URALKALI GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Uralkali:

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

Management's Responsibility for the Consolidated Financial Statements

2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 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 whether the financial statements are free from material misstatement.

4 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 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

1 April 2011

Moscow, Russian Federation

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(in millions of Russian Roubles unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	47,144	42,208
Prepayments for acquisition of property, plant and equipment		1,022	1,653
Letters of credit for acquisition of property, plant and equipment		130	2,281
Goodwill		366	366
Intangible assets	10	142	138
Deferred income tax assets	26	258	247
Financial assets		228	230
VAT recoverable		-	225
Total non-current assets		**49,290**	**47,348**
Current assets			
Inventories	11	3,515	3,481
Trade and other receivables	12	7,164	5,850
Current income tax prepayments		62	74
Loans issued to related parties	6	10	1,578
Cash and cash equivalents	13	14,765	4,297
Total current assets		**25,516**	**15,280**
TOTAL ASSETS		**74,806**	**62,628**
EQUITY			
Share capital	14	648	648
Treasury shares	14	(12)	(12)
Share discount		(849)	(849)
Revaluation reserve		150	150
Retained earnings		56,837	43,751
Equity attributable to the Company's equity holders		**56,774**	**43,688**
Non-controlling interest		**23**	**27**
TOTAL EQUITY		**56,797**	**43,715**
LIABILITIES			
Non-current liabilities			
Borrowings	16	9,216	8,361
Post employment benefits obligations	27	282	260
Deferred income tax liability	26	647	416
Total non-current liabilities		**10,145**	**9,037**
Current liabilities			
Borrowings	16	2,589	5,654
Trade and other payables	17	3,489	2,745
Mine flooding provisions	5, 15	1,000	1,000
Current income tax payable		306	109
Other taxes payable		480	368
Total current liabilities		**7,864**	**9,876**
TOTAL LIABILITIES		**18,009**	**18,913**
TOTAL LIABILITIES AND EQUITY		**74,806**	**62,628**

Approved on behalf of the Board of Directors
1 April 2011

Chief Executive Officer

Chief Financial Officer

(in millions of Russian Roubles unless otherwise stated)

	Note	2010	2009
Revenues	18	51,592	33,809
Cost of sales	19	(11,830)	(8,878)
Gross profit		**39,762**	**24,931**
Distribution costs	20	(12,819)	(6,075)
General and administrative expenses	21	(4,937)	(3,838)
Taxes other than income tax		(639)	(502)
Other operating income and expenses	23	(917)	(1,328)
Operating profit		**20,450**	**13,188**
Mine flooding costs	25	(28)	(1,060)
Finance income	24	214	456
Finance expense	24	(887)	(1,350)
Profit before income tax		**19,749**	**11,234**
Income tax expense	26	(3,095)	(2,139)
Net profit for the year		**16,654**	**9,095**
Profit is attributable to:			
Owners of the Company		16,650	9,089
Non-controlling interests		4	6
Net profit for the year		**16,654**	**9,095**
Earnings per share – basic and diluted (in Roubles)	28	**7.93**	**4.33**

	2010	2009
Net profit for the year	**16,654**	**9,095**
Disposal of subsidiary to associate	1	-
Total comprehensive income for the year	**16,655**	**9,095**
Total comprehensive income for the year attributable to:		
Owners of the Company	16,651	9,089
Non-controlling interests	4	6

(in millions of Russian Roubles unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		19,749	11,234
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	8, 10	3,849	3,188
Net loss on disposal of property, plant and equipment	23	279	271
Reversal of provision for impairment of receivables	23	(11)	(20)
Net change in mine flooding provisions	15	-	(6,804)
Finance income and expense, net		386	(7)
Foreign exchange losses, net	24	225	751
Operating cash flows before working capital changes		**24,477**	**8,613**
(Increase)/decrease in trade and other receivables		(1,096)	115
Increase in inventories	11	(34)	(516)
Increase/(decrease) in accounts payable, accrued expenses and other creditors		895	(1,368)
Increase in other taxes payable		112	70
Cash generated from operations		**24,354**	**6,914**
Interest paid	16	(465)	(393)
Income taxes paid		(2,671)	(2,049)
Net cash generated from operating activities		**21,218**	**4,472**
Cash flows from investing activities			
Acquisition of intangible assets	10	(60)	(34)
Acquisition of property, plant and equipment		(10,310)	(13,606)
Proceeds from sales of property, plant and equipment		3,992	26
Purchase and sale of investments, net		(2)	(39)
Acquisition of subsidiaries, net of cash acquired		(4)	(753)
Loans issued to related party	6	(555)	(1,578)
Loans repaid by related party	6	2,123	-
Increase in irrevocable bank deposits	13	(77)	(13)
Dividends and interest received		174	628
Net cash used in investing activities		**(4,719)**	**(15,369)**
Cash flows from financing activities			
Repayments of borrowings	16	(14,768)	(11,880)
Proceeds from borrowings	16	12,411	10,774
Finance lease payments	16, 24	(49)	(38)
Dividends paid to shareholders		(3,575)	(10)
Net cash used in financing activities		**(5,981)**	**(1,154)**
Effect of foreign exchange rate changes on cash and cash equivalents		(127)	161
Net increase/(decrease) in cash and cash equivalents		**10,391**	**(11,890)**
Cash and cash equivalents at the beginning of the year, net of restricted cash	13	**4,284**	**16,174**
Cash and cash equivalents at the end of the year, net of restricted cash	13	**14,675**	**4,284**

(in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital (Note 14)	**Treasury shares (Note 14)**	**Share discount**	**Revaluation reserve**	**Retained earnings**	**Total attributable to owners of the Company**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	**648**	**(12)**	**(849)**	**150**	**34,662**	**34,599**	**21**	**34,620**
Total comprehensive income for the year	-	-	-	-	9,089	9,089	6	9,095
Balance at 31 December 2009	**648**	**(12)**	**(849)**	**150**	**43,751**	**43,688**	**27**	**43,715**
Total comprehensive income for the year	-	-		-	16,651	16,651	4	16,655
Dividends declared (Note 14)	-	-	-	-	(3,565)	(3,565)	-	(3,565)
Disposal of non-controlling interest	-	-	-	-	-	-	(8)	(8)
Balance at 31 December 2010	**648**	**(12)**	**(849)**	**150**	**56,837**	**56,774**	**23**	**56,797**

1 The Uralkali Group and its operations

Open Joint Stock Company Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both on domestic and foreign markets. The Group manufactures approximately ten types of products, the most significant of which is a wide range of potassium salts. The Group is one of two major potash manufacturers in the Russian Federation. For the year ended 31 December 2010 approximately 87% of potash fertilizer production was exported (for the year ended 31 December 2009: 76%).

The Company holds operating licenses, issued by the Perm regional authorities for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy and Bigelsko-Troitsky plots of the Verkhnekamskoye field. These licenses expire in 2013; however based on the statutory licensing regulations and prior experience, the Company's management believes that the licenses will be renewed without incurring any significant cost. The Company also owns a license for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024.

The Company was incorporated as an open joint stock company in the Russian Federation on 14 October 1992. The Company has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation. Almost all of the Group's productive capacities and all long-term assets are located in the Russian Federation.

As of 31 December 2009, Madura Holdings Limited, registered in Cyprus, was the parent company of OJSC Uralkali. The Group was ultimately controlled by Mr. Dmitry Rybolovlev. On 11 June 2010 Madura Holdings Limited disposed majority of its stake in the Company to three companies that are beneficially owned by a number of individuals. None of these companies exercise control over the Group and there is no joint control agreement between them. As of 31 December 2010 the Group had no ultimate controlling party.

As of 31 December 2010 the Group employed approximately 12.7 thousand employees (31 December 2009: 13.2 thousand).

2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for certain financial instruments that are presented at fair value as described in Note 2.13.

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA, Uralkali Trading (Gibraltar) Ltd. and UKT Chicago which maintain their accounting records in US Dollars ("US$") and prepare their financial statements in accordance with IFRS. Belarusian Potash Company maintains its accounting records in Belorussian Roubles ("BYR") and in accordance with Belarusian Laws and Regulations. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

2.2 Accounting for the effect of inflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3 Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 Basis of preparation and significant accounting policies (continued)

2.3 Consolidated financial statements (continued)

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of all identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2.4 Non-controlling interest

Non-controlling interest is that part of the net results and net assets of a subsidiary, including fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as an equity transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

2.5 Joint ventures

Jointly controlled entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. Investments in joint ventures are accounted for using the equity method of accounting. Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.6 Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.7 Property, plant and equipment

Property, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at the amounts determined by an independent valuation as of 1 January 1997 less accumulated depreciation and impairment. Property, plant and equipment acquired or constructed subsequent to 1 January 1997 is recorded at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use.

The amounts determined by the independent valuation represent gross replacement cost less accumulated depreciation to arrive at an estimate of depreciated replacement cost. This independent valuation was performed in order to determine a basis for cost because the historical accounting records for property, plant and equipment required for IFRS consolidated financial statements preparation were not available. Therefore, this independent valuation is not a recurring feature, since it was intended to determine the historical costs. The changes in carrying value arising from this valuation were recorded directly to retained earnings.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use and fair value less costs to sell.

(in millions of Russian Roubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment items is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10 to 50
Mine development costs	10 to 30
Plant and equipment	2 to 30
Transport	5 to 15
Others	2 to 15
Land	Not depreciated

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.8 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss.

2.9 Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.10 Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.11 Other intangible assets

Expenditure on software, patents, trademarks, and mineral and non-mineral licenses are capitalised and amortised using the straight-line method over their useful lives.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2 Basis of preparation and significant accounting policies (continued)

2.12 Classification of financial assets

The Group classifies its financial assets into the following measurement categories: trading investments, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets which are either acquired to generate a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists.

The Group classifies financial assets into trading investments if it has the intention to sell them within a short period of time after the acquisition. Trading investments are not reclassified out of this category even if the Group's intentions subsequently change.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

The held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date.

All other financial assets are included in the available-for-sale category.

2.13 Initial recognition of financial instruments

Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Changes in fair value are recognised in profit or loss for trading investments and in equity for assets classified as available for sale.

All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

2.14 Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.15 Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

2.16 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in the Russian Federation for entities incorporated in the Russian Federation, in Switzerland for Uralkali Trading SA, in Gibraltar for Uralkali Trading (Gibraltar) Ltd, in the USA for UKT Chicago and in Belarussia for Belarusian Potash Company. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

2 Basis of preparation and significant accounting policies (continued)

2.16 Income taxes (continued)

The Group's uncertain tax positions are assessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition or subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.17 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. The cost of finished goods includes transport expenses that the Company incurs in distributing goods from its factory to sea ports, vessels and overseas warehouses as these are costs incurred in bringing the inventory to its present location. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.18 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

2.19 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities 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. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted balances being exchanged or used to settle liability at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents.

2.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

2.21 Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Basis of preparation and significant accounting policies (continued)

2.22 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements have been authorised for issue.

2.23 Value added tax

Output value added tax is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.24 Borrowings

Borrowings are initially recognised at fair value less transactions costs. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis using the effective interest method. The Group capitalises borrowing costs relating to assets that take a substantial period of time to prepare for use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an execution period exceeding one year.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.25 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The Group made no provision for warranties based on past experience of no warranty claims.

2.26 Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under contract and are carried at amortised cost using the effective interest method.

2.27 Foreign currency transactions

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies. The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2010, the official rate of exchange, as determined by the The Central Bank of the Russian Federation (CBRF), was US$ 1 = Rouble 30.48 (31 December 2009: US$ 1 = Rouble 30.24). The official Euro to RR exchange rate at 31 December 2010, as determined by the CBRF, was Euro 1 = Rouble 40.33 (31 December 2009: Euro 1 = Rouble 43.39).

2 Basis of preparation and significant accounting policies (continued)

2.28 Revenue recognition

Revenues are recognised on the date of risks transfer under the appropriate INCOTERMS 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 Group. Revenues are measured at the fair value of the consideration received or receivable.

2.29 Transhipment costs

Transhipment costs incurred by OJSC Baltic Bulker Terminal ("BBT"), a 100% subsidiary whose activity is related to transhipment of fertilisers produced by the Group, are presented within distribution costs. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.30 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.31 Social costs

The Group incurs personnel costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.32 Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed as incurred.

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in profit or loss.

2.33 Earnings per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.34 Segment reporting

The Group identifies the segment in accordance with the criteria set forth in IFRS 8 "Operating segments", and based on the way the operations of the Company 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. It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

2.35 Research and development costs

Research expenditures are recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility and if costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

3 Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners **(effective for annual periods beginning on or after 1 July 2009).** The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on the Group's consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers **(effective for annual periods beginning on or after 1 July 2009).** The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on the Group's consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards **(following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).** The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have any impact on the Group's consolidated financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS **(effective for annual periods beginning on or after 1 January 2010).** The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments do not have any impact on the Group's consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. These amendments are not relevant to the Group.

IFRS 3, Business Combinations **(revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).** The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on the Group's consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements **(revised January 2008; effective for annual periods beginning on or after 1 July 2009).** The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amendment did not have a material impact on the Group's consolidated financial statements.

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010. Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

3 Adoption of new or revised standards and interpretations (continued)

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the consolidated financial statements.

***Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009).** The amendment 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 did not have a material impact on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on the Group's consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

4 New accounting pronouncements

The following new standards, amendments to standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

- ***IFRS 9 Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).*** The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- ***Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009, effective for annual periods beginning on or after 1 February 2010).*** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not currently applicable to the Group.

- ***Amendment to IAS 24, 'Related party disclosures' (issued in November 2009, effective for annual periods beginning on or after 1 January 2011).*** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009; effective for annual periods beginning on or after 1 July 2010)*** clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Group does not expect the amendment to have any impact on its consolidated financial statements.

4 New accounting pronouncements (continued)

- ***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).*** The Group does not expect the amendment to have any impact on its consolidated financial statements.
- ***Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011).*** The Group is currently assessing the impact of the amended standards on its consolidated financial statements.
- ***Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).*** The amendment is not applicable to the Group.
- ***Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).*** The Group is currently assessing the impact of the amended standard on its consolidated financial information.
- ***Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).*** The amendment is not applicable to the Group.
- ***Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).*** The amendment is not applicable to the Group.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

5 Critical accounting estimates, and judgements in applying accounting policies

The Group 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provisions for mine flooding. On 28 October 2006, the Group ceased production operations in Mine 1 due to natural groundwater inflow that reached a level which 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 sylvinite layers AB (1964-1965) and Kr II (1976-1977)". The combination of circumstances in the run up to 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, Igor Sechin, 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".

<u>Provision for compensations</u>

In February 2009, the Company decided voluntarily, as a part of its social responsibility, to compensate expenses incurred by different levels of the government for liquidation of flooding consequences in total amount RR 7,804 including expenses for resettlement of citizens, construction of a 6-kilometer railway bypass incurred prior to 31 December 2008, and also partially compensate for the deficit of financing related to the construction of a 53-kilometer railway bypass.

At the end of 2009 the Company was in negotiations with OJSC "Russian railways" regarding voluntarily compensation of additional actual expenditures related to the construction of a 53-kilometer railway bypass in the amount of RR 1,000. In March 2010 the Board of Directors of the Company approved this compensation, as a part of its social responsibility, and as of 31 December 2009 the determination that this compensation would crystallise was assessed as "probable" the Company accrued a provision in this amount. To date this provision has not been utilized as the process for making payment has not been finalised.

5 Critical accounting estimates, and judgements in applying accounting policies (continued)

Other risks not included in provision for compensations

In July 2009, the Company received a request from OJSC TGK-9 to compensate expenses in the amount of RR 3,160. According to the request, this amount corresponds to 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 the Company received an amended request from TGK-9 to compensate expenses in the amount of RR 995. The Company believes that only the expenses that are directly caused by the flooding of the mine could be considered for compensation. Therefore the Company estimates the probability of having to pay this compensation to be from "remote" to "possible" and no accrual have 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, the Company 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 RR 25,380 to RR 84,602) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from RR 964 to RR 3,215). The Company analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as "remote".

In October 2009, the Company has received the decision of tax authorities based on the tax audit for 2005-2006. Tax authorities have stated that in October 2006 the Company 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 RR 782. In January 2010 the Company received the claim of tax authorities to pay tax, fines and penalties. The decision of tax authorities of additional charge of mineral extraction tax was determined to be invalid in court. On 11 January 2011 Federal Arbitration Court in Moscow Judicial Circuit entirely dismissed the claim of tax authorities. The Company estimates the probability of this liability crystallising as "remote" and accordingly has not made an accrual for this amount.

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 the Group (Note 8). The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the relevant operating licenses (Note 1). The management believes that the licenses will be renewed in due order. However if the licenses are not renewed, property, plant and equipment with net book value of RR 1,931 (31 December 2009: RR 1,084) should be assessed for impairment in 2013.

Land. The main part of facilities of OJSC BBT are situated on land occupied on an annual lease basis, but the management plans to secure the land where the facilities of OJSC BBT are situated and adjoining land plots by a long-term rent agreement. If the Group cannot secure long-term use of this land, non-current assets of RR 2,330 (31 December 2009: RR 2,417) should be assessed for impairment.

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The goodwill primarily relates to expected reduction of transport costs to be incurred from synergies with the Company when exporting potash by the Baltic Sea and is allocated to CGU OJSC Uralkali. The recoverable amount of the goodwill is determined based on value in use calculations whereby 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 the Company operates. Pre-tax discount rate of 15% that reflects risks relating to OJSC Uralkali was used in the calculation of the recoverable value. The Group did not recognise any impairment.

Trade and other receivables. The Company'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; receivables overdue by more than 45 (but less than 90) days are provided for at 50% of their carrying amount.

Inventory. The Group 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 (Note 29).

6 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.

(in millions of Russian Roubles unless otherwise stated)

6 Related parties (continued)

The Company's immediate parent and ultimate controlling party are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

Statement of financial position caption	Nature of relationship	31 December 2010	31 December 2009
Loans issued to related parties	2009: Ultimate controlling party	-	1,578
Loans issued to related parties	Associate	10	-

Statement of income caption	Nature of relationship	2010	2009
Interest income	Former key management personnel (2009: Ultimate controlling party)	44	16

Shareholder's equity caption	Nature of relationship	2010	2009
Dividends declared	Former parent company (Note 1)	2,283	-

Loan issued to related party

In September 2009, the Group entered into a loan agreement for a total amount of EUR 50 million with Mr Dmitry Rybolovlev, the former Chairman of the Board of Directors. The loan was provided at an interest rate of Euro Libor + 4% for 1 year. The loan was fully repaid on 2 July 2010.

Cross shareholding

As of 31 December 2010 and 31 December 2009 LLC Kama, a 100% owned subsidiary of the Group, owned 1.17% of the ordinary shares of the Company.

Management compensation

Compensation of key management personnel consists of remuneration paid to executive directors and vice-presidents for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

Total key management compensation represented by short-term employee benefits and included in general and administrative expenses in the consolidated statement of income was RR 1,305 and RR 702 for the years ended 31 December 2010 and 2009, respectively.

The structure of total key management compensations is set out below:

	2010	2009
Salary and other compensations	903	702
Termination bonuses	402	-
Total key management compensations	**1,305**	**702**

The termination bonuses are presented by the one-off benefits paid for highly paid professionals and managers, who left the Company. The termination bonuses were fully paid in 2010.

7 Segment reporting

The Group identifies the segment in accordance with the criteria set forth in IFRS 8, and based on the way the operations of the Company 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. It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilizers.

The financial information reported on operating segments is based on management accounts which are based on IFRS.

a) Segment information for the reportable segment is set out below:

	Note	2010	2009
Revenue		51,592	33,809
Segment result (Net profit)		**16,654**	**9,095**
Depreciation and amortization		(3,849)	(3,188)
Accrual of provision for compensations	25	-	(1,000)
Finance income	24	214	456
Finance expense	24	(887)	(1,350)
Income tax	26	(3,095)	(2 139)

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

b) Geographical information

The analysis of Group sales by region was:

	2010	2009
Russia	4,632	4,587
Latin America, China, India, South East Asia	30,186	20,239
USA, Europe	16,342	8,713
Other countries	432	270
Total revenue	**51,592**	**33,809**

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the year ended 31 December 2010 (the Group had one external customer from India which represented 15% of the Group's revenues in the year ended 31 December 2009).

d) In addition to above segment disclosure management is preparing additional information that splits the result of Potash segment activity between export potash sales, domestic potash sales and other sales. Direct Cost of sales and Distribution expenses are allocated proportionally based on revenues. Indirect expenses, such as General and administrative expenses, Other operating income and expenses and Taxes other than income tax are allocated between categories proportionally based on Cost of sales. Some costs are considered as unallocated (Loss on disposal of fixed assets, Net results on sale of Belaruskali goods, Mine flooding costs, Finance income and expense, Income tax expense). This split for the year ended 31 December 2010 was as follows:

	Export potash sales	Domestic potash sales	Total potash sales	Other sales	Unallocated	Total
Tonnes (thousands)	**4,397**	**682**	**5,079**	**-**	**-**	**5,079**
Revenues	**46,960**	**3,092**	**50,052**	**1,540**	**-**	**51,592**
Cost of sales	(9,579)	(1,485)	(11,064)	(766)	-	(11,830)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(17,888)	(790)	(18,678)	(367)	(267)	(19,312)
Operating profit/(loss)	**19,493**	**817**	**20,310**	**407**	**(267)**	**20,450**
Mine flooding costs					(28)	(28)
Finance income and expense, net					(673)	(673)
Profit before income tax						**19,749**
Income tax expense					(3,095)	(3,095)
Segment result/Net profit						**16,654**

This split for the year ended 31 December 2009 was as follows:

	Export potash sales	Domestic potash sales	Total potash sales	Other sales	Unallocated	Total
Tonnes (thousands)	**1,895**	**602**	**2,497**	**-**	**-**	**2,497**
Revenues	**29,189**	**2,878**	**32,067**	**1,742**	**-**	**33,809**
Cost of sales	(6,109)	(1,942)	(8,051)	(827)	-	(8,878)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(9,739)	(1,195)	(10,934)	(545)	(264)	(11,743)
Operating profit/(loss)	**13,341**	**(259)**	**13,082**	**370**	**(264)**	**13,188**
Mine flooding costs					(1,060)	(1,060)
Finance income and expense, net					(894)	(894)
Profit before income tax						**11,234**
Income tax expense					(2,139)	(2,139)
Segment result/Net profit						**9,095**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of 31 December 2009	9,431	6,030	21,043	6,178	20,187	643	189	**63,701**
Additions	-	-	-	126	12,913	-	-	**13,039**
Transfers	1,359	695	4,837	-	(7,194)	301	2	**-**
Disposals	(40)	(35)	(651)	(1,437)	(2,787)	(10)	-	**(4,960)**
Balance as of 31 December 2010	**10,750**	**6,690**	**25,229**	**4,867**	**23,119**	**934**	**191**	**71,780**
Accumulated Depreciation								
Balance as of 31 December 2009	3,995	4,883	10,319	1,946	-	350	-	**21,493**
Depreciation charge	298	196	2,999	430	-	43	-	**3,966**
Disposals	(24)	(35)	(603)	(153)	-	(8)	-	**(823)**
Balance as of 31 December 2010	**4,269**	**5,044**	**12,715**	**2,223**	**-**	**385**	**-**	**24,636**
Net Book Value								
Balance as of 31 December 2009	**5,436**	**1,147**	**10,724**	**4,232**	**20,187**	**293**	**189**	**42,208**
Balance as of 31 December 2010	**6,481**	**1,646**	**12,514**	**2,644**	**23,119**	**549**	**191**	**47,144**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of 31 December 2008	8,547	5,785	16,649	4,733	13,011	543	179	**49,447**
Additions	-	-	-	192	14,837	-	-	**15,029**
Transfers	936	279	4,895	1,311	(7,538)	107	10	**-**
Disposals	(52)	(34)	(501)	(58)	(123)	(7)	-	**(775)**
Balance as of 31 December 2009	**9,431**	**6,030**	**21,043**	**6,178**	**20,187**	**643**	**189**	**63,701**
Accumulated Depreciation								
Balance as of 31 December 2008	3,746	4,716	8,432	1,596	-	315	-	**18,805**
Depreciation charge	271	175	2,340	395	-	42	-	**3,223**
Disposals	(22)	(8)	(453)	(45)	-	(7)	-	**(535)**
Balance as of 31 December 2009	**3,995**	**4,883**	**10,319**	**1,946**	**-**	**350**	**-**	**21,493**
Net Book Value								
Balance as of 31 December 2008	**4,801**	**1,069**	**8,217**	**3,137**	**13,011**	**228**	**179**	**30,642**
Balance as of 31 December 2009	**5,436**	**1,147**	**10,724**	**4,232**	**20,187**	**293**	**189**	**42,208**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

Depreciation

For the year ended 31 December 2010 and 2009, respectively, the depreciation was allocated to statement of income as follows:

	Note	2010	2009
Cost of sales	19	3,132	2,502
Distribution costs (including transhipment activities – Note 2.29)		381	356
General and administrative expenses	21	227	241
Loss on disposal of property, plant and equipment		53	32
Total depreciation expense		**3,793**	**3,131**

In 2010 the Group incurred depreciation amounting to RR 173 (2009: RR 92), directly related to the construction of new fixed assets. These expenses were capitalised on the consolidated statement of financial position in accordance with the Group accounting policy and included in assets under construction.

Fully depreciated assets still in use

As of 31 December 2010 and 31 December 2009 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 7,686 and RR 7,072, respectively.

Assets pledged under loan agreements

As of 31 December 2010 and 31 December 2009 the carrying value of property, plant and equipment pledged under bank loans was RR 3,987 and RR 6,729 (Note 16), respectively.

9 Investments in subsidiary and jointly controlled entities

Investment in jointly controlled entity

The Company has a 50% interest in JSC Belarusian Potash Company ("BPC") – the remaining 50% is divided between Belaruskali (which owns 45%) and Belorussian Railways (which owns 5%). According to BPC's charter, all shareholders meeting decisions may be taken only with a majority of 75%. Therefore, BPC operations are under the joint control of Belaruskali and the Company (the "Participants"). BPC's principal activity is marketing and exporting as an agent potash fertilizers produced by the participants.

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 Group 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. Group's operations through BPC, assets and the Group's liabilities located in BPC in which the Group has a direct interest are included in these consolidated financial statements. The consolidated 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.

Investments in subsidiaries

In May 2010 the Group sold a 51% share in LLC Poliklinika Uralkali-Med that provided healthcare services to the Group, for a consideration of RR 8 with RR 6 gain on disposal, recognised in the consolidated statement of income. The Group retained a 49% share in LLC Poliklinika Uralkali-Med and as of 31 December 2010 classified this investment as associate.

On 19 July 2010 the Group sold the entire share capital of Sophar Property Holding Inc. for net proceeds of RR 3,948 (US$ 129,600,000). The main identifiable assets of this subsidiary consisted of two corporate business jets. The gain on disposal reported on the sale was RR 14 (US$ 469,823).

(in millions of Russian Roubles unless otherwise stated)

10 Intangible assets

	Software	Other	Total
Cost as of 1 January 2009	**459**	**20**	**479**
Accumulated amortisation	**(318)**	**-**	**(318)**
Carrying amount as of 1 January 2009	**141**	**20**	**161**
Additions	20	14	34
Amortisation charge	(57)	-	(57)
Cost as of 31 December 2009	**479**	**34**	**513**
Accumulated amortisation	**(375)**	**-**	**(375)**
Carrying amount as of 31 December 2009	**104**	**34**	**138**
Additions	58	2	60
Amortisation charge	(56)	-	(56)
Cost as of 31 December 2010	**537**	**36**	**573**
Accumulated amortisation	**(431)**	**-**	**(431)**
Carrying amount as of 31 December 2010	**106**	**36**	**142**

The balances of intangible assets reported in these consolidated financial statements as of 31 December 2010 and 2009 respectively mainly represent management information and accounting system costs and fees charged by an external consultant for the installation of this software. The costs of the software are amortised over a period not exceeding five years. Other intangible assets are mainly represented by licenses (Note 1).

11 Inventories

Inventories consist of the following:

	2010	2009
Raw materials	1,659	1,819
Finished products	1,833	1,639
Work in progress	23	23
Total inventories	**3,515**	**3,481**

As of 31 December 2010 no circulating finished goods were pledged as security for bank loans (31 December 2009: 227) (Note 16).

12 Trade and other receivables

	2010	2009
Trade receivables	2,950	1,414
Other accounts receivable	387	421
Less: provision for impairment of trade and other receivables	(209)	(209)
Total financial receivables	**3,128**	**1,626**
VAT recoverable	2,056	1,797
Other taxes receivable	1,474	1,876
Advances to suppliers	360	432
Insurance expenses prepaid	39	49
Other prepayments	107	70
Total trade and other receivables	**7,164**	**5,850**

As of 31 December 2010 trade receivables of RR 2,920 (31 December 2009: RR 1,239), net of provision for impairment, were denominated in foreign currencies. 68% of this balance was denominated in US$ (31 December 2009: 68%) and 32% was denominated in Euro (31 December 2009: 32%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

(in millions of Russian Roubles unless otherwise stated)

12 Trade and other receivables (continued)

Movements on the provision for impairment of trade and other receivables are as follows:

	2010		2009	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January	**(109)**	**(100)**	**(79)**	**(154)**
Provision accrued	(38)	(19)	(147)	(74)
Provision reversed	30	16	117	124
Provision written-off	3	8	-	4
As of 31 December	**(114)**	**(95)**	**(109)**	**(100)**

The accrual and reversal of the provision for impaired receivables have been included in other operating expenses in the consolidated statement of income (Note 23). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Analysis by credit quality of trade and other receivables is as follows:

	2010		2009	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Customers from developed countries	1,136	-	443	34
Customers from developing countries	1,082	-	512	79
Domestic customers	69	214	101	201
Total current and not impaired	**2,287**	**214**	**1,056**	**314**
Past due but not impaired				
less than 45 days overdue	495	55	248	-
45 to 90 days overdue	50	3	-	7
over 90 days overdue	2	15	-	-
Total past due but not impaired	**547**	**73**	**248**	**7**
Determined to be impaired (gross)				
45 to 90 days overdue	5	10	2	-
over 90 days overdue	111	90	108	100
Total gross amount of impaired accounts receivables	**116**	**100**	**110**	**100**
Total financial receivables (gross)	**2,950**	**387**	**1,414**	**421**
Less impairment provision	(114)	(95)	(109)	(100)
Total financial receivables	**2,836**	**292**	**1,305**	**321**

As of 31 December 2010 no trade and other receivables were pledged as collateral (31 December 2009: nil).

13 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2010	2009
RR denominated cash on hand and bank balances (interest rate: from 0.25% p.a. to 2% p.a. (2009: from 0.5% p.a. to 3.5% p.a.))	449	882
US$ denominated bank balances	2,595	1,792
EUR denominated bank balances	505	305
Other currencies denominated balances	29	11
US$ term deposits (interest rate: from 0.3% p.a. to 1.35% p.a. (2009: 1.9% p.a.))	6,989	293
EUR term deposits (interest rate: from 0.4% p.a. to 1.35% p.a. (2009: from 5% to 13% p.a.))	3,568	221
RR term deposits (interest rate: from 3.13% p.a. to 7% p.a. (2009: from 5% to 15% p.a.))	540	780
Cash and cash equivalents, net of restricted cash	**14,675**	**4,284**
Restricted cash		
Term bank deposits (4.1% p.a. (2009: 12.7% p.a.)	90	13
Total restricted cash	**90**	**13**
Total cash and cash equivalents	**14,765**	**4,297**

Term deposits, except those included in restricted cash, as at 31 December 2010 have various original maturities but may upon request be withdrawn without any restrictions.

14 Shareholders' equity

	Number of ordinary shares (in millions)	Ordinary shares	Treasury shares	Total
At 1 January 2009	2,124	648	(12)	636
At 31 December 2009	2,124	648	(12)	636
At 1 January 2010	2,124	648	(12)	636
At 31 December 2010	2,124	648	(12)	636

The number of unissued authorised ordinary shares is 1,500 million (31 December 2009: 1,500 million) with a nominal value per share of 0.5 Roubles. All shares stated in the table above have been issued and fully paid.

Treasury shares. As of 31 December 2010 treasury shares comprise 24,868,944 ordinary shares of the Company (31 December 2009: 24,868,944) with a nominal value per share of 0.5 Roubles owned by LLC Kama, a wholly owned subsidiary of the Group (Note 6). These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by the management of the Group.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules.

The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian law identifies net profit as the basis of distribution. For the year ended 31 December 2010, the current period net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 14,469 (for the year ended 31 December 2009: RR 1,153) and the closing balance of the accumulated profit including the current period net statutory profit totalled RR 44,527 (31 December 2009: RR 33,643). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose the amount of the distributable reserves in these consolidated financial statements.

Dividends. In June 2010 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2009) amounting to RR 3,611 (1.70 Roubles per share). The total amount of dividends attributable to treasury shares has been eliminated. All dividends are declared and paid in Russian Roubles.

15 Mine flooding provisions

	Note	2010	2009
Balance as of 1 January		**1,000**	**7,804**
Utilisation of provision for compensations	5	-	(7,804)
Accrual of provision for compensations	25, 5	-	1,000
Balance as of 31 December		**1,000**	**1,000**

16 Borrowings

	2010	2009
Bank loans	11,253	13,463
Long-term company loans	45	45
Finance lease payable	507	507
Total borrowings	**11,805**	**14,015**

As of 31 December 2010 and 31 December 2009 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

	2010	2009
Balance as of 1 January	**13,463**	**13,987**
Bank loans received, denominated in US$	12,522	10,418
Bank loans received, denominated in RR	-	500
Bank loans repaid, denominated in US$	(14,318)	(11,830)
Bank loans repaid, denominated in RR	(450)	(50)
Interest accrued	453	384
Interest paid	(465)	(393)
Recognition of syndication fees	(111)	(144)
Amortisation of syndication fees	125	27
Currency translation difference	34	564
Balance as of 31 December	**11,253**	**13,463**

(in millions of Russian Roubles unless otherwise stated)

16 Borrowings (continued)

The table below provides interest rates as of 31 December 2010 and 31 December 2009 and the split of the bank loans into short- and long-term.

Short-term borrowings

	Interest rates	2010	2009
Bank loans in US$ – floating interest	From 1 month Libor +1.6% to 1 month Libor +3.5% (2009: from 1 month Libor +1.6% to 1 month Libor +3.4%)	2,589	5,199
Bank loans in RR – fixed interest	2009: 14%	-	455
Total short-term bank loans		**2,589**	**5,654**

Long-term borrowings

	Interest rates	2010	2009
Bank loans in US$ – floating interest	From 1 month Libor +3.25% to 1 month Libor +3.5% (2009: from 1 month Libor +1.6% to 1 month Libor +3.4%)	8,664	7,809
Total long-term bank loans		**8,664**	**7,809**

US$ denominated bank loans bear a weighted average interest of 3.40% (31 December 2009: 2.49%).

As of 31 December 2010 and 31 December 2009, loans (including short-term borrowings) were guaranteed by the collateral of property, plant and equipment (Note 8). As of 31 December 2010 no bank loans were collateralised by finished goods (31 December 2009: RR 455 (Note 11)).

Bank loans of RR 11,253 (31 December 2009: RR 5,673) were collateralised by future export proceeds of the Group under sales contracts with certain customers acceptable to the banks.

The Group's bank borrowings mature as follows:

	2010	2009
- within 1 year	2,589	5,654
- between 2 and 4 years	8,664	7,809
Total bank loans	**11,253**	**13,463**

In December 2009 OJSC BBT entered into the new financial lease agreement with Federal State Unitary Enterprise Rosmorport ("FSUE Rosmorport") for 49 years. Under this agreement, BBT has leased berth No. 106 and renegotiated the lease terms for berth No. 107. As of 31 December 2010 the leased berths were included in buildings, with a net book value of RR 466 (31 December 2009: RR 476).

Minimum lease payments under finance leases and their present values are as follows:

	2010	2009
- within 1 year	49	49
- between 2 and 5 years	196	196
- after 5 years	2,132	2,157
Minimum lease payments at the end of the year	**2,377**	**2,402**
Less future finance charges	(1,870)	(1,895)
Present value of minimum lease payments	**507**	**507**

17 Trade and other payables

	2010	2009
Trade payables	1,461	1,110
Accrued liabilities	174	134
Dividends payable	44	107
Other payables	442	407
Total financial payables	**2,121**	**1,758**
Accrued liabilities	557	446
Advances received	312	147
Deferred consideration of subsidiary acquisition	140	139
Other payables	359	255
Total trade and other payables	**3,489**	**2,745**

(in millions of Russian Roubles unless otherwise stated)

18 Revenues

	2010	2009
Export		
Potassium chloride	33,101	16,474
Potassium chloride (granular)	13,859	12,715
Domestic		
Potassium chloride	3,092	2,878
Other	265	238
Transportation and other revenues	1,275	1,504
Total revenues	**51,592**	**33,809**

In March 2008, the Government of the Russian Federation introduced duties, effective from April 2008 until April 2009, on the export of potassium chloride outside the CIS Customs Union. The duty applicable to Uralkali's potassium chloride was 5% of the declared customs value, which the Group charged on almost all of the Group's potassium chloride exports. Export revenues were shown net of the abovementioned duties, which amounted during the year ended 31 December 2009 to RR 267. No duties on the export of potassium chloride outside the CIS Customs Union were applicable during the year ended 31 December 2010.

19 Cost of sales

	Note	2010	2009
Depreciation	8	3,132	2,502
Labour costs	22	2,890	2,083
Fuel and energy		2,244	1,499
Materials and components used		1,998	1,460
Repairs and maintenance		1,357	1,242
Transportation between mines by railway		333	201
Utilities		13	16
Change in work in progress, finished goods and goods in transit		(179)	(172)
Other costs		42	47
Total cost of sales		**11,830**	**8,878**

Expenses of RR 124 (for the year ended 31 December 2009: RR 45) related to transportating ore between mines by automotive transport were incurred by CJSC Autotranskali, a 100% subsidiary of the Group, and are mainly included in labour costs, materials and components used and fuel and energy costs.

20 Distribution costs

	Note	2010	2009
Freight		5,882	2,611
Railway tariff		4,631	1,628
Transport repairs and maintenance		579	347
Transhipment		476	340
Depreciation		286	273
Labour costs	22	243	217
Commissions		203	52
Travel expenses		139	157
Other costs		380	450
Total distribution costs		**12,819**	**6,075**

21 General and administrative expenses

	Note	2010	2009
Labour costs	22	2,976	2,081
Consulting, audit and legal services		309	318
Depreciation	8	227	241
Repairs and maintenance		171	141
Security		147	119
Mine-rescue crew		120	111
Insurance		94	67
Travel expenses		76	59
Amortisation of intangible assets	10	56	57
Communication and information system services		47	51
Bank charges		33	24
Other expenses		681	569
Total general and administrative expenses		**4,937**	**3,838**

(in millions of Russian Roubles unless otherwise stated)

22 Labour costs

	Note	2010	2009
Labour costs – Cost of sales	19	**2,890**	**2,083**
Wages, salaries, bonuses and other compensations		2,336	1,689
Contributions to social funds		515	397
Post employment benefits	27	39	(3)
Labour costs – Distribution costs	20	**243**	**217**
Wages, salaries, bonuses, other compensations and contributions to social funds		243	217
Labour costs – General and administrative expenses	21	**2,976**	**2,081**
Wages, salaries, bonuses and other compensations		2,692	1,868
contributions to social funds		272	214
Post employment benefits	27	12	(1)
Total labour costs		**6,109**	**4,381**

23 Other operating income and expenses

	Note	2010	2009
Social cost and charity		472	1,031
Loss on disposal of fixed assets		279	271
Provision for impairment of receivables	12	(11)	(20)
Net result on sale of Belaruskali goods		(12)	(7)
Other expenses, net		189	53
Total other operating income and expenses		**917**	**1,328**

The Group entered into a sales agreement with BPC for processing the sales of Belaruskali goods through Uralkali Trading SA in 2010 and 2009, respectively, in order to overcome certain drawbacks in Belarusian export legislation.

24 Finance income and expense

The components of finance income and expense were as follows:

	2010	2009
Interest income	168	313
Fair value gains on investments	46	114
Other financial income	-	29
Finance income	**214**	**456**

	2010	2009
Interest expense	549	411
Finance lease expense	49	38
Foreign exchange loss, net	225	751
Fair value losses on investments	2	-
Letters of credit fees	62	150
Finance expense	**887**	**1,350**

Interest expense in total amount of RR 29 was capitalised for the year ended 31 December 2010 (for the year ended 31 December 2009: nill). The capitalisation rate was 3.49%.

25 Mine flooding costs

Mine flooding costs include costs associated with flooding at Mine 1 (Note 5):

	Note	2010	2009
Monitoring costs		28	60
Accrual of provision for compensations	5, 15	-	1,000
Total mine flooding costs		**28**	**1,060**

(in millions of Russian Roubles unless otherwise stated)

26 Income tax expense

	2010	2009
Current income tax expense	2,881	2,005
Deferred income tax	214	134
Income tax expense	**3,095**	**2,139**

Income before taxation and non-controlling interests for financial reporting purposes is reconciled to tax expense as follows:

	2010	2009
Profit before income tax	19,749	11,234
Theoretical tax charge at effective statutory rates	3,061	1,741
Tax effect of items which are not deductible or assessable for taxation purposes	170	537
Difference in tax rates	(117)	(193)
Other	(19)	54
Consolidated tax charge	**3,095**	**2,139**

Most companies of the Group were taxed at rates of 15.5% on taxable profits in the Russian Federation, the Perm region, for 2010 and 2009 respectively.

Domestic deferred income tax has been computed in these consolidated financial statements using the rate expected to apply in future periods (i.e. 15.5%). Deferred taxes in other countries were computed applying respective national income tax rates.

	31 December 2010	31 December 2009	Disposal of subsidiary 2010	(Charged)/credited to profit or loss 2010	(Charged)/credited to profit or loss 2009
Tax effects of taxable temporary differences:					
Property, plant and equipment	(555)	(439)	-	(116)	(97)
Investments	(4)	(7)	-	3	-
Inventories	(55)	(23)	-	(32)	(23)
Borrowings	(21)	(25)	-	4	(20)
Accounts receivable	-	(4)	-	4	(26)
	(635)	(498)	-	(137)	(166)
Tax effects of deductible temporary differences:					
Finance lease	101	101	-	-	36
Accounts receivable	7	-	-	7	-
Accounts payable	51	48	-	3	(65)
Inventories	-	-	-	-	(131)
Tax loss carry forward	85	156	-	(71)	156
Disposal of subsidiary	-	6	(6)	-	-
Other	2	18	-	(16)	36
	246	329	(6)	(77)	32
Deferred income tax expense				**(214)**	**(134)**
Total net deferred income tax liability	**(389)**	**(169)**			

	31 December 2010	31 December 2009
Reflected in the statement of financial position as follows:		
Deferred income tax asset	258	247
Deferred income tax liability	(647)	(416)
Deferred income tax liability, net	**(389)**	**(169)**

The Group has not recognised a deferred income tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 12,697 (31 December 2009: RR 10,921). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

(in millions of Russian Roubles unless otherwise stated)

27 Post employment benefits obligations

In addition to statutory pension benefits, the Company also has several post-employment benefit plans, which cover most of its employees.

The Company provides financial support of a defined benefit nature to its pensioners. The plans provide for the payment of retirement benefits starting from the statutory retirement age, which is currently 55 for women and 60 for men. The amount of benefit depends on a number of parameters, including the length of service in the Company at retirement. The benefits do not vest until and are subject to the employee retiring from the Company on or after the above ages. This plan was introduced in the Collective Bargaining Agreement concluded in 2007.

The Company further provides other long-term employee benefits such as lump-sum payments upon death of its current employees and pensioners and a lump-sum payment upon retirement of a defined benefit nature.

As of 31 December 2010 and 31 December 2009 the net liabilities of the defined benefit plan and other post-employment benefit plans comprised the following:

	2010	2009
Present value of defined benefit obligations (DBO)	**353**	**327**
Present value of unfunded obligations	353	327
Unrecognised past service cost	(71)	(67)
Post employment benefits obligations	**282**	**260**

The amount of net expense for the defined benefit pension plans recognised in the consolidated statement of income (Note 22) was as follows:

	2010	2009
Current service cost	26	22
Interest cost	18	34
Net actuarial gains recognised during the year	(2)	(70)
Amortisation of past service cost	9	10
Post employment benefits	**51**	**(4)**

The movements in the liability for post-employment benefit plans were as follows:

	2010	2009
Present value of defined benefit obligations (DBO) as of 1 January	**327**	**361**
Service cost	26	22
Interest cost	18	34
Actuarial gain	(2)	(70)
Past service cost	14	-
Benefits paid	(30)	(20)
Present value of defined benefit obligations (DBO) as of 31 December	**353**	**327**

As of 31 December 2010 and 2009, respectively, the principal actuarial assumptions for the post-employment benefit plans were as follows:

	2010	2009
Discount rate	8.00%	11.12%
Salary increase	8.12%	10.16%
Inflation	6.00%	8.00%
Benefits increase (fixed-amount)	6.00%	8.00%
Mortality tables	Russia (1986-87)	Russia (1986-87)

Net deficit on the post-employment benefit plans and the number of experience adjustments for the years ended 31 December 2010 and 2009, respectively, were as follows:

	2010	2009
Present value of defined benefit obligations (DBO)	353	327
Deficit in plan	**353**	**327**
Losses/(gains) arising of experience adjustments on plan liabilities	26	(47)

28 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 14). The Company has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.

	2010	2009
Net profit	16,650	9,089
Weighted average number of ordinary shares in issue (millions)	2,100	2,100
Basic and diluted earnings per share (expressed in RR per share)	**7.93**	**4.33**

29 Contingencies, commitments and operating risks

i Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the result of operations or financial position of the Group which have not been accrued or disclosed in these consolidated financial statements.

Between September and November 2008, a number of purported class action lawsuits were filed in US federal district courts in Minnesota and Illinois. Class actions are civil lawsuits typically filed by a plaintiff seeking money damages on behalf of the named plaintiff and all others who are similarly situated. The plaintiffs in the suits filed in Minnesota and Illinois are various corporations and individuals who have filed the suits purportedly on behalf of all direct and indirect purchasers of potash from one of the defendants in the United States. The complaint alleges price fixing violations of the US Sherman Act since 1 July 2003. The Company and BPC (Note 9) were listed among the defendants, as well as certain other potash producers. The plaintiffs in the suits have not claimed any specific amount in damages, and it is premature at this time to assess the Group's potential exposure to the plaintiffs' claims. The management of the Group believes that these suits have no merit and the Group intends to defend its position vigorously.

At the end of 2009 the Federal Antimonopoly Service (FAS) concluded that the Company violated Clause 1 Part 1 Article 11 of the Federal Law On Protection of Competition (coordinated actions restricting competition). FAS adopted a respective resolution and prescription and initiated administrative proceedings against the Company. In June 2010 FAS issued a decision to impose a fine on the Company in the amount of RR 104. The Company challenged the resolution and the prescription in the court of Moscow. The arbitration court of the first instance has dismissed the Company’s petition. The Company challenged the decision of the court in the arbitration court of appeal. On 14 December 2010 the arbitration court of appeal sustained the Company’s appeal. This decision comes into force from the date of the ruling and can be challenged in the arbitration court during subsequent two months. Also the Company has challenged the decision of FAS to impose a fine in the court of Perm region. The proceedings were stayed until the court decision comes into force. The Company’s management estimates the possibility of this liability to crystallise as “possible” and accordingly has not recognised any provisions in respect of this risk.

On the basis of its own estimates, as well as both internal and external professional advice, the management is of the opinion that no material losses will be incurred in respect of these claims.

ii Tax legislation

Russian tax, currency and customs law are subject to varying interpretations and changes, which can occur frequently. The management’s interpretation of such laws as applied to the Group's transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more aggressive position in their interpretation of the law and assessments, and it is possible that transactions and activities that have not been challenged in the past may now or in the future be challenged. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purposes of the transactions, and it is possible that this will significantly increase the level and frequency of scrutiny from the tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of certain controllable transactions, provided that the tax authorities prove that the transaction price established by the parties deviates by more than 20% from the market price. Controllable transactions include transactions with interdependent parties under the Russian Tax Code, all cross-border transactions (irrespective of whether they are performed between related or unrelated parties), transactions where the price applied by a taxpayer deviates by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time. There is no formal guidance as to how these rules should be applied in practice. In the past, arbitration court practice in this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The Group’s management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2010 and 31 December 2009, no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.

29 Contingencies, commitments and operating risks (continued)

iii Insurance policies

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 5; therefore, no losses from the flooding of Mine 1 are expected to be compensated.

iv Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 5. The Company's mining activities and the recent mine flooding may cause subsidence that may affect the Company's facilities, and those of the city of Berezniki, state organisations and others.

v Operating environment of the Group

Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment. It believes it is taking all necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

vi Capital expenditure commitments

As of 31 December 2010 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 5,508 (31 December 2009: RR 5,012).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar such commitments.

vii Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As of 31 December 2010 the Group issued guarantees in favour of third parties in the amount of RR 23 (31 December 2009: RR 3).

30 Financial risk management

30.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports approximately 87% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are denominated in a hard currency, namely in US$ or Euro. The Group maintains a balance between US$ and Euro sales in order to mitigate the risk of US$/Euro exchange rate fluctuations. The Company is exposed to the risk of RR/US$ and RR/Euro exchange rates fluctuations: however the Company is currently benefiting from weak exchange rate of the Rouble against the US$ and Euro, since all the Company's major expenses are denominated in Roubles.

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As of 31 December 2010, if the RR had weakened/strengthened by 10% against the US$ and Euro with all other variables held constant, the post-tax profit for the year would have been RR 384 higher/lower (31 December 2009: RR 722 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits and foreign exchange losses/gains on the translation of US$ denominated borrowings.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Note 16). The Group has interest-bearing assets which are at fixed interest rates (Note 13).

The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rate level. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

As of 31 December 2010, if Libor rates on US$ denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RR 113 (31 December 2009: RR 130) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist primarily of trade receivables, cash and bank deposits. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets – RR 18,050 (31 December 2009: RR 9,783).

The Group is exposed to concentrations of credit risk. As of 31 December 2010 the Group had eight counterparties (31 December 2009: two counterparties) with aggregated receivables balances above RR 100. The total aggregate amount of these balances was RR 2,173 (31 December 2009: RR 448) or 65% of the gross amount of financial trade and other receivables (31 December 2009: 24%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group has no other significant concentrations of credit risk.

Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while at the same time maintaining risk at an acceptable level.

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. The management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 12). Most customers from developing countries are supplied on secured payment terms.

These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers. Only customers from developed countries with a high reputation are supplied on a credit basis.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 12).

(in millions of Russian Roubles unless otherwise stated)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(b) Credit risk (continued)

The table below shows the credit quality of cash, cash equivalents and letters of credit balances on the reporting date, based on the credit ratings of independent agency Moody's Investor Services (for the cash balances held on accounts in Russia the locally tailored ratings are used) as of 31 December 2010 and 2009:

Rating	2010	2009
Aa3	6,616	3,407
A1	1,780	902
Aaa.ru	5,431	891
Baa2.ru	495	793
B1	167	393
Aa2	387	165
Unrated*	36	27
Total	**14,912**	**6,578**

* Unrated balance contains cash on hand and other cash equivalents.

(c) Liquidity risk

In accordance with prudent liquidity risk management, the management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

	Note	Less than 1 year	Between 2 and 5 years	Over 5 years
As of 31 December 2010				
Trade and other payables	17	2,121	-	-
Borrowings		2,999	9,535	-
Finance leasing	16	49	196	2,132
As of 31 December 2009				
Trade and other payables	17	1,758	-	-
Borrowings		6,071	8,166	-
Finance leasing	16	49	196	2,157

30.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital to be total equity as shown in the consolidated statement of financial position.

Consistent with others in the industry, the Group monitors capital on a debt to equity ratio basis. This ratio is calculated as the sum of long- and short-term bank borrowings divided by total equity.

The debt to equity ratios as of 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Total bank borrowings (Note 16)	11,253	13,463
Total equity	56,797	43,715
Debt to equity ratio	**20%**	**31%**

As of 31 December 2010 management has set a level of 30% debt to equity ratio as a long-term strategic goal.

31 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

31 Fair value of financial instruments (continued)

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated statement of financial position at their fair value. Fair values were determined based on quoted market prices.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Estimated fair values of borrowings are presented in Note 16.

32 Events after reporting date

Combination of the OJSC Uralkali and OJSC Silvinit

On 20 December 2010 the Boards of Directors of the Company and OJSC Silvinit announce the proposed combination of the Company with OJSC Silvinit, creating a leader in the global potash market.

The proposed combination will be effected through the acquisition of 1,565,151 OJSC Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for US$ 894.5 per ordinary OJSC Silvinit share, or a total cash consideration of US$ 1.4 billion, completed on 28 February 2011, and implementation of a statutory merger of the Company and OJSC Silvinit, through the issuance of OJSC Uralkali ordinary shares for the remaining ordinary and preferred share capital of OJSC Silvinit. In the proposed merger, OJSC Silvinit will cease to exist and OJSC Silvinit shareholders will receive 133.4 OJSC Uralkali ordinary shares for each 1 ordinary share in OJSC Silvinit and 51.8 OJSC Uralkali ordinary shares for each 1 preferred share in OJSC Silvinit.

On 4 February 2011 the proposed combination of the Company with OJSC Silvinit had been approved by shareholders of both companies voting at their Extraordinary General Shareholders Meetings. The proposed combination is expected to be completed in May 2011, subject to receipt of required governmental and regulatory approvals.

On 24 February 2011 OJSC Acron and other several OJSC Silvinit's minority shareholders filed a claim against the Company and OJSC Silvinit in the Perm Territory Arbitrage (Commercial) Court seeking to invalidate decisions approved by the Extraordinary General Shareholders Meeting of OJSC Silvinit on 4 February 2011, and the merger agreement entered into between the Company and OJSC Silvinit.

On 28 February 2011 the Court issued a temporary injunction prohibiting the implementation of the merger agreement, the registration of OJSC Uralkali new share issuances and the reports on results of the share issuances, and the registration of OJSC Silvinit's termination upon the merger. The injunction imposed by the Court did not affect completion of acquisition by OJSC Uralkali of approximately 20% ordinary shares in OJSC Silvinit.

On 18 March 2011 the Court partially lifted the injunction imposed in connection with the claim. The only measure remaining in force by the court relates to the prohibition on the Federal Service on Financial Markets from registering the OJSC Uralkali share issuance and report on results of share issuance to be placed as a result of conversion of OJSC Silvinit shares into OJSC Uralkali shares upon completion of the merger in accordance with the merger agreement. OJSC Uralkali and OJSC Silvinit challenged the injunction in the Arbitration Appellate Court. The hearing on the appeal is scheduled for 13 April 2011.

The preliminary hearing on the merits of the claim is scheduled for 12 April 2011. Should the court's decision on the merits of the claims be in favour of the claimants it may hinder the merger of OJSC Uralkali and OJSC Silvinit.

32 Events after reporting date (continued)

Financing of the combination

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

On 25 February 2011 Uralkali has finished the placement of its debut exchange-traded bonds admitted to trading on 12 January 2011 for total nominal value of RR 30 billion at 8.25% p.a. with 3 years maturity. Together with the exchange-traded bond placement, the Company entered into a cross-currency interest rate swap transaction, conventing its ruble bond obligations into US$.

The funds received as a result of bonds placement and loan facility provided to Uralkali along with interest rate currency swaps were used to finance the acquisition of approximately 20% stake in Silvinit.

Investment in jointly controlled entities

In January 2011 Belaruskali sold a 0,001% share in BPC to Grodno Azot. According to the amended BPC charter all decisions on shareholders meeting will continued to be taken by a majority of 75%, and the BPC operations remained to be under joint control of Belaruskali and the Company.