

URALCHEM HOLDING P.L.C.

**Consolidated financial statements
for the year ended 31 December 2010**

URALCHEM HOLDING P.L.C.

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URALCHEM HOLDING P.L.C.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of UralChem Holding P.L.C. and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year ended 31 December 2010, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were approved and signed on 31 March 2011 by:



Victor N. Zorkin
Director



Maksim Kh. Bakov
Chief Financial Officer

Limassol, Cyprus
31 March 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UralChem Holding P.L.C.:

We have audited the accompanying consolidated financial statements of UralChem Holding P.L.C. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of 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

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

As discussed in note 18, the Group was unable to account for its investment in Open Joint Stock Company Perm Mineral Fertilisers using the equity method of accounting in accordance with IAS 28 Investments in Associates. As a result we were unable to satisfy ourselves as to the carrying value of investment in this associate as at 31 December 2010 stated at USD 24,541 thousand (2009: USD 24,578 thousand) and the Group's share of profits of this associate for the year ended 31 December 2010.

Qualified opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of UralChem Holding P.L.C as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow, Russia
31 March 2011

URALCHEM HOLDING P.L.C.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Revenue				
Sales of goods	7	1,318,937	891,725	1,609,773
Other sales	8	70,182	57,348	87,080
Total revenue		1,389,119	949,073	1,696,853
Cost of sales	9	(726,381)	(574,130)	(726,286)
Gross profit		662,738	374,943	970,567
Selling and distribution expenses	10	(321,735)	(265,475)	(290,111)
General and administrative expenses	11	(120,927)	(101,417)	(162,881)
Net loss from derivative financial instruments	38	-	(15,657)	(60,793)
Other operating income	12	5,467	11,685	18,236
Other operating expenses	12	(20,312)	(9,710)	(7,086)
Operating profit/(loss)		205,231	(5,631)	467,932
Interest income	13	1,137	39,198	15,988
Interest expense	14	(150,304)	(156,995)	(92,841)
Other financial expenses		(2,357)	-	-
Impairment of non-current assets	16, 17, 18, 20, 22	(11,147)	(3,622)	(42,895)
Share of profit/(loss) of associates	18	15,952	(1,040)	(131)
Foreign exchange loss from financing activities		(5,646)	(18,128)	(189,756)
Profit/(loss) before tax		52,866	(146,218)	158,297
Income tax	15	(23,300)	49,174	(82,073)
Profit/(loss) for the year		29,566	(97,044)	76,224
Attributable to:				
Shareholders of the parent		33,900	(77,066)	25,124
Non-controlling interests		(4,334)	(19,978)	51,100
		29,566	(97,044)	76,224
Earnings/(loss) per share				
Weighted average number of ordinary shares in issue during the year		175,000,000	21,615,041	10,105
Basic and diluted earnings/(loss) per share (US dollars per share)		0.2	(3.6)	2,486.3

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Profit/(loss) for the year	<u>29,566</u>	<u>(97,044)</u>	<u>76,224</u>
Other comprehensive loss:			
Effect of translation to presentation currency	<u>(2,726)</u>	<u>(21,688)</u>	<u>(82,245)</u>
Other comprehensive loss	<u>(2,726)</u>	<u>(21,688)</u>	<u>(82,245)</u>
Total comprehensive income/(loss) for the year	<u><u>26,840</u></u>	<u><u>(118,732)</u></u>	<u><u>(6,021)</u></u>
Total comprehensive income/(loss) for the year attributable to:			
Shareholders of the parent	31,684	(94,217)	(36,561)
Non-controlling interests	<u>(4,844)</u>	<u>(24,515)</u>	<u>30,540</u>
	<u><u>26,840</u></u>	<u><u>(118,732)</u></u>	<u><u>(6,021)</u></u>

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	31 December 2010	31 December 2009	31 December 2008
ASSETS				
<i>Non-current assets</i>				
Property, plant and equipment	16	638,073	722,938	753,212
Goodwill	17	168,329	169,624	174,611
Intangible assets		11,426	8,158	2,558
Investments in associates	18	34,715	35,304	15,892
Inventories	19	32,704	29,605	31,388
Available-for-sale investments	20	176,530	177,837	187,997
Long-term accounts receivable	23	3,072	-	-
Other financial assets	21	4,833	7,359	142,886
Deferred tax assets	32	72,305	55,153	4,838
		1,141,987	1,205,978	1,313,382
<i>Current assets</i>				
Assets held for sale	22	9,274	-	-
Inventories	19	112,938	101,502	117,510
Trade and other receivables	23	103,115	40,583	29,827
Advances paid and prepaid expenses	24	33,776	28,948	46,266
Income tax receivable		5,482	10,119	14,985
Other taxes receivable	25	54,788	95,306	115,386
Other financial assets	21	1,689	36,973	49,181
Cash and cash equivalents	26	46,410	53,658	118,301
		367,472	367,089	491,456
TOTAL ASSETS		1,509,459	1,573,067	1,804,838
EQUITY AND LIABILITIES				
<i>Capital and reserves</i>				
Share capital	27	1,374	1,374	24
Additional paid-in capital		152,223	152,223	155,204
Foreign currency translation reserve (Accumulated deficit)/		(68,852)	(66,636)	(49,485)
Retained earnings		(262,630)	(259,386)	23,667
Equity attributable to shareholders of the parent		(177,885)	(172,425)	129,410
Non-controlling interests		33,639	73,121	72,867
Total equity		(144,246)	(99,304)	202,277
<i>Non-current liabilities</i>				
Loans and borrowings	28	881,043	887,366	846,121
Obligations under finance leases	29	37,543	43,094	63,671
Trade and other payables	30	8,936	17,628	-
Retirement benefit obligations	31	8,655	7,635	8,798
Deferred tax liabilities	32	43,627	53,879	72,396
		979,804	1,009,602	990,986
<i>Current liabilities</i>				
Loans and borrowings	28	473,263	533,604	470,329
Derivative financial obligations	33	-	-	41,157
Obligations under finance leases	29	10,604	11,500	12,152
Trade and other payables	30	114,911	69,302	51,248
Advances received		56,041	39,705	27,458
Income tax payable		13,782	2,018	303
Other taxes payable	34	5,300	6,640	8,928
		673,901	662,769	611,575
Total liabilities		1,653,705	1,672,371	1,602,561
TOTAL EQUITY AND LIABILITIES		1,509,459	1,573,067	1,804,838

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Operating activities			
Profit/(loss) before tax	52,866	(146,218)	158,297
Adjustments for:			
Depreciation of property, plant and equipment	101,815	97,997	92,501
Amortisation of intangible assets	2,117	2,444	1,184
Change in fair value of derivative financial instruments	-	(38,118)	47,450
Impairment of non-current assets	11,147	3,622	42,895
Compensation of key management personnel paid by shareholders	-	-	45,295
Change in provisions and allowances	20,168	(883)	(699)
Write-down of inventory to net realisable value	2,224	3,965	26,032
Loss on disposal of property, plant and equipment	2,267	4,016	1,762
Foreign exchange loss, net	8,242	9,963	173,365
Share of (profit)/loss of associates	(15,952)	1,040	131
Interest income	(1,137)	(39,198)	(15,988)
Other financial expenses	2,357	-	-
Interest expense	150,304	156,995	92,841
Operating cash flows before working capital changes	336,418	55,625	665,066
(Increase)/decrease in inventory	(16,220)	9,467	(77,517)
(Increase)/decrease in trade and other receivables	(66,314)	(9,784)	2,656
(Increase)/decrease in advances paid and prepaid expenses	(4,660)	15,683	21,261
Decrease/(increase) in other taxes receivable	31,140	15,897	(78,184)
Increase/(decrease) in retirement benefit obligations	1,082	(869)	(1,459)
(Decrease)/increase in trade and other payables	(1,685)	(3,382)	2,165
Increase/(decrease) in advances received	16,267	12,458	(41,342)
(Decrease)/increase in other taxes payable	(996)	(1,942)	2,167
Cash generated from operations	295,032	93,153	494,813
Interest paid	(132,131)	(155,025)	(82,968)
Income tax paid	(27,983)	(8,610)	(146,736)
Net cash generated from/(used in) operating activities	134,918	(70,482)	265,109

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

All amounts are in thousands of US Dollars unless otherwise stated

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Investing activities			
Acquisition of subsidiaries, net of cash acquired	-	-	(355,221)
Acquisition of available-for-sale investments	(38)	(431)	(233,187)
Acquisition of investments in associates	-	-	(18,015)
Deferred consideration received	-	-	3,807
Payments for property, plant and equipment	(47,644)	(162,896)	(132,002)
Proceeds from sale of property, plant and equipment	2,817	3,589	9,774
Payments for intangible assets	(5,459)	(7,929)	(2,395)
Loans issued	(47,743)	(123,194)	(235,622)
Proceeds from repayment of loans issued	69,223	168,177	85,792
Acquisition of promissory note	(35,000)	-	-
Repayment of promissory note	35,000	-	-
Dividends received from associates	16,423	-	-
Interest received	16,602	8,058	3,707
Net cash generated from/(used in) investing activities	4,181	(114,626)	(873,362)
Financing activities			
Proceeds from short-term loans and borrowings	387,996	428,457	1,116,202
Proceeds from long-term loans and borrowings	27,087	32,857	747,287
Repayment of short-term loans and borrowings	(494,198)	(347,498)	(912,055)
Repayment of long-term loans and borrowings	-	(2,773)	(61,085)
Increase of ownership in subsidiaries	(59,913)	(786)	(185,859)
Repayment of principal amounts of finance leases	(6,424)	(6,413)	(5,052)
Dividends paid to non-controlling interests	-	(3,584)	(208)
Proceeds from issue of shares	-	1,350	200
Proceeds from issue of shares by a subsidiary	508	25,547	-
activities	(144,944)	127,157	699,430
Net (decrease)/increase in cash and cash equivalents	(5,845)	(57,951)	91,177
Cash and cash equivalents at the beginning of the year	53,658	118,301	28,908
Effect of exchange rate changes on the balance of cash held in foreign currencies	(1,403)	(6,692)	(1,784)
Cash and cash equivalents at the end of the year	46,410	53,658	118,301

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

All amounts are in thousands of US Dollars unless otherwise stated

The following non-cash transactions were excluded from investing and financing activities:

	<u>Year ended</u> <u>31 December 2010</u>	<u>Year ended</u> <u>31 December 2009</u>	<u>Year ended</u> <u>31 December 2008</u>
Settlement of income tax against VAT	8,761	111	8,297
Net-off of loans issued to the parent company and accounts payable to the parent company for acquisition of an associate	-	110,711	-
Net-off of promissory notes receivable from related parties and accounts payable for purchases of property, plant and equipment	-	3,200	-
Settlement of deferred sales proceeds on disposal of subsidiaries against promissory notes held by related parties and offset against payables to related parties	-	-	(57,989)
Property, plant and equipment acquired under finance leases	-	-	(79,520)
	<u>8,761</u>	<u>114,022</u>	<u>(129,212)</u>

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	Attributable to shareholders of the parent					Non-controlling interests	Total
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)	Total		
Balance as at 1 January 2008		24	104,644	12,200	26,739	143,607	107,525	251,132
Dividends	27	-	-	-	-	-	(5,025)	(5,025)
Profit for the year		-	-	-	25,124	25,124	51,100	76,224
Other comprehensive loss		-	-	(61,685)	-	(61,685)	(20,560)	(82,245)
Total comprehensive (loss)/income for the year		-	-	(61,685)	25,124	(36,561)	30,540	(6,021)
Issuance of additional shares	27	-	200	-	-	200	-	200
Compensation of key management personnel paid by shareholders	35	-	45,295	-	-	45,295	-	45,295
Non-controlling interests arising on business combinations	5	-	-	-	-	-	99,095	99,095
Increase of ownership in subsidiaries acquired by the Group	5	-	-	-	(26,591)	(26,591)	(159,268)	(185,859)
Ownership of subsidiaries transferred from shareholders	5	-	-	-	(1,605)	(1,605)	-	(1,605)
Non-cash contribution from shareholders	20	-	1,714	-	-	1,714	-	1,714
Other transactions with entities under common control		-	3,351	-	-	3,351	-	3,351
Balance as at 31 December 2008		24	155,204	(49,485)	23,667	129,410	72,867	202,277
Loss for the year		-	-	-	(77,066)	(77,066)	(19,978)	(97,044)
Other comprehensive loss		-	-	(17,151)	-	(17,151)	(4,537)	(21,688)
Total comprehensive loss for the year		-	-	(17,151)	(77,066)	(94,217)	(24,515)	(118,732)
Issuance of additional shares	27	1,350	-	-	-	1,350	-	1,350
Increase of ownership in subsidiaries	5	-	-	-	93	93	(879)	(786)
Distribution to shareholders	35	-	-	-	(206,080)	(206,080)	-	(206,080)
Non-controlling interests arising on business combination		-	-	-	-	-	101	101
Increase in non-controlling interests due to additional share issue by a subsidiary	5	-	-	-	-	-	25,547	25,547
Other transactions with entities under common control		-	(2,981)	-	-	(2,981)	-	(2,981)
Balance as at 31 December 2009		1,374	152,223	(66,636)	(259,386)	(172,425)	73,121	(99,304)

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

All amounts are in thousands of US Dollars unless otherwise stated

		Attributable to shareholders of the parent					Non-controlling interests	
	Notes	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total		Total
Balance as at 31 December 2009		1,374	152,223	(66,636)	(259,386)	(172,425)	73,121	(99,304)
Profit/(loss) for the year		-	-		33,900	33,900	(4,334)	29,566
Other comprehensive loss		-	-	(2,216)	-	(2,216)	(510)	(2,726)
Total comprehensive (loss)/income for the year		-	-	(2,216)	33,900	31,684	(4,844)	26,840
Increase of ownership in subsidiaries	5	-	-	-	(22,419)	(22,419)	(37,494)	(59,913)
Increase in non-controlling interests due to additional share issue by a subsidiary		-	-	-	-	-	508	508
Decrease of ownership in subsidiaries	5	-	-	-	913	913	2,348	3,261
Distribution of dividends received from the associate to the shareholders	35	-	-	-	(15,638)	(15,638)	-	(15,638)
Balance as at 31 December 2010		1,374	152,223	(68,852)	(262,630)	(177,885)	33,639	(144,246)

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

1. GENERAL INFORMATION

Organisation

UralChem Holding P.L.C. is a public limited company which was incorporated in Cyprus on 4 May 2006. As at 31 December 2010, the Company was 95.5% owned by CI-Chemical Invest Limited, incorporated in Cyprus. The remaining 4.5% of the Company's shares were held by management. The principal beneficial shareholder of the Company is Mr. Dmitry A. Mazepin. The Company's main office is located at office 249, 28th Oktovriou Street, Lophitis Business Center, 1st floor, Office 101, P.C. Limassol 3035, Cyprus.

Principal business activities

The principal business activities of the Group are the production and distribution of mineral fertilisers. The main products of the Group are nitrogen based, phosphate based and complex fertilisers. The major production facilities of the Group are located in the Moscow, Perm and Kirov regions of the Russian Federation.

Market conditions

The Group was significantly impacted by a dramatic fall in agricultural commodity prices such as corn, wheat and soybeans during the fourth quarter of 2008 that continued into 2009. The decrease in agricultural commodity prices resulted in a decline in demand for nitrogen and phosphate based fertilisers (which are predominantly produced and sold by the Group). The demand for nitrogen and phosphate based fertilisers began to recover in the third quarter of 2009, with the strongest development in nutrient demand recorded in Asia.

Global economic conditions continued to improve during 2010 and had a positive impact on fertiliser markets. The positive outlook in the fertiliser markets has been driven by strong demand for nitrogen and phosphate based fertilisers during the application season in the northern hemisphere. Global market prices for ammonia increased on average by 49.0%, for ammonium nitrate by 35.8% and for diammonium phosphate by 48.0% during the year ended 31 December 2010 in comparison with the year ended 31 December 2009. Urea prices have increased by 15.7% during the same period.

As at 31 December 2010, the Group had a working capital deficiency of USD 306,429 thousand (2009: USD 295,680 thousand; 2008: USD 120,119 thousand). The primary cause of the working capital deficit relates to the Group's short-term loans and borrowings in the amount of USD 473,263 thousand (2009: USD 533,604 thousand; 2008: USD 470,329 thousand) which are repayable within twelve months from the end of the reporting period.

Subsequent to the end of the reporting period, the Group renegotiated the terms of its loan agreements with Raiffeisen Bank and UniCredit Bank that resulted in the postponing of the maturities of the loans in the amount of USD 247,000 thousand from 2011 to 2012 (refer to note 39). In addition to renegotiating existing borrowings, the Group is also in the process of obtaining additional credit facilities. Management believes that the Group will be successful in obtaining these additional credit facilities based on the Group's experience in restructuring its borrowings during 2009 and 2010.

Management believes based on the information discussed above, that the Group will be able to meet its borrowing obligations and that the Group will continue to generate positive operating cash flows.

URALCHEM HOLDING P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

The principal business activities of the Group's major operating entities and effective ownership of the Group are presented below:

Subsidiaries	Principal activity	Location	Effective ownership at 31 December, %		
			2010	2009	2008
UralChem OJSC ^{1,2}	Holding company	Russia	100.0	100.0	100.0
KCCW Mineral Fertiliser Plant* ³	Production of mineral fertilisers	Russia	97.5	98.3	97.7
	Production of mineral fertilisers	Russia	89.9	74.8	74.8
Voskresensk Mineral Fertilisers Trading house UralChem	Sales and marketing	Russia	100.0	100.0	100.0
SIA UralChem Trading ⁴	Sales and marketing	Latvia	100.0	100.0	-
Upravleniye Avtomobilnogo Transporta*	Transportation and logistics	Russia	97.5	98.3	97.7
	Transportation and logistics	Cyprus	100.0	100.0	100.0
UralChem Freight Limited	Transportation and logistics	Russia	100.0	100.0	100.0
SIA Riga Fertiliser Terminal ⁵	logistics	Latvia	51.0	51.0	-
Remontno-Mekhanichesky Zavod*	Industrial services	Russia	97.5	98.3	97.7
KCCW Energy Supply Company*	Industrial services	Russia	97.5	98.3	97.7

* Calculated based on both ordinary and preference shares.

¹ Azot OJSC merged with UralChem OJSC on 14 December 2010; starting from 15 December 2010 is referred to as "Azot branch".

² UralChem Management LLC merged with UralChem OJSC on 13 December 2010.

³ Kirovo-Chepetsk Chemical Works OJSC merged with KCCW Mineral Fertiliser Plant OJSC on 13 December 2010.

⁴ Established during 2009.

⁵ Acquired during 2009

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

URALCHEM HOLDING P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

All amounts are in thousands of US Dollars unless otherwise stated

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

In the current year, the Group has adopted all revised and new Standards and Interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee that are mandatory for adoption in the annual periods beginning on 1 January 2010.

The following new and revised Standards and Interpretations effective for annual periods beginning on 1 January 2010 and adopted in these consolidated financial statements had a material impact on the Group's accounting policies.

IFRS 3 Business Combinations (revised)

The revised standard continues to apply the purchase method to business combinations but with some changes. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the 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. All acquisition-related costs are expensed. This revised standard has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

IAS 27 Consolidated and Separate Financial Statements (revised)

This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in the income statement.

IAS 7 Statements of Cash Flows (amended)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of amendments to IAS 7 has resulted in a change of presentation of cash outflows in respect of increase of ownership in certain Group's subsidiaries without gaining control over them.

Specifically, cash in the amount of USD 59,913 thousand used for the increase of ownership in subsidiaries are included in cash flow from financing activities in the consolidated statement of cash flows. The adoption of the amended standard also resulted in a reclassification of the comparative financial information for the years ended 31 December 2009 and 2008 in the amount of USD 786 thousand and USD 185,859 thousand, respectively.

Standards and Interpretations adopted with no effect on the consolidated financial statements

IFRS 2 Share-Based Payment (amendments)
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (amendments)
IFRS 8 Operating Segments (amendments)
IAS 1 Presentation of Financial Statements (amendments)
IAS 17 Leases (amendments)
IAS 36 Impairment of Assets (amendments)
IAS 38 Intangible Assets (amendments)
IAS 39 Financial Instruments: Recognition and Measurement (amendments)
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 18 Transfers of Assets from Customers

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The adoption of other new and revised Standards and Interpretations effective on or after 1 January 2010 as listed above, had no material impact on these consolidated financial statements.

Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

<u>Standards and Interpretations</u>	<u>Effective on or for annual periods beginning on or after</u>
IFRS 3 Business Combinations (amendments)	1 July 2010
IFRS 7 Financial Instruments: Disclosures (amendments)	1 January 2011
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2013
IAS 1 Presentation of Financial Statements (amendments)	1 January 2011
IAS 12 Income Taxes (amendments)	1 January 2012
IAS 24 Related Party Disclosures (revised)	1 January 2011
IAS 27 Consolidated and Separate Financial Statements (amendments)	1 July 2010
IAS 32 Financial Instruments: Presentation (amendments)	1 February 2010
IAS 34 Interim Financial Reporting (amendments)	1 January 2011
IFRIC 13 Customer Loyalty Programmes (amendments)	1 January 2011
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The impact of adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management anticipates that, except for IFRS 9 Financial Instruments - Classification and Measurement ("IFRS 9"), the adoption of these Standards and Interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial adoption.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. All recognised financial assets that are currently within the scope of IAS 39 Financial Instruments: Recognition and Measurement, will be measured at either amortised cost or fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, except for accounting for investments in associates (refer to note 18).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Other than transactions which were part of the reorganisation of the Group, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to

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the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses, other than acquisitions from entities under common control, are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities

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and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to income statement where such treatment would be appropriate if those interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on acquisition is recognised as an asset and is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or

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more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Common control transactions

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values recognised by the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. The net assets of the subsidiaries and the results of their operations are recognised retrospectively from the date on which control over the subsidiaries was obtained by the transferor.

The cost of assets acquired from entities under common control is measured as the carrying value of the asset given up by the transferor at the date of the transaction. Any difference between the carrying value of the assets acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale at the end of the reporting period. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the earliest period presented. The comparative statement of financial position is not restated for information related to discontinued operations.

Where the discontinued operations was disposed of through a distribution to an entity under common control and ownership, any difference between the consideration received and the carrying value of net assets disposed is recognised directly in equity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding:

- value added tax;
- custom duties; and
- estimated customer returns, rebates and other similar allowances.

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Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

Sales of goods

Revenue from sale of goods comprises revenue from sales of mineral fertilisers, ammonia, explosive grade ammonium nitrate, inorganic acids and other chemical products and is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements.

Other sales

The Group provides the following principal types of services:

- supply of electricity and heat energy;
- construction, repairs and maintenance services; and
- transportation services.

Revenue from contracts to provide services is recognised when the services are rendered.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing – the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which reflects the economic substance of its operations. The functional currency of the Company and other subsidiaries, registered in Cyprus, is the US Dollar

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("USD") or the Euro ("EUR"), while the functional currency of all subsidiaries registered in the Russian Federation is the Russian Rouble ("RUR") and the functional currency of subsidiaries registered in the European Union is EUR.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Management of the Group has chosen to present consolidated financial statements in USD for the convenience of the users of these consolidated financial statements.

The translation from functional currency into presentation currency is performed as follows:

- assets and liabilities are expressed in USD using exchange rates prevailing at the reporting date;
- income and expense items are translated at exchange rates that approximate the exchange rates at the dates of the transactions, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used;
- exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at exchange rates that approximate the exchange rates at the dates of the transactions, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Resulting exchange differences, if any, are presented as effect of exchange rate changes on the balance of cash held in foreign currencies.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to the income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

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Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

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Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Assets held under finance lease arrangements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset. Land is not depreciated.

The estimated useful lives for the major classes of assets are as follows:

Buildings and structures	15-60 years
Machinery, equipment and transport	5-30 years
Other	2-10 years

The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Construction in-progress

Construction in-progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in-progress is reviewed regularly to determine whether its carrying value is fairly stated and an appropriate provision for impairment is made, if necessary.

Intangible assets

Intangible assets, other than goodwill, are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

The estimated useful lives for the major classes of intangible assets are as follows:

Software	1-5 years
Licences	1-20 years
Other	1-20 years

The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, or more frequently when there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss (“FVTPL”);
- available-for-sale investments;
- held-to-maturity investments; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than financial assets designated at FVTPL.

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Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and the performance of which is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gain or loss resulting from re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 37.

Available-for-sale ("AFS") financial assets

Listed and unlisted shares and redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured which are accounted for at cost less any impairment. Fair value of AFS financial assets is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active markets is determined with reference to quoted market prices; and
- the fair value of other AFS financial assets is determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. If, in a subsequent period, the amount of the impairment loss attributable to AFS financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through other comprehensive income and presented in the investment revaluation reserve as an increase in fair value of AFS financial assets.

Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the end of each reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

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Held-to-maturity investments

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any. Interest income is recognised using the effective interest method.

Loans and receivables

Trade receivables, loans issued, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With an exception of AFS equity instruments, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, impairment losses previously recognised through profit and loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income. Impairment losses on AFS equity instruments accounted for at cost are not reversed.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by using the weighted average method. The cost of finished goods and work in progress includes direct costs and the allocation of related production overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are classified into the following specified categories:

- financial guarantee contract liabilities; and
- other financial liabilities.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Provisions and accruals

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social taxes, is recognised as an expense in the period when it is earned.

Defined contribution plan

Subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

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Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period and with immediate recognition of all actuarial gains and losses in the income statement. Past service cost is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- impairment of assets;
- impairment of goodwill;
- allowances for doubtful receivables;
- obsolete and slow-moving raw materials;
- employee benefit obligations; and
- taxation.

Impairment of fixed assets and intangible assets excluding goodwill

Tangible fixed assets and intangible assets are reported at cost, less accumulated depreciation and impairment losses. At the end of each reporting period, the Group determines whether any indicators of impairment exist. If there are any such indicators, the recoverable amount of the assets is calculated and compared to the carrying amount. The excess of the carrying amount over the recoverable amount is recognised as an impairment.

The recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The calculation of value in use requires the Group to make estimates regarding the Group's future cash flows. The estimation of future cash flows involves significant estimates and assumptions regarding the market growth, market demand for the products, profitability of products and discount rates. A critical estimate in the Group's cash flow model is the expected increase in the price of natural gas on the territory of the Russian Federation which is based on the announced government policy on natural gas prices.

Impairment of goodwill

Goodwill is tested for impairment annually, or more frequently when there is an indication that a cash generating unit may be impaired, by comparing the carrying amount of the goodwill to its estimated recoverable amount. An impairment is recorded if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Value in use is determined using discounted cash flow models involving several assumptions. The key assumptions include (i) present value factors used in determining the fair value of the cash-generating units; (ii) projected average revenue growth rates used in the cash-generating unit cash flow model; (iii) projected long-term growth rates used in the derivation of terminal year values; and (iv) the exchange rate used in the cash-generating unit cash flow model. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. Changes in the management's assumptions could materially impact the fair value estimates.

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Allowances for doubtful receivables

Accounts receivable are stated at amortised cost after deducting an allowance for doubtful receivables. The allowance for doubtful receivables is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of allowances for doubtful receivables that may be required.

Obsolete and slow-moving raw materials

Inventories are stated at the lower of cost or net realisable value. Cost is determined by using the weighted average method of accounting. Reserves for excess or obsolete inventory are recorded based on a variety of factors, including product changes and improvements, changes in raw material availability, new product introductions, estimated future demand and market conditions.

In addition, certain finished goods and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the reporting period. The adequacy of the Group's reserves could be materially affected by changes in the supply and demand for products, subsequent changes to prices or costs or regulatory actions.

Employee benefit obligations

The Group's employees participate in pension benefit plans. The costs of pension benefits and related liabilities with respect to the Group's employees participating in defined benefit plans have been determined based upon actuarial computations. The Group records the unfunded status associated with these plans in accordance with the requirements of IAS 19 Employee Benefits and records the actuarially determined pension costs during each period. Pension costs in respect of defined-benefit pension plans primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years.

In calculating the obligation and expense, the Group is required to select certain actuarial assumptions. These assumptions include discount rate, expected salary and pension increases and mortality projection. The assumptions are determined based on current market conditions, historical information and consultation with and input from the Group's actuaries. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost incurred.

Taxation

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Due to a change in estimate, in 2009 the Group recognised a deferred tax asset in the amount of USD 29,573 thousand in respect of tax losses from prior years, which was not recognised in 2008, as the Group did not believe it would be able to offset it in future periods.

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5. BUSINESS COMBINATIONS

Open Joint Stock Company Voskresensk Mineral Fertilisers (“VMF”)

Acquisition of controlling interest in VMF in 2008 by the Group

On 6 June 2008, the Group entered into an agreement to acquire 437,115,724 or 71.7% of the total outstanding ordinary shares of VMF for an aggregate purchase price of USD 380,537 thousand. VMF is an unlisted company, specialising in the production of phosphate based and complex mineral fertilisers, sulphuric and phosphoric acids and other chemical products with its main production facilities located in Voskresensk, Moscow region of the Russian Federation. VMF’s output is intended both for the domestic and export markets. The main products (monoammonium phosphate and diammonium phosphate) are primarily sold in export markets. Other phosphate based and complex fertilisers and chemical products are primarily sold in the domestic market.

The fair values of VMF’s assets, liabilities and contingent liabilities as at 6 June 2008, were as follows:

	Fair value at the date of acquisition
ASSETS	
Property, plant and equipment	325,123
Intangible assets	354
Inventories	42,554
Other financial assets	2,516
Trade and other receivables	17,838
Advances paid and prepaid expenses	24,444
Income tax receivable	5,803
Other taxes receivable	27,998
Cash and cash equivalents	26,010
Total assets	472,640
LIABILITIES	
Loans and borrowings	29,412
Retirement benefit obligations	3,845
Deferred tax liabilities	70,770
Trade and other payables	18,923
Advances received	5,014
Income tax payable	8,628
Other taxes payable	3,583
Total liabilities	140,175
Net assets at the date of acquisition	332,465
Less: Share of net assets attributable to minority shareholders	(99,095)
Group’s share of net assets acquired	233,370
Add: Goodwill arising on acquisition	147,167
Total consideration	380,537
Net cash flow arising on acquisition:	
Cash consideration	(380,537)
Cash and cash equivalents acquired	26,010
Net cash outflow on acquisition of subsidiary	(354,527)

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At the date of acquisition VMF did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these consolidated financial statements.

VMF and its subsidiaries contributed USD 240,841 thousand of revenue and USD 9,508 thousand of loss for the period from 6 June 2008 to 31 December 2008.

Goodwill arising on the acquisition of VMF relates to the benefits of expected synergy, revenue growth and cost saving, future market development and the assembled workforces of the acquired entities. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Pro-forma condensed consolidated income statement data (unaudited)

The potential effect of the acquisition of VMF on the results of the Group's operations, as if this subsidiary was acquired on 1 January 2008, is analysed as follows:

	Year ended 31 December 2008 (unaudited)
Revenue from continuing operations	1,919,776
Profit before tax from continuing operations	183,654
Profit for the year from continuing operations	91,500

These unaudited pro-forma amounts are provided for illustrative purposes only and do not present the results of operations of the Group had the transactions assumed therein occurred on or as at the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future. This pro-forma information does not present the actual result of operations of the Group.

In determining the pro-forma revenue and profit for the year of the Group had VMF been acquired on 1 January 2008, the Group has calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising from the initial accounting for the business combination.

Increase of ownership interest in VMF in 2008 by the Group

During the period since 6 June 2008 to 31 December 2008, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 3.1% of VMF's shares for a total cash consideration of USD 14,073 thousand, increasing its ownership in the company to 74.8%. The carrying value of VMF's net assets as at the dates when the shares were acquired ranged from USD 262,975 thousand to USD 323,107 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 9,136 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 4,937 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

Increase of ownership interest in VMF in 2009 by the Group

During the year ended 31 December 2009, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 0.005% of VMF's shares for a total cash consideration of USD 64 thousand, increasing its ownership in the company to 74.8%. The carrying value of VMF's net assets at the dates when the shares were acquired ranged from USD 192,787 thousand to USD 194,688 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 14 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 50 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

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Additional share issue by VMF in 2009

During the year ended 31 December 2009, VMF issued additional ordinary shares in the amount of USD 99,647 thousand. The Company purchased additional shares in proportion to its existing shareholding in VMF in the amount of USD 74,100 thousand. The proportion of the share issue that was purchased by the new investors in the amount of USD 25,547 thousand was accounted for as an increase in non-controlling interests in these consolidated financial statements.

Increase of ownership interest in VMF in 2010 by the Group

During the year ended 31 December 2010, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 15.1% of VMF's shares for a total cash consideration of USD 58,505 thousand, increasing its ownership in the company to 89.9%. The carrying value of VMF's net assets at the dates when the shares were acquired ranged from USD 238,001 thousand to USD 266,890 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 36,410 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 22,095 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

Open Joint Stock Company Kirovo-Chepetsk Chemical Works ("KCCW")

Increase of ownership interest in KCCW in 2008 by the Group

During the year ended 31 December 2008, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 20.3% of KCCW's shares for a total cash consideration of USD 90,635 thousand, increasing its ownership in the company to 97.7%. The carrying value of KCCW's net assets as at the dates when the shares were acquired ranged from USD 287,839 thousand to USD 402,875 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 71,252 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 19,383 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

Increase of ownership interest in KCCW in 2009 by the Group

During the year ended 31 December 2009, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 0.6% of KCCW's shares for a total cash consideration of USD 722 thousand, increasing its ownership in the company to 98.3%. The carrying value of KCCW's net assets at the dates when the shares were acquired ranged from USD 104,153 thousand to USD 152,414 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 865 thousand. The excess of the Group's share in net assets acquired over the consideration paid of USD 143 thousand was recognised directly in the statement of changes in equity as an increase in retained earnings.

Increase of ownership interest in KCCW in 2010 by the Group

During the year ended 31 December 2010, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 0.5% of KCCW's shares for a total cash consideration of USD 1,408 thousand, increasing its ownership in the company to 98.8%. The carrying value of KCCW's net assets at the dates when the shares were acquired ranged from USD 166,052 thousand to USD 229,288 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 1,084 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 324 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

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Decrease of ownership interest in KCCW in 2010 by the Group

During the year ended 31 December 2010, the Group sold a 1.3% interest in KCCW, or 17,000 ordinary shares, to third parties for a total consideration of USD 3,261 thousand, decreasing its ownership in the company to 97.5%. The total consideration receivable was outstanding as of 31 December 2010 and was recorded as other receivables in these consolidated financial statements. The carrying value of KCCW's net assets at the dates when the shares were sold ranged from USD 186,589 thousand to USD 229,288 thousand. As a result of these transactions, the Group recognised an increase in net assets attributable to non-controlling interest in the amount of USD 2,348 thousand. The excess of the consideration received over the Group's share in net assets sold of USD 913 thousand was recognised directly in the statement of changes in equity as an increase in retained earnings.

Open Joint Stock Company Azot, Berezniki ("Azot")

Increase of ownership interest in Azot in 2008 by the Group

During the year ended 31 December 2008, the Group acquired, through a number of transactions with non-controlling shareholders, an additional 21.3% of Azot's shares for a total cash consideration of USD 81,151 thousand, increasing its ownership in the company to 100.0%. The carrying value of Azot's net assets as at the dates when the shares were acquired ranged from USD 281,264 thousand to USD 429,078 thousand. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interest in the amount of USD 78,880 thousand. The excess of the consideration paid over the Group's share in net assets acquired of USD 2,271 thousand was recognised directly in the statement of changes in equity as a decrease in retained earnings.

Other acquisitions in 2008

During the year ended 31 December 2008, the Group acquired 100.0% of Kamskiy mining-and-processing plant from an entity under common control and 100.0% of Limited Liability Company ChemProject from a third party for a total cash consideration of USD 764 thousand. As a result of these transactions, the Group recognised goodwill of USD 632 thousand carried over from the transaction with the entity under common control, and goodwill of USD 142 thousand relating to the acquisition of Limited Liability Company ChemProject from third parties. The difference between the cash consideration paid and the net liabilities assumed as a result of the transaction with the entity under common control of USD 1,605 thousand was recognised as a decrease in retained earnings (refer to note 3 for the Group's accounting policy for common control transactions).

6. SEGMENT INFORMATION

For management purposes the Group is organised into two segments, Nitrogen Fertilisers and Phosphate Fertilisers. Reports reviewed by the Chief Executive Officer (the "chief operating decision maker") that are used to assess performance and allocate resources are prepared on the same basis.

- Nitrogen Fertilisers: The nitrogen fertilisers segment comprises subsidiaries engaged in the production of nitrogen based fertilisers, complex fertilisers, ammonia, inorganic acids and other chemical products. The major subsidiaries and branches allocated to the nitrogen fertilisers segment are KCCW MFP, located in the Kirov region of the Russian Federation, and Azot branch of Uralchem OJSC ("Azot branch"), formerly OJSC Azot (refer to note 1), located in the Perm region of the Russian Federation; and
- Phosphate Fertilisers: The phosphate fertilisers segment comprises subsidiaries engaged in the production of phosphate based fertilisers, complex fertilisers and inorganic acids. The major subsidiary allocated to the phosphate fertilisers segment is VMF, located in the Moscow region of the Russian Federation.

The chief operating decision maker does not regularly review the operating results of other operations, and these operations are not reported as separate operating segments. These other operations contain smaller subsidiaries which engage in a variety of businesses, for example electricity and heat energy generation, construction, repairs and maintenance and processing of waste water.

The profitability of the two operating segments is primarily measured based on OIBDA, which the Group defines as operating profit adjusted for depreciation and amortisation. Since this term is not a standard IFRS measure, the Group's definition of OIBDA may differ from that of other companies. Costs and assets of subsidiaries of

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the Group engaged in transportation, sales and marketing activities are allocated (pro rata volume of services rendered by these companies to the operating segments) to operating segments within management reports reviewed by the chief operating decision maker. Costs and assets of subsidiaries of the Group engaged in other operations are not allocated to operating segments within management reports reviewed by the chief operating decision maker.

Segment information provided to the chief operating decision maker for the reportable segments for the years ended 31 December 2010, 2009 and 2008 is as follows:

Year ended 31 December 2010	Nitrogen fertilisers	Phosphate fertilisers	Total
Revenue from external customers	1,025,333	293,604	1,318,937
Inter-segment revenue	32,821	413	33,234
Total segment revenue	1,058,154	294,017	1,352,171
OIBDA	335,672	19,180	354,852
Interest income	2,450	413	2,863
Interest expense	(39,531)	(1,787)	(41,318)
Other financial expenses	(1,610)	(713)	(2,323)
Impairment of non-current assets	(7,374)	(3,773)	(11,147)
Depreciation and amortisation	(55,143)	(44,560)	(99,703)
Income tax (expense)/benefit	(35,359)	6,031	(29,328)
Year ended 31 December 2009	Nitrogen fertilisers	Phosphate fertilisers	Total
Revenue from external customers	775,583	116,142	891,725
Inter-segment revenue	1,673	2,807	4,480
Total segment revenue	777,256	118,949	896,205
OIBDA	178,083	(34,518)	143,565
Interest income	19,489	3,508	22,997
Interest expense	(38,199)	(5,085)	(43,284)
Net loss from derivative financial instruments	(15,657)	-	(15,657)
Depreciation and amortisation	(51,814)	(44,095)	(95,909)
Income tax (expense)/benefit	(16,831)	15,021	(1,810)
Year ended 31 December 2008	Nitrogen fertilisers	Phosphate fertilisers	Total
Revenue from external customers	1,379,546	230,227	1,609,773
Total segment revenue	1,379,546	230,227	1,609,773
OIBDA	609,897	15,460	625,357
Interest income	42,042	285	42,327
Interest expense	(30,812)	(2,500)	(33,312)
Impairment of non-current assets	-	(40,240)	(40,240)
Net loss from derivative financial instruments	(60,793)	-	(60,793)
Depreciation and amortisation	(57,310)	(30,098)	(87,408)
Income tax (expense)/benefit	(92,691)	14,332	(78,359)

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

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The total reportable segment revenue is reconciled to consolidated revenue as follows:

Year ended 31 December 2010	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment revenue	1,058,154	294,017	1,352,171
Inter-segment revenue	(32,821)	(413)	(33,234)
Other revenue			<u>70,182</u>
Total consolidated revenue			<u>1,389,119</u>
Year ended 31 December 2009	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment revenue	777,256	118,949	896,205
Inter-segment revenue	(1,673)	(2,807)	(4,480)
Other revenue			<u>57,348</u>
Total consolidated revenue			<u>949,073</u>
Year ended 31 December 2008	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment revenue	1,379,546	230,227	1,609,773
Other revenue			<u>87,080</u>
Total consolidated revenue			<u>1,696,853</u>

During the year ended 31 December 2010, the Nitrogen Fertilisers segment and Phosphate Fertilisers segment earned approximately USD 147,357 thousand of revenue from operations with a single customer, which constituted more than 10.0% of the Group's consolidated revenue.

During the year ended 31 December 2009, there was no single customer which constituted more than 10.0% of the Group's consolidated revenue.

During the year ended 31 December 2008, the Nitrogen Fertilisers segment earned approximately USD 196,011 thousand of revenue from operations with a single customer, which constituted more than 10.0% of the Group's consolidated revenue.

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The total reportable segment OIBDA is reconciled to consolidated profit/ (loss) before tax as follows:

Year ended 31 December 2010	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	<u>335,672</u>	<u>19,180</u>	<u>354,852</u>
Unallocated operating activity			
Depreciation and amortisation			(103,932)
Corporate overheads			(44,922)
Other			(44,175)
Inter-segment operations			<u>43,408</u>
Group operating profit			205,231
Interest income			1,137
Interest expense			(150,304)
Other financial expenses			(2,357)
Impairment of non-current assets			(11,147)
Share of profit of associates			15,952
Foreign exchange loss from financing activities			<u>(5,646)</u>
Group profit before tax			<u>52,866</u>
Year ended 31 December 2009	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	<u>178,083</u>	<u>(34,518)</u>	<u>143,565</u>
Unallocated operating activity			
Depreciation and amortisation			(100,441)
Corporate overheads			(36,608)
Other			(38,995)
Inter-segment operations			<u>26,848</u>
Group operating loss			(5,631)
Interest income			39,198
Interest expense			(156,995)
Impairment of non-current assets			(3,622)
Share of loss of associates			(1,040)
Foreign exchange loss from financing activities			<u>(18,128)</u>
Group loss before tax			<u>(146,218)</u>

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Year ended 31 December 2008	Nitrogen fertilisers	Phosphate fertilisers	Total
Segment OIBDA	609,897	15,460	625,357
Unallocated operating activity			
Depreciation and amortisation			(93,685)
Corporate overheads			(84,092)
Other			(11,999)
Inter-segment operations			32,351
Group operating profit			467,932
Interest income			15,988
Interest expense			(92,841)
Impairment of non-current assets			(42,895)
Share of loss of associates			(131)
Foreign exchange loss from financing activities			(189,756)
Group profit before tax			158,297

Refer to notes 16, 17, 18, 20, 22 for details of impairment of non-current assets.

Sales between segments are carried out at market prices. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the income statement.

Total reportable segment assets are reconciled to consolidated assets as follows:

As of 31 December 2010	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment assets	793,932	355,022	1,148,954
Deferred tax assets			72,305
Current tax assets			5,482
Corporate assets			247,722
Other			97,955
Inter-segment assets			(62,959)
Total consolidated assets			1,509,459
As of 31 December 2009	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment assets	806,213	377,758	1,183,971
Deferred tax assets			55,153
Current tax assets			10,119
Corporate assets			265,845
Other			95,396
Inter-segment assets			(37,417)
Total consolidated assets			1,573,067

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As of 31 December 2008	Nitrogen fertilisers	Phosphate fertilisers	Total
Total segment assets	1,294,010	436,983	1,730,993
Deferred tax assets			4,838
Current tax assets			14,985
Corporate assets			409,536
Other			42,111
Inter-segment assets			(397,625)
Total consolidated assets			1,804,838

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

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

Additions to non-current assets excluding deferred tax assets, financial instruments and post-employment benefits are as follows:

	Nitrogen fertilisers	Phosphate fertilisers	Total
Year ended 31 December 2010	42,761	11,004	53,765
Year ended 31 December 2009	44,367	12,214	56,581
Year ended 31 December 2008	179,101	25,143	204,244

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

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

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7. SALES OF GOODS

Year ended 31 December 2010	<u>Total</u>	<u>Export</u>	<u>Russian Federation</u>	<u>Other CIS countries</u>
Mineral fertilisers				
Nitrogen based fertilisers	648,356	448,343	146,617	53,396
Phosphate based fertilisers	244,609	170,117	42,478	32,014
Complex fertilisers	190,691	136,316	36,196	18,179
Ammonia	131,997	127,410	2,686	1,901
Explosive grade ammonium nitrate	50,955	6,188	39,758	5,009
Inorganic acids	19,298	-	19,298	-
Other chemical products	33,031	3,052	29,002	977
Total	<u>1,318,937</u>	<u>891,426</u>	<u>316,035</u>	<u>111,476</u>
Year ended 31 December 2009				
Mineral fertilisers				
Nitrogen based fertilisers	506,472	376,073	89,305	41,094
Complex fertilisers	154,552	114,267	27,361	12,924
Phosphate based fertilisers	51,773	40,116	11,598	59
Ammonia	93,835	89,611	3,657	567
Explosive grade ammonium nitrate	43,646	12,366	27,737	3,543
Inorganic acids	17,248	-	17,167	81
Other chemical products	24,199	352	23,157	690
Total	<u>891,725</u>	<u>632,785</u>	<u>199,982</u>	<u>58,958</u>
Year ended 31 December 2008				
Mineral fertilisers				
Nitrogen based fertilisers	837,235	618,790	163,472	54,973
Complex fertilisers	235,919	220,925	14,401	593
Phosphate based fertilisers	179,754	130,975	3,543	45,236
Ammonia	227,189	216,756	5,454	4,979
Inorganic acids	48,229	20	47,843	366
Explosive grade ammonium nitrate	47,547	17,031	27,378	3,138
Other chemical products	33,900	916	31,146	1,838
Total	<u>1,609,773</u>	<u>1,205,413</u>	<u>293,237</u>	<u>111,123</u>

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8. OTHER SALES

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Electricity and heat energy	41,004	27,775	43,999
Construction, repairs and maintenance services	5,602	5,973	7,606
Processing of waste water	4,268	3,811	3,647
Transportation	3,389	4,916	7,633
Other	15,919	14,873	24,195
Total	70,182	57,348	87,080

Substantially all other sales were made on the territory of the Russian Federation.

9. COST OF SALES

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Raw materials, including:			
Natural gas	232,487	188,631	215,222
Apatite	125,580	50,193	117,946
Potassium chloride	17,563	24,336	11,886
Sulphur	15,004	4,317	38,691
Other raw materials	50,204	43,799	78,671
Energy and utilities	106,286	83,024	104,640
Depreciation	81,324	79,022	73,799
Wages and salaries	67,090	59,354	70,970
Social taxes	16,557	14,071	17,183
Repairs and maintenance	5,213	4,740	9,994
(Increase)/decrease in inventory balance of work in-progress and finished goods	(9,119)	5,092	(34,399)
Other	18,192	17,551	21,683
Total	726,381	574,130	726,286

10. SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Transportation, including:			
Railway tariff	128,474	103,552	105,328
Freight and transshipment	103,766	73,509	105,164
Rail cars rent expenses	18,858	21,101	22,981
Other transportation expenses	13,420	15,928	13,629
Wages and salaries	13,863	9,713	7,709
Depreciation	11,365	10,140	9,635
Advertising and marketing	9,456	11,140	3,328
Customs clearance charges	2,525	3,120	6,427
Social taxes	2,307	1,770	1,425
Commissions and agent fees	1,610	437	1,328
Other	16,091	15,065	13,157
Total	321,735	265,475	290,111

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11. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	53,216	43,298	96,708
Audit, legal and consulting services	12,200	7,792	9,169
Depreciation	9,126	8,835	9,067
Social taxes	7,211	6,375	6,911
Rent	3,760	3,135	4,622
Security	3,575	3,641	5,488
Bank charges	1,824	4,084	6,275
Fines and penalties	1,168	2,862	3,757
Other	28,847	21,395	20,884
Total	120,927	101,417	162,881

12. OTHER OPERATING INCOME AND EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Other operating income			
Gain on disposal of assets	408	-	-
Foreign exchange gain on operating activities	-	8,165	16,391
Other income	5,059	3,520	1,845
Total	5,467	11,685	18,236
Other operating expenses			
Provision for unfavorable court decision	7,807	-	-
Research expenses	4,503	4,992	-
Foreign exchange loss on operating activities	2,596	-	-
Loss on disposal of assets	-	2,451	3,076
Other expenses	5,406	2,267	4,010
Total	20,312	9,710	7,086

13. INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest on loans issued and deposits	1,137	20,704	13,456
Effect of change in finance lease rates (refer to note 29)	-	14,833	-
Effect of discounting of long-term accounts payable	-	3,661	-
Unwinding of discount on deferred sales proceeds on disposal of subsidiaries	-	-	2,532
Total	1,137	39,198	15,988

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14. INTEREST EXPENSE

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest on loans and borrowings	144,033	150,440	87,536
Interest on obligations under finance leases	6,271	6,555	5,305
Total	150,304	156,995	92,841

15. INCOME TAX

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	50,814	14,613	130,189
Deferred tax benefit	(40,412)	(63,787)	(31,963)
Effect of changes in income tax rate due to the reorganisation of the Group	12,898	-	-
Effect of changes in statutory income tax rates	-	-	(16,153)
Total	23,300	(49,174)	82,073

During the years ended 31 December 2010, 2009 and 2008 the corporate income tax rate applicable to the Company, which is registered in Cyprus, was 10.0%. The corporate income tax rates applicable to the Group's subsidiaries incorporated in the Russian Federation, the primary location of the Group's production entities, varied from 15.5% to 20.0% during the years ended 31 December 2010 and 2009, and varied from 20.0% to 24.0% during the year ended 31 December 2008.

In 2008, the Government of the Russian Federation enacted a change in the Russian corporate income tax rate from 24.0% to 20.0% (and from 20.0% to 15.5% in some regions of the Russian Federation). The new corporate income tax rates became effective from 1 January 2009, and deferred tax balances of all of the Group's subsidiaries registered on the territory of the Russian Federation have been re-measured as of 31 December 2008, accordingly.

On 14 December 2010, OJSC Azot, located in the Perm region of the Russian Federation merged with OJSC Uralchem registered in Moscow (refer to note 1). As at 31 December 2010, tax rates applicable to companies registered in the Perm region of the Russian Federation and Moscow were 15.5% and 20%, respectively. After completion of the merger of OJSC Azot with OJSC Uralchem, the effective income tax rate applicable to the combined entities approximated 15.6%. Previously recognised deferred tax balances were recalculated using this rate and the changes in deferred tax balances were accounted for as an effect of changes in income tax rate due to the reorganisation of the Group.

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Reconciliation of the statutory income tax, calculated at the rate effective in Cyprus, where the Company is located, to the amount of actual income tax expense is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Profit/(loss) before tax	52,866	(146,218)	158,297
Income tax calculated at 10%	5,287	(14,622)	15,830
Effect of different tax rates of subsidiaries operating in other jurisdictions	10,707	(18,982)	15,420
Tax effect of bonuses, interest expenses and other expenses that are non-deductible	7,214	14,003	16,078
Deferred taxes arising from transfer of assets between Group companies	(12,806)	-	-
Effect of changes in income tax rate due to the reorganisation of the Group	12,898	-	-
Effect of previously unrecognised and unutilised tax losses and tax offsets now recognised as deferred tax assets	-	(29,573)	-
Impact of change in income tax rate in the Russian Federation	-	-	(16,153)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	-	41,240
Tax effect of goodwill impairment	-	-	9,658
Income tax at effective income tax rate of 44% (2009: 34%, 2008: 52%)	23,300	(49,174)	82,073

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery, equipment and transport	Other	Construction in progress	Total
Cost					
Balance at 1 January 2008	161,037	313,798	6,224	23,310	504,369
Additions	16,378	113,015	9,735	79,149	218,277
Acquisitions through business combinations	178,041	125,133	18,050	4,136	325,360
Transfers	2,351	28,201	4,532	(35,084)	-
Disposals	(402)	(6,034)	(4,032)	(2,820)	(13,288)
Disposal of subsidiaries	-	-	(199)	(6)	(205)
Effect of translation to presentation currency	(62,920)	(95,351)	(5,589)	(12,743)	(176,603)
Balance at 31 December 2008	294,485	478,762	28,721	55,942	857,910
Additions	5,544	8,727	2,301	82,792	99,364
Transfers	4,973	13,391	3,076	(21,440)	-
Disposals	(853)	(1,881)	(1,140)	(4,852)	(8,726)
Effect of translation to presentation currency	(7,898)	(12,690)	(658)	(1,063)	(22,309)
Balance at 31 December 2009	296,251	486,309	32,300	111,379	926,239
Additions	4,589	14,370	441	28,986	48,386
Transfers	6,985	37,396	1,311	(45,692)	-
Reclassified to assets held for sale (refer to note 22)	(802)	(5,928)	(10)	(11,136)	(17,876)
Disposals	(2,216)	(4,751)	(2,565)	(1,191)	(10,723)
Effect of translation to presentation currency	(2,285)	(3,881)	(255)	(627)	(7,048)
Balance at 31 December 2010	302,522	523,515	31,222	81,719	938,978

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	Buildings and structures	Plant, machinery, equipment and transport	Other	Construction in progress	Total
Accumulated Depreciation and Impairment Losses					
Balance at 1 January 2008	(9,023)	(22,901)	(352)	-	(32,276)
Charge for the year	(22,977)	(67,255)	(2,269)	-	(92,501)
Disposals	155	1,503	94	-	1,752
Disposal of subsidiaries	-	-	117	-	117
Effect of translation to presentation currency	4,845	13,063	302	-	18,210
Balance at 31 December 2008	(27,000)	(75,590)	(2,108)	-	(104,698)
Charge for the year	(25,853)	(68,920)	(3,224)	-	(97,997)
Disposals	245	709	167	-	1,121
Effect of translation to presentation currency	(480)	(1,164)	(83)	-	(1,727)
Balance at 31 December 2009	(53,088)	(144,965)	(5,248)	-	(203,301)
Charge for the year	(27,503)	(70,791)	(3,521)	-	(101,815)
Reclassified to assets held for sale (refer to note 22)	100	1,121	7	-	1,228
Impairment	(846)	(2,911)	(16)	-	(3,773)
Disposals	1,869	2,475	497	-	4,841
Effect of translation to presentation currency	497	1,351	67	-	1,915
Balance at 31 December 2010	(78,971)	(213,720)	(8,214)	-	(300,905)
Carrying value					
At 31 December 2008	267,485	403,172	26,613	55,942	753,212
At 31 December 2009	243,163	341,344	27,052	111,379	722,938
At 31 December 2010	223,551	309,795	23,008	81,719	638,073

During the year ended 31 December 2010, the Group determined that a group of fixed assets, mainly associated with the ammonia production facility at VMF, was impaired by USD 3,773 thousand. The main factor contributing to the impairment of the ammonia production facility at VMF was the temporary stoppage of the production of ammonia at VMF. Management decided to stop the production of ammonia at VMF until ammonia market prices recover to a level which will ensure profitability of ammonia production at VMF.

During December 2009, the Group acquired commercial real estate property, which is in the final stage of construction, from an entity under common control with the Group for a cash consideration of USD 109,421 thousand. The commercial real estate property represents two floors in an office building located in Moscow.

The commercial real estate property was recorded at cost, which was measured as the carrying value at which the commercial real estate property was recorded by the transferor at the date of the transaction which amounted to USD 45,390 thousand. The carrying value of the commercial real estate property for the transferor comprised historical cost of USD 109,421 thousand less accumulated impairment loss of USD 64,031 thousand. The difference between the cash consideration and the carrying value in the amount of USD 64,031 thousand was recorded in the statement of changes in equity as a distribution to shareholders in accordance with the Group's accounting policy for transactions with entities under common control (refer to note 35).

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As at 31 December 2010, property, plant and equipment included advances paid for acquisition of the property, plant and equipment in the amount of USD 45,914 thousand (2009: USD 55,110 thousand; 2008: USD 18,436 thousand).

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements with third parties. As at 31 December 2010, the net book value of leased machinery, equipment and transport was USD 45,065 thousand (2009: USD 53,542 thousand; 2008: USD 62,357 thousand).

Assets pledged as collateral

The carrying values of property, plant and equipment pledged to secure loans and borrowings granted to the Group were as follows (refer to note 28):

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Machinery, equipment and transport	136,300	183,973	111,597
Buildings and structures	21,433	49,723	1,117
Other	1,276	1,563	493
Total	<u>159,009</u>	<u>235,259</u>	<u>113,207</u>

17. GOODWILL

Cost	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Balance at the beginning of the year	208,715	214,851	113,844
Additional amounts recognised from business combinations occurring during the year	-	-	147,941
Effect of translation to presentation currency	(1,594)	(6,136)	(46,934)
Balance at the end of the year	<u>207,121</u>	<u>208,715</u>	<u>214,851</u>
Accumulated impairment losses			
Balance at the beginning of the year	(39,091)	(40,240)	-
Impairment losses recognised during the year	-	-	(40,240)
Effect of translation to presentation currency	299	1,149	-
Balance at the end of the year	<u>(38,792)</u>	<u>(39,091)</u>	<u>(40,240)</u>
Carrying amount			
At the beginning of the year	<u>169,624</u>	<u>174,611</u>	<u>113,844</u>
At the end of the year	<u>168,329</u>	<u>169,624</u>	<u>174,611</u>

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Allocation of goodwill to cash-generating units

The carrying amount of goodwill was allocated to the following cash-generating units:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Nitrogen Fertilisers	91,494	92,197	94,908
Phosphate Fertilisers	76,189	76,775	79,033
Other	646	652	670
Total	<u>168,329</u>	<u>169,624</u>	<u>174,611</u>

Annual test for impairment

For the purpose of impairment testing, the recoverable amount of the relevant cash-generating unit was assessed by reference to value in use. These calculations use pre-tax cash flow projections based on budgets approved by the Group and covering a five-year period. Cash flows beyond the five-year period are extrapolated by using the expected forecasts stated below. The key assumptions used by management for value in use determination are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Gross margin	10.0-35.0%	15.0-20.0%	20.0-35.0%
Growth rate	3.0%	3.0%	3.0%
Discount rate	14.0%	14.7%	17.3%
Raw materials price inflation	4.1-15.0%	3.0-18.0%	2.0-18.0%
Exchange rate (RUR to 1 USD)	31.0	32.2	36.9

These assumptions have been used for analysis of each cash-generating unit within the Group's nitrogen and phosphate fertilisers segments.

Management determined budgeted gross margin based on past performance and its expectation of the current market development. The gross margin and raw material price inflation ranges relate to a variety of products produced and raw materials consumed by the cash-generating unit, respectively. The weighted average growth rates used are consistent with the forecast included in industry reports.

During the year ended 31 December 2008, the Group determined that goodwill associated with VMF was impaired by USD 40,240 thousand. The main factor contributing to the impairment of the cash generating unit was a decrease in Russian and international phosphate based fertiliser prices by approximately 60.0% during the fourth quarter of 2009. Goodwill associated with VMF is included in the Phosphate Fertilisers segment in note 6.

18. INVESTMENTS IN ASSOCIATES

Details of the Group's associates are as follows:

<u>Name of associate</u>	<u>Principal activity</u>	<u>Effective ownership, %</u>		
		<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Perm Mineral Fertilisers	Production of mineral fertilisers	46.5	46.5	2.2
NPK Karbon-Shungit	Mining and processing	49.7	49.7	49.7
ZhDTsekh	Other services	50.0	50.0	50.0

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Movements in the carrying amount of investments in associates were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Investments in associates – equity method			
Balance at the beginning of the year	10,726	15,892	-
Acquisitions	-	-	18,015
Impairment	-	(3,622)	-
Share of post-acquisition losses	(471)	(1,040)	(131)
Effect of translation to presentation currency	(81)	(504)	(1,992)
Balance at the end of the year	10,174	10,726	15,892
Investments in associates – at cost			
Balance at the beginning of the year	24,578	-	-
Acquisitions	-	19,951	-
Reclassification from AFS due to increase in ownership	-	4,977	-
Effect of translation to presentation currency	(37)	(350)	-
Balance at the end of the year	24,541	24,578	-
Total	34,715	35,304	15,892

Investments in associates – equity method

During the year ended 31 December 2009, the Group recognised an impairment loss on its investment in NPK Karbon-Shungit in the amount of USD 3,622 thousand (2008: nil). The impairment loss is due to a decrease in NPK Karbon-Shungit's manufacturing output and a decrease in shungit prices during 2009. The amount of the impairment loss was measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the rate of 17.3%.

Summarised financial information in respect of the Group's associates accounted for under the equity method:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Total assets	25,834	28,037	39,591
Total liabilities	(5,415)	(6,329)	(7,344)
Net assets	20,419	21,708	32,247
Group's share of net assets of associates	10,174	10,726	15,892

	<u>Year ended 31 December 2010</u>	<u>Year ended 31 December 2009</u>	<u>Year ended 31 December 2008</u>
Revenue	8,548	2,863	6,658
(Loss)/profit for the period	(944)	(2,090)	429
Share of loss of associates	(471)	(1,040)	(131)

Investments in associates – at cost

During the year ended 31 December 2008, the Group acquired 2.2% of Open Joint Stock Company Perm Mineral Fertilisers ("PMF"), which was recorded as an available-for-sale investment.

On 30 December 2009, the Group acquired an additional 44.3% interest in PMF from an entity under common control with the Group for a consideration of USD 162,000 thousand, increasing its ownership in PMF to 46.5%.

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The additional investment was recorded at historic cost, which was measured as the carrying value at which the investment was recorded by the transferor at the date of the transaction which was USD 19,951 thousand. The difference between the consideration and the carrying value was recorded in the statement of changes in equity in accordance with the Group's accounting policy for transactions with entities under common control (refer to note 35).

The Group does not have any information related to the financial position of PMF as at 31 December 2010 and 2009 and its financial results for the years then ended. Thus, it is impracticable for the Group to account for this investment applying equity method and the Group has continued to account for this investment at cost. As at 31 December 2008, the investment in PMF was classified in these consolidated financial statements as available-for-sale (refer to note 20).

PMF is a Russian-based company engaged in the production of nitrogen based mineral fertilisers, whose main operating facilities are located in the Perm region of the Russian Federation.

Dividends received from PMF during the year ended 31 December 2010 in the amount of USD 16,423 thousand are included in share of profits of associates in the consolidated income statement (refer to note 35).

19. INVENTORIES

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Inventories expected to be recovered after twelve months			
Catalytic agents	29,983	25,583	26,272
Other inventories	<u>2,721</u>	<u>4,022</u>	<u>5,116</u>
	<u>32,704</u>	<u>29,605</u>	<u>31,388</u>
Inventories expected to be recovered in the next twelve months			
Raw materials, net of allowance for obsolescence	51,556	48,552	57,505
Finished goods	54,287	37,456	51,905
Work in-progress	6,785	10,311	7,059
Goods for resale	<u>310</u>	<u>5,183</u>	<u>1,041</u>
	<u>112,938</u>	<u>101,502</u>	<u>117,510</u>
Total	<u>145,642</u>	<u>131,107</u>	<u>148,898</u>

During the year ended 31 December 2010, the Group recognised a write down of USD 2,224 thousand to reduce the carrying amount of inventories to net realisable value (2009: USD 3,965 thousand; 2008: USD 26,032 thousand). At 31 December 2010, inventories in the amount of USD 5,526 thousand were stated at net realisable value (2009: USD 18,784 thousand; 2008: USD 37,973 thousand).

At 31 December 2010, raw materials were presented net of allowance for obsolescence of USD 4,902 thousand (2009: USD 4,902 thousand; 2008: USD 5,415 thousand). During the year ended 31 December 2010, the Group recognised USD 1,119 thousand (2009: USD 281 thousand; 2008: USD 1,828 thousand) and released USD 1,119 thousand (2009: USD 794 thousand; 2008: USD 3,325 thousand) of allowance for obsolescence of raw materials.

Certain inventories were pledged to secure bank loans and borrowings granted to the Group, as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Carrying value of pledged inventories (refer to note 28)	38,981	58,492	83,256

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20. AVAILABLE-FOR-SALE INVESTMENTS

At 31 December 2010, available-for-sale investments represent a 9.7% investment in Open Joint Stock Company Togliattiazot ("Togliattiazot") of USD 176,459 thousand (2009: USD 177,779 thousand; 2008: 182,938 thousand) and other available-for-sale investments of USD 71 thousand (2009: USD 58 thousand; 2008: USD 82 thousand). The available-for-sale investment in Togliattiazot is accounted for at cost as the fair value of the investment cannot be reliably measured.

In December 2008, the Group acquired 2.2% interest in PMF from an entity under common control with the Group for a consideration of USD 5,918 thousand. The investment was recorded at cost which was measured as the carrying value at which the investment was recorded by the transferor at the date of the transaction which amounted to USD 7,632 thousand. The difference between the consideration and the carrying value of USD 1,714 thousand was recorded in the statement of changes in equity in accordance with the Group's accounting policy for transactions with entities under common control.

At 31 December 2008, the available-for-sale investment in PMF of USD 4,977 thousand was accounted for at cost as the fair value of the investment could not be reliably estimated.

During the year ended 31 December 2008, the Group recognised an impairment loss on its investment in PMF in the amount of USD 2,655 thousand. The impairment loss was due to a decrease in PMF's manufacturing output and a decrease in Russian and international fertiliser prices. The amount of the impairment loss was measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at a rate of 17.3%.

On 30 December 2009, the Group acquired 44.3% of PMF from an entity under common control. At the date of the transaction, the Group reclassified the 2.2% available-for-sale investment in PMF to investments in associates (refer to note 18, 35).

21. OTHER FINANCIAL ASSETS

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Non-current			
Loans issued, at amortised cost	4,833	7,359	142,631
Other financial assets	-	-	255
	<u>4,833</u>	<u>7,359</u>	<u>142,886</u>
Current			
Loans issued, at amortised cost	583	35,931	41,718
Promissory notes, at amortised cost	429	326	128
Promissory notes of related parties, at amortised cost	349	351	7,086
Other financial assets	328	365	249
	<u>1,689</u>	<u>36,973</u>	<u>49,181</u>
Total	<u>6,522</u>	<u>44,332</u>	<u>192,067</u>

As at 31 December 2010, interest rates on loans issued varied from 6.0% to 17.0% (2009: from 5.0% to 19.5%; 2008: from 6.0% to 14.0%) per annum. As at 31 December 2009 the majority of loans issued were unsecured, USD -denominated and receivable from related parties (refer to note 35).

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22. ASSETS HELD FOR SALE

The Group has decided to stop the development of the Sordinsky Plot at the Vyatsko-Kamsky phosphate deposit and intends to sell the fixed assets which were purchased exclusively for the development of this project. As of 31 December 2010, the net selling price of these assets after deduction of the related costs to sell was estimated at USD 9,274 thousand which is USD 7,374 thousand lower than the original carrying value of these assets prior to their reclassification to assets held for sale. The write down of the assets to their net selling price was recorded as an impairment loss.

23. TRADE AND OTHER RECEIVABLES

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Long-term			
Other receivables	3,072	-	-
	<u>3,072</u>	<u>-</u>	<u>-</u>
Short-term			
Trade receivables	81,761	33,890	24,102
Other receivables	24,991	9,953	9,465
	<u>106,752</u>	<u>43,843</u>	<u>33,567</u>
Less: allowance for doubtful receivables	(3,637)	(3,260)	(3,740)
	<u>103,115</u>	<u>40,583</u>	<u>29,827</u>
Total	<u>106,187</u>	<u>40,583</u>	<u>29,827</u>

The average credit period for the Group's customers varies from 60 to 90 days. During this period no interest is charged on the outstanding balances. The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are outstanding beyond 360 days are generally not recoverable. Before accepting a new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits available to customers are reviewed on an annual basis. As at 31 December 2010, the Group's five largest debtors (individually exceeding more than 5.0% (2009: 4.2%; 2008: 2.9%) of the total current receivables balance) represented 52.6% (2009: 39.9%; 2008: 34.8%) of the outstanding balance of accounts receivable.

Included in the Group's receivables balance at 31 December 2010 are debtors of USD 9,398 thousand (2009: USD 7,810 thousand; 2008: USD 6,492 thousand) which are past due but not impaired. The Group did not hold any collateral over these outstanding balances. The weighted average age of these receivables is 264 days (2009: 348 days; 2008: 176 days).

Movements in the allowance for doubtful receivables were as follows:

	<u>Year ended 31 December 2010</u>	<u>Year ended 31 December 2009</u>	<u>Year ended 31 December 2008</u>
Balance at the beginning of the year	3,260	3,740	440
Recognised in the income statement	1,741	1,498	4,414
Amounts written-off	(892)	(1,862)	(824)
Amounts recovered during the year	(447)	(63)	(88)
Effect of translation to presentation currency	(25)	(53)	(202)
Balance at the end of the year	<u>3,637</u>	<u>3,260</u>	<u>3,740</u>

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24. ADVANCES PAID AND PREPAID EXPENSES

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Advances for transportation services	11,085	3,034	16,012
Advances paid for apatite	6,699	2,733	1,566
Advances paid for supply of natural gas	832	11,522	15,949
Other advances and prepaid expenses	15,160	11,659	12,739
Total	<u>33,776</u>	<u>28,948</u>	<u>46,266</u>

25. OTHER TAXES RECEIVABLE

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Value added tax reimbursable	53,600	94,234	105,559
Other taxes	1,188	1,072	9,827
Total	<u>54,788</u>	<u>95,306</u>	<u>115,386</u>

26. CASH AND CASH EQUIVALENTS

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Current accounts, including:			
USD-denominated	25,405	25,886	23,284
RUR-denominated	8,978	3,378	6,886
EUR-denominated	1,792	8,660	20,473
Bank deposits maturing within three months:			
RUR-denominated	7,927	15,616	61,000
USD-denominated	2,258	65	6,586
Other cash and cash equivalents	50	53	72
Total	<u>46,410</u>	<u>53,658</u>	<u>118,301</u>

At 31 December 2010, interest rates on deposits at UniCredit bank, Bank Vozrozhdenie, Sberbank and VTB bank varied from 1.8% to 5.0% (2009: 0.5% to 4.8%; 2008: 1.0% to 16.5%) per annum.

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27. SHARE CAPITAL

	Number of authorised ordinary shares		Number of issued ordinary shares		Share capital
	Class A	Class B	Class A	Class B	
Balance at 1 January 2008	10,100	-	10,100	-	24
Issue of ordinary shares on 7 July 2008 with par value of EUR 1.71 each at premium of EUR 12.720 each (total premium of USD 200 thousand) - paid in cash	10	-	10	-	-
Balance at 31 December 2008	10,110	-	10,110	-	24
Increase of authorised share capital on 21 October 2009	-	249,989,890	-	-	-
Issue of ordinary shares on 16 November 2009 with par value of EUR 0.00515 each - in exchange for shares in subsidiaries	-	-	-	164,639,890	1,270
Issue of ordinary shares on 17 November 2009 with par value of EUR 0.00515 each - paid in cash	-	-	-	10,350,000	80
Increase of authorised share capital on 20 November 2009	-	110,000,000	-	-	-
Balance at 31 December 2009 and 2010	10,110	359,989,890	10,110	174,989,890	1,374

There were no changes in the share capital of the Company during the year ended 31 December 2010.

Shareholders of Class A and Class B ordinary shares have the same rights, voting powers, preferences and restrictions. Class A ordinary shares have a par value of EUR 1.71 each and Class B ordinary shares have a par value of EUR 0.00515 each.

At 31 December 2010, share capital was fully paid. At 31 December 2009, share capital in the amount of USD 18 thousand (2008: USD 7 thousand) related to 100 Class A shares and 7,848,751 Class B shares (2008: 3,100 Class A shares) remained unpaid.

On 16 November 2009, the Company issued 164,639,890 class B ordinary shares in exchange for 1.0% of UralChem OJSC's ordinary shares which was owned by an entity under common control with the Group. The change in the Company's ownership in UralChem OJSC has been accounted for retrospectively from the date of incorporation of the Company.

Retained earnings and dividends

The statutory financial statements of the Group entities are the basis for the profit distribution and other appropriations.

KCCW, a subsidiary of the Company, declared dividends of USD 182,348 thousand, which were approved at the annual general shareholder meeting on 31 December 2008, of which USD 5,025 thousand was attributable to non-controlling shareholders.

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Earnings/ (loss) per share

Earnings/(loss) per share were calculated by dividing net profit/(loss) attributable to shareholders of the Company for the years ended 31 December 2010, 2009 and 2008 by the weighted average number of ordinary shares in issue during the respective year.

28. LOANS AND BORROWINGS

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Loans denominated in USD	1,163,365	1,149,585	1,063,657
Loans denominated in RUR	190,941	262,955	252,230
Loans denominated in EUR	-	8,165	288
Promissory notes	-	265	275
Total	<u>1,354,306</u>	<u>1,420,970</u>	<u>1,316,450</u>
Less: current portion repayable within twelve months and shown under current liabilities	<u>(473,263)</u>	<u>(533,604)</u>	<u>(470,329)</u>
Long-term portion of loans and borrowings	<u>881,043</u>	<u>887,366</u>	<u>846,121</u>

Loans denominated in USD

In February 2010, the Group reached an agreement with UniCredit Bank to extend the repayment of short-term loans in the amount of USD 200,000 thousand from 2010 to 2011. The average interest rate on the loans increased from 6.1% to 6.3% per annum. The commission for loans restructuring amounted to USD 750 thousand and was included as interest expense in the consolidated income statement. The agreements foresaw that if an initial public offering ("IPO") of UralChem Holding P.L.C. occurred before 31 July 2010 the entire outstanding amount should have become due on 1 March 2011, otherwise, the Group was required to make installments starting from 31 July 2010 with the final payment due on 1 March 2011. In April 2010, the Group decided to postpone the IPO of UralChem Holding P.L.C. and reached agreements with UniCredit Bank to postpone the instalments that were due in 2010. As at 31 December 2010, the total outstanding amount of loan was due in February 2011.

In March 2010, the Group reached an agreement with Raiffeisen Bank to extend the repayment of a short-term loan in the amount of USD 60,000 thousand from 2010 to 2011. The commission for loan restructuring amounted to USD 300 thousand and was included in interest expense in the consolidated income statement. In June 2010, the Group reached an agreement with Raiffeisen Bank to decrease the interest rate from Libor 1m + 9.0% to Libor 1m + 6.5% per annum.

In March 2010, the Group reached an agreement with Sberbank to extend the repayment of USD 65,800 thousand obtained under a revolving credit facility agreement from 2010 to 2011. In accordance with the agreement, the bank provided the Group with a new multi-currency revolving credit facility with a borrowing limit of USD 65,800 thousand. The annual interest rate under this facility is 9.0% as compared to the annual interest rate of 16.0% under the old credit facility. The commission for loan restructuring amounted to 0.5% of the borrowing limit and is included in interest expense in the consolidated income statement.

In August 2010, the Group reached an agreement with the Sberbank to extend the repayment of USD 27,000 thousand obtained under a credit facility agreement from August 2010 to February 2012. In accordance with the agreement, the bank provided the Group with a new revolving credit facility with a borrowing limit of USD 27,000 thousand. The annual interest rate under this facility is Libor 3m + 6.7% as compared to the annual interest rate of 7.5% under the old credit facility. The commission for loan restructuring amounted to 0.6% of the borrowing limit and was included in interest expense in the consolidated income statement.

In September 2010, the Group reached agreements with Sberbank to decrease interest rates on several loans, including:

- loan in the amount of USD 699,933 thousand from 9.0% to Libor 3m+7.4% per annum;
- loan in the amount of USD 65,800 thousand from 9.0% to 7.5% per annum.

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In November 2010, the Group reached an agreement with Sberbank to extend:

- the repayment of the current portion of a long-term loan in the amount of USD 99,933 thousand from May - November 2011 to May 2012. The commission for loan restructuring was USD 6,000 thousand and was capitalised as an offset to the principal amount of the loan. The annual interest rate on this loan remained unchanged;
- the repurchase of 9,452,559 shares of Togliattiazot under REPO agreement, which represent 9.7% of the investee's share capital, in the amount of USD 75,750 thousand, from November 2010 to November 2011. The annual interest rate on this repurchase obligation remained unchanged.

The loans denominated in USD had a weighted average annual interest rate of 8.1% during the year ended 31 December 2010 (2009: 9.7%; 2008: 10.0%) and included the following borrowings:

- USD 84,797 thousand (2009: USD 795,354 thousand; 2008: USD 714,309 thousand) at fixed rates varying from 7.0% to 9.0% (2009: from 7.0% to 11.5%; 2008: from 9.4% to 12.0%) per annum;
- USD 1,002,118 thousand (2009: USD 260,225 thousand; 2008: USD 345,680 thousand) at floating rates linked to Libor 1m and Libor 3m, varying from 6.2% to 7.7% (2009: from 5.2% to 9.2%; 2008: from 5.6% to 9.4%) per annum;
- USD 76,450 thousand (2009: USD 75,914 thousand; 2008: nil) at a fixed REPO rate of 8.0% (2009: 8.0%; 2008: nil) per annum.

The loans denominated in USD are due in the years 2011 to 2013. As at 31 December 2010, USD-denominated loans in the amount of USD 1,144,504 thousand (2009: USD 1,048,268 thousand; 2008: USD 880,029 thousand) are secured by 100.0% of OJSC Uralchem's shares, 74.8% of VMF's shares (2009: 74.8%; 2008: nil), 87.4 % of KCCW MFP's shares (2009: 100%; 2008: nil) and 44.3% of PMF's shares (2009: nil; 2008: nil) held by the Group and certain fixed assets and inventories (refer to notes 16 and 19). As at 31 December 2009 and 2008 these loans were also secured by 100.0% and 14.9% of Azot's shares and by 62.4% and 87.4% of KCCW, correspondingly.

Loans denominated in RUR

In June 2010, the Group reached an agreement with Sberbank to decrease the interest rate on a loan in the amount of USD 157,744 thousand from 16.0% to 13.0% per annum.

In November 2010, the Group reached an agreement with Sberbank to extend the repayment of the current portion of a long-term loan in the amount of USD 67,921 thousand from March - December 2011 to June - September 2012. The annual interest rate on this loan remained unchanged.

Loans denominated in RUR consist of a loan of USD 158,080 thousand (2009: USD 159,375 thousand; 2008: USD 164,123 thousand) that bears interest at a fixed rate of 13.0% (2009: 16.0%; 2008: 12.0%) per annum and is repayable in quarterly instalments starting from 20 June 2012 with the final instalment due on 24 June 2013 and other loans of USD 32,861 thousand (2009: USD 103,580 thousand; 2008: USD 88,107 thousand) that bear interest at fixed rate of 10.0% (2009: from 14.5% to 16.0%; 2008: from 11.3% to 15.5%) per annum and are due in June 2011. The majority of loans are secured by 100.0% of OJSC Uralchem's shares, 74.8% of VMF's shares (2009: 74.8%; 2008: nil), 87.4% of KCCW MFP's shares (2009: 100.0%; 2008: nil) and 44.3% of PMF's shares (2009: nil; 2008: nil) held by the Group and certain fixed assets and inventories (refer to notes 16 and 19). As at 31 December 2009 and 2008 these loans were also secured by 100.0% and 77.0% of Azot's shares and by 62.4% and 87.4% of KCCW, correspondingly.

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Total loans and borrowings were repayable as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due within three months	268,756	166,150	69,901
Due from three to six months	37,399	190,792	145,655
Due from six to twelve months	<u>167,108</u>	<u>176,662</u>	<u>254,773</u>
Total current portion repayable within twelve months	<u>473,263</u>	<u>533,604</u>	<u>470,329</u>
Due in the second year	414,988	199,867	191,421
Due in the third year	466,055	317,142	295,227
Due in the fourth year	<u>-</u>	<u>370,357</u>	<u>359,473</u>
Total long-term portion of loans and borrowings	<u>881,043</u>	<u>887,366</u>	<u>846,121</u>

As at 31 December 2010, the Group's bank loans are subject to restrictive covenants, including but not limited to:

- set-up limits for the total amount of borrowings of certain Group subsidiaries;
- bank approval for any transfer of pledged property;
- set-up limits for the amount of cash collections of certain Group subsidiaries that have to be transferred to the accounts at defined banks; and
- set-up limits for disposal of assets with a carrying value of more than USD 3,306 thousand for OJSC UralChem.

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

The Group breached the covenant stipulated in the loan agreements with one of the banks as at 31 December 2010 and 2009. The amount of loans outstanding as at 31 December 2010 under these agreements was USD 201,128 thousand (2009: USD 200,134 thousand) and was payable within three months. As of 31 December 2010 and 2009, the lender waived his right to request accelerated repayment of the loans. The Group's covenant is waived until the next covenant test date, 31 December 2011. The terms of these loans were renegotiated in February 2011 (refer to note 39).

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29. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain items of machinery, equipment and transport under a number of finance lease agreements (refer to note 16). The average lease term is 111 months. For the year ended 31 December 2010 the weighted average effective annual interest rate was 11.2% (2009: 11.7%; 2008: 12.0%). All leases are on a fixed repayment basis and are predominantly denominated in USD; insignificant part of leases is RUR-denominated. In January and July 2009, the Group amended its finance lease agreements with Brunswick Rail Leasing, reducing the minimum daily lease rates which resulted in a reduction of the carrying amount of the finance lease liabilities. During the year ended 31 December 2009, the Group recognised interest income in the amount of USD 14,833 thousand (refer to note 13) as a result of the reduction in the finance lease liabilities.

	<u>Minimum lease payments</u>			<u>Present value of minimum lease payments</u>		
	<u>31 December</u>			<u>31 December</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Due within one year	11,250	12,264	14,159	10,604	11,500	12,152
Due from two to five years	40,458	43,351	58,431	29,373	31,451	38,263
Due thereafter	17,105	25,513	49,058	8,170	11,643	25,408
	68,813	81,128	121,648	48,147	54,594	75,823
Less: future finance charges	(20,666)	(26,534)	(45,825)	-	-	-
Present value of lease liabilities	48,147	54,594	75,823	48,147	54,594	75,823
Less: amount due for settlement within one year and shown under current liabilities				(10,604)	(11,500)	(12,152)
Total non-current finance lease liabilities				37,543	43,094	63,671

30. TRADE AND OTHER PAYABLES

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Long-term			
Other accounts payable	8,936	17,628	-
	8,936	17,628	-
Short-term			
Trade accounts payable	31,116	14,961	19,512
Other accounts payable	46,789	38,302	9,774
Accrual of performance - based bonuses	12,820	-	-
Provision for unused vacation	8,769	7,150	7,809
Provision for unfavorable court decisions	7,780	-	-
Unpaid salaries	5,421	4,808	5,412
Payables for property, plant and equipment	1,651	3,627	6,814
Accrued expenses	565	454	1,927
	114,911	69,302	51,248
Total	123,847	86,930	51,248

The average credit period on the purchase of inventories and services in the Russian Federation is 67 days (2009: 59 days; 2008: 19 days).

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Long-term other accounts payable represent the amounts payable to the parent company and are repayable within two years. Other short-term accounts payable include the amounts payable to the parent company of USD 42,387 thousand which is due in next twelve months.

The table below summarises the maturity profile of the Group's trade accounts payable and payables for property, plant and equipment based on undiscounted contractual payments:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due within three months	32,372	16,782	12,948
Due from three to six months	120	67	2,248
Due from six to twelve months	275	1,739	11,130
Total	<u>32,767</u>	<u>18,588</u>	<u>26,326</u>

31. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plan

Social taxes for the year ended 31 December 2010 included contributions to the State Pension Fund in the amount of USD 19,994 thousand (2009: USD 16,120 thousand; 2008: USD 18,936 thousand).

At 31 December 2010, outstanding contributions to the State Pension Fund amounted to USD 749 thousand (2009: USD 806 thousand; 2008: USD 961 thousand).

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for qualifying employees of subsidiaries located in the Russian Federation. The actuarial valuation of the Group's defined benefit obligations as at 31 December 2010, 2009 and 2008 was performed by an independent actuary.

Under these plans a retired employee (or his/her family members) is entitled to the following payments:

- *one-time payment on retirement* varying from USD 16 (2009: USD 16; 2008: USD 17) to two monthly salaries, depending on the seniority of employee;
- *quarterly allowance* varying from USD 13 to USD 16 (2009: from USD 7 to USD 12; 2008: from USD 9 to USD 16) for the rest of his/her life;
- *one-time payment upon death* varying from USD 144 to three official minimum monthly salaries (2009: from USD 139 to ten official minimum monthly salaries; 2008: from USD 150 to three official minimum monthly salary). As at 31 December 2010 the official minimum monthly salary was USD 142 (2009: USD 144; 2008: USD 147)); and
- other payments stipulated in labour agreements such as anniversary payments, disability compensation, etc.

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The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Discount rate	7.5%	9.5%	9.0%
Expected salary increase	9.2%	9.7%	10.2%
Expected pension increase	5.0%	5.5%	6.0%
Employee turnover rate	5.0%	5.0%	5.0%
Age of retirement			
Male	53 years	53 years	53 years
Female	50 years	50 years	50 years
Average life expectancy of members from date of retirement			
Male	20 years	20 years	20 years
Female	31 years	31 years	31 years

Amounts recognised in the income statement in respect of these defined benefit plans were as follows:

	<u>Year ended 31 December 2010</u>	<u>Year ended 31 December 2009</u>	<u>Year ended 31 December 2008</u>
Actuarial loss/(gain) recognised in the year	1,093	(1,599)	(2,755)
Interest expense	698	716	767
Gain on settlements	(609)	-	(419)
Current service cost	198	247	312
Total pension costs/(income) recognised in the income statement	<u>1,380</u>	<u>(636)</u>	<u>(2,095)</u>

Amounts included in the statement of financial position in respect of defined benefit plans were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Present value of unfunded defined benefit obligations	8,655	7,635	8,798

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Movements in the present value of the unfunded defined benefit obligations were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Balance at the beginning of the year	7,635	8,798	8,385
Actuarial loss/(gain) recognised in the year	1,093	(1,599)	(2,755)
Interest expense	698	716	767
Current service cost	198	247	312
Benefits paid	(298)	(233)	(277)
Liabilities assumed in business combinations	-	-	3,845
Liabilities assumed in other transactions	-	-	867
Gain on settlements	(609)	-	(419)
Effect of translation to presentation currency	(62)	(294)	(1,927)
Balance at the end of the year	8,655	7,635	8,798

32. DEFERRED TAXES

	1 January 2010	(Charged)/ credited to the income statement	Effect of translation to presentation currency	31 December 2010
Property, plant and equipment	(72,731)	24,348	469	(47,914)
Inventories	(4,415)	4,676	18	279
Trade and other receivables	660	942	(8)	1,594
Trade and other payables	(151)	5,462	(19)	5,292
Obligations under finance leases	10,887	(1,183)	(80)	9,624
Tax loss carried forward	68,811	(9,226)	(558)	59,027
Provisions for deferred tax assets	(2,671)	2,235	12	(424)
Other	884	260	56	1,200
Total	1,274	27,514	(110)	28,678

	1 January 2009	(Charged)/ credited to the income statement	Effect of translation to presentation currency	31 December 2009
Property, plant and equipment	(88,218)	12,363	3,124	(72,731)
Inventories	(609)	(3,644)	(162)	(4,415)
Trade and other receivables	(105)	726	39	660
Trade and other payables	385	(501)	(35)	(151)
Obligations under finance leases	15,040	(3,551)	(602)	10,887
Foreign currency forward and option contracts	6,820	(6,316)	(504)	-
Tax loss carried forward	4,477	61,458	2,876	68,811
Provisions for deferred tax assets	(4,796)	1,895	230	(2,671)
Other	(552)	1,357	79	884
Total	(67,558)	63,787	5,045	1,274

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	1 January 2008	Acquired through business combina- tions	(Charged)/ credited to the income statement	Effect of translation to presentation currency	31 December 2008
Property, plant and equipment	(58,578)	(66,106)	12,890	23,576	(88,218)
Inventories	(4,490)	(5,923)	9,485	319	(609)
Trade and other receivables	(592)	(505)	(722)	1,714	(105)
Trade and other payables	695	-	(248)	(62)	385
Obligations under finance leases	6	-	18,327	(3,293)	15,040
Foreign currency forward and option contracts	(419)	-	7,853	(614)	6,820
Tax loss carried forward	4,942	-	2,479	(2,944)	4,477
Provisions for deferred tax assets	(6,101)	-	387	918	(4,796)
Other	195	1,764	(2,335)	(176)	(552)
Total	(64,342)	(70,770)	48,116	19,438	(67,558)

Amounts recognised in the income statement for the year ended 31 December 2008 included USD 16,153 thousand related to the effect of the change in the Russian statutory income tax rate (refer to note 15).

Certain deferred tax assets and liabilities were offset by jurisdiction, where the subsidiaries of the Group have a legally enforceable right to offset related taxes. The deferred tax balances (after offset) recorded in the statement of financial position were as follows:

	31 December 2010	31 December 2009	31 December 2008
Deferred tax assets	72,305	55,153	4,838
Deferred tax liabilities	(43,627)	(53,879)	(72,396)
Total	28,678	1,274	(67,558)

Temporary differences in relation to investments in subsidiaries for which deferred tax assets have not been recognised are attributable to the following:

	31 December 2010	31 December 2009	31 December 2008
Russian subsidiaries	644,002	676,394	395,920
Other subsidiaries	11,704	(9,584)	(824)
Total	655,706	666,810	395,096

At 31 December 2010, the Group had unused tax losses of USD 59,027 thousand (2009: USD 68,811 thousand; 2008: USD 4,477 thousand) available for offset against future profits. During the year ended 31 December 2008, the Group did not recognise deferred tax assets for unused tax losses of USD 41,240 thousand. During the year ended 31 December 2009, the Group recognised deferred tax assets for previously unrecognised tax losses based on changes in its estimates of whether the Group will be able to utilise such losses to offset future profits or that it has tax planning strategies that will allow it to utilise the losses. The majority of tax losses will expire in 2018 and 2019.

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33. DERIVATIVE FINANCIAL OBLIGATIONS

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Foreign currency forward contracts, at FVTPL	-	-	21,572
Foreign currency collar contracts, at FVTPL, including:			
call options sold	-	-	19,588
put options bought	-	-	(3)
Total	-	-	41,157

During the years ended 31 December 2008 and 2007, the Group entered into foreign currency forward and option contracts to hedge risks arising from exchange rate fluctuations from its export sales pertaining to US Dollar cash receipts (refer to note 37), expired during the years ended 31 December 2009 and 2008.

34. OTHER TAXES PAYABLE

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Property tax	1,203	1,088	1,445
Value added tax	1,168	1,925	4,195
Social taxes	1,161	948	1,214
Other taxes	1,768	2,679	2,074
Total	5,300	6,640	8,928

35. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements to and from its parent entity or entities under common ownership.

The Group had the following outstanding balances with related parties:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Parent company			
Loans issued, at amortised cost	-	35,116	174,307
Loans and borrowings	(18,754)	(1,087)	(3,109)
Other payables	(51,323)	(47,628)	-
Entities under common ownership and control with the Group			
Trade and other receivables	5,070	4,277	4,571
Loans issued, at amortised cost	-	1,781	6,769
Promissory notes of related parties, at amortised cost	349	351	7,086
Other financial assets	-	-	63
Trade and other payables	(1,621)	(2,816)	(3,118)

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The Group entered into the following transactions with related parties:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Parent company			
Loans issued	(19,839)	(112,878)	(187,270)
Proceeds from repayment of loans issued	38,580	156,223	40,732
Interest income	78	19,576	9,771
Other (expense)/income	(201)	(41)	315
Entities under common ownership and control with the Group			
Sales of goods and services	41,999	31,932	55,587
Purchases of goods and services	(9,689)	(12,511)	(21,392)
Loans issued	-	(5,832)	(16,383)
Proceeds from repayment of loans issued	1,519	7,020	14,540
Dividends received	16,423	-	-
Interest income	155	235	377
Interest expense	-	(18)	(591)
Other income	659	3,246	5,489

Included in the Group's receivables balance at 31 December 2010 were amounts receivable from related parties of USD 1,429 thousand which were past due but not impaired (2009: USD 2,472 thousand; 2008: USD 2,856 thousand).

Transactions with related parties

Sale and purchases of goods

Sales of goods to related parties were made on terms similar to those that were used in transactions with third parties, including average discounts of 3.0% to 5.0% applicable to the Group's largest customers. Sales of services, which mainly consisted of sales of electricity and heat energy, were made at prices established by the Federal Utility Committee, a government regulator responsible for establishing and monitoring the prices on the utility market in the Russian Federation.

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

Loans issued to related parties

The loans issued to related parties are primarily loans issued to the parent company of the Group for financing of its investing activities.

As at 31 December 2009, loans issued to related parties included an amount of USD 35,116 thousand denominated in USD (2008: USD 177,604 thousand). These loans bore interest at a fixed rate of 12.0% (2008: varying from 6.0% to 12.0%) per annum. As at 31 December 2009, loans issued to related parties included an amount of USD 1,781 thousand denominated in RUR (2008: USD 3,472 thousand). These loans bore interest at a fixed rate of 11.0% (2008: varying from 6.0% to 12.0%) per annum.

Loans received from related parties

As at 31 December 2010, loans received from related parties included an amount of USD 18,754 thousand denominated in USD. This loan bears interest at a fixed rate of 7.0% per annum.

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Settlement of loans to related parties

During the year ended 31 December 2009, the Group entered into an agreement with its parent company to settle amounts due to the Group through a series of transactions. This agreement included transfers of commercial real estate property and a 44.3% investment in PMF to the Group. The total value assigned to these assets in settling the loans was USD 271,421 thousand, which comprised of USD 109,421 thousand related to the commercial real estate property which was based on the original price paid by the parent company of the Group when the commercial real estate property was acquired and USD 162,000 thousand related to PMF which was the parent company's estimate of fair value.

These assets have been recorded based on the historical carrying value in accordance with the Group's accounting policy for transactions with entities under common control. The difference between the carrying value of the above assets and the amount settled by the Group was treated as a distribution to shareholders and was recorded in the statement of changes in equity as a decrease in retained earnings in the amount of USD 206,080 thousand. The net effect of the above transactions is accounts payable to the parent company of the Group of USD 47,628 thousand. This amount has been recorded in other payables in the consolidated statement of financial position (refer to note 30). As at 31 December 2010, the outstanding amount related to the above mentioned transactions equals USD 35,685 thousand.

During the year ended 31 December 2010, the Group received dividends from PMF in the amount of USD 16,423 thousand. The Group is obliged to transfer USD 15,638 thousand from this amount to its parent company in accordance with the terms of the original purchase agreement. This amount has been recorded in other payables in the consolidated statement of financial position (refer to note 30) and recorded as a distribution to shareholders in the consolidated statement of changes in equity.

Compensation of key management personnel

The compensation of key management personnel of the Group for the year ended 31 December 2010 comprised salaries and cash bonuses in the amount of USD 10,966 thousand (2009: USD 4,506 thousand; 2008: USD 51,638 thousand), including social taxes in the amount of USD 214 thousand (2009: USD 419 thousand; 2008: USD 538 thousand).

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Short term benefits, including:			
Salaries	6,169	3,088	4,320
Cash bonuses	4,797	1,418	26,618
	<u>10,966</u>	<u>4,506</u>	<u>30,938</u>
Share based payments	-	-	20,700
Total	<u>10,966</u>	<u>4,506</u>	<u>51,638</u>

On 28 December 2008, the controlling shareholder of the Group entered into agreements with members of key management of the Group to pay bonuses in the amount of USD 24,595 thousand to them. The payment of the bonuses by the controlling shareholder to members of key management of the Group was recognised directly in the statement of changes in equity as additional paid-in capital.

On 31 December 2008, the controlling shareholder of the Group entered into agreements with members of key management of the Group to transfer 4.14% of the Company's ordinary shares to them as an additional bonus for services provided to the Group. At the date of the agreements, the fair value of the shares to be transferred by the controlling shareholder of the Group to members of key management of Group was USD 20,700 thousand and was recognised directly in the statement of changes in equity as additional paid-in capital. The fair value of the Company's shares was determined by comparing the Company to similar public traded companies. The transfer of 4.14% of the Company's ordinary shares to members of key management of the Group was completed during the year ended 31 December 2009.

The total amount of compensation of key management personnel was included as wages and salaries in note 11.

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36. COMMITMENTS AND CONTINGENCIES

Purchase of natural gas

In December 2007, the Group entered into binding purchase agreements with Gazprom and Novatek, to purchase defined volumes of natural gas.

Future minimum costs under non-cancellable purchase agreements were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due in one year	271,899	238,856	187,249
Due from two to five years	248,471	436,738	658,955
Total	<u>520,370</u>	<u>675,594</u>	<u>846,204</u>

Purchase of apatite concentrate

In October 2010, the Group entered into purchase agreement with Apatit, to purchase defined volumes of apatite concentrate.

Future minimum costs under non-cancellable purchase agreement were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due in one year	103,577	-	-
Due from two to five years	103,577	-	-
Total	<u>207,154</u>	<u>-</u>	<u>-</u>

Purchase of potassium chloride

In November 2010, the Group entered into purchase agreements with Uralkaliy and Silvinit, to purchase defined volumes of potassium chloride.

Future minimum costs under non-cancellable purchase agreements were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due in one year	17,585	-	-
Due from two to five years	46,550	-	-
Total	<u>64,135</u>	<u>-</u>	<u>-</u>

Capital commitments

As at 31 December 2010, the Group's contractual capital commitments for acquisition of property, plant and equipment amounted to USD 4,684 thousand (2009: USD 13,250 thousand; 2008: USD 27,328 thousand).

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Operating leases: Group as a lessee

The Group leases certain machinery, equipment and office premises. The respective lease agreements have an average life of one to five years with no renewal option at the end of the lease term.

Future minimum rental expenses under non-cancellable operating leases were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Due in one year	29,280	18,748	13,685
Due from two to five years	46,082	46,840	34,648
Total	<u>75,362</u>	<u>65,588</u>	<u>48,333</u>

Guarantees issued

As at 31 December 2010, 2009 and 2008, the Group issued financial guarantees in respect of loans obtained by related and third parties. The total amount of outstanding guarantees issued by the Group was as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Related parties	-	6,723	28,270
Third parties	3	13	28
Total	<u>3</u>	<u>6,736</u>	<u>28,298</u>

The Group's maximum exposure to credit risk in the event of non-performance by parties to these financial guarantees is limited to the contractual amounts disclosed above. At 31 December 2010, 2009 and 2008, management assessed the risk of non-performance by parties to these financial guarantees as remote.

Litigation

The Group has a number of claims and litigation relating to sales and purchases. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

The Group faces several unresolved claims in the amount of USD 7,780 thousand, for which 100% provision had been made as at 31 December 2010 (refer to Note 30).

Taxation contingencies in the Russian Federation

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

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

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Environmental matters

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

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

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

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

Russian Federation risk

The economy of the Russian Federation, while deemed to be of market status, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

As at 31 December 2010 and 2009, management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings were renegotiated in 2010 and 2009 (refer to note 28).

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As at 31 December 2008, management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the following assets and liabilities:

	31 December 2008		
	Carrying value	Fair value	Difference
Financial assets			
Loans issued, at amortised cost	184,349	194,055	(9,706)
Total assets	184,349	194,055	(9,706)
Financial liabilities			
Loans denominated in USD	1,063,657	1,054,464	9,193
Loans denominated in RUR	252,230	241,541	10,689
Total liabilities	1,315,887	1,296,005	19,882

38. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the Group's debt to equity ratio. Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as available-for-sale investments, trade and other receivables and loans issued, cash and cash equivalents and promissory notes.

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	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Financial assets			
AFS investments	176,530	177,837	187,997
Loans issued and accounts receivable	111,603	83,873	214,176
Cash and cash equivalents	46,410	53,658	118,301
Promissory notes of third parties, at amortised cost	429	326	128
Promissory notes held by related parties, at amortised cost	349	351	7,086
Other financial assets	328	365	504
Total financial assets	<u>335,649</u>	<u>316,410</u>	<u>528,192</u>
Financial liabilities			
Loans and borrowings	1,354,306	1,420,970	1,316,450
Trade and other payables	88,492	74,518	36,100
Obligations under finance leases	48,147	54,594	75,823
Foreign currency forward contracts, at FVTPL	-	-	21,572
Foreign currency option contracts, at FVTPL	-	-	19,585
Total financial liabilities	<u>1,490,945</u>	<u>1,550,082</u>	<u>1,469,530</u>

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. During the years ended 31 December 2008 and 2007, the Group entered into foreign currency forward and option contracts to manage its foreign currency risk exposure (see below).

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2010, 2009 and 2008 were as follows:

	<u>USD-denominated</u>			<u>EUR-denominated</u>		
	<u>31 December</u>			<u>31 December</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets						
Trade and other receivables	41,695	9,092	2,799	4	3,588	6,804
Other financial assets	-	35,116	174,307	-	-	-
Cash and cash equivalents	27,497	25,881	84,050	246	7,892	6,886
Total assets	<u>69,192</u>	<u>70,089</u>	<u>261,156</u>	<u>250</u>	<u>11,480</u>	<u>13,690</u>

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

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	USD-denominated			EUR-denominated		
	31 December			31 December		
	2010	2009	2008	2010	2009	2008
Liabilities						
Loans and borrowings	1,162,642	1,148,367	1,060,738	-	8,165	289
Obligations under finance leases	48,004	53,808	74,522	-	-	-
Trade and other payables	2,737	47,842	616	162	811	578
Total liabilities	1,213,383	1,250,017	1,135,876	162	8,976	867
Total net (liabilities)/assets	(1,144,191)	(1,179,928)	(874,720)	88	2,504	12,823

Sensitivity analysis

The table below details the Group's sensitivity to the strengthening of the Russian Rouble against the US Dollar and the Euro by 10.0%. The analysis was applied to monetary items at the end of the reporting period denominated in currencies different than the respective entity's functional currency. A positive number indicates an increase in profit where the Russian Rouble strengthens against the US Dollar and Euro.

	USD-impact			EUR -impact		
	31 December			31 December		
	2010	2009	2008	2010	2009	2008
Profit/(loss)	114,419	117,993	87,472	(9)	(250)	(1,282)

Impacts of the sensitivity analysis on equity would be the same as that on profit/loss as shown in the table above.

Derivative financial obligations

During the years ended 31 December 2008 and 2007, the Group entered into foreign currency forward and option contracts to hedge risks arising from exchange rate fluctuations from its export sales pertaining to USD cash receipts, all of which expired during the years ended 31 December 2009 and 2008.

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The following table details the foreign currency forward contracts and foreign currency collar contracts outstanding as at 31 December 2008:

	Weighted average exchange rate	31 December 2008	
		Contract value	Fair value
Foreign currency forward contracts, including:			
Sell USD for RUR			
Due less than three months	25.30	47,317	10,067
Due from three to six months	25.26	20,951	5,386
Due from six to twelve months	25.45	21,588	6,119
Sell EUR for USD			
Due less than three months	1.39	4,881	-
Foreign currency collar contracts, including:			
Call options sold			
Due less than three months	26.70	120,000	19,588
Put options bought			
Due less than three months	24.35	120,000	(3)
Total		334,737	41,157

The total net loss from derivative financial instruments recognised in the income statement during the year ended 31 December 2009 amounted to USD 15,657 thousand (2008: USD 60,793 thousand).

At 31 December 2008 if the RUR had weakened 10.0% against the USD with all variables held constant, the fair value of the foreign currency collar contracts would have been USD 27,978 thousand. On contrary, if the RUR had strengthened 10.0% against the USD with all other variables held constant, the fair value of the foreign currency collar contracts would have been USD 11,191 thousand.

At 31 December 2008 if the RUR had weakened 10.0% against the USD with all variables held constant, the fair value of the foreign currency forward contracts would have been USD 29,634 thousand. On contrary, if the RUR had strengthened 10.0% against the USD with all other variables held constant, the fair value of the foreign currency forward contracts would have been USD 12,761 thousand.

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure. The majority of the Group's financial liabilities are at fixed rates and, accordingly, interest rate risk is limited.

The table below details the Group's sensitivity to an increase of 1.0% in the Libor interest rate. The analysis was applied to loans and borrowings based on the assumption that the amount of the liability outstanding as at the end of the reporting period was outstanding for the whole year.

	LIBOR - impact		
	31 December 2010	31 December 2009	31 December 2008
Loss	10,021	2,600	3,450

Impacts of sensitivity as loss analysis on equity would be the same as that on profit as shown in the table above.

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

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Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group in time, leading to financial losses to the Group.

For the year ended 31 December 2010, revenue from the Group's five largest customers constituted over 25.7% of the Group's total revenue (2009: 23.6%; 2008: 36.3%). However, the Group is not dependent on these customers because of the existence of a liquid commodity market for the majority of fertilisers and its by-products.

At 31 December 2010, amounts receivable from the Group's five largest customers were USD 43,516 thousand (2009: USD 4,968 thousand; 2008: USD 1,981 thousand), which represented approximately 42.2% of the total outstanding balance of accounts receivable (2009: 12.2%; 2008: 8.5%).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's financial liabilities (the maturity profile for trade accounts payable and payables for property, plant and equipment is presented in note 30) as at 31 December 2010, 2009 and 2008 based on undiscounted contractual payments, including interest payments:

	31 December 2010				
	Fixed rate financial liabilities, at amortised cost				
	Obligations under finance		Loans and borrowings		Total
	leases				
	Principal	Interest	Principal	Interest	
Due within three months	1,477	1,361	14	10,316	13,168
Due from three to six months	1,552	1,310	33,172	8,994	45,028
Due from six to twelve months	3,076	2,474	159,144	13,823	178,517
Due in the second year	6,552	4,467	102,371	13,852	127,242
Due in the third year	7,189	3,758	55,372	3,473	69,792
Due in the fourth year	7,130	2,976	-	-	10,106
Due in the fifth year	6,136	2,250	-	-	8,386
Due thereafter	15,035	2,070	-	-	17,105
	48,147	20,666	350,073	50,458	469,344
	Floating rate financial liabilities, at amortised cost				
Due within three months	-	-	260,000	24,471	284,471
Due from three to six months	-	-	-	19,920	19,920
Due from six to twelve months	-	-	-	39,840	39,840
Due in the second year	-	-	314,433	64,311	378,744
Due thereafter	-	-	412,500	18,997	431,497
	-	-	986,933	167,539	1,154,472
Total	48,147	20,666	1,337,006	217,997	1,623,816

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

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	31 December 2009				
	Fixed rate financial liabilities, at amortised cost				
	Obligations under finance		Loans and borrowings		Total
	leases				
	Principal	Interest	Principal	Interest	
Due within three months	1,405	1,579	33,292	38,120	74,396
Due from three to six months	1,509	1,495	128,833	28,245	160,082
Due from six to twelve months	3,457	2,819	76,424	49,155	131,855
Due in the second year	6,133	5,126	199,814	95,538	306,611
Due in the third year	6,556	4,470	317,142	66,510	394,678
Due in the fourth year	7,193	3,760	370,357	33,092	414,402
Due in the fifth year	7,135	2,978	-	-	10,113
Due thereafter	21,206	4,307	-	-	25,513
	54,594	26,534	1,125,862	310,660	1,517,650
	Floating rate financial liabilities, at amortised cost				
Due within three months	-	-	124,289	4,180	128,469
Due from three to six months	-	-	61,959	2,105	64,064
Due from six to twelve months	-	-	100,000	1,748	101,748
	-	-	286,248	8,033	294,281
Total	54,594	26,534	1,412,110	318,693	1,811,931

	31 December 2008				
	Fixed rate financial liabilities, at amortised cost				
	Obligations under finance		Loans and borrowings		Total
	leases				
	Principal	Interest	Principal	Interest	
Due within three months	735	2,214	29,224	33,436	65,609
Due from three to six months	1,634	2,177	12,387	24,437	40,635
Due from six to twelve months	3,449	3,950	33,317	47,894	88,610
Due in the second year	7,540	8,260	140,691	86,542	243,033
Due in the third year	7,362	7,031	295,227	60,360	369,980
Due in the fourth year	7,959	6,201	359,473	22,933	396,566
Due in the fifth year	8,819	5,259	-	-	14,078
Due thereafter	38,325	10,733	-	-	49,058
	75,823	45,825	870,319	275,602	1,267,569
	Floating rate financial liabilities, at amortised cost				
Due within three months	-	-	31,199	10,031	41,230
Due from three to six months	-	-	133,268	6,857	140,125
Due from six to twelve months	-	-	221,456	6,458	227,914
Due in the second year	-	-	50,730	592	51,322
	-	-	436,653	23,938	460,591
Total	75,823	45,825	1,306,972	299,540	1,728,160

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

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39. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Loans restructuring

In January 2011, the Group reached an agreement with Sberbank to decrease the interest rate on a loan denominated in RUR in the amount of USD 32,812 thousand from 14.0% to 10.0% per annum. The new interest rate is effective retrospectively from December 2010.

In January 2011, the Group reached an agreement with Raiffeisen Bank to extend the repayment of a short-term loan denominated in USD in the amount of USD 57,000 thousand from 2011 to February – May 2012. The agreement requires early partial repayment of the amount in the event of an IPO or a bond offering by UralChem Holding P.L.C. The average interest rate on the loan remained unchanged.

In February 2011, the Group reached an agreement with UniCredit Bank to extend the repayment of short-term loans in the amount of USD 190,000 thousand from February 2011 to February - May 2012 and of USD 10,000 thousand from February 2011 to June 2011. The commission for loans restructuring amounted to USD 1,100 thousand. The annual interest rate under these facilities decreased from Libor 1m + 5.9% - 6.15% to Libor 1m + 5.8%.