-term assets		-	2
Total non-current assets		96,724	88,250
Current assets			
Trade and other receivables	21	3,630	5,208
Cash and cash equivalents	22	3,483	3,991
Inventories	19	1,568	1,904
Other investments	17	1,036	213
Income tax receivable		25	25
Total current assets		9,742	11,341
Total assets		106,466	99,591

Mln RUR	Note	2009	(Restated) 2008
EQUITY AND LIABILITIES			
Equity	23		
Share capital		201	201
Additional paid-in capital		1	63
Treasury shares		(446)	(446)
Retained earnings		48,958	40,603
Total equity attributable to equity holders of the Company		48,714	40,421
Non-controlling interest		7	7
Total equity		48,721	40,428
Non-current liabilities			
Loans and borrowings	25	45,386	21,630
Provisions	26	2,213	2,232
Deferred tax liabilities	18	3,728	2,463
Total non-current liabilities		51,327	26,325
Current liabilities			
Loans and borrowings	25	3,633	30,046
Trade and other payables	27	1,703	1,223
Provisions	26	881	1,212
Income tax payable		109	-
Dividends payable		92	357
Total current liabilities		6,418	32,838
Total liabilities		57,745	59,163
Total equity and liabilities		106,466	99,591

Mln RUR	Attributable to shareholders of the Company					Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Reserve for own shares	Available-for-sale investments revaluation reserve	Retained earnings		
Balance at 1 January 2008	201	-	(324)	504	27,478	27,859	27,868
Total comprehensive income for the year (Restated) (refer note 2(e)(i))							
Profit for the year	-	-	-	-	17,685	17,685	17,683
Revaluation of available-for-sale investments, net of tax	-	-	-	(504)	-	(504)	(504)
	-	-	-	(504)	17,685	17,181	17,179
Transactions with owners, recorded directly in equity							
Dividends to shareholders	-	-	-	-	(4,560)	(4,560)	(4,560)
Contributions by shareholders	-	63	-	-	-	63	63
Own shares acquired	-	-	(122)	-	-	(122)	(122)
	-	63	(122)	-	(4,560)	(4,619)	(4,619)
Balance at 31 December 2008 (Restated)	201	63	(446)	-	40,603	40,421	40,428

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

Mln RUR	(Restated)	
	2009	2008
OPERATING ACTIVITIES		
Profit for the year	10,518	17,683
Adjustments for:		
Depreciation and amortisation	2,821	2,035
Foreign exchange loss	1,764	9,687
Loss from disposal of property, plant and equipment	90	233
Impairment expense	61	51
Investments written off and change in provision	-	19
Discounting long-term debt instruments	(6)	16
Dividend income	(36)	(16)
Interest expense on loans and borrowings	258	661
Unwinding of discount	27	-
Interest income	(109)	(132)
Change in provision for site restoration	(50)	801
Interest expense on lease payable	4	11
Income tax expense	4,124	7,127
Change in provision for guarantees	(75)	359
Change in allowance for trade and other receivables	96	186
Loss from disposal of investments	-	4
Share of profit of equity accounted investees (net of income tax)	(62)	(49)
Expenses related to early repayment of loans	1,686	-
Operating profit before changes in working capital and provisions	21,111	38,676
Decrease in inventories	248	683
Decrease/(increase) in trade and other receivables	1,599	(1,495)
Increase/(decrease) in payables and provisions	608	(693)
Cash flows from operations before income taxes and interest paid	23,566	37,171
Income tax paid	(2,964)	(7,196)
Dividends paid	(2,427)	(5,030)
Interest paid	(5,332)	(2,912)
Cash flows from operating activities	12,843	22,033

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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 13 to 65.

Mln RUR	(Restated)	
	2009	2008
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	246	103
Acquisition of property, plant and equipment	(5,485)	(7,573)
Acquisition of intangible assets, including development costs	(115)	(47,024)
Proceeds from sale of investments	1,412	43
Acquisition of investments	(2,548)	(357)
Interest received	109	132
Dividends received	36	16
Prepayments for the acquisition of investments	(1,539)	-
Cash flows utilised by investing activities	(7,884)	(54,660)
FINANCING ACTIVITIES		
Acquisition of own shares	-	(122)
Contribution by shareholders	-	63
Proceeds from borrowings	48,604	47,091
Repayment of borrowings	(53,102)	(11,199)
Expenses related to early repayment of loans	(1,007)	-
Cash flows (utilized by)/from financing activities	(5,505)	35,833
Net (decrease)/increase in cash and cash equivalents	(546)	3,206
Cash and cash equivalents at beginning of year	3,991	783
Effect of exchange rate fluctuations on cash and cash equivalents	38	2
Cash and cash equivalents at end of year (note 22)	3,483	3,991

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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 13 to 65.

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 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 Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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 except that financial investments classified as available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR 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.

In particular, information about significant areas of estimation uncertainty and 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 28(b)(v) – allowance for impairment in respect of trade and other receivables and investments;
- Note 26 – provisions.
- Note 30 - contingencies

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- accounting for borrowing costs; and
- presentation of financial statements.

(i) *Accounting for borrowing costs*

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2008, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 *Borrowing Costs* (2007); in accordance with the transitional provisions of the standard the Group designated 1 January 2008 as the date to apply the standard to borrowing costs relating to all qualifying assets for which commencement date was on or after that date. Comparative figures have been restated as at and for the year ended 31 December 2008 to reflect the application of this change in accounting policy. As a result, interest expense decreased by RUR 2,207 million, deferred income tax expense increased by RUR 342 million and profit for the year ended 31 December 2008 increased by RUR 1,865 million. As at 31 December 2008 intangible assets increased by RUR 2,207 million and deferred tax liabilities increased by RUR 342 million.

(ii) *Presentation of financial statements*

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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.

(a) Basis of consolidation

(i) *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.

(ii) *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. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. 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 nil 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.

(iii) *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. 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. 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.

(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 comprise cash balances and call deposits with original maturities of three months or less. 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 (see note 3(h)(i)) and foreign currency differences on available-for-sale equity instruments (see 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.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(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 (including liabilities 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 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.

(iii) *Derivative financial instruments*

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(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 as a deduction from total equity. 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 transferred to/from retained earnings.

(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 (see note 2(e)(i)). 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" 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 calculated over the depreciable amount, which is the cost of the asset, or other amount substituted the cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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 4 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.

Acquisitions of subsidiaries prior to 1 January 2006

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2006. In respect of acquisitions prior to 1 January 2006, 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 of subsidiaries on or after 1 January 2006

For acquisitions on or after 1 January 2006, 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 capitalized 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 (see note 2(e)(i)). 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

(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, 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 cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss 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 time value 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, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit 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. 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 (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) 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.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(i) 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.

(j) 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.

(k) 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 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 when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. 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. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(l) 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.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), 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 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.

(n) 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.

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 the following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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.

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.

(o) 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 2009 the Group had no dilutive potential ordinary or preference shares.

(p) 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.

(q) 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 4).

(r) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, 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 (2009)* 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.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. Amendment will come into effect on 1 January 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries

should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity.

- Amendments to IFRS 5 *Non-current Assets held for Sale and Discontinued Operations* which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment is not expected to have an impact on Group's consolidated financial statements.
- 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 several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. 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.
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* clarify the separation criteria for embedded derivatives on reclassification of a hybrid instrument out of the fair value through profit or loss category. The amendment became effective for annual periods ending on or after 30 June 2009 and is not expected to have any effect on the consolidated financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.
- 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.
- 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 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Operating segments

(i) Minerals segment

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.

As information on total assets is not provided to the executive management board on a regular basis, the Group decided to early adopt *Improvements to IFRS* issued in April 2009, which allows such disclosure not to be included as total assets are not provided to the CDOM on a regular basis.

	2009	2008
Management accounts - Minerals segment (Potassium Chloride, Carnallite, Salt)	Mln RUR	Mln RUR
Revenue	32,853	54,260
Costs	(11,252)	(14,404)
Operating profit	21,601	39,856

Reconciliation of reportable segment revenue

	2009	2008
	Mln RUR	Mln RUR
Revenue for reportable segment	32,853	54,260
Inclusion of export duty not recognised in management accounts	260	-
Revenue generated by subsidiaries	112	82
Revenue from other operations	769	727
Differences in timing of revenue recognition in management accounts	-	333
Consolidated revenue	33,994	55,402

Reconciliation of reportable segment result

	2009	2008
	Mln RUR	Mln RUR
Operating profit for reportable segment	21,601	39,856
Segment profit generated by subsidiaries	112	82
Loss from other operations	(97)	(77)
Differences in timing of revenue and cost recognition in management accounts	-	(150)
Inclusion of export duty not recognised in 2008 management accounts	-	(2,013)
Reversal/(charge) in site restoration provision not recognised in management accounts	50	(777)
Change in allowance for impairment of trade receivables not recognised in management accounts	32	(260)
Change in other provisions not recognised in management accounts	(71)	(22)
Difference in depreciation resulting from different basis of measurement of property, plant and equipment in management accounts and under IFRS	(683)	(165)
Expenses excluded from the measure of operating profit in the management accounts, but included in costs of sales, distribution and administrative expenses under IFRS	(720)	(340)
Other income	128	167
Other expense	(1,975)	(1,177)
Finance income	151	148
Finance costs	(3,991)	(10,440)
Share of profit of equity accounted investees	62	49
Other differences	43	(71)
Consolidated profit before income tax	14,642	24,810

(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 5(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 28(b).

5 Revenue

(a) Revenue by product

	2009	2008
	Mln RUR	Mln RUR
Export		
Potassium Chloride	27,850	50,042
Domestic		
Potassium Chloride	4,123	3,623
Salt	775	775
Carnallite	414	492
Services	492	295
Other	340	175
	33,994	55,402

(b) Revenue by ultimate destination

	2009	2008
	Mln RUR	Mln RUR
Russia	6,144	5,360
Europe	1,422	8,994
China	3,659	15,808
India	13,651	7,178
Asia	3,958	9,527
USA	-	4,077
Brazil	3,939	3,928
Other	1,221	530
	33,994	55,402

6 Cost of sales

	2009	2008
	Mln RUR	Mln RUR
Materials	2,020	2,890
Depreciation	2,164	1,525
Wages and salaries	1,744	1,717
Payroll and social taxes	363	344
Repairs	762	1,375
Services	283	363
Electricity	837	731
Gas	324	299
Mineral extraction tax	123	143
Change in provision for site restoration	(50)	777
Other expenses	121	39
	8,691	10,203

7 Distribution expenses

	2009	2008
	Mln RUR	Mln RUR
Transportation expenses	1,638	2,686
Freight	23	161
Cargo handling in ports	161	257
Services	58	179
Repair	418	438
Rent of wagons	33	108
Depreciation	237	271
Materials	181	324
Sales commissions	172	294
Wages and salaries	177	210
Payroll and social taxes	45	50
Customs	43	144
Bad debts and change in allowance for impairment of trade receivables	(32)	260
Other	12	30
	3,166	5,412

8 Administrative expenses

	2009	2008
	Mln RUR	Mln RUR
Wages and salaries	401	339
Payroll and social taxes	82	66
Services	383	320
Insurance	103	181
Depreciation	234	177
Materials	45	71
Property tax	231	174
Business trips	24	35
Rent	12	20
Repairs	20	135
Other	75	193
	1,610	1,711

9 Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective for one year from April 2008, on the export of potassium chloride. The duty applicable to the Group's export sales of potassium chloride was 5% of its declared customs value.

10 Personnel costs

Mln RUR	2009	2008
Wages and salaries	2,506	2,519
Payroll and social taxes	554	574
	3,060	3,093

11 Other income and expenses

	2009	2008
	Mln RUR	Mln RUR
Other income		
Rental income	23	-
Change in allowance for impairment of other receivables	-	74
Change in provision for guarantees issued	78	-
Reverse of impairment of construction in progress	27	-
Other income	-	93
	128	167
Other expenses		
Abnormal labour and other production costs	293	339
Loss on disposal of property, plant and equipment	90	233
Impairment of construction in progress	-	33
Bank fees	33	117
Charity	12	16
Fines and penalties	78	-
Incremental charge of mineral extraction tax	171	-
Write-off of inventory	88	-
Change in allowance for impairment of other receivables	128	-
Change in provision for loans issued	4	-
Change in provision for guarantees	-	359
Donation for railway construction	1,000	-
Other expenses	78	80
	1,975	1,177

In 2009 the Group donated RUR 1,000 million to the state authorities for the construction of a new railway line that will be used by the Group to transport its goods. This railway line replaces the one damaged in 2006 when a nearby mine, not owned by the Group, flooded resulting in the collapse of underground cavities and a significant depression in the surface of the land. The new railway line was put into operation at the end of 2009.

12 Finance income and finance costs

	2009	(Restated)
	Mln RUR	2008
	Mln RUR	Mln RUR
Recognised in profit or loss		
Financial income		
Interest income	109	132
Dividend income	36	16
Discounting of long-term loans (investments)	6	-
Finance income	<u>151</u>	<u>148</u>
Financial expenses		
Foreign exchange loss	2,016	9,687
Interest expense on loans and borrowings	258	661
Expenses incurred due to early repayment of loans	1,686	-
Unwinding of discount on site restoration provision	27	24
Interest expenses on lease payable	4	11
Investments written off and change in provision	-	19
Impairment of available-for-sale investments	-	18
Loss from disposal of investments	-	4
Discounting of long term debt instruments	-	16
Finance costs	<u>3,991</u>	<u>10,440</u>
Net finance costs recognised in profit or loss	<u>3,840</u>	<u>10,292</u>

Other comprehensive income in 2008 included losses of RUR 504 million, representing the revaluation of available-for-sale investments, net of income tax benefit of RUR 126 million.

13 Income tax expense

	2009	(Restated) 2008
	Mln RUR	Mln RUR
<i>Current tax expense</i>		
Current year	3,073	7,375
	3,073	7,375
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	1,013	467
Reduction in tax rate	-	(715)
Derecognition of deductible temporary differences	38	-
	4,124	7,127

In 2009 the Company's applicable tax rate was 15.5% (2008: 20%). The reduction of the tax rate from the standard rate was granted to the Company by the local authorities in 2006 as a tax incentive. Management believes that these incentives will apply to the periods when deferred tax assets will be realised and the deferred tax liabilities will be settled.

(a) Income tax recognised directly in other comprehensive income

	2009			2008		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Available-for-sale financial assets	-	-	-	630	(126)	504
	-	-	-	630	(126)	504

Reconciliation of effective tax rate:

	2009		(Restated) 2008	
	Mln RUR	%	Mln RUR	%
Profit before income tax	14,642	100	24,810	100.0
Income tax at applicable tax rate	(2,270)	15.5	(4,962)	20.0
Change in tax rate	-	-	715	(2.9)
Current year losses for which no deferred tax asset was recognised	(1,451)	9.9	(2,398)	9.7
Non-deductible/non-taxable expenses	(403)	2.8	(482)	1.9
	(4,124)	28.2	(7,127)	28.7

14 Property, plant and equipment

Mln RUR	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
<i>Cost/Deemed cost</i>					
Balance at 1 January 2008	9,777	22,917	179	5,580	38,453
Additions	101	1,125	22	6,224	7,472
Transfers	222	2,846	4	(3,072)	-
Disposals	(21)	(494)	(2)	(79)	(596)
Balance at 31 December 2008	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
<i>Depreciation and impairment losses</i>					
Balance at 1 January 2008	(833)	(4,605)	(72)	(76)	(5,586)
Depreciation charge	(441)	(1,724)	(27)	-	(2,192)
Impairment loss	-	-	-	(33)	(33)
Disposals	7	252	1	-	260
Balance at 31 December 2008	(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)
<i>Net book value</i>					
At 1 January 2008	8,944	18,312	107	5,504	32,867
At 31 December 2008	8,812	20,317	105	8,544	37,778
At 31 December 2009	9,575	25,729	90	4,650	40,044

Property, plant and equipment includes fully depreciated assets with the cost of RUR 1,434 million (31 December 2008: RUR 596 million) that are still in use.

(a) Security

Property, plant and equipment with a carrying amount of RUR 16,600 million (2008: RUR 6,514 million) is pledged as security for bank loans (refer to note 25).

(b) Leased plant and machinery

The Group leases 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 2009 the net book value of leased plant and machinery was RUR 73 million (31 December 2008: RUR 137 million). The leased equipment secures lease obligations (refer to note 25).

15 Intangible assets

Mln RUR	Mining licenses	Development costs	Other intangible assets	Total
<i>Cost</i>				
Balance at 1 January 2008	-	-	130	130
Additions	46,958	-	66	47,024
Capitalized borrowing costs	2,207	-	-	2,207
Disposals	-	-	-	-
Balance at 31 December 2008 (Restated)	49,165	-	196	49,361
Additions	-	74	37	111
Capitalized borrowing costs	4,361	-	-	4,361
Disposals	-	-	(4)	(4)
Balance at 31 December 2009	53,526	74	229	53,829
<i>Amortisation</i>				
Balance at 1 January 2008	-	-	(75)	(75)
Amortisation	-	-	(62)	(62)
Disposals	-	-	-	-
Balance at 31 December 2008	-	-	(137)	(137)
Amortisation	-	-	(32)	(32)
Disposals	-	-	-	-
Balance at 31 December 2009	-	-	(169)	(169)
<i>Net book value</i>				
At 1 January 2008	-	-	55	55
At 31 December 2008 (Restated)	49,165	-	59	49,224
At 31 December 2009	53,526	74	60	53,660

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

Verkhnekamskoye deposit, acquired by OAO Kamskaya Gornaya Kompaniya (“KGK”) in 2008. The license expires on 1 July 2028 and is renewable.

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

16 Equity accounted investees

The Group has the following investments in equity accounted investees:

	Country of incorporation	Ownership/Voting 2009	Ownership/Voting 2008
OAO Sudostroitelny zavod KAMA	Russia	30%	30%
ZAO Mezhdunarodnaya Kaliynaya Kompaniya	Russia	32%	33%
OAO Galurgiya	Russia	23%	23%
OOO Vostochno-Uralsky Terminal	Russia	30%	30%
Belurs Handels GMBH	Austria	22%	22%
ZAO Galus	Russia	33%	33%
OOO Depo	Russia	25%	25%
IPC UK Limited	Great Britain	32%	33%
OOO Solikamskavto	Russia	26%	26%
Tzentralnaya kompaniya MFPG - ZAO Interagroinvest	Russia	25%	25%
OAO Solikamsky Magnievyy Zavod	Russia	25%	12%
ZAO TD Solikamsky Magnievyy Zavod	Russia	25%	-
ZAO Krist	Russia	25%	-
OOO Solimag	Russia	24%	-

The Group’s share of profit in its equity accounted investees for the year was RUR 62 million (2008: RUR 49 million). The Group has not recognised losses relating to OAO Sudostroitelny zavod Kama totalling RUR 15 million in 2009 (2008: RUR 29 million), since the Group has no obligation in respect to those losses.

In 2009 the Group received dividends from OOO Depo, OOO Solikamskavto and ZAO Mezhdunarodnaya Kaliynaya Kompaniya in the total amount of RUR 7 million (2008: RUR 2 million).

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

	2009	2008
	Mln RUR	Mln RUR
Total assets	5,261	6,921
Total liabilities	(3,219)	(5,248)
Revenue	22,867	14,955
Profit for the year	361	329

17 Other investments

	31 December	31 December
	2009	2008
	Mln RUR	Mln RUR
<i>Non-current</i>		
Available-for-sale investments:		
Equity investments measured at cost	565	430
Equity securities measured at fair value	-	136
Loans and receivables:		
Non-interest bearing loans to related parties	28	28
Non-interest bearing loans to third parties	16	13
Non-interest bearing loans granted to employees	43	46
Non-interest bearing promissory notes	65	60
Provisions	(92)	(92)
	625	621
<i>Current</i>		
Loans and receivables:		
Non-interest bearing loans to related parties	604	503
Non-interest bearing promissory notes of related parties	63	63
Bank deposits	1,007	33
Provisions	(638)	(386)
	1,036	213

Upon initial recognition, non-interest bearing loans and promissory notes were discounted using market rates of interest at the dates of initial recognition of the loans of 12.84%.

Available-for-sale investments of RUR 136 million measured at fair value as at 31 December 2008 were represented by investments in shares of a company, for which an active market ceased to exist at the beginning of 2009. No other reliable information was available after that date in order to determine the investments' fair value. Consequently, as of 1 January 2009 the Group measured the

investment at cost less impairment losses. This was determined as the carrying amount of the investment at the last date that the fair value could be reliably determined.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUR	Assets		Liabilities		Net	
	2009	2008	(Restated)		(Restated)	
			2009	2008	2009	2008
Property, plant and equipment	31	32	(2,881)	(2,770)	(2,850)	(2,738)
Intangible assets	-	-	(1,413)	(465)	(1,413)	(465)
Trade and other receivables	254	228	(43)	(40)	211	188
Investments	15	42	(94)	(74)	(79)	(32)
Inventories	-	-	-	(21)	-	(21)
Trade and other payables	16	16	(22)	(14)	(6)	2
Loans and borrowings	5	20	(2)	-	3	20
Provisions	381	386	-	-	381	386
Tax loss carry-forwards	239	197	-	-	239	197
Tax assets/(liabilities)	941	921	(4,455)	(3,384)	(3,514)	(2,463)
Set off of tax	(727)	(921)	727	921	-	-
Net tax liabilities	214	-	(3,728)	(2,463)	(3,514)	(2,463)

Recognized tax losses carried forward will expire in 2018-2019.

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect to tax losses of OAO Kamskaya Gornaya Kompaniya (KGK) in the amount of RUR 9,608 million (2008: RUR 11,992 million) as it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. The unrecognized tax losses carried forward relating to KGK will expire in 2018.

(c) Unrecognised deferred tax liability

A temporary difference of RUR 30 million (31 December 2008: RUR 19 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

	(Restated) 1 January 2009	Recognized in income	Recognized in comprehensive income	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)

	1 January 2008	(Restated) Recognized in income	Recognized in comprehensive income	(Restated) 31 December 2008
Property, plant and equipment	(3,571)	833	-	(2,738)
Intangible assets	-	(465)	-	(465)
Trade and other receivables	264	(76)	-	188
Investments	32	(190)	126	(32)
Inventories	(72)	51	-	(21)
Trade and other payables	51	(49)	-	2
Loans and borrowings	2	18	-	20
Provisions	457	(71)	-	386
Tax loss carry-forwards	-	197	-	197
	(2,837)	248	126	(2,463)

19 Inventories

	31 December 2009	31 December 2008
	Mln RUR	Mln RUR
Raw materials and consumables	1,243	1,574
Finished goods and goods for resale	301	306
Work in progress	24	24
	1,568	1,904

As at 31 December 2009 the Group had inventories pledged in a total amount of RUR 231 million as a security against loans and borrowings (31 December 2008: nil).

20 Prepayments for acquisition of investments

In 2009 the Group entered into agreements with related parties to acquire a further 40% interest in OAO Solikamsky Magnieviy Zavod and a 100% interest in OOO Verkhnekamsky Sudostroitelny Complex for RUR 1,383 million and RUR 480 million, respectively. As at 31 December 2009 the Group extended advances for the acquisition of these shares in the amounts of RUR 1,363 million and RUR 96 million, respectively. Legal ownership of these shares had not transferred to the Group at the balance sheet date.

OAO Solikamsky Magnieviy Zavod was an associate of the Group at 31 December 2009 and will become a subsidiary upon the acquisition of the additional 40% interest.

21 Trade and other receivables

	31 December 2009	31 December 2008
	Mln RUR	Mln RUR
<i>Non-current</i>		
Receivables under finance leases from related parties	152	170
Other receivables - third parties	8	36
	160	206
<i>Current</i>		
Trade accounts receivable - third parties	1,064	1,484
Trade accounts receivable – related parties	1,730	2,945
Advances paid – third parties	105	110
Advances paid – related parties	141	-
VAT receivable	1,333	1,425
Receivables under finance leases from related parties	196	163
Other receivables – third parties	45	119
Other receivables – related parties	150	-
Allowance for impairment of trade and other receivables	(1,134)	(1,038)
	3,630	5,208

As at 31 December 2009 Group had no pledged accounts receivable (31 December 2008: RUR 3,819 million – export trade receivables, pledged as security for bank loans).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

22 Cash and cash equivalents

	31 December 2009	31 December 2008
	Mln RUR	Mln RUR
Bank accounts in:		
RUR	1,593	1,883
USD	1,810	1,200
EUR	79	70
Demand deposits in RUR	-	800
Cash in transit	-	37
Petty cash	1	1
	3,483	3,991

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

23 Capital and reserves

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	Preference shares	Ordinary shares	Preference shares
	2009	2009	2008	2008
Authorised shares	7,825,760	2,608,580	7,825,760	2,608,580
Par value	RUR 50	RUR 50	RUR 50	RUR 50
On issue at beginning of year	7,741,166	2,607,600	7,749,176	2,607,600
Treasury shares acquired	-	-	(8,010)	-
On issue at end of year, fully paid	7,741,166	2,607,600	7,741,166	2,607,600

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) Treasury shares

At the balance sheet date a wholly-owned subsidiary of the Company held 84,594 of the Company's ordinary shares (31 December 2008: 84,594 treasury shares). These ordinary shares

carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

(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 2009 the Company had retained earnings, including the profit for the current year, of RUR 51,015 million (2008: RUR 37,540 million).

As at 31 December 2009 and 31 December 2008 all dividends recommended by the directors during the year have been approved at a shareholders' meeting.

The amount of dividends per share for 2009 was RUR 209 per ordinary share and RUR 209 per preference share (2008: RUR 44 and RUR 44 per one ordinary and one preference share, respectively).

24 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:

	2009		2008	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares
<i>In thousands of shares</i>				
Issued shares at 1 January	2,609	7,826	2,609	7,826
Effect of own shares held	(1)	(85)	(1)	(85)
Weighted average number during the year	2,608	7,741	2,608	7,741

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

	2009 Mln RUR	2008 Mln RUR
Dividends declared during the year:		
Preference shares	546	1,148
Ordinary shares	1,616	3,412
Profit remaining undistributed:		
Preference shares	2,106	3,308
Ordinary shares	6,249	9,817
	10,517	17,685
Attributable to preference shareholders	2,650	4,457
Attributable to ordinary shareholders	7,867	13,228
	10,517	17,685

25 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, see note 28.

	2009	2008
	Mln RUR	Mln RUR
<i>Non-current liabilities</i>		
<i>Third parties</i>		
Secured bank loans	45,359	21,620
Unsecured bank loans	23	-
	<u>45,382</u>	<u>21,620</u>
<i>Related parties</i>		
Finance lease liabilities	4	10
	<u>4</u>	<u>10</u>
	<u>45,386</u>	<u>21,630</u>
<i>Current liabilities</i>		
<i>Third parties</i>		
Secured bank loans	808	6,744
Current portion of secured bank loans	2,732	22,392
Current portion of unsecured bank loans	31	-
Interest accrued	52	896
	<u>3,623</u>	<u>30,032</u>
<i>Related parties</i>		
Finance lease liabilities	10	14
	<u>10</u>	<u>14</u>
	<u>3,633</u>	<u>30,046</u>
Unused credit facilities	-	1,504

In 2009 the Group refinanced a loan of USD 1,515 million maturing in 2009-2011 with funds borrowed from another bank. The new loan bears a fixed interest rate of 9% and has a longer maturity period.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Mln RUR	2009		2008	
	Year of maturity	Carrying amount	Year of maturity	Carrying amount
<i>Third parties</i>				
<i>Secured bank loans – fixed rate</i>				
RUR, 9%-10%	-	-	2009	3,119
RUR, 9%-10%	-	-	2010	23
RUR, 9%-10%			2011-2012	14
RUR, 19.5%-20%	2010	89	-	-
RUR, 19.5%	2011-2012	41	-	-
RUR, 10.5%-12.5%	-	-	2010-2011	32
RUR, 10.5%-12.5%	-	-	2009	61
USD, 9% (effective rate 9.8%)	2010	2,695	-	-
USD, 9% (effective rate 9.8%)	2011-2014	42,310	-	-
USD, 7%	2010	756	-	-
<i>Secured bank loans – variable rate</i>				
USD, LIBOR+2.25%	-	-	2009	1,024
USD, LIBOR+2.5%	-	-	2009	2,644
USD, LIBOR+7.5% (effective rate 13.0%)	-	-	2009	22,256
USD, LIBOR+7.5% (effective rate 13.0%)	-	-	2011	21,498
USD, LIBOR+4%	2011	3,008		-
RUR, MOSPRIME+5.2%	-	-	2009	31
RUR, MOSPRIME+5.2%	-	-	2011	54
<i>Unsecured bank loans – variable rate</i>				
RUR, MOSPRIME+5.2%	2010	31	-	-
RUR, MOSPRIME+5.2%	2011	23	-	-
Interest accrued	2010	52	2009	896
		49,005		51,652
<i>Related parties</i>				
<i>Finance lease liabilities</i>				
RUR	2010	10	-	-
RUR	2011	4	2011	24
		14		24
		49,019		51,676

As of 31 December 2009 bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 16,600 million (31 December 2008: RUR 6,514 million) – refer note 14(a);
- inventory with a carrying amount of RUR 231 million (31 December 2008: nil) – refer note 19;
- export trade receivables with a carrying amount of nil (31 December 2008: RUR 3,819 million);
- lease receivables with a carrying amount of RUR 277 million (31 December 2008: RUR 261 million); and
- the pledge of 10,000 shares of OAO Kamskaya Gornaya Kompaniya, which represents 100% of shares of KGK’s share capital (31 December 2008: 49.99%) (refer note 15).

(b) Finance lease liabilities

Finance lease liabilities are payable as follows:

Mln RUR	2009			2008		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	11	1	10	16	2	14
Between one and five years	5	1	4	15	5	10
	16	2	14	31	7	24

The finance lease liabilities are secured by the leased assets with a net book value of RUR 73 million (31 December 2008: RUR 137 million) – refer note 14(b).

26 Provisions

Mln RUR	Site restoration	Guarantees	Total
Balance at 1 January 2008	1,691	593	2,284
Provisions made during the year	187	359	546
Unwinding of discount	24	-	24
Change in estimate	883	-	883
Provisions used during the year	(293)	-	(293)
Balance at 31 December 2008	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

Mln RUR	Site restoration	Guarantees	Total
Current – 31 December 2009	258	623	881
Non-current – 31 December 2009	2,211	2	2,213
	2,469	625	3,094
Current – 31 December 2008	260	952	1,212
Non-current – 31 December 2008	2,232	-	2,232
	2,492	952	3,444

(a) Site restoration

A provision of RUR 2,469 million (31 December 2008: RUR 2,492 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 balance sheet 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 liability 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 2009.
- 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 2009 management applied real discounts rates of between 1.2% (negative) - 1.8% (positive) depending on the expected timing of individual cash outflows (2008: 0.2% - 1.3%)

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 RUR 625 million against guarantees issued primarily to related parties of the Group (31 December 2008: RUR 952 million) (refer note 31(d)).

27 Trade and other payables

	2009	2008
	Mln RUR	Mln RUR
Trade accounts payable, third parties	171	173
Trade accounts payable, related parties	238	110
Taxes payable	141	333
Accounts payable for acquisition of property, plant and equipment, third parties	19	36
Accounts payable for acquisition of property, plant and equipment, related parties	65	176
Payables to employees	183	237
Advances received, third parties	737	12
Payables to state-owned funds	61	45
Other payables	88	101
	1,703	1,223

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28 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, receivables from customers, loans issued and guarantees issued.

(i) Cash and cash equivalents

The table below illustrates the credit quality of the Group's cash and cash equivalents as at the balance sheet date. Management does not expect any counterparty to fail to meet its obligations.

Rating	Rating Agency	Carrying amount (Mln RUR)	
		2009	2008
BAA1	Moody's	422	1,037
B3	Moody's	-	12
BBB	S&P	773	21
Unrated	-	2,288	2,921
		3,483	3,991

As at 31 December 2009 the Group held a cash balance of RUR 1,429 million (31 December 2008: RUR 2,871 million) with a bank, in which it controlled 19.9% of shareholder voting power (31 December 2008: 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 45% (2008: 33%) or RUR 15,151 million (2008: RUR 18,240 million) of the Group's export revenue is attributable to sales transactions with a single customer. The net advanced amount to the export customer as at 31 December 2009 was RUR 679 million (31 December 2008: accounts receivable of RUR 5 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.

In response to the financial crisis and the liquidity of certain traders, the Group has extended credit terms for certain customers of the Group. As at 31 December 2009 certain customers with an aggregate outstanding balance of RUR 287 million were provided with credit terms of up to 600 days (31 December 2008: RUR 886 million, 270 days). The weighted average credit days provided to customers as at 31 December 2009 was 234 days (31 December 2008: 122 days).

(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 and third parties. As at 31 December 2009 the amount of guarantees outstanding amounted to RUR 884 million (31 December 2008: RUR 3,210 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 RUR 625 million (31 December 2008: RUR 952 million).

(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:

Mln RUR	Carrying amount	
	2009	2008
Cash and cash equivalents	3,483	3,991
Trade and other receivables	2,211	3,879
Loans issued	89	235
Bank deposits	1,007	33
	6,790	8,138

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

Mln RUR	Carrying amount	
	2009	2008
Russia	638	998
Europe	418	274
China	528	503
India	347	955
Other regions	863	1,699
Allowance for impairment	(980)	(1,012)
	1,814	3,417

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 balance sheet date are as follows:

Mln RUR	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	781	-	1,655	-
Not past due (resulting from extension of credit terms)	446	-	1,237	310
Past due 0-30 days	577	38	664	-
Past due 31-180 days	277	229	178	10
Past due 181-365 days	172	172	340	340
More than one year	541	541	355	352
	2,794	980	4,429	1,012

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.

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

	2009 Mln RUR	2008 Mln RUR
Balance at 1 January	1,012	752
Provisions made during the year	437	659
Provisions reversed during the year	(469)	(399)
Balance at 31 December	980	1,012

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

	2009 Mln RUR	2008 Mln RUR
Balance at 1 January	26	100
Provisions made during the year	143	17
Provisions reversed during the year	(15)	(91)
Balance at 31 December	154	26

Impairment losses related to loans granted and promissory notes, substantially all of which were to related parties, as at the balance sheet date were as follows:

Mln RUR	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Loans provided	691	618	590	366
Promissory notes	128	112	123	112
	819	730	713	478

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

	2009 Mln RUR	2008 Mln RUR
Balance at 1 January	478	459
Increase in allowance	252	51
Reversal of allowance	-	(32)
Balance at 31 December	730	478

As at the balance sheet date an impairment loss of RUR 730 million (31 December 2008: RUR 478 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.

As at 31 December 2009 the Group had granted loans and guarantees of RUR 262 million and RUR 619 million, respectively (31 December 2008: RUR 262 million and RUR 656 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 RUR 1,177 million and RUR 141 million, respectively (31 December 2008: trade accounts receivable of RUR 691 million) 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 2009 and 31 December 2008.

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 2009 the Group does not have any collective impairments on its trade receivables or its loans and promissory notes (31 December 2008: 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.

2009 Mln RUR	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								
<i>Third parties</i>								
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	-
<i>Related parties</i>								
Finance lease liabilities, fixed rate	14	16	11	5	-	-	-	-
Trade and other payables	303	303	303	-	-	-	-	-
	317	319	314	5	-	-	-	-
	49,783	63,176	8,713	17,447	13,335	12,347	11,334	-

2008 Mln RUR	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								
<i>Third parties</i>								
Secured bank loans, fixed rate	3,249	3,327	3,254	65	6	2	-	-
Secured bank loans, variable rate	47,507	53,727	28,301	2,028	23,398	-	-	-
Trade and other payables	547	547	547	-	-	-	-	-
Interest accrued	896	896	896	-	-	-	-	-
	<u>52,199</u>	<u>58,497</u>	<u>32,998</u>	<u>2,093</u>	<u>23,404</u>	<u>2</u>	<u>-</u>	<u>-</u>
<i>Related parties</i>								
Finance lease liabilities, fixed rate	24	31	16	10	5	-	-	-
Trade and other payables	286	286	286	-	-	-	-	-
	<u>310</u>	<u>317</u>	<u>302</u>	<u>10</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>52,509</u>	<u>58,814</u>	<u>33,300</u>	<u>2,103</u>	<u>23,409</u>	<u>2</u>	<u>-</u>	<u>-</u>

(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) 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 currency giving rise to this risk is primarily the United States dollar (USD).

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 RUR	USD- denominated 2009	USD- denominated 2008
	<hr/>	<hr/>
Current assets		
Cash and cash equivalents	1,810	1,200
Receivables	808	1,501
Current liabilities		
Payables	(35)	(18)
Loans and borrowings	(3,452)	(25,924)
Non-current liabilities		
Loans and borrowings	(45,317)	(21,498)
	<hr/> (46,186) <hr/>	<hr/> (44,739) <hr/>

The following significant exchange rates applied during the year:

	1 USD equals 2009	1 USD equals 2008
	<hr/>	<hr/>
RUR	30.2442	29.3804

(e) Sensitivity analysis

A 20% strengthening/(weakening) of the RUR against the abovementioned currencies based on the Group's exposure at the balance sheet date would have increased/(decreased) profit for the year by RUR 9,248 million (31 December 2008: RUR 8,624 million), on the basis that all other variables, in particular interest rates, remain constant.

(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:

Mln RUR	Carrying amount	
	2009	2008
Fixed rate instruments		
Cash and cash equivalents	3,483	3,991
Bank deposits	1,007	33
Bank loans	(45,891)	(3,249)
Finance lease liabilities	(14)	(24)
	(41,415)	751
Variable rate instruments		
Bank loans	(3,062)	(47,507)
	(3,062)	(47,507)

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 balance sheet date would not have a material effect on the equity or profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates based on the Group's exposure as at the balance sheet date would have increased (decreased) equity and the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

Mln RUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2009				
Variable rate instruments	(31)	31	(31)	31
Cash flow sensitivity (net)	(31)	31	(31)	31
2008				
Variable rate instruments	(475)	475	(475)	475
Cash flow sensitivity (net)	(475)	475	(475)	475

(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 balance sheet 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 the carrying amount of RUR 45,005 million which was obtained in 2009 (refer note 25) imposes a requirement that combined debt of certain companies of Group and a related party should not exceed combined annual EBITDA of these entities by more than 3 times. Both EBITDA and debt are calculated on the basis on 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.

29 Capital commitments

As at 31 December 2009, the Group had outstanding capital commitments in relation to acquisition of property, plant and equipment for an aggregate amount of RUR 244 million (31 December 2008: RUR 1,912 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 RUR 69,134 million over the period to 2015.

30 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

(i) Tax environment

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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. 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.

(c) Guarantees issued

The Group issues guarantees to banks on behalf of related and third parties of the Group. Management has established a provision of RUR 625 million (31 December 2008: RUR 952 million) against guarantees issued to certain related parties of the Group (refer note 31(d)).

	31 December 2009	31 December 2008
	Mln RUR	Mln RUR
Guarantees issued for related parties (note 31(d))	884	3,189
Guarantees issued for third parties	-	21
	884	3,210

(d) 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 26). 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.

(e) 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. Management believes the law suit has no legal merit and will defend the legal proceedings brought against the Group.

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 the prices exceeding a deemed fair price of RR 3,755 per ton. Management estimates that the fines expected to be imposed by the Federal Antimonopoly authority to be approximately RR 165 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 RUR 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 has no legal validity and subsequent to the balance sheet date commenced legal action against the decision of the Federal Antimonopoly authority. Management believes the likelihood that the Federal Antimonopoly authority will be able to successfully defend its position is remote. No provision has been recognized for the claims brought against the Group by certain domestic customers or for fines which may be imposed by the Federal Antimonopoly authority, because management believes that it is possible, but not probable, that an outflow of resources will be required to settle the obligation.

31 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 2009 and 2008 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 10)

Mln RUR	2009	2008
Salaries and bonuses	31	24
Taxes and related social contributions	3	18
	34	42

(c) Transactions and outstanding balances with other related parties

The Group has related party relationships with associates of the Group and entities over which the controlling shareholders of the Group are able to exercise significant influence. The Group's related party transactions and outstanding balances are disclosed below:

Mln RUR	2009		2008	
	Associates	Shareholder-controlled entities	Associates	Shareholder-controlled entities
<i>Transactions</i>				
Sale of goods	2,426	5,274	6,531	7,030
Services provided	-	19	-	4
Lease income	13	54	5	47
Dividends received	7	-	2	-
Interest income	-	-	-	-
Other income	-	-	-	357
Purchases of goods and services	375	3,086	531	7,547
Purchases of equipment and other assets	127	4,006	139	1,540
Purchases of shares	-	6	-	-
Finance lease expenses	-	-	-	51
Other expenses	5	27	13	4
Loans received from related parties	-	-	-	-
Loans paid off to related parties	-	-	-	17
Loans provided to related parties	90	965	-	-
Loans repaid by related parties	90	926	-	-
Promissory notes purchased	-	-	-	144
Promissory notes redeemed	-	366	-	534
Prepayments for the acquisition of investments	-	1,459	-	-
Increase/(decrease) in provision for accounts receivable	423	(169)	-	186
Increase in provision for loans and promissory notes issued	-	4	-	19
<i>Outstanding balances</i>				
Trade and other receivables	1,119	761	1,310	1,635
Provision for doubtful debts	(1,118)	(9)	-	(860)

Mln RUR	2009		2008	
	Associates	Shareholder-controlled entities	Associates	Shareholder-controlled entities
Receivables under finance lease	82	266	96	237
Investments in associates	482	-	419	-
Available-for-sale equity investments	-	73	-	75
Trade and other payables	-	(271)	(8)	(102)
Accounts payable for acquisition of property, plant and equipment	(26)	(39)	(30)	(146)
Advances given	-	141	-	-
Lease liabilities	-	(14)	-	(24)
Loans granted/promissory notes receivable	262	433	-	594
Provision for loans and promissory notes issued	(262)	(404)	-	(478)

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

(d) Guarantees issued on behalf of related parties

As at the balance sheet date the Group had issued guarantees to related parties in the amount of RUR 884 million (31 December 2008: RUR 3,189 million). The Group recognised a provision for these guarantees of RUR 625 million (31 December 2008: RUR 952 million).

(e) Pricing policies

The pricing of related party transactions is determined on a case by case basis.

32 Significant subsidiaries

	Country of incorporation	2009	2008
		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	51%	51%
OOO Silvinit-Capital	Russia	100%	-
OAO Kamskaya Gornaya Kompaniya ("KGK")	Russia	100%	49.99%

OA0 Silvinit

**Consolidated Financial Statements
for the year ended 31 December 2008**

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ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors of OAO "Silvinit"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO "Silvinit" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence to confirm that in 2008 and 2007 the Group did not have a parent company or ultimate controlling party as disclosed in note 30(a) of the accompanying consolidated financial statements.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 2(c), which describes that it is unlikely the Group will be able to make a principal repayment of RUR 22,255 million due in July 2009 relating to a loan which had a carrying value of RUR 43,754 million as at the balance sheet date. Additionally, subsequent to the balance sheet date the Group breached certain financial covenants relating to this loan which permits the lender to demand the loan's immediate repayment. The Group's management is in discussions, which have so far been inconclusive, with the bank regarding the restructuring of this loan. These conditions, along with other matters described in Note 2(c), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

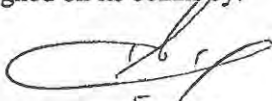
ZAO KPMG

ZAO "KPMG"
15 June 2009


ОАО Силвинит
Consolidated Income Statement for the year ended 31 December 2008

		2008	2007
	Note	Mln RUR	Mln RUR
Revenue	5	55,402	22,981
Cost of sales	6	(10,161)	(8,553)
Gross profit		45,241	14,428
Distribution expenses	7	(5,534)	(4,918)
Export duties	10	(2,013)	-
Administrative expenses	8	(1,631)	(1,656)
Other income	11	167	60
Other expenses	11	(1,177)	(793)
Results from operating activities		35,053	7,121
Financial income	12	148	235
Financial expenses	12	(12,647)	(487)
Share of profit/(loss) of equity accounted investees (net of income tax)		49	(42)
Profit before income tax		22,603	6,827
Income tax expense	13	(6,785)	(1,521)
Profit for the year		15,818	5,306
Attributable to:			
Shareholders of the Company		15,820	5,251
Minority interest		(2)	55
Basic and diluted earnings per share	25		
Preference shares		RUR 1,529	RUR 507
Ordinary shares		RUR 1,529	RUR 507

These consolidated financial statements were approved by management on 10 June 2009 and were signed on its behalf by:



Rostyam H. Sabirov
 General Director



Elena D. Rakintseva
 Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 58.

		31 December 2008	31 December 2007
	Note	Mln RUR	Mln RUR
ASSETS			
Non-current assets			
Property, plant and equipment	14	37,778	32,867
Intangible assets	15	47,017	55
Investments in associates	16	419	370
Other investments	17	621	1,277
Trade and other receivables	20	206	78
Other long-term assets		2	-
		86,043	34,647
Current assets			
Trade and other receivables	20	5,208	3,631
Inventories	19	1,904	2,587
Other investments	17	213	329
Income tax prepaid		25	205
Cash and cash equivalents	21	3,991	783
		11,341	7,535
Total assets		97,384	42,182

		31 December 2008	31 December 2007
	Note	Mln RUR	Mln RUR
EQUITY AND LIABILITIES			
Equity	22		
Share capital		201	201
Treasury shares		(446)	(324)
Additional paid-in capital		63	-
Retained earnings		38,738	27,478
Reserves		-	504
Total equity attributable to shareholders of the Company		38,556	27,859
Minority interest		7	9
Total equity		38,563	27,868
Non-current liabilities			
Loans and borrowings	23	21,630	3,294
Deferred tax liabilities	18	2,121	2,837
Provisions	24	2,232	1,452
		25,983	7,583
Current liabilities			
Loans and borrowings	23	30,046	2,836
Trade and other payables	26	1,223	2,236
Provisions	24	1,212	832
Dividends payable		357	827
		32,838	6,731
Total liabilities		58,821	14,314
Total equity and liabilities		97,384	42,182

	2008	2007
	Mln RUR	Mln RUR
OPERATING ACTIVITIES		
Profit for the year	15,818	5,306
Adjustments for:		
Depreciation and amortisation	2,035	2,099
Foreign exchange loss/(gain)	9,687	(158)
Loss from disposal of property, plant and equipment	233	251
Impairment of construction in progress	33	48
Investments written off and change in provision	19	4
Impairment of available for sale investments	18	-
Discounting long-term debt instruments	16	-
Dividend income	(16)	(14)
Interest expense on loans and borrowings	2,868	246
Interest income	(132)	(63)
Change in provision for site restoration	801	287
Interest expense on lease payable	11	36
Income tax expense	6,785	1,521
Loss from dilution of ownership in investments	-	236
Change in provision for guarantees	359	7
Change in allowance for trade and other receivables	186	178
Loss from disposal of investments	4	4
Share of (profit)/loss of equity accounted investees (net of income tax)	(49)	42
Operating profit before changes in working capital and provisions	38,676	10,030
Decrease/(increase) in inventories	683	(780)
Increase in trade and other receivables	(1,495)	(1,420)
(Decrease)/increase in payables and provisions	(693)	837
Cash flows from operations before income taxes and interest paid	37,171	8,667
Income tax paid	(7,196)	(1,711)
Dividends paid	(5,030)	(4,165)
Interest paid	(2,912)	(235)
Cash flows from operating activities	22,033	2,556

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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 11 to 58.

	2008	2007
	Mln RUR	Mln RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	103	59
Acquisition of property, plant and equipment	(7,573)	(6,387)
Acquisition of intangible assets, including development costs	(47,024)	(9)
Proceeds from sale of investments	43	1,231
Acquisition of investments	(357)	(1,245)
Interest received	132	63
Dividends received	16	14
Cash flows utilised by investing activities	(54,660)	(6,274)
FINANCING ACTIVITIES		
Acquisition of own shares	(122)	-
Contribution by shareholders	63	-
Proceeds from borrowings	47,091	7,285
Repayment of borrowings	(11,199)	(3,272)
Cash flows from financing activities	35,833	4,013
Net increase in cash and cash equivalents	3,206	295
Cash and cash equivalents at beginning of year	783	466
Effect of exchange rate fluctuations on cash and cash equivalents	2	22
Cash and cash equivalents at end of year (note 21)	3,991	783

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 11 to 58.

MIn RUR	Attributable to shareholders of the Company						Minority interest	Total equity
	Share capital	Additional paid-in capital	Reserve for own shares	Available-for-sale investments revaluation reserve	Retained earnings	Total		
Balance at 1 January 2007 (unaudited)	201	-	(324)	-	27,164	27,041	239	27,280
Profit for the year	-	-	-	-	5,251	5,251	55	5,306
Revaluation of available-for-sale investments, net of tax	-	-	-	504	-	504	-	504
Total recognised income and expense	-	-	-	-	-	5,755	55	5,810
Dividends to shareholders	-	-	-	-	(4,937)	(4,937)	(5)	(4,942)
De-consolidation of subsidiary due to dilution	-	-	-	-	-	-	(280)	(280)
Balance at 31 December 2007	201	-	(324)	504	27,478	27,859	9	27,868
Profit for the year	-	-	-	-	15,820	15,820	(2)	15,818
Revaluation of available-for-sale investments, net of tax	-	-	-	(504)	-	(504)	-	(504)
Total recognised income and expense	-	-	-	-	-	15,316	(2)	15,314
Dividends to shareholders	-	-	-	-	(4,560)	(4,560)	-	(4,560)
Contributions by shareholders	-	63	-	-	-	63	-	63
Own shares acquired	-	-	(122)	-	-	(122)	-	(122)
Balance at 31 December 2008	201	63	(446)	-	38,738	38,556	7	38,563

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 11 to 58.

1 Background

(a) Organisation and operations

ОАО Силвинит (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 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 Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. 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 except that derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Going concern

As at 31 December 2008 the Group had substantial borrowings repayable within twelve months as disclosed in notes 23 and 27(b), and had current liabilities which exceeded current assets by RUR 21,497 million.

It is unlikely the Group will be able to make a principal repayment of RUR 22,255 million due in July 2009 relating to a loan which had a carrying value of RUR 43,754 million as at the balance sheet date. In addition, subsequent to the balance sheet date the Group breached certain financial covenants relating to this loan.

The consolidated financial statements have been prepared on the going concern basis because the Group's management is in discussions, which have so far been inconclusive, with the bank regarding the restructuring of this loan. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements do not include any adjustments that would be necessary should the Group be unable to continue as a going concern.

(d) Functional and presentation currency

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

(e) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these unconsolidated financial statements in conformity with IFRSs. 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.

In particular, information about significant areas of estimation uncertainty and critical judgments 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 27(a)(i) – allowance for impairment in respect of trade and other receivables and investments;
- Note 15(a) – impairment of mining licenses;
- Note 24 – provisions; and
- Note 29 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(u). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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.

(ii) *Associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses 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 associate, the carrying amount of that interest (including any long-term investments) is reduced to nil 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.

(iii) *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

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement, except for differences arising on the translation of available for sale equity investments.

(c) Financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Accounting for finance income and expenses is discussed in note 3(o).

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than those that: the Group upon initial recognition designates as at fair value through profit or loss; the Group designates as available-for-sale; or meets the definition of loans and receivables. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that: the Group intends to sell immediately or in the near term; the Group upon initial recognition designates as at fair value through profit or loss; or the Group may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the income statement. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank promissory notes with a maturity of three months or less from the date of acquisition.

(e) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares 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 Group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

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 the income statement.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. 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 transferred to/from retained earnings.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) 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 its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement as incurred.

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 recognised net in "other income" in the income statement.

(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 the income statement as incurred.

(iv) *Depreciation*

Depreciation is recognised in the income statement 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 unit of production method. 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. 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 | 4 to 25 years |
| • Transport | 3 to 25 years |
| • Other | 4 to 30 years |

(g) *Intangible assets*

(i) *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when 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. Borrowing costs related to the development of qualifying assets are recognised in the income statement as incurred.

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

(ii) Other intangible assets

Other intangible assets, including mining licenses, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) 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 income statement as incurred.

(iv) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use, except for mining licenses which are amortised using the unit of production method. The estimated useful lives are as follows:

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

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit 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. For the purpose of impairment testing, assets 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 (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) 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.

(j) *Employee benefits*

(i) *State pension fund*

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(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.

(i) Site restoration

In accordance with the Group's published environmental policy and 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 included in the income statement.

(l) Revenues

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 on FCA Incoterms.

Revenue from services rendered is recognised in the income statement 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.

(m) Government grants

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

(n) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement 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.

(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 the income statement as incurred.

(o) Finance income and expenses

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method.

(p) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(q) 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 Group by the weighted average number of ordinary and preference shares outstanding during the year. 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 for the effects of all dilutive potential ordinary and preference shares. As at 31 December 2008 the Group had no diluted ordinary or preference shares.

(r) Reclassifications

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

(s) Early adoption of new Standards

The Group has elected to early adopt International Financial Reporting Standard 8 *Operating Segments*. The standard introduces the "management approach", which requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters.

(t) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IAS 23 *Borrowing Costs*, which is effective for annual periods beginning on or after 1 January 2009. The new Standard eliminates the option of immediately expensing borrowing costs and requires that an entity capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. Management has not yet assessed the impact of the revised Standard on the Group's financial position or performance.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity. The Group

expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- IAS 27 *Consolidated and Separate Financial Statements (revised 2008)* will require losses applicable to a non-controlling interest (previously “minority interest”), including negative “other comprehensive income”, to be allocated to the non-controlling interest even if this results in the non-controlling interest having a deficit position. The revised standard specifies that changes in the parent's ownership interest in a subsidiary that does not result in a loss of control are to be accounted for as equity transactions. When control of a subsidiary is lost, any resulting gain or loss will be recognised in the income statement including the parent's share of gains or losses relating to these individual assets and liabilities that were previously recognised directly in equity. Any non-controlling equity investment retained is remeasured to its fair value at the date that control is lost. IAS 27 (revised) will become effective for annual periods beginning on or after 1 July 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2, which will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as

free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements

- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. becomes mandatory for the Group's 2009 consolidated financial statements). Group's management believes that the impact of this interpretation on Group's financial statements will not be material as the Group doesn't hedge its foreign operations and those foreign operations of the Group are not material as a whole in terms of consolidated financial statements of the Group. IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17, which becomes effective for annual periods beginning on or after 1 July 2009 is not expected to have any impact on the consolidated financial statements.
- IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements

4 Segmental reporting

The Group's internal reports regularly reviewed by the Group's chief operating decision maker are prepared on the basis that the Group has a single reportable segment. The Group allocates resources and assesses performance on this basis.

The Group predominantly produces potassium chloride fertilizers which represents approximately 97% of Group's total revenue. An analysis of revenue by product is included in note 5(a).

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 5(b).

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

Customers that represent revenue in excess of 10% of total revenue of the Group are disclosed in note 27(a).

5 Revenue

(a) Revenue by product

	2008	2007
	Mln RUR	Mln RUR
	<hr/>	<hr/>
Export		
Potassium Chloride	50,042	19,112
Domestic		
Potassium Chloride	3,623	2,397
Salt	775	510
Carnallite	492	239
Services	295	275
Construction	-	62
Other	175	386
	<hr/>	<hr/>
	55,402	22,981
	<hr/>	<hr/>

(b) Revenue by ultimate destination

	2008	2007
	Mln RUR	Mln RUR
	<hr/>	<hr/>
Russia	5,360	3,870
Europe	8,994	6,130
China	15,808	7,720
India	7,178	1,796
Asia	9,527	2,281
USA	4,077	691
Brazil	3,928	97
Other	530	396
	<hr/>	<hr/>
	55,402	22,981
	<hr/>	<hr/>

6 Cost of sales

	2008	2007
	Mln RUR	Mln RUR
Materials	2,890	2,475
Depreciation	1,483	1,702
Wages and salaries	1,717	1,446
Payroll and social taxes	344	340
Repairs	1,375	978
Services	363	361
Electricity	731	650
Gas	299	259
Mineral extraction tax	143	124
Change in provision for site restoration	777	90
Other expenses	39	128
	10,161	8,553

7 Distribution expenses

	2008	2007
	Mln RUR	Mln RUR
Transportation expenses	2,686	2,714
Freight	161	231
Cargo handling in ports	257	216
Services	617	102
Rent of wagons	108	600
Depreciation	393	230
Materials	324	282
Sales commissions	294	165
Wages and salaries	210	159
Payroll and social taxes	50	39
Customs	144	83
Bad debts and change in allowance for impairment of trade receivables	260	87
Other	30	10
	5,534	4,918

8 Administrative expenses

	2008	2007
	Mln RUR	Mln RUR
Wages and salaries	339	408
Payroll and social taxes	66	93
Services	320	293
Insurance	181	103
Depreciation	97	105
Materials	71	125
Property tax	174	141
Business trips	35	36
Rent	20	64
Repairs	135	176
Other	193	112
	<u>1,631</u>	<u>1,656</u>

9 Personnel costs

	2008	2007
	Mln RUR	Mln RUR
Wages and salaries	2,266	2,054
Payroll and social taxes	460	484
	<u>2,726</u>	<u>2,538</u>

10 Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective for one year from April 2008, on the export of potassium chloride. The duty applicable to the Group's export sales of potassium chloride is 5% of its declared customs value.

11 Other income and other expenses

	2008	2007
	Mln RUR	Mln RUR
Other income		
Change in allowance for impairment of other receivables	74	-
Other income	93	60
	<u>167</u>	<u>60</u>
Other expenses		
Abnormal labour and other production costs	339	-
Loss on disposal of property, plant and equipment	233	251
Loss from dilution of ownership in investments	-	270
Impairment of construction in progress	33	48
Bank fees	117	51
Charity	16	25
Write-off of input VAT on construction	-	39
Change in provision for guarantees	359	7
Other expenses	80	102
	<u>1,177</u>	<u>793</u>

12 Financial income and expenses

	2008	2007
	Mln RUR	Mln RUR
Financial income		
Interest income	132	63
Dividend income	16	14
Foreign exchange gain	-	158
	<u>148</u>	<u>235</u>
Financial expenses		
Foreign exchange loss	9,687	-
Interest expense on loans and borrowings	2,868	246
Unwinding of discount on site restoration provision	24	197
Interest expenses on lease payable	11	36
Investments written off and change in provision	19	4
Impairment of available for sale investments	18	-
Loss from disposal of investments	4	4
Discounting of long term debt instruments	16	-
	<u>12,647</u>	<u>487</u>

13 Income tax expense

	2008	2007
	Mln RUR	Mln RUR
<i>Current tax expense</i>		
Current year	7,376	1,678
	7,376	1,678
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	(591)	(157)
	6,785	1,521

In 2008 the Company's applicable tax rate was the income tax rate of 20% for Russian companies (2007: 20%). The reduction of the tax rate from the standard rate of 24% was granted to the Company by the local authorities in 2006 as a tax incentive. Management believes that these incentives will apply to the periods when the deferred tax assets will be realised and the deferred tax liabilities will be settled.

As of 1 January 2009 the applicable tax rate for the Company is 15.5%. The decrease results from the decrease in the statutory income tax rate in Russia from 24% to 20%.

Reconciliation of effective tax rate:

	2008		2007	
	Mln RUR	%	Mln RUR	%
Profit before income tax	22,603	100.0	6,827	100.0
Income tax at applicable tax rate	(4,521)	20.0	(1,365)	20.0
Change in tax rate	616	(2.7)	-	-
Current year losses for which no deferred tax asset was recognised	(2,398)	10.6	-	-
Non-deductible/non-taxable expenses	(482)	2.1	(156)	2.3
	(6,785)	30.0	(1,521)	22.3

14 Property, plant and equipment

Mln RUR	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
<i>Cost/Deemed cost</i>					
Balance at 1 January 2007 (unaudited)	9,608	20,840	242	3,274	33,964
Additions	244	2,602	120	3,724	6,690
Transfers	799	165	9	(973)	-
Disposals	(41)	(390)	(3)	(22)	(456)
Disposal of subsidiaries	(833)	(300)	(189)	(423)	(1,745)
Balance at 31 December 2007	9,777	22,917	179	5,580	38,453
Additions	101	1,125	22	6,224	7,472
Transfers	222	2,846	4	(3,072)	-
Disposals	(21)	(494)	(2)	(79)	(596)
Balance at 31 December 2008	10,079	26,394	203	8,653	45,329
<i>Depreciation and impairment losses</i>					
Balance at 1 January 2007 (unaudited)	(1,107)	(3,174)	(45)	(28)	(4,354)
Depreciation charge	(294)	(1,748)	(56)	-	(2,098)
Impairment loss	-	-	-	(48)	(48)
Disposals	4	141	1	-	146
Disposal of subsidiaries	564	176	28	-	768
Balance at 31 December 2007	(833)	(4,605)	(72)	(76)	(5,586)
Depreciation charge	(441)	(1,724)	(27)	-	(2,192)
Impairment loss	-	-	-	(33)	(33)
Disposals	7	252	1	-	260
Balance at 31 December 2008	(1,267)	(6,077)	(98)	(109)	(7,551)
<i>Net book value</i>					
At 1 January 2007 (unaudited)	8,501	17,666	197	3,246	29,610
At 31 December 2007	8,944	18,312	107	5,504	32,867
At 31 December 2008	8,812	20,317	105	8,544	37,778

Property, plant and equipment includes fully depreciated assets with a gross carrying value of RUR 596 million (31 December 2007: RUR 433 million) that are still in use.

(a) Security

Properties with a carrying amount of RUR 6,514 million (2007: RUR 4,424 million) are pledged as security for bank loans (refer note 23).

(b) Leased plant and machinery

The Group leases 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 2008 the net book value of leased plant and machinery was RUR 137 million (31 December 2007: RUR 203 million). The leased equipment secures lease obligations (refer note 23).

15 Intangible assets

Mln RUR	<u>Mining licenses</u>	<u>Other intangible assets</u>	<u>Total</u>
<i>Cost</i>			
Balance at 1 January 2007 (unaudited)	-	92	92
Additions	-	38	38
Disposals	-	-	-
Balance at 31 December 2007	-	130	130
Additions	46,958	66	47,024
Disposals	-	-	-
Balance at 31 December 2008	<u>46,958</u>	<u>196</u>	<u>47,154</u>
<i>Amortisation and impairment losses</i>			
Balance at 1 January 2007 (unaudited)	-	(47)	(47)
Amortisation	-	(28)	(28)
Disposals	-	-	-
Balance at 31 December 2007	-	(75)	(75)
Amortisation	-	(62)	(62)
Disposals	-	-	-
Balance at 31 December 2008	<u>-</u>	<u>(137)</u>	<u>(137)</u>
<i>Net book value</i>			
At 1 January 2007 (unaudited)	<u>-</u>	<u>45</u>	<u>45</u>
At 31 December 2007	<u>-</u>	<u>55</u>	<u>55</u>
At 31 December 2008	<u>46,958</u>	<u>59</u>	<u>47,017</u>

In 2008 ОАО Kamskaya Gornaya Kompaniya (“KGK”) acquired a license for the exploration and development of potassium ore extraction in the Polovodsky, Novo-Solikamsky and Ostalnoy sections of the Verkhnekamskoyoe deposit (refer note 30(d)). The license lasts until 1 July 2028 and is renewable.

(a) Impairment testing of mining licenses

Management assessed the recoverable amount of property, plant and equipment and mining licenses recognized as intangible assets in order to determine whether the assets were impaired as at the balance sheet date. The following key judgments and assumptions were applied in this analysis:

- The mines, proven deposits and their respective licenses have been identified by management as a single cash generating unit.
- A discount rate of 16.2 percent has been applied to nominal USD denominated cash flows in estimating the cash generating units value in use.

The carrying value of the property, plant and equipment and mining licenses is not particularly sensitive to changes in the discount rate and other cash flow assumptions.

16 Equity accounted investees

The Group has the following investments in equity accounted investees:

	Country of incorporation	Ownership/Voting 2008	Ownership/Voting 2007
OAO Sudostroitelny zavod KAMA	Russia	30%	30%
ZAO Mezhdunarodnaya Kaliynaya Kompaniya	Russia	33%	33%
OAO Galurgiya	Russia	23%	23%
ООО Vostochno-Uralsky Terminal	Russia	30%	30%
Belurs Handels GMBH	Austria	22%	22%
ZAO Galus	Russia	33%	33%
ООО Depo	Russia	25%	25%
IPC UK Limited	Great Britain	33%	33%
ООО Solikamskavto	Russia	26%	26%
Zentralnaya kompaniya MFPG - ZAO Interagroinvest	Russia	25%	17%

The following is summarised financial information, in aggregate, in respect of equity accounted investees:

	2008	2007
	Mln RUR	Mln RUR
Total assets	6,921	3,585
Total liabilities	(5,248)	(2,016)
Revenue	14,955	6,610
Profit/(loss) for the year	329	(50)

17 Other investments

	31 December	31 December
	2008	2007
	Mln RUR	Mln RUR
<i>Non-current</i>		
Available-for-sale investments:		
Equity investments stated at cost	430	473
Equity securities stated at fair value	136	786
Bonds stated at fair value	-	18
Loans and receivables:		
Non-interest bearing loans to related parties	28	28
Non-interest bearing loans to third parties	13	13
Non-interest bearing loans granted to employees	46	-
Non-interest bearing promissory notes	60	-
Provisions	(92)	(41)
	<u>621</u>	<u>1,277</u>
<i>Current</i>		
Loans and receivables:		
Non-interest bearing loans to related parties	503	529
Non-interest bearing promissory notes of related parties	63	142
Non-interest bearing loans to third parties	-	40
Bank deposits	33	33
Other	-	3
Provisions	(386)	(418)
	<u>213</u>	<u>329</u>

Upon initial recognition, non-interest bearing loans and promissory notes were discounted using market rates of interest at the dates of initial recognition of the loans of between 13% and 15.67%.

The fair value of equity securities available-for-sale (excluding available-for-sale investments stated at cost) with a carrying amount of RUR 136 million (31 December 2007: RUR 786 million) were determined by reference to their quoted price.

Available-for-sale equity securities stated at cost comprise unquoted equity securities in the various industries. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUR	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	32	42	(2,893)	(3,613)	(2,861)	(3,571)
Trade and other receivables	228	264	(40)	-	188	264
Investments	42	223	(74)	(191)	(32)	32
Inventories	-	-	(21)	(72)	(21)	(72)
Trade and other payables	16	51	(14)	-	2	51
Loans and borrowings	20	2	-	-	20	2
Provisions	386	457	-	-	386	457
Tax losses carried forward	197	-	-	-	197	-
Tax assets/(liabilities)	921	1,039	(3,042)	(3,876)	(2,121)	(2,837)
Set off of tax	(921)	(1,039)	921	1,039	-	-
Net tax liabilities	-	-	(2,121)	(2,837)	(2,121)	(2,837)

(b) Movement in temporary differences during the year

The movements in temporary differences during the years ended 31 December 2008 and 31 December 2007 are presented below:

	1 January 2008	Recognized in income	Recognized in equity	31 December 2008
Property, plant and equipment	(3,571)	710	-	(2,861)
Trade and other receivables	264	(76)	-	188
Investments	32	(189)	125	(32)
Inventories	(72)	51	-	(21)
Trade and other payables	51	(49)	-	2
Loans and borrowings	2	18	-	20
Provisions	457	(71)	-	386
Tax losses carried forward	-	197	-	197
	(2,837)	591	125	(2,121)

	1 January 2007	Recognized in income	Recognized in equity	Disposed of	31 December 2007
	<i>(Unaudited)</i>				
Property, plant and equipment	(3,712)	92	-	49	(3,571)
Trade and other receivables	260	4	-	-	264
Investments	155	2	(125)	-	32
Inventories	(29)	(43)	-	-	(72)
Trade and other payables	7	44	-	-	51
Loans and borrowings	3	(1)	-	-	2
Provisions	398	59	-	-	457
	<u>(2,918)</u>	<u>157</u>	<u>(125)</u>	<u>49</u>	<u>(2,837)</u>

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect to tax losses of OAO “Kamskaya Gornaya Kompaniya” (KGK) in the amount of RUR 11,992 million because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. The tax losses carried forward relating to KGK will expire in 2018.

(d) Unrecognised deferred tax liability

A temporary difference of RUR 19 million (31 December 2007: RUR 15 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.

19 Inventories

	31 December 2008	31 December 2007
	Mln RUR	Mln RUR
Raw materials and consumables	1,574	2,083
Finished goods and goods for resale	306	483
Work in progress	24	21
	<u>1,904</u>	<u>2,587</u>

As at 31 December 2008 the Group had no inventories pledged as a security against loans and borrowings (31 December 2007: RUR 410 million).

20 Trade and other receivables

	31 December 2008	31 December 2007
	Mln RUR	Mln RUR
<i>Non-current</i>		
Receivables under finance leases from related parties	170	146
Other receivables - third parties	36	9
Provisions	-	(77)
	<u>206</u>	<u>78</u>
<i>Current</i>		
Trade accounts receivable - third parties	1,484	616
Trade accounts receivable – related parties	2,945	1,693
Advances paid – third parties	110	283
VAT receivable	1,425	1,534
Receivables under finance leases from related parties	163	218
Other receivables – third parties	119	139
Allowance for impairment of trade and other receivables	(1,038)	(852)
	<u>5,208</u>	<u>3,631</u>

Export trade receivables with a carrying amount of RUR 3,819 million (31 December 2007: Nil) as at the balance sheet date are pledged as security for bank loans (refer note 23).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

21 Cash and cash equivalents

	31 December 2008	31 December 2007
	Mln RUR	Mln RUR
Bank accounts in:		
RUR	1,883	287
USD	1,200	397
EUR	70	97
Demand deposits in RUR	800	-
Cash in transit	37	-
Petty cash	1	2
	<u>3,991</u>	<u>783</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

22 Equity

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	Preference shares	Ordinary shares	Preference shares
	2008	2008	2007	2007
Authorised shares	7,825,760	2,608,580	7,825,760	2,608,580
Par value	RUR 50	RUR 50	RUR 50	RUR 50
On issue at beginning of year	7,749,176	2,607,600	7,749,176	2,607,600
Treasury shares acquired	8,010	-	-	-
On issue at end of year, fully paid	<u>7,741,166</u>	<u>2,607,600</u>	<u>7,749,176</u>	<u>2,607,600</u>

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.

If the dividend payable to ordinary shareholders is more than the preference share dividend calculated as described above, then the dividend payable to preference shareholders is increased to be equal to that paid to each holder of an ordinary share.

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) Treasury shares

At the balance sheet date a wholly-owned subsidiary of the Company held 84,594 of the Company's ordinary shares (31 December 2007: 76,584 treasury shares). These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

(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 2008 the Company had retained earnings, including the profit for the current year, of RUR 37,540 million (2007: RUR 12,833 million).

As at 31 December 2008 and 31 December 2007 all dividends recommended by the directors during the year have been approved at the shareholders' meeting.

The amount of dividends per share for 2008 was RUR 44 per one ordinary share and RUR 44 per one preference share (2007: RUR 46 and RUR 50 per one ordinary and one preference share, respectively).

23 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 0.

	2008 Mln RUR	2007 Mln RUR
Non-current liabilities		
<i>Third parties</i>		
Secured bank loans	21,620	3,233
	21,620	3,233
<i>Related parties</i>		
Unsecured loans with non-financial institution	-	-
Finance lease liabilities	10	61
	10	61
	21,630	3,294
Current liabilities		
<i>Third parties</i>		
Secured bank loans	6,744	906
Current portion of non-current secured bank loans	22,392	1,883
Interest accrued not paid	896	12
	30,032	2,801
<i>Related parties</i>		
Finance lease liabilities	14	18
Unsecured loans with non-financial institution	-	17
	14	35
	30,046	2,836
Unused credit facilities	1,504	728

Terms and conditions of outstanding loans were as follows:

Mln RUR	2008		2007	
	Year of maturity	Carrying amount	Year of maturity	Carrying amount
<i>Third parties</i>				
Secured bank loans – fixed rate:				
RUR, 9%-10%	2009	3,119	2009	52
RUR, 9%-10%	2010	23		
RUR, 9%-10%	2011-2012	14	2011-2012	22
RUR, 9%-10%	-	-	2008	580
RUR, 10.5%-12.5%	2010-2011	32	2010	135
RUR, 10.5%-12.5%	2009	61	2009	-
USD, 10%	-	-	2008	324
Secured bank loans – variable rate				
USD, LIBOR+2.25%	2009	1,024	2009	1,460
USD, LIBOR+2.3%	-	-	2009	1,976
USD, LIBOR+2.5%	2009	2,644	2009	1,473
USD, LIBOR+7.5% (effective rate 12.96%)	2009	22,256	-	-
USD, LIBOR+7.5% (effective rate 12.96%)	2011	21,498	-	-
RUR, MOSPRIME+5.15%	2009	31	-	-
RUR, MOSPRIME+5.15%	2011	54	-	-
Interest accrued	2009	896	2008	12
		51,652		6,034
<i>Related parties</i>				
Unsecured loans with non-financial institution:				
RUR, interest-free	-	-	2008	17
Finance lease liabilities	2011	24	2012	79
		24		96
		51,676		6,130

Finance lease liabilities are payable as follows:

Mln RUR	2008			2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	16	2	14	66	5	61
Between one and five years	15	5	10	29	11	18
	31	7	24	95	16	79

As of 31 December 2008 bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 6,514 million (31 December 2007: RUR 4,424 million) – refer note 14(a);
- Export trade receivables with a carrying amount of RUR 3,819 million (31 December 2007: Nil);
- Lease receivables with a carrying amount of RUR 261 million (31 December 2007: RUR 176 million); and
- Pledge of 10,000 shares of OAO “Kamskaya Gornaya Kompaniya” and 76,584 shares of the Company.

The finance lease liabilities are secured by the leased assets with a net book value of RUR 137 million (31 December 2007: RUR 203 million) – refer note 14(b).

24 Provisions

Mln RUR	Site restoration	Guarantees	Total
Balance at 1 January 2007 (unaudited)	1,404	586	1,990
Provisions made during the year	253	7	260
Unwinding of discount	197	-	197
Change in estimate	94	-	94
Provisions used during the year	(257)	-	(257)
Balance at 31 December 2007	1,691	593	2,284
Provisions made during the year	187	359	546
Unwinding of discount	24	-	24
Change in estimate	883	-	883
Provisions used during the year	(293)	-	(293)
Balance at 31 December 2008	2,492	952	3,444

Mln RUR	Site restoration	Guarantees	Total
Current – 31 December 2008	260	952	1,212
Non-current – 31 December 2008	2,232	-	2,232
	<u>2,492</u>	<u>952</u>	<u>3,444</u>
Current – 31 December 2007	239	593	832
Non-current – 31 December 2007	1,452	-	1,452
	<u>1,691</u>	<u>593</u>	<u>2,284</u>

(a) Site restoration

A provision of RUR 2,492 million (31 December 2007: RUR 1,691 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 balance sheet 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 liability 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 the 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 2008.
- Management applied its judgment in determining the rate used in discounting the future cash outflows associated with the site restoration works, reflecting the time value of money. In 2008 management applied a real discount rate of 1.1% (2007: 6.8%).

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 the income statement.

(b) Guarantees

Management has established a provision of RUR 952 million against guarantees issued primarily to related parties of the Group (31 December 2007: RUR 593 million) (refer note 29(c)).

25 Earnings per share

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

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

	2008	2007
	Mln RUR	Mln RUR
Dividends declared during the year:		
Preference shares	1,148	1,314
Ordinary shares	3,412	3,623
Profit remaining undistributed:		
Preference shares	2,839	8
Ordinary shares	8,421	306
Profit for the year:	15,820	5,251
Attributable to preference shareholders	3,987	1,322
Attributable to ordinary shareholders	11,833	3,929

	2008		2007	
<i>In thousands of shares</i>	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)	(85)	(1)	(77)
Weighted average number during the year	2,608	7,741	2,608	7,749

	2008	2007
Earnings per share:		
Preference shares	RUR1,529	RUR 507
Ordinary shares	RUR 1,529	RUR 507

26 Trade and other payables

	2008	2007
	Mln RUR	Mln RUR
Trade accounts payable, third parties	173	373
Trade accounts payable, related parties	110	295
Taxes payable	333	235
Accounts payable for acquisition of property, plant and equipment, third parties	36	196
Accounts payable for acquisition of property, plant and equipment, related parties	176	336
Payables to employees	237	294
Advances received, third parties	12	249
Advances received, related parties	-	8
Payables to state-owned funds	45	57
Other payables	101	193
	<u>1,223</u>	<u>2,236</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

27 Financial instruments

Exposure to credit, liquidity and market risk arises in the normal course of the Group's business from its use of financial instruments.

This note presents information about the Group's exposure to these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Day-to-day risk management functions are carried out by the Management Committee.

The Group's risk management policies are not formalised. The Management Committee 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.

(a) 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 deposits in banks, receivables from customers, loans and guarantees provided to and on behalf of related and third parties.

(i) **Exposure to credit risk**

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

Mln RUR	Carrying amount	
	2008	2007
Cash and cash equivalents	3,991	783
Trade and other receivables	3,673	1,892
Investments	235	296
Bank deposits	33	33
	8,448	3,004

The Group is also exposed to credit risk in respect to guarantees provided to related parties (refer note 29(c)).

Cash and cash equivalents

The table below illustrates the credit quality of the Group's cash and cash equivalents as at the balance sheet date. Management does not expect any counterparty to fail to meet its obligations.

Rating	Rating Agency	Carrying amount (Mln RUR)	
		2008	2007
AAA	Moody's	-	182
BAA1	Moody's	1,037	-
B3	Moody's	12	-
BBB	S&P	21	8
Unrated	-	2,921	593
		3,991	783

As at 31 December 2008 the Group held a cash balance of RUR 2,871 million (31 December 2007: RUR 593 million) with a bank, in which it controlled 19.9% of shareholder voting power (31 December 2007: 19.9%).

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. The Group does not require collateral in respect of trade and other receivables. Credit evaluations are performed for all new customers, other than related parties, requiring credit over a certain amount.

In response to the financial crisis and the liquidity of certain traders, the Group has extended credit terms for certain customers of the Group. As at 31 December 2008 certain customers were provided with credit terms of up to 270 days (31 December 2007: 120 days). The weighted average credit days provided to customers as at the balance sheet date was 122 days (31 December 2007: 60 days).

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

Mln RUR	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	2,892	310	1,557	-
Past due 0-30 days	664	-	13	13
Past due 31-180 days	178	10	27	27
Past due 181-365 days	340	340	385	385
More than one year	355	352	327	327
	4,429	1,012	2,309	752

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

	2008 Mln RUR	2007 Mln RUR
Balance at 1 January	752	674
Increase in allowance	659	389
Reversal of allowance	(399)	(311)
Balance at 31 December	1,012	752

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

	2008 Mln RUR	2007 Mln RUR
Balance at 1 January	100	-
Increase in allowance	17	100
Reversal of allowance	(91)	-
Balance at 31 December	26	100

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.

Impairment losses related to loans granted and promissory notes, substantially all of which were to related parties, as at the balance sheet date were as follows:

Mln RUR	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Loans provided	623	366	610	367
Promissory notes	123	112	142	92
	<u>746</u>	<u>478</u>	<u>752</u>	<u>459</u>

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

	2008 Mln RUR	2007 Mln RUR
Balance at 1 January	459	459
Increase in allowance	51	-
Reversal of allowance	(32)	-
Balance at 31 December	<u>478</u>	<u>459</u>

As at the balance sheet date an impairment loss of RUR 478 million (31 December 2007: RUR 459 million) in respect of loans granted and promissory notes receivable was recognised due to significant financial difficulties being experienced by the related party borrowers of the Group. The Group has no collateral in respect of these investments.

Guarantees issued

The Group provides guarantees to banks on behalf of related and third parties. As at 31 December 2008 the amount of guarantees outstanding amounted to RUR 3,210 million (31 December 2007: RUR 2,984 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 RUR 952 million (31 December 2007: RUR 593 million).

Allowance accounts

The allowance accounts in respect of trade receivables, investments and guarantees issued are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts considered irrecoverable are written off against the financial asset directly.

Significant customers and concentrations of credit risk

In 2008 the Group had an export customer for which individual revenues exceeded 10% of the total revenue of the Group. The export customer represented approximately 33% (1997: 24%) of total revenue or RUR 18,240 million (2007: RUR 5,482 million). The outstanding balance related to the export customer as at the balance sheet date was RUR 5 million (2007: 105 million). In 2007 there was also a domestic customer for which individual revenues exceeded 10% of the total revenue which has an outstanding receivable balance as at 31 December 2007 of RUR 403 million.

As at 31 December 2008 the Group had granted loans and guarantees totalling RUR 918 million (31 December 2007: RUR 866 million) to and on behalf of a single domestic customer, which is a related party of the Group, and has outstanding trade receivables of RUR 691 million (31 December 2007: RUR 709 million) from sales to the customer over several years. The Group established a 100% provision against the amount of loans granted, trade receivables and the Group's exposure under guarantees issued to this customer as at 31 December 2008 and 31 December 2007.

(b) 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. As at 31 December 2008 the Group had a RUR 3,991 million (31 December 2007: RUR 783 million) cash balance and had available unused credit facilities of RUR 1,504 million (31 December 2007: RUR 728 million).

The Group is exposed to significant liquidity risk arising from its requirement to make a principal repayment on a bank loan for an amount of USD 757.5 million (RUR 22,255 million) in July 2009. It is unlikely the Group will be able to settle this liability by the due date. Additionally, subsequent to the balance sheet date the Group breached certain financial covenants under this loan agreement which allows the bank to demand full repayment of the loan. The loan had a carrying value of RUR 43,754 million at the balance sheet date. The Group is currently negotiating with the bank to restructure the loan.

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

2008	Carrying value	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Mln RUR								
Non-derivative financial liabilities								
<i>Third parties</i>								
Secured bank loans, fixed rate	3,248	3,326	3,253	65	6	2	-	-
Secured bank loans, variable rate	48,404	54,622	29,196	2,028	23,398	-	-	-
Trade and other payables	547	547	547	-	-	-	-	-
	<u>51,302</u>	<u>58,495</u>	<u>32,996</u>	<u>2,093</u>	<u>23,404</u>	<u>2</u>	<u>-</u>	<u>-</u>
<i>Related parties</i>								
Finance lease liabilities, fixed rate	24	31	16	10	5	-	-	-
Trade and other payables	286	286	286	-	-	-	-	-
	<u>310</u>	<u>317</u>	<u>302</u>	<u>10</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>51,613</u>	<u>58,812</u>	<u>33,298</u>	<u>2,103</u>	<u>23,409</u>	<u>2</u>	<u>-</u>	<u>-</u>

2007

Mln RUR	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								
<i>Third parties</i>								
Secured bank loans, fixed rate	1,113	1,194	1,136	39	11	6	2	-
Secured bank loans, variable rate	4,921	5,471	2,103	3,368	-	-	-	-
Trade and other payables	1,056	1,056	1,056	-	-	-	-	-
	7,090	7,721	4,295	3,407	11	6	2	-
<i>Related parties</i>								
Unsecured loans with non-financial institution, interest-free	17	17	17	-	-	-	-	-
Finance lease liabilities, fixed rate	79	95	66	14	10	5	-	-
Trade and other payables	631	631	631	-	-	-	-	-
	727	743	714	14	10	5	-	-
	7,817	8,464	5,009	3,421	21	11	2	-

(c) 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.

The analysis of market risk includes analysis of interest rate risk and foreign currency risk.

(i) 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.

The Group has the following foreign-currency denominated financial assets and liabilities:

Mln RUR	USD- denominated 2008	Euro- denominated 2008	USD- denominated 2007	Euro- denominated 2007
Current assets				
Cash and cash equivalents	1,200	70	397	97
Receivables	1,501	1,580	672	598
Current liabilities				
Payables	(18)	(33)	(298)	(43)
Loans and borrowings	(25,924)	-	(2,053)	-
Non-current liabilities				
Loans and borrowings	(21,498)	-	(3,180)	-
	<u>(44,739)</u>	<u>1,617</u>	<u>(4,462)</u>	<u>652</u>

The following exchange rates were applied as at the balance sheet date:

	1 USD equals 2008	1 Euro equals 2008	1 USD equals 2007	1 Euro equals 2007
RUR	29.3804	41.4411	24.5462	35.9332

A 20% strengthening/(weakening) of the RUR against the abovementioned currencies based on the Group's exposure at the balance sheet date would have increased/(decreased) equity and net profit for the year by RUR 8,624 million (31 December 2007: RUR 762 million), on the basis that all other variables, in particular interest rates, remain constant.

(ii) **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.

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

Mln RUR	Carrying amount	
	2008	2007
Fixed rate instruments		
Cash and cash equivalents	3,991	783
Bank deposits	33	33
Secured bank loans	(3,248)	(1,113)
Finance lease liabilities	(24)	(79)
	752	(376)
Variable rate instruments		
Secured bank loans	(47,507)	(4,909)
	(47,507)	(4,909)

Fair value sensitivity analysis for fixed rate instruments

A change in interest rates based on the Group's exposure as at the balance sheet date would not have a material effect on the equity or profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates based on the Group's exposure as at the balance sheet date would have increased (decreased) equity and the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

Mln RUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2008				
Variable rate instruments	(475)	475	(475)	475
Cash flow sensitivity (net)	(475)	475	(475)	475
2007				
Variable rate instruments	(39)	39	(39)	39
Cash flow sensitivity (net)	(39)	39	(39)	39

(iii) Other market price risk

Equity price risk arises primarily from quoted available-for-sale equity securities. An increase (decrease) of 20% in the quoted equity price based on investments held at the balance sheet date would have increased/(decreased) equity by RUR 27 million (31 December 2007: RUR 31 million). A change in the quoted equity price of the equity securities would not have an effect on the profit for the reporting year unless the change is deemed to be an impairment of the security.

(d) Fair values

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 amortisation and impairment losses) was determined based on their quoted bid prices as at the balance sheet 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 balance sheet date.

(e) 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 RUR 43,754 million which was obtained during 2008 imposes a capital requirement on the Group to maintain a prescribed debt to equity ratio that was 2.5:1 as at the balance sheet date. In accordance with the loan agreement the required debt to equity ratio was reduced to 1.75:1 as of 1 January 2009. The loan agreement also imposes a restriction on the distribution of dividends to 30% of the aggregate amount available for distribution.

28 Commitments

As at 31 December 2008, the Group had outstanding capital commitments in relation to property, plant and equipment for an aggregate amount of RUR 1,912 million (31 December 2007: RUR 234 million).

29 Contingencies

(a) Business interruption

During autumn 2006, a nearby mine which is not owned by the Group began to flood resulting in the collapse of underground cavities and a significant depression in the surface of the land. The collapse of the land is in the immediate proximity of the railways connecting Solikamsk and Transsiberian Railways, through which the Group transports its goods.

Two temporary railway lines were constructed subsequent to the incident. A permanent railway line is currently being constructed by Russian Railways which will serve various companies in the region; however, completion is not expected until the end of 2009.

Management considers the risk of the existing temporary railway lines becoming unusable before the completion of the permanent line as low. Should the existing lines become unusable the Group would have to reduce production until the launch of another temporary line. If necessary, management believes a further temporary line could be put into use within one month of the existing lines becoming unusable.

(b) Taxation contingencies

(i) Tax environment

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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.

Silvinit 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 evolvement 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 would likely be material.

Management believes that the Group's transfer pricing policies are defensible in the event of challenge by the Russian tax authorities. No provision for potential related tax liabilities has been recognised because it is 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.

(c) Guarantees issued

The Group issues guarantees to banks on behalf of related and third parties of the Group. Management has established a provision of RUR 952 million (31 December 2007: RUR 593 million) against guarantees issued to certain related parties of the Group (refer note 30(e)).

	31 December 2008	31 December 2007
	Mln RUR	Mln RUR
Guarantees issued for related parties (note 30)	3,189	2,421
Guarantees issued for third parties	21	563
	3,210	2,984

(d) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(e) 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 24 - Provisions). 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.

30 Related parties

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 2008 and 2007 the Group 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.

Mln RUR	2008	2007
Salaries and bonuses	24	39
Taxes and related social contributions	18	46
	<u>42</u>	<u>85</u>

(c) **Transactions and outstanding balances with other related parties**

The Group has related party relationships with associates of the Group and entities over which the controlling shareholders of the Group are able to exercise significant influence. The Group's related party transactions and outstanding balances are disclosed below:

Mln RUR	2008		2007	
	<u>Associates</u>	<u>Shareholder-related entities</u>	<u>Associates</u>	<u>Shareholder-related entities</u>
<i>Transactions</i>				
Sale of goods	6,531	7,030	3,928	2,059
Services provided	-	4	1	14
Lease income	5	47	10	7
Dividends received	2	-	-	14
Interest income	-	-	-	7
Other income	-	357	4	20
Purchase of goods and services	531	9,087	110	5,889
Purchases of equipment and other assets	-	-	1	653
Finance lease expenses	-	51	-	36
Other expenses	13	4	-	21
Loans received from related parties	-	-	-	9
Loans paid off to related parties	-	17	-	-
Loans provided to related parties	-	-	-	203
Loans repaid by related parties	-	-	-	575
Promissory notes purchased	-	144	-	100
Promissory notes redeemed	-	534	-	-
<i>Outstanding balances</i>				
Trade and other receivables (gross of provision of RUR 694 million (31 December 2007: RUR 709 million))	1,310	1,635	687	1,006
Receivables under finance lease (gross of provision of RUR Nil (31 December 2007: 77 million))	96	237	127	237
Available-for-sale equity investments	-	75	2	121
Trade payables	(8)	(102)	(2)	(293)
Accounts payable for acquisition of property, plant and equipment	-	(176)	(5)	(331)
Advances received	-	-	(5)	(3)
Lease liabilities	-	(24)	-	(79)
Loans granted/promissory notes receivable (gross of provision of RUR 478 million (31 December 2007: RUR 459 million))	-	594	-	699
Loans payable	-	-	-	(17)

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

(d) Sale and acquisition of the shares of KGK

As at 31 December 2007 the Group held 45% of the shares of KGK. During 2008 these shares were sold to related parties for their par value of RUR 450 thousand. The Group subsequently acquired 54.99% of the shares of KGK from third parties for RUR 11,772 million, which was recognized as a cost of acquiring mining licenses, and sold a further 5% of the shares to a related party for RUR 997 million (refer also note 31).

(e) Guarantees issued on behalf of related parties

As at the balance sheet date the Group had issued guarantees to related parties in the amount of RUR 3,189 million (31 December 2007: RUR 2,421 million). The Group recognised a provision for these guarantees of RUR 952 million (31 December 2007: RUR 593 million).

31 Significant subsidiaries

		2008	2007
	Country of incorporation	Ownership/voting	Ownership/voting
ООО "Предприятие МТС ОАО Силвинит"	Russia	100%	100%
ООО "Силвинит Транспорт"	Russia	100%	100%
ООО "ИК "Силвинит-Ресурс"	Russia	100%	100%
ООО "Водоканал"	Russia	100%	100%
ООО "СТВ"	Russia	100%	100%
ООО "Кам-Минерал"	Russia	51%	51%
ЗАО "Сиб-Траст"	Russia	51%	51%
ООО "Кямтрис"	Russia	51%	51%
ОАО Камская Горная Компания (KGK) *	Russia	49.99%	45%

* As at 31 December 2008 related parties of the Group owned the residual 50.01% of the shares of KGK enabling the Group to exercise control over its financial and operating policies. Additionally, ОАО Силвинит has guaranteed the loan obligations of KGK and in substance retains the majority of the residual and ownership risks related to the entity and its assets.

32 Events subsequent to the balance sheet date

(a) Capital commitments

Subsequent to the balance sheet date KGK, a subsidiary of the Group, concluded a contract for geological research works in the Polovodsky, Novo-Solikamsky and Ostalnoy sections of the Verkhnekamskayoe deposit. Those works are to be performed in accordance with the terms of the license for the extraction of potassium ore which KGK acquired in July 2008. Works, according to the contract are to be performed in the period from July 2009 to October 2011. The contractual cost of the works is RUR 223 million.

(b) Guarantees issued

Subsequent to the balance sheet date the Company issued guarantees to banks on behalf of related parties in total amount of RUR 280 million. It is probable that a full provision will be required against these guarantees in 2009.

ISSUER

JSC Uralkali
Pyatiletki Street 63
Berezniki
Perm Region 618426
Russian Federation

LEGAL ADVISERS TO THE ISSUER

As to English and Russian law

Debevoise & Plimpton LLP

Tower 42
Old Broad Street
London, EC2N 1HQ
United Kingdom

Debevoise & Plimpton LLP

Business Center Mokhovaya
Ulitsa Vozdvizhenka, 4/7, Stroyeniye 2
Moscow, 125009
Russian Federation

INDEPENDENT AUDITORS TO URALKALI

ZAO PricewaterhouseCoopers Audit

White Square Office Center
10 Butyrsky Val
Moscow 125047
Russian Federation

INDEPENDENT AUDITORS TO SILVINIT

ZAO KPMG

Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
Moscow 123317
Russian Federation

DEPOSITARY

The Bank of New York
101 Barclay Street
22nd Floor
New York, New York 10286
United States of America

