URALKALI GROUP

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2011 and Independent Auditor's Report

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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 2011 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

10 April 2012
Moscow, Russian Federation

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	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	9	3,169,736	1,546,876
Prepayments for acquisition of property, plant and equipment		27,282	33,534
Letters of credit for acquisition of property, plant and equipment		10,429	4,266
Goodwill	10	1,829,694	12,009
Intangible assets	11	5,592,039	4,659
Investments in associates	13	12,563	242
Deferred income tax asset	34	39,289	8,465
Other non-current financial assets		5,273	7,239
Total non-current assets		**10,686,305**	**1,617,290**
Current assets:			
Inventories	14	243,603	115,333
Trade and other receivables	15	467,999	235,063
Current income tax prepayments		33,279	2,035
Loans issued to related parties	7	316	328
Other financial assets at fair value through profit or loss	16	189,730	-
Irrevocable bank deposits	17	8,169	2,953
Cash and cash equivalents	17	1,009,450	481,512
		1,952,546	**837,224**
Non-current assets held for sale	9,18	28,416	-
Total current assets		**1,980,962**	**837,224**
TOTAL ASSETS		**12,667,267**	**2,454,514**
EQUITY			
Share capital	19	37,638	20,387
Treasury shares	19	(746)	(440)
Share premium/(discount)		6,879,880	(31,618)
Revaluation reserve		5,302	5,302
Currency translation reserve		(1,144,287)	(101,589)
Retained earnings		2,269,362	1,970,950
Equity attributable to the company equity holders		**8,047,149**	**1,862,992**
Non-controlling interests		**12,461**	**616**
TOTAL EQUITY		**8,059,610**	**1,863,608**
LIABILITIES			
Non-current liabilities:			
Borrowings	22	3,017,155	302,393
Post employment benefits obligations	35	23,450	9,253
Deferred income tax liability	34	716,234	21,229
Provisions	20	51,755	-
Derivative financial liabilities	24	75,981	-
Total non-current liabilities		**3,884,575**	**332,875**
Current liabilities:			
Borrowings	22	282,095	84,950
Trade and other payables	25	292,895	114,480
Provisions	5, 20	66,283	-
Derivative financial liabilities	24	21,501	-
Mine flooding provisions	5, 21	31,060	32,811
Current income tax payable		2,865	10,040
Other taxes payable		26,383	15,750
Total current liabilities		**723,082**	**258,031**
TOTAL LIABILITIES		**4,607,657**	**590,906**
TOTAL LIABILITIES AND EQUITY		**12,667,267**	**2,454,514**

Approved for issue and signed on behalf of the Board of Directors

10 April 2012

Chief Executive Officer

Chief Financial Officer

	Note	2011	2010
Revenues	26	3,495,889	1,699,358
Cost of sales	27	(888,198)	(389,661)
Gross profit		**2,607,691**	**1,309,697**
Distribution costs	28	(631,006)	(422,237)
General and administrative expenses	29	(219,487)	(162,617)
Taxes other than income tax		(28,584)	(21,048)
Other operating income and expenses	31	(37,940)	(30,205)
Operating profit		**1,690,674**	**673,590**
Mine flooding costs	33	(26,444)	(922)
Finance income	32	48,768	7,048
Finance expense	32	(375,653)	(29,216)
Profit before income tax		**1,337,345**	**650,500**
Income tax expense	34	(152,260)	(101,944)
Net profit for the year		**1,185,085**	**548,556**
Profit is attributable to:			
Owners of the Company		1,184,032	548,424
Non-controlling interests		1,053	132
Net profit for the year		**1,185,085**	**548,556**
Earnings per share – basic and diluted (in US cents)	36	**43.88**	**26.12**

	2011	2010
Net profit for the period	**1,185,085**	**548,556**
Other comprehensive income/(loss)		
Effect of translation to presentation currency	(1,042,698)	(15,802)
Disposal of subsidiary to associate	-	33
Total other comprehensive loss for the year	**(1,042,698)**	**(15,769)**
Total comprehensive income for the year	**142,387**	**532,787**
Total comprehensive income for the year attributable to:		
Owners of the Company	141,334	532,655
Non-controlling interests	1,053	132

	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		1,337,345	650,500
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	9, 11	377,477	126,780
Losses on disposal and write-off of property, plant and equipment	31	17,072	9,190
Reversal of provision for impairment of receivables and income from assignment of accounts receivable and loans issued	31	(13,920)	(362)
Loss on disposal of subsidiaries	31	4,344	-
Net change in provisions	20	25,751	-
Finance income and expense, net		152,653	12,714
Foreign exchange losses, net	32	135,862	7,411
Operating cash flows before working capital changes		**2,036,584**	**806,233**
Increase in trade and other receivables		(3,021)	(36,100)
Decrease/(increase) in inventories		24,415	(1,120)
(Decrease)/ increase in accounts payable, accrued expenses and other creditors		(28,891)	29,480
Increase in other taxes payable		12,890	3,689
Cash generated from operations		**2,041,977**	**802,182**
Interest paid	22	(97,063)	(15,252)
Income taxes paid		(287,209)	(88,042)
Net cash generated from operating activities		**1,657,705**	**698,888**
Cash flows from investing activities			
Acquisition of intangible assets		(1,726)	(1,976)
Acquisition of property, plant and equipment		(365,237)	(339,595)
Proceeds from sales of property, plant and equipment		27,204	131,490
Purchase of financial assets at fair value through profit or loss		(296,014)	(66)
Proceeds from sale of financial assets at fair value through profit or loss and other investments		104,804	-
Acquisition of subsidiaries, net of cash acquired	6	(1,113,990)	(132)
Loans issued to related party	7	-	(18,281)
Loans repaid by related party	7	-	69,928
Decrease/(increase) in irrevocable bank deposits	17	804	(2,536)
Dividends and interest received		27,293	5,731
Net cash used in investing activities		**(1,616,862)**	**(155,437)**
Cash flows from financing activities			
Repayments of borrowings	22	(1,443,899)	(478,744)
Proceeds from borrowings	22	3,134,676	401,700
Syndication fees paid	22	(39,319)	(3,643)
Proceeds from bonds issued	23	1,028,768	-
Redemption of bonds issued	23	(1,028,768)	-
Payment due to early redemption of bonds	23, 32	(31,172)	-
Cash proceeds from derivatives	24	35,733	-
Cash paid for termination of derivative	24	(43,826)	-
Purchase of treasury shares		(358,816)	-
Finance lease payments	22, 32	(1,650)	(1,614)
Dividends paid to the Company's shareholders		(742,731)	(117,755)
Net cash generated from/(used in) financing activities		**508,996**	**(200,056)**
Effect of foreign exchange rate changes on cash and cash equivalents		(21,901)	(3,530)
Net increase in cash and cash equivalents		**527,938**	**339,865**
Cash and cash equivalents at the beginning of the year, net of restricted cash	17	**481,512**	**141,647**
Cash and cash equivalents at the end of the year, net of restricted cash	17	**1,009,450**	**481,512**

	Attributable to equity holders of the Company								
	Share capital	Treasury Shares	Share premium/ (discount)	Revaluation reserve	Retained earnings	Currency translation reserve	Total attributable to owners of the Company	Non-controlling interests	Total equity
Balance at 1 January 2010	**20,387**	**(440)**	**(31,618)**	**5,302**	**1,536,809**	**(85,787)**	**1,444,653**	**748**	**1,445,401**
Profit for the period	-	-	-	-	548,424	-	548,424	132	548,556
Other comprehensive income/(loss)	-	-	-	-	33	(15,802)	(15,769)	-	(15,769)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**548,457**	**(15,802)**	**532,655**	**132**	**532,787**
Transactions with owners									
Dividends declared (Note 19)	-	-	-	-	(114,316)	-	(114,316)	-	(114,316)
Disposal of non-controlling interest	-	-	-	-	-	-	-	(264)	(264)
Total transactions with owners	**-**	**-**	**-**	**-**	**(114,316)**	**-**	**(114,316)**	**(264)**	**(114,580)**
Balance at 1 January 2011	**20,387**	**(440)**	**(31,618)**	**5,302**	**1,970,950**	**(101,589)**	**1,862,992**	**616**	**1,863,608**
Profit for the period	-	-	-	-	1,184,032	-	1,184,032	1,053	1,185,085
Other comprehensive loss	-	-	-	-	-	(1,042,698)	(1,042,698)	-	(1,042,698)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**1,184,032**	**(1,042,698)**	**141,334**	**1,053**	**142,387**
Transactions with owners									
Dividends declared (Note 19)	-	-	-	-	(885,620)	-	(885,620)	-	(885,620)
Issue of share capital for the acquisition of a subsidiary (Note 6)	17,251	-	7,356,633	-	-	-	7,373,884	-	7,373,884
Treasury shares acquired in a business combination (Note 6)	-	(205)	(86,420)	-	-	-	(86,625)	-	(86,625)
Purchase of treasury shares	-	(101)	(358,715)	-	-	-	(358,816)	-	(358,816)
Total transactions with owners	**17,251**	**(306)**	**6,911,498**	**-**	**(885,620)**	**-**	**6,042,823**	**-**	**6,042,823**
Non-controlling interest acquired in a business combination (Note 6)	-	-	-	-	-	-	-	**15,373**	**15,373**
Disposal of non-controlling interest acquired in a business combination (Note 6)	-	-	-	-	-	-	-	**(4,581)**	**(4,581)**
Balance at 31 December 2011	**37,638**	**(746)**	**6,879,880**	**5,302**	**2,269,362**	**(1,144,287)**	**8,047,149**	**12,461**	**8,059,610**

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. In May 2011 the Company acquired OJSC Silvinit and related subsidiaries (together the "Silvinit Group") and as a result, the financial position and the results of operations of Silvinit Group have been included in the Group's consolidated financial statements since 17 May 2011. The Group manufactures various types of products, the most significant being a wide range of potassium salts. The Group is a major Russia-based potash manufacturer. For the year ended 31 December 2011 approximately 82% of potash fertilizers was exported (for the year ended 31 December 2010: 87%).

The Company holds operating licences, issued by the Perm regional authorities for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. All these licences expire in 2013. However based on the statutory licensing regulations and prior experience, the Company's management believes that the licences will be renewed without any significant costs being incurred. The Company also owns a licence for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, and for the Polovodovskiy plot of the Verkhnekamskoye field, which expires in 2028.

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 production 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 the three companies that are beneficially owned by a number of individuals. As of 31 December 2010 and 31 December 2011 the Group had no ultimate controlling party.

As of 31 December 2011 the Group employed approximately 23.0 thousand employees (31 December 2010: 12.7 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. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

In 2011 the Company changed the presentation currency of the Group from Russian Roubles ("RR") to US dollars ("US$") since the Company's management considers presentation of the financial statements in US$ to be more useful for the users of the financial statements.

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 and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA and Uralkali Trading (Gibraltar) Ltd. which maintain their accounting records in US$ and prepare their financial statements in accordance with IFRS. JSC Belarussian Potash Company maintains its accounting records in Belarussian Roubles ("BYR") and in accordance with Belarussian Laws and Regulations. Uralkali Trading Chicago maintains its accounting records in US$ and in accordance with US GAAP. 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 Basis of preparation and significant accounting policies (continued)

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.

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 Basis of preparation and significant accounting policies (continued)

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.

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 Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

2 Basis of preparation and significant accounting policies (continued)

2.8 Non-current assets classified as held for sale (continued)

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

2.9 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.

2.10 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.

2.11 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.

2.12 Other intangible assets

The Group’s intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are initially measured at acquisition cost or production cost, including any directly attributable costs of preparing the asset for its intended use, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortized on a unit of production method.

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)

2.13 Classification of financial assets

The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit and loss designed as such upon initial recognition.

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.

Derivative financial instruments, represented by cross-currency interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions is presented in the interest expense line item. The Group does not apply hedge accounting.

Other financial assets at fair value through profit or loss are financial assets, represented by highly liquid corporate bonds and shares, designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if: (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's management.

Changes in fair value of financial assets at fair value through profit and loss designed as such upon initial recognition are recognised in the line item fair value gains/(losses) on financial assets at fair value through profit or loss and other investments. Coupon income from corporate bonds recognized in the interest income line item.

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

2.14 Initial recognition of financial instruments

Derivatives and other financial assets at fair value through profit or *loss* 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.

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.

2.15 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.

2.16 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 transferred from other comprehensive income to profit or loss.

2 Basis of preparation and significant accounting policies (continued)

2.16 Available for sale investments (continued)

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.

2.17 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 Uralkali Trading Chicago and in Belarussia for JSC Belarussian 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.

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.

2.18 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a 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 Basis of preparation and significant accounting policies (continued)

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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.

2.24 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.

2.25 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. 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.

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.

2 Basis of preparation and significant accounting policies (continued)

2.25 Borrowings (continued)

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.26 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.

The Group recognises provision for filing cavities in respect of the Group's obligation to replace the earth extracted from the mines. The provision is recognized when the Group has a legal or constructive obligation in accordance with the plan of works agreed with the state mine supervisory body.

2.27 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.

2.28 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 is the national currency of the Russian Federation, Russian Roubles and the Group's presentation currency is US$.

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 2011, the official rate of exchange, as determined by the The Central Bank of the Russian Federation (CBRF), was US$ 1 = Rouble 32.20 (31 December 2010: US$ 1 = Rouble 30.48). The official Euro to RR exchange rate at 31 December 2011, as determined by the CBRF, was Euro 1 = Rouble 41.67 (31 December 2010: Euro 1 = Rouble 40.33). The average official rate of exchange for the twelve months ended 31 December 2011 was US$ 1 = Rouble 29.39, was Euro 1 = Rouble 40.87 (twelve months ended 31 December 2010: US$ 1 = Rouble 30.36, Euro 1 = Rouble 40.28).

2 Basis of preparation and significant accounting policies (continued)

2.29 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 of potash of Belaruskali and Silvinit (prior to it's acquisition) are recognized in the line item other operating income and expenses net of all related costs.

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.

2.30 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.

2.31 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.

2.32 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.

2.33 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.

2.34 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.

2.35 Segment reporting

The Group identifies segments 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 Basis of preparation and significant accounting policies (continued)

2.36 Research and development costs

Research expenditures are recognised as expenses 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 expenses 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 2011:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and 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. This amendment does not have a material effect on the Group's consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is not relevant to the Group.

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and 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. This amendment does not have a material effect on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow the previous GAAP carrying value to be used as the deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as the deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in the classification of financial assets or changes in the business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify the measurement of the fair value of award credits. These amendments do not have a material effect on the Group's consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not currently 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.

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 2012 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 2015, with earlier application permitted).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***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 standard on its consolidated financial statements;

- ***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 Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).*** The Group is currently assessing the impact of the amendments on its consolidated financial statements;

- ***Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013).*** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

- ***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

- ***IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The Group is currently assessing the impact of the standard on its consolidated financial statements;

- ***Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

- ***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

- ***Other revised standards and interpretations:*** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

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 amounts recognised in the financial statements and the carrying 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:

Fair value of Silvinit Group's net assets. The Group acquired Silvinit Group during the reporting period (Note 6) and applied a number of estimates to determine the fair value of the acquired subsidiaries' net assets. In estimating the fair values of the licences the Group applied the residual method which is based on a discounted cash flows analysis of the estimated future economic benefits attributable to the licences, net of the attributable fixed assets and construction in progress. This method assumes that intangible assets rarely generate income on their own. Thus, cash flows attributable to the licences are those remaining after the return on investment of all of the contributing assets required to generate the projected cash flows. The Group's management also used the best available estimates in determining the fair value of provision for filling cavities and legal provision.

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 cause of flooding in Mine 1. According to the act, the flooding was caused by a "new kind of previously unknown anomaly in the 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 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 Russian Deputy Prime Minister, Igor Sechin, a new commission was established by Rostekhnadzor to carry out a second investigation into the cause of flooding in Mine 1. The second commission's report was published on 29 January 2009, concluding that the flooding was caused by a "combination of geological and technological factors".

Provision for compensations

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 including expenses for resettlement of citizens, construction of a 6-kilometer railway bypass, and also partially compensate the construction of a 53-kilometer railway bypass in the total amount of US$ 242,390.

In March 2010 the Board of Directors of the Company approved the voluntary compensation, as a part of its social responsibility, of additional expenditures in relation to the construction of a 53-kilometer railway bypass in the amount of US$ 31,060 to OJSC "Russian railways". To date this provision has not been utilized as the process for making the payment has not been finalised.

In April 2011 TGK-9 filed a lawsuit against the Company in the arbitration court of Perm Region, claiming compensation of expenses incurred as a result of mine flooding in the amount of US$ 96,489. In September 2011 the parties concluded an amicable agreement under which the Company compensated US$ 16,979 to OJSC TGK-9 and OJSC TGK-9 withdrew all its claims against the Company with regard to the mine flood.

Other risks not included in provision for compensations

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 of Rostekhnadzor, there is a calculation of the value of lost mineral resources (from US$ 788,294 to US$ 2,627,710) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from US$ 29,942 to US$ 99,857). The Company analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as "remote".

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 9). The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the relevant operating licences (Note 1). The management believes that the licences will be renewed in due order. However if the licences are not renewed, property, plant and equipment with net book value of US$ 522,038 (31 December 2010: US$ 160,658) should be assessed for impairment in 2013.

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

Remaining useful life of mining licences. Management assesses the remaining useful life of intangible assets in accordance with the estimated period during which these assets will bring economic benefit to the Group. The estimated remaining useful life of mining licences acquired in the course of business combination (Note 6) is beyond the expiry date of these licences. The management believes that the licences will be renewed in due order. However if the licences are not renewed, intangible assets with net book value of US$ 4,401,484 (31 December 2010: nil) should be assessed for impairment in 2013.

Land. OJSC Baltic Bulker Terminal does not have registered lease rights to the land underlying the shipping complex it operates. The management plans to secure the land where the facilities of OJSC BBT are situated by a long-term rent agreement. If the Group cannot secure long-term use of this land, non-current assets of US$ 65,889 (31 December 2010: US$ 76,451) should be assessed for impairment.

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The goodwill relates to the acquisition of the Silvinit Group, CJSC Solikamsky Stroitelny Trest and OJSC Baltik Balker Terminal. The goodwill is primarily attributable to the expected future operational and marketing synergies of the combined group and is allocated to CGU Uralkali Group.

The recoverable amount of goodwill is determined based on value in use calculations determined using discounted cash flow projections of the business over a five-year period performed by management with the help of an independent appraiser. Cash flows beyond the second 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 13.4% that reflects risks relating to Uralkali Group was used in the calculation of the recoverable value. The Group did not recognise any impairment (Note 10).

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 37).

Provision for filling cavities. A provision has been established in the consolidated financial statements for the Group's obligation to replace the earth extracted from the Solikamsk mines (Note 20).

The major uncertainties that relates to amount and timing of the cash outflows related to the filling cavities works and assumptions made by management in respect of these uncertainties are as follows:

- The extent of the filling cavities works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the earth in the mines is consisted with the cavities filling plan agreed with the state mine supervisory body.

- The future unit cost of replacing one cubic meter of the earth in the mines may vary depending on the technology and the cost of resources used. Management assumes that the unit cost of replacing a cubic meter of earth in future years, during the period for which the current filling cavities plan is in place, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in 2011.

- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the filling cavities works, reflecting the time value of money. In 2011 management applied discount rate of 7.7%.

Restructuring provision. The Group accrued provision for the abandon of ore-treatment plant and carnallite plant subdivision at Berezniki 1 (Note 20).

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

The major uncertainties that relate to amount and timing of the cash outflows related to the restructuring works and assumptions made by management in respect of these uncertainties are as follows:

- Estimates were used to determine the costs of dismantling and restoration works for the liquidation of the ore-treatment plant and the carnallite plant at Berezniki 1;
- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the dismantling works, reflecting the time value of money. The discount rate used is in the range from 6.22% to 8.28% depending on the timing of expenses.

6 Business combinations

i Acquisition of Silvinit Group

On 17 May 2011, the Company acquired Silvinit Group, creating one of the world's leading potash companies, a leading global fertilizer producer and one of Russia's leading mineral resource companies.

The acquisition was made through the purchase of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for total cash consideration of US$ 1.4 billion. It was completed on 28 February 2011, and a subsequent statutory merger of the Company and OJSC Silvinit, through the issuance of Uralkali ordinary shares for the remaining ordinary and preferred share capital of OJSC Silvinit was completed on 17 May 2011. Upon completion of the merger, OJSC Silvinit ceased to exist and OJSC Silvinit shareholders received 133.4 Uralkali ordinary shares for each 1 ordinary share in Silvinit and 51.8 Uralkali ordinary shares for each 1 preferred share in Silvinit.

The financial position and the results of operations of Silvinit Group were included in the Group's consolidated financial statements from 17 May 2011.

The table below sets forth the fair values of Silvinit Group consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	Note	Attributed fair value
Assets		
Property, plant and equipment	9	1,850,768
Intangible assets	11	6,460,432
Investments in associates	13	25,875
Other non-current financial assets		11,190
Deferred tax assets	34	118,108
Trade and other receivables		177,861
Inventories	14	150,464
Loans issued		3,633
Irrevocable bank deposits		6,987
Cash and cash equivalents		350,577
Total assets		**9,155,895**
Liabilities		
Borrowings	22	1,323,507
Deferred tax liabilities	34	970,914
Post employment benefits obligations	35	12,486
Provision for filling cavities, long-term	20	52,215
Trade and other payables		52,948
Current income tax payable		5,583
Legal provision	20	60,528
Provision for filling cavities, short-term	20	6,597
Total liabilities		**2,484,778**
Total identifiable net assets at fair value		**6,671,117**

The Group has finalized the preliminary purchase price allocation that was reported in its consolidated condensed interim financial information for the six months ending 30 June 2011.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 177,861 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables due is US$ 232,671.

6 Business combinations (continued)

i Acquisition of Silvinit Group (continued)

The acquisition-date fair value of the total purchase consideration and its components are as follows:

	US$ thousands
Cash consideration paid	1,432,093
Fair value of newly issued shares of the acquirer	7,373,884
Effect of translation to presentation currency	19,637
Total purchase consideration	**8,825,614**

Cash consideration of US$ 1.4 billion paid by the Group was recorded as consideration paid on the acquisition of subsidiary in the consolidated statement of cash flows. The remaining approximately 80% ownership interest was transferred to the Group in exchange for the newly issued shares of OJSC Uralkali. The fair value of these newly issued shares of the acquirer was determined on the basis of closing market price of the ordinary shares on the date of the acquisition.

Acquisition related transaction costs of US$ 4,141 were expensed as general and administrative expenses.

The excess of the total consideration paid by the Group over the fair values of assets and liabilities, net of treasury shares acquired in the total amount of US$ 2,067,872 represents the goodwill.

	Note	US$ thousands
Total identifiable net assets at fair value		6,671,117
Treasury shares acquired		86,625
Goodwill	10	2,067,872
Total purchase consideration		**8,825,614**

The goodwill is primarily attributable to the expected future operational and marketing synergies. The goodwill will not be deductable for tax purposes in future periods.

If the acquisition had occurred on 1 January 2011, Group results for year ended 31 December 2011 would have been:

- Gross revenue – US$ 4,202,656;
- Net profit – US$ 1,527,189;
- Freight, railway tariff, transshipment – US$ 632,245;
- Depreciation and amortization, financial income and expenses, income tax expense – US$ 906,216;
- Volume sold – 10,648 thousands tonnes.

ii Acquisition of CJSC Solikamsky Stroitelny Trest (SST)

On 7 October 2011, the Company obtained control over its associate SST, local leader of construction market in the city of Solikamsk. The acquisition was made through the purchase of SST ordinary shares, representing approximately 47.64% of its ordinary share capital, for total cash consideration of US$ 35,375.

The investment in the acquiree (24.41% of ordinary share capital) held prior to the acquisition was remeasured to its fair value at the acquisition date and a loss in the amount of US$ 913 (Note 13) was recognised on disposal of the associate.

The financial position and the results of operations of SST were included in the Group's consolidated financial statements from 7 October 2011.

6 Business combinations (continued)

ii Acquisition of CJSC Solikamsky Stroitelny Trest (SST) (continued)

The table below sets forth the fair values of SST consolidated identifiable assets and, liabilities at the date of acquisition:

	Note	Attributed fair value
Assets		
Property, plant and equipment	9	42,145
Intangible assets	11	224
Trade and other receivables		3,569
Inventories		25,047
Cash and cash equivalents		2,901
Total assets		**73,886**
Liabilities		
Borrowings	22	5,087
Deferred tax liabilities	34	4,483
Trade and other payables		15,461
Total liabilities		**25,031**
Total identifiable net assets at fair value		**48,855**

The excess of the total consideration paid by the Group over the fair values of assets and liabilities represents the goodwill.

	Note	US$ thousands
Total identifiable net assets at fair value		48,855
Fair value of the non controlling interest		(15,373)
Fair value of existing interest in acquiree	13	(11,926)
Goodwill	10	13,819
Total purchase consideration		**35,375**

The goodwill is attributable to the expected future optimization of the construction and repair works for the Group. The goodwill will not be deductable for tax purposes in future periods.

The Group finalized the purchase price allocation.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 3,569 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables do not differ from their fair value at acquisition date.

The acquired Company contributed revenue of US$ 5,282 and loss of US$ 6,493 to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group revenue for 2011 would have been US$ 3,511,941 and profit for 2011 would have been US$ 1,180,701.

LLC Solikamskavto and LLC Stroimarket, subsidiaries of SST, were disposed shortly after acquisition of SST for total consideration of US$ 1,810. The loss on disposal of subsidiaries in the amount of US$ 4,344 was recognized in the other operating income and expenses (Note 31).

7 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.

7 Related parties (continued)

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 2011	31 December 2010
Balances			
Prepayments for acquisition of property, plant and equipment	Associate	1,531	-
Prepayments for acquisition of property, plant and equipment	Other related parties	2,294	-
Trade and other receivables	Associate	26	-
Trade and other receivables	Other related parties	2,752	-
Trade and other payables	Associate	2,414	-
Trade and other payables	Other related parties	423	-
Loans issued to related parties	Associate	316	328
Transactions			
Acquisition of property, plant and equipment	Associate	32,028	-
Acquisition of property, plant and equipment	Other related parties	3,257	-
Acquisition of inventories	Associate	6,648	-
Acquisition of inventories	Other related parties	62	-

Statement of income caption	Nature of relationship	2011	2010
Other domestic revenue	Associate	86	-
Other domestic revenue	Other related parties	10,198	-
Transportation and other revenues	Associate	57	-
Transportation and other revenues	Other related parties	2,906	-
Repairs and maintenance	Associate	3,571	-
Repairs and maintenance	Other related parties	228	-
Other expenses	Associate	2,112	-
Other expenses	Other related parties	167	-
Interest income	Former key management personnel	211	1,449
Interest income	Other related parties	114	-
Liquidation of BRU1	Associate	855	-

Shareholder's equity caption	Nature of relationship	2011	2010
Dividends declared	Former parent company (Note 1)	-	73,207

Cross shareholding

As of 31 December 2011 LLC Kama, a 100% owned subsidiary of the Group, owned 0.81% of the ordinary shares of the Company (31 December 2010: 1.17%).

As of 31 December 2011 LLC IK Silvinit-Resource, a 100% owned subsidiary of the Group, owned 0.37% of the ordinary shares of the Company (31 December 2010: nil).

As of 31 December 2011 Enterpro Services Ltd., a 100% owned subsidiary of the Group, owned 1.60% of the ordinary shares of the Company (31 December 2010: nil).

Management compensation

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

The Board of Directors has approved the main principles of the long-term incentive strategy of Uralkali's top management. The remuneration will depend on total shareholder return relative to the Company's peers and will be adjusted to the volatility of the Russian stock market versus the US market. The absolute risk adjusted stock performance will also influence the amount of remuneration. The program is effective from the third quarter of 2011 and the Group liability as of 31 December 2011 is nil.

7 Related parties (continued)

Total key management compensation represented by short-term employee benefits and included in general and administrative and distribution expenses in the consolidated statement of income were US$ 21,027 and US$ 42,984 for the years ended 31 December 2011 and 2010, respectively.

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

	2011	2010
Salary and other compensations	21,027	29,743
Termination bonuses	-	13,241
Total key management compensations	**21,027**	**42,984**

The termination bonuses present one-off benefits paid to the members of senior management, who left the Company. The termination bonuses were fully paid in 2010.

8 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	2011	2010
Revenue	26	3,495,889	1,699,358
Segment result (Net profit)		**1,185,085**	**548,556**
Depreciation and amortization		(377,477)	(126,780)
Mine flooding costs	33	(26,444)	(922)
Finance income	32	48,768	7,048
Finance expense	32	(375,653)	(29,216)
Income tax	34	(152,260)	(101,944)

b) Geographical information

The analysis of Group sales by region was:

	2011	2010
Russia	414,162	152,571
Latin America, China, India, South East Asia	2,221,114	994,279
USA, Europe	853,708	538,279
Other countries	6,905	14,229
Total revenue	**3,495,889**	**1,699,358**

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

c) Major customers

The Group had sales in excess of 10% to one customer during the year ended 31 December 2011. Revenue from this customer represented 15% of total Group revenue for the year ended 31 December 2011.

The Group had no external customers which represented more than 10% of the Group's revenues in the year ended 31 December 2010.

d) In addition to the 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 and Silvinit goods, mine flooding costs, finance income and expense, income tax expense). This split for the year ended 31 December 2011 was as follows:

8 Segment reporting (continued)

	Export potash sales	Domestic potash sales	Total potash sales	Other sales	Unallo-cated	Total
Tonnes (thousands)	**7,040**	**1,579**	**8,619**	**-**	**-**	**8,619**
Revenues	3,081,727	322,851	3,404,578	91,311	-	3,495,889
Cost of sales	(687,015)	(154,148)	(841,163)	(47,035)	-	(888,198)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(839,190)	(47,591)	(886,781)	(23,141)	(7,095)	(917,017)
Operating profit/(loss)	**1,555,522**	**121,112**	**1,676,634**	**21,135**	**(7,095)**	**1,690,674**
Mine flooding costs					(26,444)	(26,444)
Finance income and expense, net					(326,885)	(326,885)
Profit before income tax						**1,337,345**
Income tax expense					(152,260)	(152,260)
Segment result/Net profit						**1,185,085**

This split for the year ended 31 December 2010 was as follows:

	Export potash sales	Domestic potash sales	Total potash sales	Other sales	Unallo-cated	Total
Tonnes (thousands)	**4,397**	**682**	**5,079**	**-**	**-**	**5,079**
Revenues	1,546,787	101,846	1,648,633	50,725	-	1,699,358
Cost of sales	(315,517)	(48,913)	(364,430)	(25,231)	-	(389,661)
Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax	(589,202)	(26,021)	(615,223)	(12,089)	(8,795)	(636,107)
Operating profit/(loss)	**642,068**	**26,912**	**668,980**	**13,405**	**(8,795)**	**673,590**
Mine flooding costs					(922)	(922)
Finance income and expense, net					(22,168)	(22,168)
Profit before income tax						**650,500**
Income tax expense					(101,944)	(101,944)
Segment result/Net profit						**548,556**

9 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 2010	352,726	219,510	827,807	159,695	758,575	30,646	6,267	2,355,226
Additions	-	-	-	16,264	384,021	-	-	400,285
Transfers	37,064	30,048	282,477	-	(353,587)	2,832	1,166	-
Disposals	(12,956)	(903)	(32,894)	(15,231)	(6,243)	(5,604)	(21)	(73,852)
Acquisitions of subsidiaries (Note 6)	518,450	430,538	579,482	156,001	142,062	33,538	32,842	1,892,913
Disposal of subsidiaries (Note 6)	(8,148)	-	(2,024)	(2,569)	-	-	(142)	(12,883)
Non-current assets held for sale (Note 18)	(2,730)	-	(26,712)	(403)	-	(1,400)	-	(31,245)
Write-off of fixed assets (Note 31)	(9,174)	(1,966)	(12,823)	(3)	-	(19)	-	(23,985)
Effect of translation to presentation currency	(81,932)	(68,741)	(136,225)	(28,079)	(60,471)	(5,228)	(4,546)	(385,222)
Balance as of 31 December 2011	**793,300**	**608,486**	**1,479,088**	**285,675**	**864,357**	**54,765**	**35,566**	**4,121,237**
Accumulated Depreciation								
Balance as of 31 December 2010	140,073	165,502	417,201	72,941	-	12,633	-	808,350
Depreciation charge	20,663	26,747	183,108	19,069	-	2,826	-	252,413
Disposals	(3,007)	(548)	(20,668)	(3,386)	-	(2,282)	-	(29,891)
Non-current assets held for sale (Note 18)	(92)	-	(2,547)	(44)	-	(146)	-	(2,829)
Write-off of fixed assets (Note 31)	(5,496)	(761)	(8,884)	(3)	-	(19)	-	(15,163)
Effect of translation to presentation currency	(8,473)	(11,173)	(35,664)	(5,319)	-	(750)	-	(61,379)
Balance as of 31 December 2011	**143,668**	**179,767**	**532,546**	**83,258**	**-**	**12,262**	**-**	**951,501**
Net Book Value								
Balance as of 31 December 2010	**212,653**	**54,008**	**410,606**	**86,754**	**758,575**	**18,013**	**6,267**	**1,546,876**
Balance as of 31 December 2011	**649,632**	**428,719**	**946,542**	**202,417**	**864,357**	**42,503**	**35,566**	**3,169,736**

9 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 2009	311,828	199,377	695,770	204,271	667,467	21,260	6,249	2,106,222
Additions	-	-	-	4,150	425,334	-	-	429,484
Transfers	44,763	22,893	159,323	-	(236,959)	9,914	66	-
Disposals	(1,318)	(1,153)	(21,443)	(47,332)	(91,799)	(329)	-	(163,374)
Effect of translation to presentation currency	(2,547)	(1,607)	(5,843)	(1,394)	(5,468)	(199)	(48)	(17,106)
Balance as of 31 December 2010	**352,726**	**219,510**	**827,807**	**159,695**	**758,575**	**30,646**	**6,267**	**2,355,226**
Accumulated Depreciation								
Balance as of 31 December 2009	132,092	161,452	341,189	64,343	-	11,573	-	710,649
Depreciation charge	9,816	6,456	98,782	14,164	-	1,416	-	130,634
Disposals	(791)	(1,153)	(19,862)	(5,040)	-	(262)	-	(27,108)
Effect of translation to presentation currency	(1,044)	(1,253)	(2,908)	(526)	-	(94)	-	(5,825)
Balance as of 31 December 2010	**140,073**	**165,502**	**417,201**	**72,941**	**-**	**12,633**	**-**	**808,350**
Net Book Value								
Balance as of 31 December 2009	**179,736**	**37,925**	**354,581**	**139,928**	**667,467**	**9,687**	**6,249**	**1,395,573**
Balance as of 31 December 2010	**212,653**	**54,008**	**410,606**	**86,754**	**758,575**	**18,013**	**6,267**	**1,546,876**

9 Property, plant and equipment (continued)

Depreciation

For the year ended 31 December 2011 and 2010, respectively, the depreciation was allocated to statement of income as follows:

	Note	2011	2010
Cost of sales	27	219,083	103,151
Distribution costs (including transhipment activities – Note 2.30)		17,129	12,550
General and administrative expenses	29	10,660	7,477
Loss on disposal of property, plant and equipment		567	1,745
Total depreciation expense		**247,439**	**124,923**

In 2011 the Group incurred depreciation amounting to US$ 4,974 (2010: US$ 5,711), directly related to the construction of new fixed assets. These expenses were capitalised in accordance with the Group accounting policy and included in assets under construction in the consolidated statement of financial position.

Fully depreciated assets still in use

As of 31 December 2011 and 31 December 2010 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 298,977 and US$ 252,191, respectively.

Assets pledged under loan agreements

As of 31 December 2011 and 31 December 2010 the carrying value of property, plant and equipment pledged under bank loans was US$ 87,314 and US$ 130,820 (Note 22), respectively.

Property, plant and equipment write-off

During the year ended 31 December 2011 the Group decided to write-off fixed assets with a gross book value and accumulated depreciation of US$ 23,985 and US$ 15,163, respectively, due to the abandonment of an ore-treatment plant and carnallite plant at Berezniki 1 (Note 20) (2010: nil), and recognised a loss of US$ 8,822 (2010: nil) (Note 31) in these consolidated financial statements.

10 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2011	2010
Gross book value at 1 January		12,009	12,101
Accumulated impairment losses at 1 January		-	-
Carrying amount at 1 January		**12,009**	**12,101**
Acquisition of subsidiaries	6	2,081,691	-
Effect of translation to presentation currency		(264,006)	(92)
Carrying amount at 31 December		**1,829,694**	**12,009**
Gross book value at 31 December		1,829,694	12,009
Accumulated impairment losses at 31 December		-	-
Carrying amount at 31 December		**1,829,694**	**12,009**

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the acquisition of subsidiaries, which are attributable to the combined business as a whole and not to individual assets of subsidiaries. Allocation of goodwill to cash generated unit (CGU):

CGU allocated	Acquisition	2011	2010
Uralkali Group	Silvinit Group (Note 6)	1,804,376	-
Uralkali Group	CJSC SST (Note 6)	13,950	-
Uralkali Group	OJSC BBT	11,368	12,009
Total carrying amount of goodwill		**1,829,694**	**12,009**

The Group did not recognise any impairment (Note 5).

11 Intangible assets

	Mining licences	Software	Other	Total
Cost as of 1 January 2010	**789**	**15,838**	**399**	**17,026**
Accumulated amortisation	**(64)**	**(12,399)**	**-**	**(12,463)**
Carrying amount as of 1 January 2010	**725**	**3,439**	**399**	**4,563**
Additions	-	1,899	77	1,976
Amortisation charge	(12)	(1,845)	-	(1,857)
Effect of translation to presentation currency	(5)	(15)	(3)	(23)
Cost as of 31 December 2010	**783**	**17,620**	**473**	**18,876**
Accumulated amortisation	**(75)**	**(14,142)**	**-**	**(14,217)**
Carrying amount as of 31 December 2010	**708**	**3,478**	**473**	**4,659**
Additions	-	1,674	-	1,674
Capitalised borrowing costs	67,403	-	-	67,403
Acquisition of subsidiaries (Note 6)	6,458,905	1,751	-	6,460,656
Amortisation charge (Note 27, 29)	(128,178)	(1,860)	-	(130,038)
Effect of translation to presentation currency	(811,946)	(343)	(26)	(812,315)
Cost as of 31 December 2011	**5,703,894**	**19,774**	**447**	**5,724,115**
Accumulated amortisation	**(117,002)**	**(15,074)**	**-**	**(132,076)**
Carrying amount as of 31 December 2011	**5,586,892**	**4,700**	**447**	**5,592,039**

The table below summarises descriptions and carrying amounts of individually material mining licences:

Licenced plot	31 December 2011	31 December 2010
Solikamskiy plot (north part)	2,192,880	-
Solikamskiy plot (south part)	1,997,453	-
Novo-Solikamskiy plot	211,150	-
Polovodovskiy plot	1,184,723	-
Total	**5,586,206**	**-**

12 Investments in jointly controlled entity

The Company has a 50% interest in JSC Belarussian Potash Company ("BPC") – the remaining 50% is divided between Belaruskali (which owns 45%) and Belarussian Railways (which owns 5%). According to BPC's charter, all decisions on shareholders meeting could 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% allocated to Belaruskali operations, and not less than 31% allocated to 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 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.

13 Investments in associates

The Group has the following investments in associates, primarily acquired in the course of acquisition of Silvinit Group (Note 6):

	Country of incorporation	31 December 2011	31 December 2010
OJSC Galurgiya	Russia	46%	23%
LLC Mashinostroitelnoe predpriyatie Kurs	Russia	30%	15%

13 Investments in associates (continued)

CJSC SST was an associate of the Silvinit Group, which was acquired by the Company (Note 6). On 7 October 2011 the Company acquired an additional equity stake of CJSC SST, which became a subsidiary (Note 6).

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2011	2010
Carrying amount at 1 January		**242**	**240**
Share of profit of associates		2,871	-
Impairment of investments in associates		-	-
Share of results of associates		3,113	240
Fair value of net assets of associates acquired	6	25,875	-
Associate reclassified to subsidiary	6	(11,926)	-
Subsidiary reclassified to associate		-	24
Revaluation loss at the date of acquisition	6	(913)	-
Effect of translation to presentation currency		(3,586)	(22)
Carrying amount at 31 December		**12,563**	**242**

14 Inventories

Inventories consist of the following:

	2011	2010
Raw materials	106,247	54,435
Finished products	120,245	60,143
Work in progress	1,105	755
Other inventories	16,006	-
Total inventories	**243,603**	**115,333**

As of 31 December 2011 inventories of US$ 2,353 were pledged as security for bank loans (31 December 2010: nil) (Note 22).

Other inventories mainly represent the residential buildings, which are constructed by SST (Note 6).

15 Trade and other receivables

	2011	2010
Trade receivables	299,729	96,795
Other accounts receivable	39,281	12,698
Less: provision for impairment of trade and other receivables	(8,389)	(6,858)
Total financial receivables	**330,621**	**102,635**
VAT recoverable	93,064	67,461
Other taxes receivable	16,532	48,364
Advances to suppliers	27,465	11,812
Insurance expenses prepaid	317	1,280
Other prepayments	-	3,511
Total trade and other receivables	**467,999**	**235,063**

As of 31 December 2011 trade receivables of US$ 268,640 (31 December 2010: US$ 95,810), net of provision for impairment, were denominated in foreign currencies. 85% of this balance was denominated in US$ (31 December 2010: 68%) and 15% was denominated in Euro (31 December 2010: 32%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

15 Trade and other receivables (continued)

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

	2011		2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As of 1 January	**(3,741)**	**(3,117)**	**(3,604)**	**(3,306)**
Provision accrued	(3,351)	(1,877)	(1,252)	(626)
Provision reversed	471	2,600	988	528
Provision written-off	52	1	99	264
Effect of translation to presentation currency	448	125	28	23
As of 31 December	**(6,121)**	**(2,268)**	**(3,741)**	**(3,117)**

The accrual and reversal of the provision for impairment of receivables have been included in other operating expenses in the consolidated statement of income (Note 31). 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:

	2011		2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Customers from developed countries	89,181	-	37,274	-
Customers from developing countries	106,119	-	35,502	-
Domestic customers	56,757	25,994	2,264	7,022
Total current and not impaired	**252,057**	**25,994**	**75,040**	**7,022**
Past due but not impaired				
less than 45 days overdue	34,885	10,539	16,242	1,805
45 to 90 days overdue	5,307	-	1,641	98
over 90 days overdue	-	281	66	492
Total past due but not impaired	**40,192**	**10,820**	**17,949**	**2,395**
Determined to be impaired (gross)				
45 to 90 days overdue	2,719	397	164	328
over 90 days overdue	4,761	2,070	3,642	2,953
Total gross amount of impaired accounts receivable	**7,480**	**2,467**	**3,806**	**3,281**
Total financial receivables (gross)	**299,729**	**39,281**	**96,795**	**12,698**
Less impairment provision	(6,121)	(2,268)	(3,741)	(3,117)
Total financial receivables	**293,608**	**37,013**	**93,054**	**9,581**

As of 31 December 2011 no trade and other receivables were pledged as collateral (31 December 2010: nil).

16 Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit and loss are represented by highly liquid US$ denominated corporate bonds neither past due nor impaired at 31 December 2011 (31 December 2010: nil).

Analysis by credit quality of other financial assets at fair value through profit and loss held at 31 December 2011 is as follows:

Rating agency	Rating	2011	2010
Fitch Ratings	BBB-	21,455	-
Fitch Ratings	BBB	13,643	-
Fitch Ratings	BB	6,205	-
Moody's	Baa1	97,086	-
Moody's	Ba2	28,109	-
Moody's	Baa3	18,005	-
Moody's	Ba3	5,227	-
Total other financial assets at fair value through profit or loss		**189,730**	**-**

Coupon income from corporate bonds in the amount of US$ 14,521 is included in interest income (Note 32).

17 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Interest rates	2011	2010
Cash on hand and bank balances			
RR denominated cash on hand and bank balances	nil (2010: from 0.25% p.a. to 2% p.a.)	58,626	14,732
US$ denominated bank balances		367,045	85,146
EUR denominated bank balances		13,706	16,570
Other currencies denominated balances		1,498	952
Term deposits			
US$ term deposits	0.35% p.a. (2010: from 0.3% to 1.35% p.a.)	21,978	229,321
EUR term deposits	nil (2010: from 0.4% to 1.35% p.a.)	-	117,073
RR term deposits	from 4.95% p.a. to 7.97% p.a. (2010: from 3.13% p.a. to 7% p.a.)	140,995	17,718
Dual currency deposits	from 3.8% to 6% p.a. (2010: nil)	405,602	-
Cash and cash equivalents, net of restricted cash		**1,009,450**	**481,512**
Restricted cash (irrevocable bank deposits)			
From four to five month bank deposits (2010: three month bank deposits)	form 6% to 7.67% p.a. (2010: 4.1% p.a.)	8,169	2,953
Total restricted cash (irrevocable bank deposits)		**8,169**	**2,953**
Total cash and cash equivalents		**1,017,619**	**484,465**

As at 31 December 2011, term deposits, except those included in restricted cash, have various original maturities but may upon request be withdrawn without any restrictions.

18 Non-current assets held for sale

The Group classified a titanium sponge complex acquired in the course of the Silvinit Group acquisition (Note 9) as non-current assets held for sale. Management approved a plan to sell the assets in December 2011 as part of its strategy to divest non-core assets. The Group is actively marketing these assets and expects that the sale be completed by the end of 2012.

19 Shareholders' equity

	Number of ordinary shares (in millions)	Ordinary shares	Treasury shares	Total
At 1 January 2010	2,124	20,387	(440)	19,947
At 31 December 2010	2,124	20,387	(440)	19,947
At 1 January 2011	2,124	20,387	(440)	19,947
Issue of new shares	970	17,251	-	17,251
Treasury shares purchased	-	-	(306)	(306)
At 31 December 2011	**3,094**	**37,638**	**(746)**	**36,892**

In May 2011 the Company issued new shares in conjunction with statutory merger with OJSC Silvinit (Note 6) in the total amount of 970,247,905 ordinary shares with a nominal value per share of 1.778 US cents (0.5 Russian roubles).

The number of unissued authorised ordinary shares is 1,730 million (31 December 2010: 1,500 million) with a nominal value per share of 1.553 US cents (0.5 Russian roubles (31 December 2010: 0.5 Russian roubles)). All shares stated in the table above have been issued and fully paid.

Treasury shares. As of 31 December 2011 treasury shares comprise 24,919,729 ordinary shares of the Company (31 December 2010: 24,868,944) owned by LLC Kama, a wholly owned subsidiary of the Group, and 49,521,048 ordinary shares of the Company (31 December 2010: nil) owned by Enterpro Services Ltd., a wholly owned subsidiary of the Group, and 11,453,502 ordinary shares of the Company (31 December 2010: nil) owned by LLC IK Silvinit-Resource, a wholly owned subsidiary of the Group, with a nominal value per share of 1.553 US cents (0.5 Russian roubles) (Note 7). 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.

19 Shareholders’ equity (continued)

For the year ended 31 December 2011 treasury shares comprising 121,229 ordinary shares of the Company were bought back by the Company. The Company does not accrue dividends on these treasury shares.

Profit distribution. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves. 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 2011, the current period net statutory profit for the Company, as reported in the published annual statutory reporting forms, was US$ 1,448,567 (for the year ended 31 December 2010: US$ 476,596) and the closing balance of the accumulated profit including the current period net statutory profit totalled US$ 2,466,993 (31 December 2010: US$ 1,461,008). 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.

In 2011 the Board of Directors approved a new dividend policy which allows the Company to distribute, as dividends, not less than 50% of net profit, as determined in the IFRS consolidated financial statements, at least twice a year. This policy is applicable provided it does not contradict the above.

Dividends. In December 2011 the General Meeting of Shareholders of the Company approved interim dividends amounting to US$ 397,335 (13 US cents per share).

In June 2011 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2010) amounting to US$ 498,670 (16 US cents per share).

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 US$ 115,791 (5 US cents per share).

The total amount of dividends attributable to treasury shares has been eliminated. All dividends are declared and paid in Russian Roubles.

20 Provisions

	Note	Legal provision	Provision for filling cavities	Restructuring provision	Total
Carrying amount at 1 January 2010		**-**	**-**	**-**	**-**
Carrying amount at 31 December 2010		**-**	**-**	**-**	**-**
Carrying amount at 1 January 2011		**-**	**-**	**-**	**-**
Additions through acquisition of subsidiaries	6	60,528	58,812	-	119,340
Additions charged to profit or loss		-	5,417	20,334	25,751
Utilisation of provision		-	(10,016)	-	(10,016)
Effect of translation to presentation currency		(7,659)	(7,606)	(1,772)	(17,037)
Current liabilities		**52,869**	**8,639**	**4,775**	**66,283**
Non-current liabilities		**-**	**37,968**	**13,787**	**51,755**
Carrying amount at 31 December 2011		**52,869**	**46,607**	**18,562**	**118,038**

Legal provision. In January 2011 A.G. Lomakin filed a claim in the Perm Territory Arbitrage (Commercial) Court against OJSC Silvinit and CJSC Komputersher Registrator (a company that kept the share register of OJSC Silvinit) seeking compensation of damages in the amount of US$ 60,528. A.G. Lomakin claims that shares of OJSC Silvinit belonging to him were unlawfully transferred from his account in the register without his consent. After the merger the Company became OJSC Silvinit’s legal successor.

The Company’s management estimates the possibility of a negative outcome as “probable” and accordingly has recognised a provision in respect of this risk in the full amount of the claim. In case of an adverse outcome, the Company will be seeking to receive compensation from the share registrar.

Provision for filling cavities. A provision of US$ 46,607 (31 December 2010: nil) is recorded in respect of the Group’s obligation to replace the earth extracted from the mines.

20 Provisions (continued)

A technical program for mining operations was agreed with the local state mine supervisory body in 1997-1998. Based on this framework program, the Group prepares annual mining plans and agrees them with the local state mine supervisory body.

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

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

Restructuring provision. The Board of Directors has decided to abandon the ore-treatment plant and carnallite plant at Berezniki 1. The decision to abandon the plants was driven by the lack of the raw materials base due to the flooding of the Mine 1. This will allow the Company to reduce operational costs. The Company ceased production at the plants at the end of 2011 and begin dismantling them. The dismantling is expected to be completed in 2018.

The Group also wrote off fixed assets of the closed plants (Note 9).

21 Mine flooding

	Note	2011	2010
Carrying amount at 1 January		**32,811**	**33,064**
Additions charged to profit or loss	5, 33	16,979	-
Utilisation of provision		(17,551)	-
Effect of translation to presentation currency		(1,179)	(253)
Carrying amount at 31 December		**31,060**	**32,811**

22 Borrowings

	2011	2010
Bank loans	3,282,071	369,230
Long-term company loans	1,449	1,477
Finance lease payable	15,730	16,636
Total borrowings	**3,299,250**	**387,343**

As of 31 December 2011 and 31 December 2010 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. The Group entered into cross-currency interest rate swap agreements in order to decrease interest rate payments (Note 24).

	2011	2010
Balance as of 1 January	**369,230**	**445,143**
Bank loans received, denominated in US$	1,425,000	401,700
Bank loans received, denominated in RR	1,709,676	-
Bank loans repaid, denominated in US$	(1,438,272)	(463,295)
Bank loans repaid, denominated in RR	(5,627)	(15,449)
Interest accrued	104,919	15,125
Interest paid	(97,063)	(15,252)
Recognition of syndication fees	(39,319)	(3,643)
Acquisition of subsidiaries (Note 6)	1,328,594	-
Amortisation of syndication fees	4,619	4,114
Capitalisation of syndication fees	16,703	-
Foreign exchange loss	237,798	1,106
Effect of translation to presentation currency	(334,187)	(319)
Balance as of 31 December	**3,282,071**	**369,230**

The table below provides interest rates as of 31 December 2011 and 31 December 2010 and the split of the bank loans into short- and long-term.

22 Borrowings (continued)

Short-term borrowings

	Interest rates	2011	2010
Bank loans in US$: floating interest	From 1 month Libor +1.8% to 1 month Libor +3.5% (2010: from 1 month Libor +1.6% to 1 month Libor +3.5%)	92,838	84,950
Bank loans in RR: floating interest	From MosPrime Rate 3M+1.5% to MosPrime Rate 3M+1.9% (2010: nil)	178,619	-
Bank loans in RR: fixed interest	From 7.3% to 10.0% (2010: nil)	10,638	-
Total short-term bank loans		**282,095**	**84,950**

Long-term borrowings

	Interest rates	2011	2010
Bank loans in US$: floating interest	From 1 month Libor +1.8% to 1 month Libor +3.5% (2010: from 1 month Libor +3.25% to 1 month Libor +3.5%)	1,584,113	284,280
Bank loans in RR: floating interest	From MosPrime Rate 3M+1.5% to MosPrime Rate 3M+1.9% (2010: nil)	370,177	-
Bank loans in RR: fixed interest	From 7.3% to 10.0% (2010: nil)	1,045,686	-
Total long-term bank loans		**2,999,976**	**284,280**

US$ denominated bank loans bear a weighted average interest of 4.04% (31 December 2010: 3.40%).

As of 31 December 2011 and 31 December 2010, loans (including short-term borrowings) were guaranteed by the collateral of property, plant and equipment (Note 9). As of 31 December 2011, other inventories of US$ 2,353 were pledged as security for bank loans (31 December 2010: nil) (Note 14).

Bank loans of US$ 1,676,950 (31 December 2010: US$ 369,230) 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:

	2011	2010
- within 1 year	282,095	84,950
- between 2 and 5 years	2,999,976	284,280
Total bank loans	**3,282,071**	**369,230**

In December 2009, OJSC BBT entered into a 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 2011, the leased berths were included in property, plant and equipment with a net book value of US$ 17,307 (31 December 2010: US$ 15,290).

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

	2011	2010
- within 1 year	1,522	1,608
- between 2 and 5 years	6,090	6,431
- after 5 years	63,945	69,955
Minimum lease payments at the end of the year	**71,557**	**77,994**
Less future finance charges	(55,827)	(61,358)
Present value of minimum lease payments	**15,730**	**16,636**

23 Bonds issued

In February 2011, the Group issued US$ 1.03 billion 3-year RR-denominated bonds (approx. RR 30 billion) with an annual coupon of 8.25% for the purpose of financing the acquisition of the 20% stake in Silvinit Group (Note 6). Simultaneously with the exchange-traded bond placement, the Company entered into a cross-currency interest rate swap transaction, converting its RR-denominated bond obligations into US$ (Note 24).

On 22 August 2011, the Company bought back all previously issued bonds for US$ 1.06 billion (approx. RR 30.9 billion), which equaled 103% of their nominal value.

Following the bond buyback, the cross-currency interest rate swap transaction was also terminated (Note 24).

24 Derivative financial liabilities

At of 31 December 2011, the derivative financial liabilities were represented by liabilities arising on the cross-currency interest rate swaps accounted for at a fair value of US$ 97,482 entered in conjunction with RR-denominated loans.

During 2011, the Group entered into US$/RR cross-currency interest rate swap agreements in conjunction with bonds issued by the Company (Note 23) and new RR-denominated loan facilities (Note 22). As a result, the Group pays US$ at fixed rates varying from 2.2 to 5.07 and recieves RR at rates of bonds issued and RR-denominated loans (Note 22). Maturity of the swaps is linked to the bonds and loans redemption. Following the bond buyback, the cross-currency interest rate swap transaction was also terminated (Note 23).

Movements of the carrying amount of derivative financial liabilities were as follows:

	Note	2011	2010
Opening balance as at 1 January		**-**	**-**
Cash proceeds from derivatives	32	35,733	-
Cash paid for derivative termination		(43,826)	-
Changes in the fair value	32	114,338	-
Effect of translation to presentation currency		(8,763)	-
Closing balance as at 31 December		**97,482**	**-**

25 Trade and other payables

	2011	2010
Trade payables	66,622	47,938
Accrued liabilities	10,046	5,709
Dividends payable	135,153	1,444
Other payables	18,007	14,503
Total financial payables	**229,828**	**69,594**
Accrued liabilities	22,648	18,276
Advances received	11,530	10,237
Deferred consideration for acquisition of subsidiary	4,317	4,594
Other payables	24,572	11,779
Total trade and other payables	**292,895**	**114,480**

26 Revenues

	2011	2010
Export		
Potassium chloride	2,186,959	1,090,294
Potassium chloride (granular)	894,768	456,493
Domestic		
Potassium chloride	322,851	101,846
Other	37,640	8,729
Transportation and other revenues	**53,671**	**41,996**
Total revenues	**3,495,889**	**1,699,358**

27 Cost of sales

	Note	2011	2010
Depreciation	9	219,083	103,151
Labour costs	30	180,508	95,192
Amortization of licences	11	128,178	12
Fuel and energy		126,177	73,914
Materials and components used		115,610	65,811
Cost of finished goods acquired in a business combination	6	67,515	-
Repairs and maintenance		65,098	44,697
Transportation between mines by railway		11,493	10,968
Utilities		808	428
Change in provision for filling cavities	20	(5,417)	-
Change in work in progress, finished goods and goods in transit		(24,327)	(5,896)
Other costs		3,472	1,384
Total cost of sales		**888,198**	**389,661**

27 Cost of sales (continued)

Expenses of US$ 5,775 (for the year ended 31 December 2010: US$ 4,084) relating to transportation of ore between mines by automotive transport were incurred by CJSC Autotranskali, a 100% subsidiary of the Group, and are mainly represented by labour costs, materials and components used and fuel and energy costs.

Costs of finished goods acquired in a business combination represent the fair value of finished goods received in a business combination (Note 6) and sold during the reporting period.

28 Distribution costs

	Note	2011	2010
Freight		196,950	193,744
Railway tariff		298,908	152,538
Transport repairs and maintenance		35,806	19,071
Transhipment		31,841	15,679
Depreciation		12,740	9,420
Labour costs	30	9,267	8,004
Commissions		7,626	6,686
Customs fees		3,977	2,420
Travel expenses		841	4,578
Other costs		33,050	10,097
Total distribution costs		**631,006**	**422,237**

29 General and administrative expenses

	Note	2011	2010
Labour costs	30	107,223	98,025
Consulting, audit and legal services		28,146	10,178
Depreciation	9	10,660	7,477
Repairs and maintenance		7,790	5,632
Security		8,407	4,842
Mine-rescue crew		6,646	3,953
Insurance		6,373	3,096
Travel expenses		3,866	2,503
Amortisation of intangible assets	11	1,860	1,845
Communication and information system services		2,478	1,548
Bank charges		1,864	1,087
Other expenses		34,174	22,431
Total general and administrative expenses		**219,487**	**162,617**

30 Labour costs

	Note	2011	2010
Labour costs – Cost of sales	27	**180,508**	**95,192**
Wages, salaries, bonuses and other compensations		134,113	76,944
Contribution to social funds		40,165	16,963
Post employment benefits	35	6,230	1,285
Labour costs – Distribution costs	28	**9,267**	**8,004**
Wages, salaries, bonuses, other compensations and contribution to social funds		9,267	8,004
Labour costs – General and administrative expenses	29	**107,223**	**98,025**
Wages, salaries, bonuses and other compensations		94,145	88,670
Contribution to social funds		11,067	8,960
Post employment benefits	35	2,011	395
Total labour costs		**296,998**	**201,221**

31 Other operating income and expenses

	Note	2011	2010
Restructuring provision	20	20,334	-
Social cost and charity		16,943	15,547
Property, plant and equipment write-off	9	8,822	-
Loss on disposal of subsidiaries	6	4,344	-
Net loss on disposals of property, plant and equipment		8,250	9,190
Loss/(Gain) on reversal of provision for impairment of receivables	15	2,157	(362)
Gain on sale of Belaruskali goods		(499)	(395)
Gain on sale of Silvinit goods		(656)	-
Income from assignment of accounts receivable and loans issued		(16,077)	-
Other (income)/expenses, net		(5,678)	6,225
Total other operating income and expenses		**37,940**	**30,205**

The Group entered into a sales agreement with BPC for processing the sales of Belaruskali goods through Uralkali Trading SA in 2011 and 2010 respectively, to overcome certain drawbacks in Belarussian export legislation.

The Group entered into a sales agreement with Silvinit Group for processing of sales through BPC in 2011 prior to the acquisition of Silvinit Group.

Income from assignment of accounts receivable and loans issued represents income from the sale of accounts receivable and loans issued which were acquired in the course of acquisition of Silvinit Group (Note 6).

32 Finance income and expense

The components of finance income and expense were as follows:

	Note	2011	2010
Interest income		32,042	5,533
Fair value gain on financial assets at fair value through profit or loss and other investments		11,961	1,515
Dividend income		295	-
Other financial income		4,470	-
Finance income		**48,768**	**7,048**

	Note	2011	2010
Interest expense		49,671	13,969
Finance lease expense		1,650	1,614
Foreign exchange loss		135,862	7,411
Fair value losses on other investments		-	66
Syndication fee	22	4,619	4,114
Fair value loss on derivative financial liabilities	24	150,071	-
Letters of credit fees		2,608	2,042
Loss on early redemption of bonds	23	31,172	-
Finance expense		**375,653**	**29,216**

The interest expense was reduced by the income received from currency-interest rate swap transactions in the total amount of US$ 35,733 (Note 24).

Interest expense in the total amount of US$ 77,458 was capitalised in the cost of property, plant and equipment and intangible assets for the year ended 31 December 2011 (for the year ended 31 December 2010: US$ 955). The capitalisation rate was 5.93% (for the year ended 31 December 2010: 3.49%).

33 Mine flooding costs

Mine flooding costs include costs associated with flooding at Mine 1 (Note 5, 21):

	Note	2011	2010
Monitoring costs		2,582	922
Filling of sinkhole		6,883	-
Change in provision for compensations	5, 21	16,979	-
Total mine flooding costs		**26,444**	**922**

34 Income tax expense

	2011	2010
Current income tax expense	299,591	94,895
Adjustments recognised in the period for current income tax of prior periods	(54,323)	-
Deferred income tax	(93,008)	7,049
Income tax expense	**152,260**	**101,944**

Adjustments recognised in the period for prior year current income tax represent the adjustments for mine flooding costs recognized in 2008 financial statements that became deductable for corporate income tax purposes in 2011.

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

	2011	2010
Profit before income tax	**1,337,345**	**650,500**
Theoretical tax charge at statutory rate of 15.5% (2010: 15.5%)	207,288	100,828
Tax effect of items which are not deductible or assessable for taxation purposes	7,504	5,600
Effect of different tax rates in countries in which the Group operates	(27,244)	(3,854)
Adjustments recognised in the period for current income tax of prior periods	(54,323)	-
Deferred tax recognized on prior period adjustments to current income tax	15,033	-
Other	4,002	(630)
Consolidated tax charge	**152,260**	**101,944**

The majority of the Group companies are located in the Perm region of the Russian Federation and are taxed at rate of 15.5% on taxable profits for 2011 and 2010.

	31 December 2010	Business combination (Note 6)	(Charged)/ credited to profit or loss	Effect on translation to presentation currency	31 December 2011
Tax effects of taxable and deductable temporary differences:					
Property, plant and equipment	(18,211)	(179,068)	(16,212)	25,078	(188,413)
Intangible assets	-	(1,000,962)	9,062	125,872	(866,028)
Investments	(131)	-	2,284	978	3,131
Inventories	(1,805)	(7,356)	38,984	(3,435)	26,388
Borrowings	(689)	-	(4,891)	1,115	(4,465)
Accounts receivable	230	2,909	30,368	(3,910)	29,597
Accounts payable	1,673	1,626	2,963	427	6,689
Tax loss carry forward	2,789	314,810	29,262	(42,544)	304,317
Finance lease	3,314	-	(4)	(164)	3,146
Provision for filling cavities	-	9,383	1,467	(1,315)	9,535
Other	66	1,369	(275)	(2,002)	(842)
Net deferred tax liability	**(12,764)**	**(857,289)**	**93,008**	**100,100**	**(676,945)**
Reflected in the statement of financial position as follows:					
Deferred income tax asset	8,465				39,289
Deferred income tax liability	(21,229)				(716,234)
Deferred income tax liability, net	**(12,764)**				**(676,945)**

The recognised deferred tax asset in respect of tax losses carried forward acquired in the course of business combination represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

34 Income tax expense (continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2010 is:

	31 December 2009	(Charged)/ credited to profit or loss	Charged to Equity	Effect on translation to presentation currency	31 December 2010
Tax effects of taxable and deductable temporary differences:					
Property, plant and equipment	(14,515)	(3,821)	-	125	(18,211)
Investments	(231)	99	-	1	(131)
Inventories	(760)	(1,054)	-	9	(1,805)
Accounts receivable	(132)	362	-	-	230
Accounts payable	1,587	99		(13)	1,673
Borrowings	(827)	132	-	6	(689)
Tax loss carry forward	5,158	(2,339)	-	(30)	2,789
Finance lease	3,339	-	-	(25)	3,314
Disposal of subsidiary	198	-	(198)	-	-
Other	573	(527)	-	20	66
Net deferred tax liability	**(5,610)**	**(7,049)**	**(198)**	**93**	**(12,764)**
Reflected in the statement of financial position as follows:					
Deferred income tax asset	8,105				8,465
Deferred income tax liability	(13,715)				(21,229)
Deferred income tax liability, net	**(5,610)**				**(12,764)**

The Group has not recognised a deferred income tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of US$ 240,425 (31 December 2010: US$ 416,611). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

35 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. Benefits provided to the employees of Silvinit Group acquired during the period (Note 6) are stipulated in the agreement between the Company and Silvinit Group's trade union.

As of 31 December 2011 and 31 December 2010 the net liabilities of the defined benefit plan and other post-employment benefit plans comprised the following:

	2011	2010
Present value of defined benefit obligations (DBO)	**23,944**	**11,583**
Present value of unfunded obligations	23,944	11,583
Unrecognised past service cost	(494)	(2,330)
Post employment benefits obligations	**23,450**	**9,253**

The amount of net expense for the defined benefit pension plans recognised in the consolidated statement of income (Note 30) was as follows:

	2011	2010
Current service cost	1,630	856
Interest cost	863	593
Net actuarial losses (gains) recognised during the year	5,369	(66)
Amortisation of past service cost	379	297
Post employment benefits	**8,241**	**1,680**

35 Post employment benefits obligations (continued)

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

	Note	2011	2010
Present value of defined benefit obligations (DBO) as of 1 January		**11,583**	**10,812**
Service cost		1,630	856
Interest cost		863	593
Actuarial loss/(gain)		5,369	(66)
Liabilities assumed in a business combination	6	12,486	-
Past service cost		(1,506)	461
Benefits paid		(4,085)	(988)
Effect of translation to presentation currency		(2,396)	(85)
Present value of defined benefit obligations (DBO) as of 31 December		**23,944**	**11,583**

As of 31 December 2011 and 2010, respectively, the principal actuarial assumptions for the post-employment benefit plans were as follows:

	2011	2010
Discount rate	8.30%	8.00%
Salary increase	7.71%	8.12%
Inflation	5.60%	6.00%
Benefits increase (fixed-amount)	5.60%	6.00%
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 2011 and 2010, respectively, were as follows:

	2011	2010
Present value of defined benefit obligations (DBO)	23,944	11,583
Deficit in plan	**23,944**	**11,583**
Losses arising of experience adjustments on plan liabilities	7,071	856

36 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 19). The Company has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.

	2011	2010
Net profit	1,184,032	548,424
Weighted average number of ordinary shares in issue (millions)	2,698	2,100
Basic and diluted earnings per share (expressed in US cents per share)	**43.88**	**26.12**

37 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 results 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 monetary 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 12) 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.

37 Contingencies, commitments and operating risks (continued)

i Legal proceedings (continued)

In February 2011 OJSC Acron and several other Silvinit's minority shareholders filed a claim against the Company and Silvinit in the Perm Territory Arbitrage (Commercial) Court seeking to invalidate decisions of the Board of Directors and Extraordinary General Shareholders Meeting of Silvinit held on 4 February 2011, and the merger agreement entered into by the Company and Silvinit. The Perm Territory Arbitrage (Commercial) Court rejected the claim on 31 May 2011. The claimants appealed the decision. On 11 August 2011 the appellate court declined the appeal and reasserted the decision of the Perm Territory Arbitrage (Commercial) Court. The decisions of the Perm Territory Arbitrage (Commercial) Court and the appellate court were reasserted by the Ural District Arbitrage Court on 5 December 2011.

In May 2011 OJSC Acron and several other Silvinit's minority shareholders filed another claim in the Perm Territory Arbitrage (Commercial) Court against the Company, the Inter-district Tax Inspectorate in the Perm Territory and the Federal Service on Financial Markets seeking to invalidate the additional issues of the Company's shares and subsequent merger of Silvinit and the Company, seeking to reinstate Silvinit as a legal entity. The Perm Territory Arbitrage (Commercial) Court rejected the claim on 22 August 2011. The claimants appealed the decision. On 2 November 2011 the appellate court declined the appeal and reasserted the decision of the Perm Territory Arbitrage (Commercial) Court.

Therefore, the existing court decisions regarding OJSC Acron and several other minority shareholders' claims confirmed that Uralkali and Silvinit merger was completed without violation of shareholders' rights, and that such claims have no merit. The Company's management believes the upper courts will support its position with regard to the claims and reassert the existing court decisions.

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. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

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 2011 and 31 December 2010, 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.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of US$ 4,193 (2010: nil) These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

37 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 cities of Berezniki and Solikamsk, state organisations and others.

v Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

vi Capital expenditure commitments

As of 31 December 2011 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 88,195 (31 December 2010: US$ 180,727). As of 31 December 2011, the Group had contractual commitments for the purchase of property, plant and equipment from related parties for US$ 18,815 (31 December 2010: nil).

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 Operating lease commitments

As of 31 December 2011 the Group leased property, plant and equipment. The future minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
Not later than 1 year	2,058	-
Later than 1 year and not later than 5 years	10,289	-
Later than 5 years	5,144	-
Total operating lease commitments	**17,491**	**-**

viii 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 2011 the Group issued guarantees in favour of third parties in the amount of US$ 10 (31 December 2010: US$ 755).

38 Financial risk management

38.1 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 82% 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.

As of 31 December 2011, 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 US$ 173,096 lower/higher (31 December 2010: US$ 14,802 higher/lower), 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.

During 2011 the Group entered into US$/RR cross-currency interest rate swap agreements to partially offset the volatility of its cash flows from any potencial appreciation of the RR against the US$ (Note 23).

(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 22). The Group has interest-bearing assets which are at fixed interest rates (Note 16).

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 2011, if Libor rates on US$ and MosPrime rates on RR denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$ 7,216 (31 December 2010: US$ 3,759) and US$ 1,717 (31 December 2010: nil) lower/higher respectively, 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, other financial assets at fair value through profit or loss, 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 – US$ 1,543,559 (31 December 2010: US$ 594,667).

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group is exposed to concentrations of credit risk. As of 31 December 2011 the Group had eighteen counterparties (31 December 2010: eight counterparties) with aggregated receivables balances above US$ 3,106. The total aggregate amount of these balances was US$ 294,675 (31 December 2010: US$ 71,300) or 87% of the gross amount of financial trade and other receivables (31 December 2010: 65%). 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 15). 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 15).

The table below shows the credit quality of cash, cash equivalents and letters of credit balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies (for the cash balances held on accounts in Russia the locally tailored ratings are used) as of 31 December 2011 and 2010, if otherwise not stated in table below:

Rating	**2011**	**2010**
Moody's		
A2	287,141	-
Aaa.ru	216,397	178,201
Aa3	171,466	217,082
Baa2.ru	40,192	16,242
A3	22,516	-
A1	12,026	58,405
Aa1	1,389	-
B1	-	5,480
Aa2	-	12,698
Standard&Poor's		
B+	236,006	-
C	3,152	-
Unrated*	37,763	623
Total	**1,028,048**	**488,731**

* 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.

38 Financial risk management (continued)

38.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Note	Less than 1 year	Between 2 and 5 years	Over 5 years
As of 31 December 2011				
Trade and other payables	25	229,828	-	-
Borrowings		455,509	3,321,634	-
Provisions		66,190	52,227	24,904
Finance leasing	22	1,522	6,090	63,945
Derivative financial liabilities		52,095	24,290	-
As of 31 December 2010				
Trade and other payables	25	69,594	-	-
Borrowings		98,402	312,860	-
Finance leasing	22	1,608	6,431	69,955

38.2 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.

Prior to 2011, the Group monitored capital on a debt to equity ratio basis. This ratio was calculated as the sum of long- and short-term bank borrowings divided by total equity.

Starting from 2011, the Group monitors capital using capital employed ratio calculated as the sum of long- and short-term bank borrowings divided by the sum of long- and short-term bank borrowings and total equity.

The capital employed ratios as of 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	31 December 2010
Total bank borrowings (Note 22)	3,282,071	369,230
Total equity and bank borrowings	11,341,681	2,232,838
Capital employed ratio	**29%**	**17%**

As of 31 December 2011 management has set a level of 30% capital employed ratio as a long-term strategic goal.

39 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.

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 assets and liabilities carried at fair value. Derivatives and other financial assets at fair value through profit or loss are carried on the consolidated statement of financial position at their fair value.

Fair value of corporate bonds and shares was determined based on prices quoted in an active market. Fair values of derivative financial assets and liabilities were determined using valuation technique with inputs observable in markets.

39 Fair value of financial instruments (continued)

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 and other financial 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 22.

40 Events after reporting date

Subsequent to the year end, the Group has begun an internal legal restructuring. The purpose of this is to transfer the research and mining licence for the Polovodovskiy block of the Verkhnekamskoe deposit of potassium and magnesium salts to the parent company Uralkali. This transfer is required to ensure the development and approval of the feasibility study for the Polovodovsky project in compliance with the terms of the licence agreement.