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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

ANY OFFER OR SALE OF THE SECURITIES DESCRIBED HEREIN IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC (AND ANY AMENDMENTS THERETO) (THE “PROSPECTUS DIRECTIVE”) MUST BE EITHER ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE) OR BE FOR A MINIMUM PURCHASE PRICE OR MINIMUM CONSIDERATION OF AT LEAST €100,000.

Confirmation of your representation: The information contained in the document is directed solely at persons who are, and by accepting the e-mail and accessing this document you shall be deemed to have represented to us that, (1) (a) you are a person acquiring securities in offshore transactions as defined in, and in reliance on, Regulation S under the Securities Act, or (b) you are a qualified institutional buyer within the meaning of Rule 144A under the Securities Act (a “QIB”); (2), if you are in a member state of the European Economic Area (the “EEA”), either you are a “qualified investor” (“Qualified Investor”) within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (including any relevant implementing measure in each relevant member state of the EEA) or you acknowledge that the offer or sale of the securities described herein to you must be for a minimum purchase price or minimum consideration of at least €100,000; (3), if you are in the United Kingdom, you are a Qualified Investor who (a) has professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) or (b) is a high net worth entity falling within Article 49(2)(a) to (d) of the Order (all such persons in this sub-clause (3) collectively being referred to as “Relevant Persons”); or (4) you are an institutional investor that is otherwise eligible to receive the document. You shall also be deemed to have represented to us that you consent to delivery by electronic transmission. The document must not be acted on or relied on (i) in the United Kingdom, by persons who are not Relevant Persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors.

You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of OJSC “PhosAgro” in such jurisdiction.

The information provided in this Prospectus is not an offer or advertisement of the Shares or GDRs in the Russian Federation and is not an offer, or an invitation to make offers, sell, purchase, exchange or otherwise transfer any GDRs in the Russian Federation or to or for the benefit of any Russian person or entity.

The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Federal Service for the Financial Markets of the Russian Federation and the GDRs are not intended for “placement” or “circulation” in the Russian Federation, unless otherwise permitted under Russian law.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, as named in this document, nor any person who controls a Manager nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the registered office of OJSC “PhosAgro”. You are responsible for protecting against viruses and other destructive items.



PHOSAGRO

OJSC “PHOSAGRO”

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

OFFERING OF 1,282,000 ORDINARY SHARES IN THE FORM OF SHARES AND GLOBAL DEPOSITARY RECEIPTS

Offer Price of \$420.00 per Share and \$14.00 per Global Depositary Receipt

This Prospectus (the “**Prospectus**”) relates to an offering (the “**Offering**”) by (i) Adorabella Limited and (ii) Miles Ahead Management Limited, each of which is a company organised and existing under the laws of Cyprus (together, the “**Selling Shareholders**”), of 1,282,000 existing ordinary shares in the share capital of OJSC “PhosAgro”, an open joint stock company organised under the laws of the Russian Federation (the “**Company**”), each with a nominal value of 25 roubles (“**Shares**”), in each case in the form of Shares and global depositary receipts (“**GDRs**”) representing Shares, with 30 GDRs representing an interest in one Share. This Prospectus also relates to the planned conversion of the A2 Convertible Preferred Shares (as defined below) into ordinary shares and subsequent share split of the ordinary shares. Following such conversion and share split, the ordinary shares may be used as deposits for GDRs and the Company will supplement the Prospectus as necessary pursuant to Article 16 of Directive 2003/71/EC (the “**Prospectus Directive**”). See “*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—A2 Conversion*” and “*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Share Split*”.

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the “**Prospectus Rules**”) of the UK Financial Services Authority (the “**FSA**”) made under Section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”). Application has been made solely for the admission of the GDRs to the official list maintained by the FSA (the “**Official List**”) and to the regulated main market of the London Stock Exchange plc (the “**London Stock Exchange**”). This Prospectus has been prepared in connection with the application for the admission of the GDRs to the regulated main market of the London Stock Exchange. This document will be made available to the public in accordance with the Prospectus Rules.

Adorabella Limited has granted to Citigroup Global Markets Limited (“**Citi**”), Renaissance Securities (Cyprus) Limited, CJSC “Investment Company ‘Troika Dialog’”, TD Investments Limited, Credit Suisse Securities (Europe) Limited and BMO Capital Markets Limited (together, the “**Joint Bookrunners**”) an option (the “**Over-Allotment Option**”) exercisable on one or more occasions within 30 days after the announcement of the offer price (the “**Offer Price**”), to purchase up to an additional 15 per cent. of the total number of GDRs sold in the Offering at the Offer Price, solely to cover over-allotments, if any, in the Offering. See “*Subscription and Sale*”. In this Prospectus, the Joint Bookrunners and ZAO Raiffeisenbank are together referred to as the “**Managers**”.

In the application for obtaining the Russian Federal Service for Financial Markets (“**FSFM**”) permission for the placement and circulation of Shares in the form of GDRs outside Russia, the Selling Shareholders together with certain other shareholders of the Company have committed to offer up to 5,323,854 Shares in the Offering. The Selling Shareholders may sell fewer Shares, including in the form of GDRs, than the maximum number committed for sale.

Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA, for a listing of up to 79,857,810 GDRs, consisting of (i) 26,535,120 GDRs to be issued prior to 18 July 2011 (the “**Closing Date**”), (ii) up to 3,980,250 GDRs to be issued in connection with the Over-Allotment Option, and (iii) up to 49,342,440 additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with Citigroup Global Markets Deutschland AG as depositary (the “**Depositary**”), to be admitted to the Official List and (2) to the London Stock Exchange, for such additional GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities, which is a regulated market for the purposes of Directive 2004/39/EC (the “**Markets in Financial Instruments Directive**”). Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 13 July 2011, under the symbol “**PHOR**”. Admission to the Official List and unconditional trading on the London Stock Exchange (“**Admission**”) is expected to take place on or about 18 July 2011. Only Shares that are in existence at the date of Admission can be deposited with the Depositary for the GDRs. Shares issued after the date of this Prospectus (“**New Shares**”) cannot be used as deposits for GDRs. For GDRs to be issued against such New Shares, the Company will be required to produce a prospectus approved by the UKLA to enable such New Shares to be deposited against GDRs. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** The Company’s GDRs are expected to be traded on the regulated market under the symbol “**PHOR**”.

The Shares and the GDRs are being offered in the United States to certain qualified institutional buyers (“**QIBs**”) as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the US Securities Act of 1933, as amended (the “**Securities Act**”), or another exemption from the registration requirements of the Securities Act, and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”). The Shares are being offered in the Russian Federation to certain investors in reliance on Regulation S. See “*Subscription and Sale and Selling Restrictions*”.

Investment in the Shares or the GDRs involves a high degree of risk and potential investors should ensure they are properly informed of the risks relating to an investment in the Shares or the GDRs. See “*Risk Factors*” beginning on page 10 to read about factors you should consider before buying the Shares or GDRs.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except, in the case of GDRs only, to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act, or in the case of Shares and GDRs, outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Shares and the GDRs, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling and Transfer Restrictions*”.

The Shares are admitted to quotation list “**V**” on the Moscow Interbank Currency Exchange (“**MICEX**”) and admitted to trading on the Russian Trading System Stock Exchange (“**RTS**”), in each case under the symbol “**PHOR**”. Prices for the Shares traded on RTS and MICEX may not reflect the value of the GDRs. Trading in Shares is expected to start on RTS on or about 13 July 2011 and on MICEX on or about 18 July 2011. Prior to the Offering there has been no public market for the Shares or the GDRs.

The Offering may be extended or revoked at any time without cause. The GDRs will be issued in global form. The GDRs offered and sold in the United States (the “**Rule 144A GDRs**”) will be evidenced by a Master Rule 144A Global Depositary Receipt Certificate (the “**Master Rule 144A GDR Certificate**”) registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“**DTC**”), and the GDRs offered and sold outside the United States (the “**Regulation S GDRs**”) will be evidenced by a Master Regulation S Global Depositary Receipt Certificate (the “**Master Regulation S GDR Certificate**”) and, together with the Master Rule 144A GDR Certificate, the “**Master GDR Certificates**”) registered in the name of Citivic Nominees Limited as nominee for, and deposited with Citibank Europe plc as common depositary for, Euroclear Bank S.A./N.V. (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream**”). Except as described here, beneficial interests in the Master GDR Certificates will be shown as, and transfers thereof will be effected only through DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream with respect to the Regulation S GDRs. It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. It is expected that delivery of the Shares in the Offering will commence on or about 18 July 2011, and each purchaser of the Shares in the Offering must pay for such Shares on, or prior to, a date agreed with the Managers. The Shares are payable in U.S. dollars or in roubles. See “*Settlement and Delivery*”.

Joint Global Coordinators and Bookrunners

Citi

Renaissance Capital

Troika Dialog

Joint Bookrunners

Credit Suisse

BMO Capital Markets

Co-Lead Manager

Raiffeisen Bank International

IMPORTANT INFORMATION

By accepting delivery of this Prospectus, you agree to the following. This document is being furnished by the Company and the Selling Shareholders solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers make any representation, express or implied, nor accept any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders or the Managers that any recipient of this Prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of the GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription or purchase of the GDRs should be based upon such investigation, as it deems necessary.

This document, including the financial information included herein, is a Prospectus for the purposes of the Prospectus Directive for the purpose of giving information with regard to the Company, the Selling Shareholders and the GDRs. This document is valid as a Prospectus during the period of twelve months after the date hereof. The Company will supplement the Prospectus as necessary pursuant to Article 16 of the Prospectus Directive.

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

This document does not constitute an offer to the public generally to purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, you must rely on your own examination of the Company and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this document. None of the Company, the Selling Shareholders or the Managers has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Prospectus is accurate only as of its date. The Group's business, financial condition, results of operations, prospects and the information set forth in this document may have changed since the date of this document.

The Company has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third-party source, to a certain degree subjective. While the Company believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by the Company approximately reflects the industry and the markets in which the Company operate, there is no assurance that its own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the Company's websites do not form any part of this document.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the GDRs. None of the Company, the Selling Shareholders or the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Managers are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the

Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers and any of their respective affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Subscription and Sale and Selling Restrictions*” elsewhere in this Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholders or the Managers is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

In connection with the issue of the GDRs, Citi (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on the date of adequate public disclosure of the final price of the GDRs and, if begun, may be ended at any time but must end no later than 30 calendar days thereafter (the “**Stabilisation Period**”). Any stabilisation action must be undertaken in accordance with applicable laws and regulations.

The information set forth in this document is only accurate as of the date on the front cover of this document. The Group’s business and financial condition may have changed since that date. In making an investment decision, prospective investors must rely on their own examination of the Group and the terms of this document, including the risks involved.

NOTICE TO CERTAIN INVESTORS

Notice to UK and other EEA Investors

This Prospectus and the Offering are only addressed to and directed at persons in member states of the European Economic Area (the “**EEA**”), who (1) are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any amendments thereto, including Directive 2010/73/EU, to the extent implemented in each relevant member state of the EEA, and including any relevant implementing measure in each relevant member state of the EEA) or (2) in order to participate in the Offering, must purchase securities in the Offering with a minimum purchase price or minimum consideration of at least €100,000.

In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The Shares and GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all offers of the Shares and GDRs other than the offers contemplated in this Prospectus in the United Kingdom following approval by the FSA will be made pursuant to an exemption under the Prospectus Directive (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in each relevant member state of the EEA), as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of the Shares and GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for the Group, the Selling Shareholders or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholders or the Managers has authorised or authorises the making of any offer of the Shares or the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Shares and GDRs contemplated in this Prospectus.

Notice to Investors in the Russian Federation and to Russian Investors

This Prospectus should not be considered as a public offer or advertisement of the Shares and GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the FSFM and the GDRs are not intended for “placement” or “circulation” in the Russian Federation, unless otherwise permitted under Russian law. Any information on the GDRs in this Prospectus is intended for, and addressed only to, “qualified investors” (as defined under Russian law) or persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

Notice to United States Investors

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER US REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE GDRs OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE GDRs OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

Notice to New Hampshire Residents Only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS

EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to Australian investors

This document does not constitute a disclosure document under Chapter 6D or Part 7.9 of the Corporations Act 2001 of the Commonwealth of Australia (“**Corporations Act**”). It has not been, and will not be, lodged with the Australian Securities and Investments Commission (“**ASIC**”) as a disclosure document for the purposes of the Corporations Act.

ASIC has not reviewed this document or commented on the merits of investing in the Shares or the GDRs nor has any other Australian regulator.

No offer of GDRs is being made in Australia, and the distribution or receipt of this document in Australia does not constitute an offer of securities capable of acceptance by any person in Australia, except in the limited circumstances described below relying on certain exemptions in the Corporations Act.

This document may only be provided in Australia to select investors who are able to demonstrate that they are “wholesale clients” for the purposes of Chapter 7 of the Corporations Act and fall within one or more of the following categories (“**Exempt Investors**”): “sophisticated investors” or “professional investors” who meet the criteria set out in, respectively, section 708(8) and section 708(11) and as defined in section 9 of the Corporations Act, experienced investors who receive the offer through an Australian financial services licensee, where all of the criteria set out in section 708(10) of the Corporations Act have been satisfied or senior managers of the Company (or a related body, including a subsidiary), their spouse, parent, child, brother or sister, or a body corporate controlled by any of those persons, as referred to in section 708(12) of the Corporations Act.

The provisions of the Corporations Act that define these categories of Exempt Investors are complex, and if you are in any doubt as to whether you fall within one of these categories, you should seek appropriate professional advice regarding these provisions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The Group's audited consolidated financial statements included in the Prospectus together with the notes thereto, were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Group's consolidated financial statements include:

- the Group's audited consolidated financial statements as of and for each of the years ended 31 December 2008, 2009 and 2010 (the "**Audited Financial Statements**"); and
- the Group's unaudited interim condensed consolidated financial information as of and for the three months ended 31 March 2011, which includes comparative financial information as of and for the three months ended 31 March 2010 (the "**2011 Interim Financial Statements**", and together with the Audited Financial Statements, the "**Consolidated Financial Statements**").

The 2011 Interim Financial Statements were prepared in accordance with the requirements of International Accounting Standard 34 ("**IAS 34**"), "*Interim Financial Reporting*". The Company does not intend to publish quarterly financial statements after the Offering.

The Consolidated Financial Statements, together with the respective notes thereto, are included in the Prospectus beginning on page F-2.

Non-IFRS Information

The Company has included certain measures in this Prospectus that are not measures specifically defined by IFRS. These include EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures. The Company has included these measures for the reasons described below; however, these measures should not be used instead of, or considered as alternatives to, its historical financial results based on IFRS.

The Company defines EBITDA as profit or loss for the year before finance income and finance costs; income tax expense or benefit; and depreciation, amortisation and impairment. The Company defines adjusted EBITDA as EBITDA adjusted to exclude in the period items which the Company views as exceptional and non-recurring. In 2008 and 2009, the exceptional adjustment comprised accrual/reversal of litigation provision (the Group recorded an accrual of litigation provision in 2008, which was subsequently reversed in 2009). The Company defines EBITDA margin as EBITDA divided by revenue. The Company defines adjusted EBITDA margin as adjusted EBITDA divided by revenue. The Company defines cash costs as cost of goods sold less depreciation, amortisation and impairment expense plus land tax and tax on exploration of mineral resources. The Company defines net debt as total loans and borrowings less cash and cash equivalents. The Company defines capital expenditures as all additions to property, plant and equipment. The Company believes that the presentation of EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures enhances an investor's understanding of its financial performance. The Group's management uses EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures to assess the Group's operating performance because it believes that EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures are important supplemental measures of the Group's operating performance. In addition, the Group's management believes that EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in its industry. EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures are not presentations specifically defined by IFRS and the Group's use of the terms EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures may vary from others in its industry due to differences in accounting policies or differences in the calculation methodology of EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures by others in the Group's industry. For example, other market participants in the Group's industry prepare their financial statements in accordance with Russian accounting policies instead of IFRS and may not include an adjustment for accrual or reversal of litigation provision or a similar amount in their calculation of adjusted EBITDA. EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures have limitations as analytical tools, and should not be

considered in isolation, or as substitutes for financial information as reported under IFRS. EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, cash costs, net debt and capital expenditures should not be considered as alternatives to profit for the year or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as measures of its liquidity. In particular, EBITDA, adjusted EBITDA or net debt should not be considered as a measure of discretionary cash available to the Company to invest in the growth of its business.

Currencies

The Company's functional currency is the rouble, as it reflects the economic substance of its operations. The Company's presentation currency is also the rouble. Solely for the convenience of the reader, certain amounts included in this Prospectus have been translated from roubles into U.S. dollars, as set forth under "*Currencies and Exchange Rates*". Investors in the Shares or GDRs should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all.

Rounding

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

Definitions

Unless the context otherwise requires, all references in this Prospectus to the "**Company**" are to OJSC "PhosAgro" and none of its subsidiaries and all references in this Prospectus to the "**Group**" refer collectively to the Company and its subsidiaries. The significant subsidiaries of the Group are listed in Note 33 to the Consolidated Financial Statements. The other consolidated subsidiaries of the Group are RBC PhosAgro, PhosAgro Service, Ammophos-Prodovol'stvie, Apatit-Elektromashservice, Ekhtechprom, Biotechnology, Agroinvest, KRP Apatit, KPNK PhosAgro, Engineering Centre PhosAgro and Construction Company Luks.

For the convenience of the reader, some of the Group's products have been defined in this Prospectus as follows:

- Phosphate-Based Fertilisers: monoammonium phosphate ("**MAP**"), diammonium phosphate ("**DAP**"), nitrogen-phosphorus-potassium ("**NPK**"), nitrogen-phosphorus-sulphur ("**NPS**"), liquid fertiliser ammonium polyphosphate ("**APP**");
- feed phosphate: monocalcium phosphate ("**MCP**"); and
- nitrogen-based fertilisers: ammonium nitrate ("**AN**").

MAP, DAP, NPK, NPS and APP are collectively referred to as "**Phosphate-Based Fertilisers**" whereas AN, AN-based fertilisers and urea are collectively referred to as "**Nitrogen-Based Fertilisers**".

The following table sets forth delivery terms used in this Prospectus and their definitions.

<u>Delivery term</u>	<u>Definition</u>
Cost, Insurance and Freight (named destination port) (“ CIF ”)	The seller pays for transportation to the destination port and also procures and pays for insurance.
Carriage Paid To (named place of destination) (“ CPT ”)	The equivalent of CIF where more than one carrier is involved. The seller pays for transportation and insurance to the named destination point, and risk passes when the goods are handed over to the first carrier.
Delivery At Frontier (“ DAF ”)	This term is used when goods are transported by rail and/or road. Under DAF terms, the seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs clearance.
Free Carrier (named place) (“ FCA ”)	The seller hands over the goods, cleared for export (if applicable), into the custody of the first carrier named by the buyer at the named place.
Free On Board (named loading port) (“ FOB ”)	The seller loads the goods on board the ship nominated by the buyer. The seller takes responsibility for clearing the goods through customs at the port of shipment.

Competent Person’s Report of the Mining Assets of the Company

The Company has included at Annex 1 to this Prospectus, and extracted data from, a competent person’s report prepared in connection with the Offering by IMC Group Consulting Limited (“**IMC**”), an international mining consultant (the “**Competent Person’s Report**”). The Competent Person’s Report covers OJSC Apatit, which is the Group’s only subsidiary that is a ‘mineral company’ for the purposes of paragraph 131(b) of ESMA update of the CESR recommendations dated 23 March 2011 (“**ESMA**”).

Market Data

Market data used in this Prospectus, including statistics in respect of the Company’s competitors’ sales volumes and market share, has been extracted from official and industry sources and other sources the Company believes to be reliable. This information appears throughout the Prospectus including, without limitation, in the sections headed “*Operating and Financial Review*”, “*Industry*” and “*Business*”, and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, the Company has cited the following governmental sources of market data: the Central Bank of the Russian Federation (“**CBR**”) and the Federal State Statistics Service (“**Rosstat**”). Furthermore, the Company has cited FERTECON (“**Fertecon**”), a provider of information, news, research and analysis about the fertiliser industry. The Company confirms that this information, including that from CBR, Rosstat and Fertecon has been accurately reproduced and that, as far as the Company is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company notes that neither these independent sources nor the Managers accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution. The Company has relied on the accuracy of this information without independent verification.

Some of the market data contained in this document has been derived from the official data of Russian government agencies, including the CBR and Rosstat. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian Government may be questionable.

CURRENCIES AND EXCHANGE RATES

In this Prospectus, references to “U.S. dollars”, “US\$” or “\$” are to the currency of the United States, references to “roubles” or “RUB” are to the currency of the Russian Federation and references to “euro”, “EUR” or “€” are to the currency of the member states of the European Union participating in the European Monetary Union.

As a result of legislation in force in Russia relating to investments by foreign companies, Russian regulators may impose from time to time certain currency control limitations on the ability of the Group’s companies to convert roubles into U.S. dollars or other hard currencies or to convert U.S. dollars or other hard currencies into roubles. See “*Risk factors—Russian Legal Risks and Uncertainties—Restrictive currency regulations may adversely affect the Group’s business, results of operations, financial condition and prospects*”.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. These rates differ from the actual rates used in the preparation of the Group’s financial statements and other financial information appearing in this Prospectus.

Years ended 31 December	Roubles per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period end
2006	28.78	26.18	27.19	26.33
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24
2010	31.78	28.93	30.37	30.48
Months ended	High	Low	Average ⁽¹⁾	Period end
January 2011	30.62	29.67	30.09	29.67
February 2011	29.80	28.94	29.29	28.94
March 2011	28.90	28.16	28.46	28.43
April 2011	28.52	27.50	28.11	27.5
May 2011	28.48	27.26	27.87	28.07
June 2011	28.35	27.68	27.98	28.08
July 2011 (up to 12 July 2011)	28.08	27.80	27.89	28.08

(1) The average of the exchange rates for each day during the year or period, as applicable.

The rouble/U.S. dollar exchange rate as quoted by the CBR on 12 July 2011 was 28.08 roubles = \$1.00.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

The Company’s presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit your legal recourse against the Company. The Company is incorporated under the laws of the Russian Federation and its Selling Shareholders are incorporated under the laws of Cyprus. See “*Directors, Management and Corporate Governance*”. All of its directors and executive officers named in this Prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. All of its assets and almost all of the assets of its directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon the Company, the Selling Shareholders or its respective directors and executive officers or to enforce US or UK court judgments obtained against the Company, the Selling Shareholders or its respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws. See “*Risk Factors—Risks Relating to the Shares and GDRs—Investors may have limited recourse against the Selling Shareholders, the Company or the Company’s directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the current directors and executive officers reside outside the United States and the United Kingdom*”.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation if an international treaty providing for the recognition and

enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, the Company is aware of at least two instances in which Russian courts have recognised and enforced a foreign court judgment (an English court judgment in one instance and a Dutch court judgment in the other instance), on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation, and both The Netherlands and the Russian Federation, respectively, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgment on these grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. These limitations may deprive you of effective legal recourse for claims related to your investment in the Shares or GDRs. Under the terms of the Deposit Agreements (as defined below), owners of GDRs agree that any dispute, controversy or cause of action against the Company, the Depositary and/or the DR Servicer arising out of the Shares or other deposited securities, GDRs, the Deposit Agreements or any transaction contemplated therein, shall be referred to, and finally resolved by, arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are “**forward-looking**” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “forecast”, “project”, “will”, “may”, “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, “*Risk Factors*”, “*Dividend Policy*”, “*Operating and Financial Review*” and “*Business*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of its businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for its products;
- economic outlook and industry trends;
- developments of its markets;
- the impact of regulatory initiatives;
- its competitive strengths and weaknesses; and
- the strengths of its competitors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management's examination of historical operating trends, data contained in its records and other data available from third parties. Although the Company believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond its control, and the Company may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in the Company's view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia's gross domestic product ("**GDP**");
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- increased operating costs, including the supply and prices for natural gas, electricity, fuel and sulphur in Russia as well as increased labour costs in Russia;
- its ability to service its existing indebtedness;
- its ability to fund its future operations and capital needs through borrowing or otherwise;
- its ability to implement successfully any of its business strategies;
- decreased demand and/or prices of phosphate rock, fertilisers and ammonia;
- its ability to obtain necessary regulatory approvals;
- changes in customer preferences;
- changes in the regulation of mining, processing minerals and the environment;
- competition in the marketplace;
- changes in income, extraction or other tax rates;
- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- its success in identifying other risks relating to its business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither the Company nor any of its agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this Prospectus.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs or the Shares represented thereby are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

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PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this Prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this Prospectus, including the Group's Consolidated Financial Statements and the accompanying notes beginning on page F-2 of this Prospectus. Any decision to invest in the GDRs should be based on consideration of this Prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors", and not solely on this summarised information.

Overview

The Group is a leading global vertically integrated phosphate-based fertiliser producer. The Group focuses on the production of Phosphate-Based Fertilisers, feed phosphate and high-grade phosphate rock with P_2O_5 content of not less than 39 per cent. as well as ammonia and Nitrogen-Based Fertilisers. In 2010, the Group was the largest phosphate-based fertiliser producer in Europe, the largest producer of high-grade phosphate rock (defined as phosphate rock with P_2O_5 content of not less than 35.7 per cent.) worldwide and the third largest MAP/DAP producer in the world (excluding China), according to Fertecon. The Group's reserves and resources of apatite-nepheline ore, which contains P_2O_5 , Al_2O_3 , TiO_2 (titanium oxide) and rare earth minerals, were measured by IMC as of 1 June 2011 according to the JORC Code and consisted of proved and probable reserves of 771.4 million tonnes and measured and indicated resources (inclusive of reserves) of 2,073.9 million tonnes. The Group's mines and phosphate rock production facilities are located in the mountain areas of the Kola Peninsula in the Murmansk region of North West Russia, whereas the Group's fertiliser and feed phosphate production assets are located near the city of Cherepovets in the Vologda region of North West Russia and near the city of Balakovo in the Saratov region of South East part of European Russia.

As part of its vertically integrated business model, the Group mines apatite-nepheline ore from its own mines and extracts high-grade phosphate rock from the ore at the Group's beneficiation plants. The Group then uses approximately between 50 and 60 per cent. of its phosphate rock output as a raw material to produce Phosphate-Based Fertilisers and MCP, which is a feed phosphate mainly used in the agricultural husbandry feed industry. The Group also sells phosphate rock to third parties in the domestic and European markets. In addition, the Group produces ammonia, which it uses internally principally for the production of Phosphate-Based and Nitrogen-Based Fertilisers and sells any excess to third parties. The Group also extracts nepheline concentrate from its apatite-nepheline ore and sells it to third parties for the production of alumina, cement, soda ash, potassium carbonate and gallium.

The Group's principal product groups are (i) phosphate rock, (ii) Phosphate-Based Fertilisers and feed phosphate MCP, and (iii) Nitrogen-Based Fertilisers and ammonia. These product groups accounted for 18.0 per cent., 58.7 per cent. (of which 91.0 per cent. accounted for sales of MAP/DAP/NPK) and 9.1 per cent., respectively, of the Group's external sales revenue in 2010. The Group's remaining external sales revenue principally related to the sales of nepheline concentrate (0.8 per cent. of the Group's external sales revenue in 2010), sales of electricity and heat energy (steam and hot water), sales of consulting, transportation and other services, and other sales.

The Group sells its fertilisers outside Russia through large and well-known international traders and distributors. Export sales accounted for 81.9 per cent. of the Group's fertiliser and feed phosphate sales in 2010, with the Group's fertilisers and feed phosphate exported to more than 60 countries. The principal export markets for the Group's fertiliser products are South Asia, Latin America and West Europe. The Group sells phosphate rock outside Russia directly to end customers in Europe. In 2010, export sales of the Group's phosphate rock accounted for 42.4 per cent. of the Group's external phosphate rock sales. Overall, export sales accounted for 65.1 per cent. of the Group's total sales in 2010. Most of the sales of the Group's fertilisers in Russia are made directly to end customers through the Group's domestic distribution platform comprising seven distribution centres located in the major agricultural regions of Russia. The Group also sells third-party fertilisers domestically through its distribution network. Most of the sales of the Group's phosphate rock in Russia are made directly to end customers outside of the Group's distribution network. In 2010, domestic sales of fertilisers and feed phosphate accounted for 18.1 per cent. of the Group's

fertiliser and feed phosphate sales, while domestic phosphate rock sales accounted for 57.6 per cent. of the Group's external phosphate rock sales. Overall, domestic sales accounted for 34.9 per cent. of the Group's total sales in 2010.

In 2010, the Group had a total revenue of 77.0 billion roubles, adjusted EBITDA of 20.5 billion roubles and profit for the year of 12.0 billion roubles. The Group's adjusted EBITDA margin and profit margin were 26.6 per cent. and 15.6 per cent., respectively, in that year. In the three months ended 31 March 2011, the Group had a total revenue of 24.5 billion roubles, adjusted EBITDA of 9.1 billion roubles and profit for the period of 6.2 billion roubles. The Group's adjusted EBITDA margin and profit margin were 37.2 per cent. and 25.5 per cent., respectively, in that period.

Recent Developments

Production Volumes

In the three months ended 31 March 2011, the Group:

- extracted 6,688 thousand tonnes of apatite-nepheline ore;
- produced 2,007 thousand tonnes of phosphate rock and 1,029 thousand tonnes of Phosphate-Based Fertilisers and feed phosphate;
- produced 298 thousand tonnes of ammonia, 123 thousand tonnes of ammonium nitrate and 124 thousand tonnes of urea; and
- produced 248 thousand tonnes of nepheline concentrate.

Dividend Payments

In May-June 2011, the Group paid dividends to all its existing shareholders for the year ended 31 December 2010 in the amount of 26,000 million roubles and for the three months ended 31 March 2011 in the amount of 3,850 million roubles. The amount of 216 million roubles was retained by the Group as dividends on treasury shares. The Group financed approximately one third of the payments using cash flows from operating activities and approximately two thirds of the payments using short-term and long-term debt.

Acquisitions

In June 2011, the Group company BMF acquired a 24.0 per cent. stake in CJSC Metachem for a consideration of U.S.\$6,006 thousand and a 20.85 per cent. stake in CJSC Pikalevskaya Soda (approximately 80 per cent. of which is owned by CJSC Metachem) for a consideration of U.S.\$5,157 thousand. The acquisitions were made as part of the Group's vertical integration strategy. The Group is also in the process of discussing a joint venture between the Group and Basel Cement Pikalevo (which produces alumina from the Group's nepheline concentrate) pursuant to which the Group's nepheline concentrate would be utilised by the production of facilities of CJSC Pikalevskaya Soda and Basel Cement Pikalevo. On 26 April 2011, the Group signed an agreement with a Danish engineering company pursuant to which the parties intend to develop energy-efficient technology of nepheline concentrate processing, which is expected to be used when constructing new and modernising existing Basel Cement Pikalevo's production facilities. Furthermore, the Group is currently negotiating an agency agreement with CJSC Metachem pursuant to which the Group would be selling Metachem's sodium tripoly phosphate ("STPP") and sulphate of potash ("SOP").

Debt Repayment

Subsequent to 31 March 2011, certain loans and receivables from related parties of the Group in the aggregate amount of 8,291 million roubles have been repaid.

Key Strengths

- The Group benefits from strong industry fundamentals
- The Group's vertically integrated business model provides it with significant advantages over its competitors
- The Group has a high-quality complex own ore reserve base

- The Group benefits from a sustainable low-cost advantage in raw materials and logistics and transportation
- The Group benefits from a flexible MAP/DAP/NPK/NPS production model combined with a flexible sales strategy
- The Group benefits from globally diversified sales and a strong own domestic distribution network
- The Group is well positioned to benefit from the significant growth potential of the Russian fertiliser market
- The Group has one of the largest internal power generation capacities among Russian fertiliser producers
- The Group has a strong and experienced management team with proven track record

Strategy

The Group's short-term strategy focuses on optimising the Group's profit margins. In order to achieve this objective, the Group plans to implement several initiatives including modernisation and expansion of some of its production facilities, construction of a new urea plant and a new electricity power plant and increasing its railcar fleet.

The Group's key long-term strategic objectives are to reinforce its position as a global leading integrated producer of fertilisers and to enhance overall value for its shareholders. To achieve these objectives, the Group intends to pursue the following long-term strategies:

- Increase fertiliser and feed phosphate production capacities
- Utilise the full potential of its apatite-nepheline ore reserves base
- Continue to improve operational flexibility and efficiency
- Diversify the Group's product portfolio by adding industrial phosphates such as purified phosphoric acids
- Pursue a selective acquisition strategy focused on synergies with the Group's existing asset base

Risk Factors

An investment in the Shares or GDRs involves risks, including those relating to or arising from the Group's business and industry, political, social, economic, legislative and legal risks associated with the Russian Federation and risks arising from the nature of the Shares and GDRs and the markets upon which they are or are expected to be traded, including the following risks relating to our business and industry:

- Worldwide production and supply of mineral fertilisers are expected to increase, which could result in a decrease in fertiliser prices
- A decline in fertiliser demand and prices due to developments affecting the agricultural industries in Russia and the Group's major export markets could materially adversely affect the Group's business, results of operations, financial condition and prospects
- A decrease in demand and prices for the Group's products, particularly as a result of an economic downturn, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects
- Changes in government policies may materially adversely affect demand and prices for the Group's products
- The Group's licences, in particular Apatit's apatite-nepheline ore mining licences, are important for the Group's operations, and the loss or failure to renew the Group's licences, permits, certificates and other authorisations on expiry could have a material adverse effect on the Group's business, results of operations, financial condition and prospects
- The Group is exposed to risks relating to the Russian Government's participation in Apatit
- The fertiliser industry is cyclical in nature which normally results in fluctuations in demand and prices for the Group's products

- The Group is subject to mining risks
- Accidents involving the Group's products could cause severe damage or injury to property, the environment and human health, which could materially adversely affect the group's business, results of operations, financial condition and prospects
- The Group faces intense competition in the markets in which it operates
- Imposition of export duties by the Russian Government may have a material adverse effect on the Group's business, results of operation, financial condition and prospects
- The Group may be unable to apply Russian zero VAT rate and recover or obtain a refund of Russian VAT paid to vendors or at customs
- Currency fluctuations, and in particular the appreciation of the rouble against the U.S. dollar, may materially adversely affect the Group's results of operations
- The Group may not be able to secure funding sufficient for the implementation of its capital expenditure programme
- The Group's capital expenditure programme is subject to various risks and uncertainties
- The Group's production costs may increase
- The Group is dependent on a limited number of suppliers, some of which are natural monopolies or have a dominant market position, and may be subject to increased costs of raw materials and supply disruptions
- The Group relies heavily on the Russian railroad network, which is predominantly operated by Russian Railways, and, to a lesser extent, on railcars provided by Russian Railways for the transportation of raw materials and Group's products
- The Group is reliant on two international traders for a large portion of its export sales of fertilisers and a deterioration of the Group's relationship with one or both of these traders could materially adversely affect the Group's business, results of operations, financial condition and prospects
- Disruptions in sea transportation could materially adversely affect the Group's business
- Weather conditions in the areas where the Group's mines and production facilities are located may materially adversely affect the Group
- The Group may experience equipment failure, production curtailment or shutdowns, or other interruptions in apatite-nepheline ore mining or phosphate rock or fertiliser production processes
- The Group will remain under the control of the current group of shareholders whose interests could conflict with those of the holders of the Shares or the GDRs
- The Group engaged in the past and may engage in the future in transactions with related and other parties that may present conflicts of interest
- The Group does not carry all of the types of insurance coverage customary in other countries for a business of the Group's size and nature, and the Group may be unable to obtain adequate insurance cover
- Estimates of the Group's reserves and resources are subject to uncertainties
- Loss of the Group's senior management could have a material adverse effect on the Group's competitive position and future prospects
- The Group's business may be affected by shortages of skilled labour or labour disputes
- The Group company Apatit may be characterised as a natural monopoly in the future and therefore may be exposed to various regulatory risks including state regulation of prices for its products
- The Group's acquisitions or title to, or other rights in, land that it owns or leases may be challenged
- The Group's group-wide management controls and processes are not fully developed and may fail to ensure proper oversight, reporting and control of the Group's business
- Acts of terrorism could negatively affect the Group's business

- A change in agricultural production in favour of organic production could adversely affect the Group's business, results of operations, financial condition and prospects
- The Group operates as a vertically integrated business, which involves certain risks
- An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in demand for the Group's products in those markets
- Stricter environmental laws and regulations or stricter enforcement of existing environmental laws and regulations in the Russian Federation may have a material adverse effect on the Group's business, results of operations, financial condition and prospects
- The Group's operations could be adversely affected if it fails to comply with applicable health and safety laws, regulations or rules or instructions of the relevant health and safety authorities
- Failure of the Depositary or future investors to obtain approval from the Strategic Enterprises Committee under the Law on Strategic Enterprises may, respectively, result in the cancellation of the Offering and limit the Group's ability to obtain equity funding in the future
- In the event that the title to any asset acquired by the Group through privatisation, bankruptcy sale or by other means is successfully challenged, the Group may lose its ownership interest in such assets

The foregoing is not a comprehensive list of the risks and uncertainties to which the Group is subject. Investors should carefully consider all of the information in this Prospectus, including the information included under "*Risk Factors*", prior to making an investment in the Offering.

Summary Consolidated Financial Information and Other Financial Data

The following summary consolidated historical financial information as of and for the years ended 31 December 2008, 2009 and 2010 has been extracted from the Audited Financial Statements, which are included elsewhere in this Prospectus. The unaudited summary consolidated historical interim financial information as of 31 March 2011 and for the three months ended 31 March 2011 and 2010 has been extracted from the 2011 Interim Financial Statements, which are included elsewhere in this Prospectus. The 2011 Interim Financial Statements have been prepared in accordance with IAS 34. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

Certain operating data set forth below (EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, capital expenditures, net debt and cash costs) are non-IFRS measures.

See also "*Presentation of Financial and Other Information*" for important information about the financial information presented herein.

Summary Financial Position Data

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			
				unaudited
ASSETS				
<i>Non-current assets</i>				
Property, plant and equipment	37,640	42,557	46,480	47,056
Intangible assets	577	711	776	784
Investments in associates	—	—	9,365	7,296
Other non-current assets	5,216	10,992	7,147	8,113
Total non-current assets	43,433	54,260	63,768	63,249
<i>Current assets</i>				
Other current investments	7,972	917	3,300	4,782
Inventories	8,781	6,847	7,716	8,703
Current income tax receivable	1,245	717	379	68
Trade and other receivables	9,773	12,642	15,521	14,642
Cash and cash equivalents	14,348	5,622	5,261	9,206
Total current assets	42,119	26,745	32,177	37,401
Total assets	85,552	81,005	95,945	100,650
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital	360	360	360	360
Share premium	210	210	496	496
Treasury shares	—	—	(37)	(37)
Retained earnings	46,847	49,215	55,311	60,357
Reserves	691	2,147	2,120	1,815
	48,108	51,932	58,250	62,991
Equity attributable to Equity holders of the Parent	48,108	51,932	58,250	62,991
Equity attributable to non-controlling interests	14,754	15,064	15,079	16,530
	62,862	66,996	73,329	79,521
<i>Non-current liabilities</i>				
Loans and borrowings	2,086	2,020	3,423	3,829
Defined benefit obligations	690	646	931	948
Deferred tax liabilities	1,770	2,557	2,700	2,633
Total non-current liabilities	4,546	5,223	7,054	7,410
<i>Current liabilities</i>				
Trade and other payables	14,216	6,252	9,461	8,057
Current income tax payable	41	374	592	921
Loans and borrowings	3,887	2,160	5,509	4,741
Total current liabilities	18,144	8,786	15,562	13,719
Total equity and liabilities	85,552	81,005	95,945	100,650

Selected Statement of Comprehensive Income Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Revenues	92,191	60,785	76,951	16,963	24,486
Cost of sales	(36,594)	(39,894)	(47,670)	(11,495)	(13,511)
Gross profit	55,597	20,891	29,281	5,468	10,975
Administrative expenses	(3,416)	(3,914)	(5,247)	(1,242)	(1,057)
Selling expenses	(7,400)	(5,451)	(6,515)	(1,406)	(1,570)
Taxes, other than income tax	(1,044)	(1,113)	(999)	(265)	(322)
Other (expenses)/income, net	(1,564)	664	(1,833)	(87)	(368)
Operating profit	42,173	11,077	14,687	2,468	7,658
Finance income	2,231	1,694	1,380	251	289
Finance costs	(1,063)	(845)	(437)	(85)	(85)
Profit before taxation	43,341	11,926	15,630	2,634	7,862
Income tax expense	(10,824)	(3,250)	(3,649)	(671)	(1,627)
Profit for the year	<u>32,517</u>	<u>8,676</u>	<u>11,981</u>	<u>1,963</u>	<u>6,235</u>
Attributable to:					
Non-controlling interests	<u>4,941</u>	<u>2,295</u>	<u>1,403</u>	<u>114</u>	<u>900</u>
Equity holders of the Parent	<u>27,576</u>	<u>6,381</u>	<u>10,578</u>	<u>1,849</u>	<u>5,335</u>

Selected Cash Flow Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Cash flows from operating activities	36,252	8,731	15,133	2,265	11,936
Cash flows used in investing activities	(14,121)	(9,357)	(16,975)	(3,774)	(4,318)
Cash flows from/(used in) financing activities	(10,005)	(8,179)	1,481	1,339	(3,673)

Segmental Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Segment external revenues					
Phosphate-based products	83,809	53,283	68,832	15,019	21,105
Nitrogen fertilisers	8,820	6,469	7,012	1,658	3,175
Other	<u>1,512</u>	<u>1,071</u>	<u>1,106</u>	<u>285</u>	<u>213</u>
Total	<u>94,141</u>	<u>60,823</u>	<u>76,950</u>	<u>16,962</u>	<u>24,493</u>

Other Financial Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)				
EBITDA ⁽¹⁾ (in millions of roubles)	45,404	15,177	20,464	3,669	9,109
Adjusted EBITDA ⁽¹⁾ (in millions of roubles)	47,396	13,185	20,464	3,669	9,109
EBITDA margin ⁽²⁾ (in percentages)	49.2	25.0	26.6	21.6	37.2
Adjusted EBITDA margin ⁽³⁾ (in percentages)	51.4	21.7	26.6	21.6	37.2
Capital expenditures ⁽⁴⁾ (in millions of roubles)	11,124	9,303	10,614	1,049	2,168

- (1) EBITDA is defined as profit or loss for the year before finance income and finance costs; income tax expense or benefit; and depreciation, amortisation and impairment. Adjusted EBITDA is defined as EBITDA adjusted to exclude in the period items which the Company views as exceptional and non-recurring. In 2008 and 2009, the exceptional adjustment comprised accrual/reversal of litigation provision (the Group recorded an accrual of litigation provision in 2008, which was subsequently reversed in 2009). EBITDA and adjusted EBITDA are not presentations defined by IFRS, are not a measure of financial condition, liquidity or profitability and should not be considered as alternatives to income/(loss) determined in accordance with IFRS or operating cash flows determined in accordance with IFRS. Additionally, EBITDA and adjusted EBITDA are not intended to be a measure of free cash flow for management's discretionary use, as they do not take into account certain items such as investments in the Group's associates, interest and principal payments on the Group's indebtedness, depreciation and amortisation expense (because the Group uses capital assets, depreciation and amortisation expense is a necessary element of the Group's costs and ability to generate revenue), working capital needs and tax payments (because the payment of taxes is part of the Group's operations, it is a necessary element of the Group's costs and ability to operate). The Company believes that inclusion of EBITDA and adjusted EBITDA is appropriate to provide additional information to investors about the Group's operating performance and to provide a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. Because not all companies calculate EBITDA, adjusted EBITDA or similarly entitled measures identically, this presentation of EBITDA and adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

The following table reconciles the Group's EBITDA and adjusted EBITDA calculation described above to profit for the year:

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)				
	(unaudited)				
Profit for the year	32,517	8,676	11,981	1,963	6,235
Finance income	(2,231)	(1,694)	(1,380)	(251)	(289)
Finance costs	1,063	845	437	85	85
Income tax expense	10,824	3,250	3,649	671	1,627
Depreciation, amortisation and impairment	3,231	4,100	5,777	1,201	1,451
EBITDA	45,404	15,177	20,464	3,669	9,109
Accrual/(reversal) of litigation provision	1,992	(1,992)	—	—	—
Adjusted EBITDA	47,396	13,185	20,464	3,669	9,109

- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue.
- (4) The Company defines capital expenditures as all additions to property, plant and equipment.

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			
Net debt ⁽¹⁾	(8,375)	(1,442)	3,671	(636)

- (1) Net debt is defined as total loans and borrowings less cash and cash equivalents. Net debt is not a presentation defined by IFRS, is not a measure of financial condition, liquidity or profitability and should not be considered as an alternative to total loans and borrowings or other line items determined in accordance with IFRS. Additionally, net debt is not intended to be a measure of free cash flow for management's discretionary use. The Company believes that inclusion of net debt is appropriate to provide additional information to investors about the Group's operating performance. Because not all companies calculate net debt identically, this presentation of net debt may not be comparable to other similarly titled measures of other companies.

In the three months ended 31 March 2011, the Group's total phosphate rock cash cost was 4,351 million roubles. The Group's cash cost per tonne of phosphate rock produced was 2,167.9 roubles in the same period. The Company defines cash costs as cost of goods sold less depreciation, amortisation and impairment expense plus land tax and tax on exploration of mineral resources. Cash cost is not a presentation defined by IFRS, is not a measure of financial condition or profitability and should not be considered as an alternative to cost of goods sold or other line items determined in accordance with IFRS. The Company believes that inclusion of cash cost is appropriate to provide additional information to investors about the Group's operating performance. Because not all companies calculate cash costs identically, this presentation of cash cost may not be comparable to other similarly titled measures of other companies.

Summary of the Offering

The Offering

The Selling Shareholders are offering 1,282,000 Shares in the form of Shares and GDRs, with thirty GDRs representing one Share. In addition, Adorabella Limited has granted to the Joint Bookrunners in connection with the Offering an option to purchase at the Offer Price up to 15 per cent. of the total number of GDRs sold in the Offering solely to cover over-allotments. The Shares and GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States to institutional and certain other eligible investors in offshore transactions in reliance on Regulation S. The Shares are also being offered in the Russian Federation in reliance on Regulation S.

Use of Proceeds

The Company will not receive any proceeds from the Offering. Gross proceeds from the Offering total approximately \$538 million. Net proceeds from the Offering total approximately \$524 million and reflect the deduction of the aggregate underwriting commissions of \$13.4 million and expenses of the Joint Bookrunners of approximately \$1.15 million. Estimated other aggregate expenses of the Offering, excluding such underwriting commissions and expenses, are expected to total approximately \$3.6 million and will be paid by the Company. In addition, the Company may pay the Joint Bookrunners, at its sole discretion, an incentive fee of up to \$2.7 million (0.5 per cent. of the aggregate gross proceeds of the Offering). This incentive fee will be determined by the Company and paid to the Joint Bookrunners by no later than 30 days from the Closing Date.

For more information on the Company's future capital requirements, see "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*".

RISK FACTORS

An investment in the Shares or the GDRs involves a high degree of risk. Prospective investors should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the Shares or the GDRs. Any of the following risks, individually or together, could adversely affect the Group's business, results of operations, financial condition and prospects, in which case the trading price of the Shares or the GDRs could decline and investors could lose all or part of their investment.

The Company has described the risks and uncertainties that the Company believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties of which the Company is currently not aware or which the Company currently deems immaterial may also have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Prospective investors should be aware that the value of the Shares or the GDRs and any income from them may go down as well as up and that investors may not be able to realise their initial investment.

Risks Related to the Group's Business and Industry

Worldwide production and supply of fertilisers are expected to increase, which could result in a decrease in fertiliser prices

During 2011-2015, fertiliser production plants with an annual aggregate production capacity of approximately 9-10 million tonnes of P_2O_5 were announced and are expected to become operational worldwide, according to Fertecon. In particular, the Ma'aden plant in Saudi Arabia with an annual production capacity of 2.9 million tonnes of DAP per year (1,850 thousand tonnes of P_2O_5 per year) (the "Ma'aden Project") has commenced partial production in 2011 and is expected to reach full capacity in 2012, according to Fertecon. In addition, CJSC North-West Phosphor Company ("NWPC") beneficially owned by OJSC Akron, a Russian fertiliser producer, has been issued licences to mine apatite-nepheline ore from deposits located not far from the Group's mines. The licences also prescribe that NWPC must reach an annual phosphate rock production of at least 970 thousand tonnes of phosphate rock by 1 May 2013 and an annual phosphate rock production of at least 1,940 thousand tonnes of phosphate rock by 1 May 2018. Production of phosphate rock by NWPC is likely to result in increases in fertiliser production in Russia and/or abroad. According to Fertecon, approximately 38.6 million tonnes of P_2O_5 were produced worldwide in 2010. When some or all of these plants start production, world supply of fertilisers is expected to increase, which may result, particularly in the absence of a matching increase in demand, in a decline in fertiliser prices. In addition, at present almost all of the fertilisers produced in China are used to satisfy local demand, in part due to substantial export duties on fertilisers imposed by the Chinese government. Such export duties have been in effect during most of the past three years but there can be no assurance that they will remain. An increase in exports from China of fertilisers may also drive global fertiliser prices lower.

In addition, the Ma'aden Project and Chinese producers are located significantly closer to India than the Group's fertiliser production facilities. India is one of the major global consumers of fertilisers and one of the largest export markets for the Group, as sales to India accounted for 18.2 per cent. of the Group's total export revenue in 2010. Ma'aden and Chinese producers may be able to offer lower prices to Indian customers, for example due to lower transportation costs, than the Group, which could require the Group to decrease its fertiliser prices or cause a decrease in the Group's revenue.

A decrease in fertiliser prices due to an increase in worldwide supply and/or production of fertilisers may cause a decline in the Group's fertiliser sales revenue and the Group's profitability, and accordingly could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

A decline in fertiliser demand and prices due to developments affecting the agricultural industries in Russia and the Group's major export markets could materially adversely affect the Group's business, results of operations, financial condition and prospects

Developments in the agricultural industries in Russia and the Group's major export markets (including markets in Asia, Europe and North America) have in the past adversely affected, and may in the future adversely affect, the Group's business, results of operations, financial condition and prospects. The majority of fertiliser products are ultimately sold to growers, therefore the Group's results of operations

are significantly affected by trends and other factors that influence the agricultural market generally. The following factors have in the past affected, and may in the future affect, the agricultural markets:

Lower agricultural product prices

Lower agricultural product prices may result in reduced production of agricultural products, which could decrease demand for fertilisers and result in downward pressure on fertiliser prices. Movements in commodity crop prices also affect the Group's results, and this can result not only in reduced sales but also in competitive price pressure in certain markets when commodity crop prices are depressed. For example, during the global economic downturn that commenced in the second half of 2008, agricultural product and commodity crop prices substantially declined, resulting in lower fertiliser prices. Although commodity crop prices have been relatively high recently, prices may fall in the future and such declines may adversely affect sales of the Group's products.

Adverse weather conditions

The agricultural industry is heavily influenced by local weather conditions. Significant deviations from typical weather patterns of a given region, variations in local climates or major weather-related disasters may reduce demand for the Group's fertilisers, particularly in the short-term, if agricultural products or the land on which they grow are damaged or if such deviations, variations or disasters reduce the incomes of growers and thus their ability to purchase the Group's products. The effect of adverse weather conditions, in particular, can be very significant, resulting in delays or intermittent disruptions during the planting and growing seasons, which may, in turn, cause agricultural customers to use different forms of fertiliser, because fertilisers may only be applied at specific times. Similarly, adverse weather conditions following harvest may delay or eliminate opportunities to apply fertiliser in the autumn, which is the season when fertilisers are applied in certain areas of Russia and other countries. Weather can also have an adverse effect on crop yields, which lowers the income of growers and could impair their ability to purchase fertilisers.

Adverse governmental agricultural policies

Any changes in subsidies to growers or in other state support programmes may inhibit the growth of, or cause a decline in, the demand for fertiliser products. For example, fertiliser demand and prices in China and India have historically been heavily dependent on government agricultural policies. In China, the government imposed export duties on fertilisers in order to preserve domestic supply, whereas in India the government provides direct subsidies to farmers to purchase fertilisers. International treaties and agreements, including those made by the World Trade Organisation, may also result in reductions in subsidies for agricultural products or in other adverse changes to state support programmes. In addition, the Russian government may require fertiliser producers to decrease domestic prices for local agricultural producers. Furthermore, governmental policies may regulate the amount of land that can be used for growing crops, the mix of crops planted or crop prices, any of which could adversely impact the demand for the Group's products. See “—Changes in government policies may materially adversely affect demand and prices for the Group's products” for more information.

Use of substitute products

Replacement of fertiliser application with other products or techniques aimed at improving crop yield could result in a decline in fertiliser demand and prices. For example, genetically modified organisms (GMOs), which are organisms whose genetic material has been altered by genetic engineering, can be used to grow agricultural products that require less fertiliser application.

A decline or changes in agricultural production in one or more of the Group's major export markets due to these or other factors could result in decreased demand and prices for the Group's fertilisers, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Similarly, a decrease in demand and prices for the Group's fertilisers in Russia due to these or other reasons could have a material adverse effect on the Group's business, results of operations, financial condition and prospects if the Group is unable to replace sales to its Russian customers with export sales.

A decrease in demand and prices for the Group's products, particularly as a result of an economic downturn, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects

During the global economic downturn that commenced in the second half of 2008, the global and Russian fertiliser markets (except for the Russian urea market) faced a significant decrease in demand and prices for these products resulting from a slow-down in the industries consuming these products, such as the agricultural industry, which were experiencing declines in demand for their products, lack of credit (for example, the agricultural industry depends heavily on credit financing, which became significantly less available during the global economic downturn) and excess inventories. In the absence of demand for their products and/or required financing, agricultural producers tend to reduce their production volumes and use more organic fertilisers rather than fertilisers such as those produced by the Group. As a result, the Group faced a substantial decline in demand and prices for its fertilisers in all major markets where the Group operates, which in turn led to a 37.2 per cent. decrease in the Group's revenues from sales of fertilisers from 72,246 million roubles in 2008 to 45,365 million roubles in 2009.

Any future economic downturn, whether globally or in Russia, could materially adversely affect the industries consuming the Group's products, which could lead to a decline in demand and prices for the Group's products and, as a result, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Changes in government policies may materially adversely affect demand and prices for the Group's products

Government policies significantly affect fertiliser demand and prices. Government policies that have an effect on fertilisers include:

- policies and commodity support programmes that provide subsidies to farmers for the purpose of purchasing fertilisers;
- export duties on fertilisers;
- government policies affecting prices of phosphate rock or other raw materials used in fertiliser production; and
- other policies such as those restricting the number of hectares that may be planted, requiring a particular type of crops to be grown and limiting the use of fertilisers in certain areas or for certain types of agricultural products.

For example, fertiliser demand and prices in China and India have historically been heavily dependent on government policies. In China, the government imposed export duties on fertilisers in order to preserve domestic supply, whereas in India the government provides direct subsidies to farmers to purchase fertilisers. Government policies can also influence market conditions in markets with indirect government subsidies such as in Europe and the United States.

In a number of markets, the Group benefits from government policies that support the agricultural industry. As a result of such policies (which often include direct or indirect fertiliser purchase subsidies), farmers and growers are often able to spend more on fertiliser purchases than in the absence of such policies. For example, the Group benefits from the direct state fertiliser purchase subsidies provided by the Indian government, as described above. In addition, the United States government provides subsidies for growing crops that can be used as biofuel. Russia also has a state support programme for the agricultural industry. The Russian Government Program for Agricultural Development and Regulation of Agricultural Commodities, Raw Materials and Food Markets for 2008-2012 envisions allotments from the Russian Federal Budget and regional budgets in the aggregate amount of approximately 1,096 billion roubles during this period aimed at modernising the Russian agricultural industry and improving living standards of the Russian rural population. The Group's management believes that one of the effects of the programme is that it provides farmers and growers with funds that they can use towards fertiliser purchases, including direct or indirect fertiliser purchase subsidies. Government policies beneficial for the Group in those and other countries could change in a manner adverse to the Group's business for a number of reasons including:

- a change in the government;
- a move towards more protectionist policies to help local fertiliser producers;
- closer political or economic ties with countries other than Russia;
- preferences for other fertiliser products;

- a desire to increase competition;
- rotation of suppliers from period to period to maintain bargaining position; and
- maintenance of greater inventories to strengthen bargaining position.

A change in government policies due to these or other factors may result in a decrease in demand and prices for fertilisers, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. For example, in 2010 the Indian Government decreased fertiliser purchase subsidies. As a result, the share of sales to India in the Group's total export revenue decreased from 25.8 per cent. in 2009 to 18.2 per cent. in 2010.

For example, on 20 November 2007, a proposal to reform the Common Agricultural Policy ("CAP") of the European Union was submitted. CAP provides for the form and size of subsidies paid to EU farmers for production and export of their crops and products and the reform primarily involves a reduction in the amount of payments made to farmers for sustaining certain levels of production. Agricultural activity may decline as reduced subsidies make agriculture less economically attractive, which may, in turn, reduce the demand and prices for fertilisers. The CAP reform also includes set-aside policies that could contribute to increases in arable land, which may further reduce demand and prices for fertilisers by reducing the pressure to increase crop yields from existing farmed land. The current CAP reform proposal also extends to the ten Central and Eastern European countries that joined the European Union in May 2004. In addition, it is unclear how Western European producers will be affected by the expansion of the European Union. The expansion could, for instance, result in a shift in agricultural activity from Western European producers to producers in Central and Eastern Europe that would be disruptive to established fertiliser markets and distribution systems, which could allow new entrants to take market share away from existing fertiliser suppliers such as the Group. The proposal to reform CAP is expected to enable the European Commission to prepare legislative proposals by the end of 2011. The reformed CAP is expected to enter into force in 2014.

International treaties and agreements, including those promulgated by the World Trade Organisation (the "WTO"), may also result in reductions in subsidies for agricultural producers or in other adverse changes to agricultural state support programmes, which could undermine the growth of, or cause a decline in, demand and prices for fertilisers.

In addition, a number of jurisdictions, including the European Economic Area, are considering and from time to time may consider limitations on the use and application of fertilisers due to concerns about the impact of these products on the environment. Statutory limitations on fertilisers use, if adopted, could materially adversely affect fertiliser demand and prices, including demand and prices for fertilisers produced by the Group.

Furthermore, the use of certain fertilisers is regulated or prohibited in certain jurisdictions. For example, the EU Water Framework Directive restricts heavy use of nitrogen and fertilisers. If existing restrictions on fertiliser use are extended or adopted by other countries, demand and prices for fertilisers may decline.

The Group's licences, in particular Apatit's apatite-nepheline ore mining licences, are important for the Group's operations, and the loss or failure to renew the Group's licences, permits, certificates and other authorisations on expiry could have a material adverse effect on the Group's business, results of operations, financial condition and prospects

The Group's business significantly depends on the continuing validity, renewal and compliance with its licences, permits, certificates and other authorisations (collectively, "**Licences**"). In particular, the Group company Apatit holds five mining Licences that allow it to develop its four apatite-nepheline ore mines. Three of these Licences were granted on 2 November 1999 and expire on 31 December 2014, one Licence was granted on 2 November 1999 and expires on 31 August 2013, and one Licence was granted on 2 February 2000 and expires on 31 May 2014. The Group is currently in the process of extending these Licences. However, there can be no assurance that these Licences will be extended prior to their expiration dates or at all. See "*Regulation of Mining and Mineral Industry in Russia—Subsoil Licensing—Extension of Licences*" for a discussion of the steps taken by the Group to extend its Licences and other information.

The Group's Licences, together with the relevant parts of applicable Russian legislation, contain various requirements that must be complied with in order to keep such Licences valid. The Group is required to comply with numerous industrial standards, maintain certain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain all appropriate filings and, upon request, submit appropriate information to licencing authorities, which

may result in higher costs for the Group. Regulatory authorities exercise considerable discretion in monitoring licencees' compliance with Licence terms and in the timing of Licence issuance and renewal. Requirements imposed by these authorities may be costly and time-consuming to fulfil and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which Licences are issued are often inconsistent with legislation.

In addition, in most cases, a Licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the Licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" terms of Licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights to Licences. As a result, while the Group seeks to comply with the terms of its Licences and believes that it is currently in material compliance with the terms of all such Licences, there can be no assurance that its Licences may not be suspended or terminated if the licensing authorities in Russia discover or otherwise allege a material violation by the Group. In this case, the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation.

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

In addition, there can be no assurance that new local, state or federal licence requirements will not be introduced or that any given Licence will not be deemed insufficient by the competent governmental authorities for the conduct of the Group's operations, nor can the Group be certain that it will be able to obtain or renew, in a timely fashion or at all, the necessary Licences.

Any or all of these factors may affect the Group's ability to obtain, maintain or renew necessary Licences. If the Group fails to comply with the requirements of applicable Russian legislation, or fails to meet the terms of its Licences, or is unable to obtain, maintain or renew necessary Licences or is only able to obtain or renew them with newly introduced material restrictions, it may have to cease conducting its business as it does now or otherwise alter its operations, including purchasing phosphate rock from third parties, and it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is exposed to risks relating to the Russian Government's participation in Apatit

Apatit is the Group's only apatite-nepheline ore mining and phosphate rock and nepheline concentrate production subsidiary and is a significant subsidiary of the Group. As of the date of this Prospectus, the Group owns 50.0 per cent. of the ordinary shares, or 57.6 per cent. of the share capital, of Apatit, while the Russian Government owns 26.7 per cent. of the ordinary shares, or 20.0 per cent. of the share capital, of Apatit. In addition, Apatit belongs to a category of entities where the Russian Government retained special voting rights following the entity's privatisation (a so called "golden" share). These rights include the right to appoint one representative of the Russian Government to the entity's Board of Directors and the audit committee, the right to call extraordinary general shareholders' meetings and the veto voting right at shareholders' meetings in respect of certain matters specified in the Federal Law on the "Privatisation of the Federal and Municipal Property" and in the entity's charter. In case of Apatit, the veto voting right can be exercised in respect of the following matters:

- changes to the Apatit's charter;
- reorganisation or liquidation of Apatit;
- change of Apatit's share capital; and

- approval of major transactions and interested party transactions as defined in the Russian Law on Joint Stock Companies.

In addition to the special rights that the Russian Government has in connection with the “golden” share, due to the fact that under Russian corporate law, decisions in respect of certain matters, including some of the matters enumerated in the above list, require a 75 per cent. vote, the Russian Government also has a veto voting right in respect of the above listed matters as a result of its 26.7 per cent. ownership of the Apatit’s voting stock. Furthermore, under Russian corporate law, 26.7 per cent. ownership of the Apatit’s voting stock entitles the Russian Government to elect two members to the Apatit’s seven-member Board of Directors, which, combined with its right to appoint one representative of the Russian Government to the Apatit’s Board of Directors pursuant to the “golden” share, allows the Russian Government to elect three members of the Apatit’s seven-member Board of Directors.

In the event that state representatives exercise their veto right, Apatit may become unable to conduct its operations and develop its business in accordance with the Group’s strategy, which could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

In addition, Apatit is on the list of companies covered by the Russian Government privatisation plans for 2011-2013 that was ratified in November 2010. In April 2011, the Company made a proposal to the Russian Government to perform a share swap pursuant to which the Russian Government would exchange its stake in Apatit for shares in the Company. In June 2011, the Company received a response from the Ministry of Economic Development of the Russian Federation in which the Ministry declined the Company’s proposal. In its response, the Ministry noted that it generally seeks to privatise its stake in Apatit in a manner that would not result in the Government acquiring shares in another entity. The Ministry also indicated that the Government’s stake in Apatit will likely be privatised, and the proceeds from such privatisation will be received in the federal budget, in 2011. The Ministry will determine its approach to privatising its stake in Apatit through consultation with financial advisors. If the Russian Government sells its share in Apatit to a party that has economic or other interests that are potentially adverse to those of the Group, such as for example to one of the Group’s competitors, and the purchaser uses its ownership interest in Apatit to the detriment of the Group, this could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects. Furthermore, if the Russian Government privatises its stake in Apatit, it is expected that it will still retain the “golden” share and, as a result, the rights associated with the “golden” share described above.

The fertiliser industry is cyclical in nature which normally results in fluctuations in demand and prices for the Group’s products

The Group operates in a cyclical industry and demand for and prices of the Group’s products are difficult to forecast. Historically, demand and prices for the Group’s products have fluctuated significantly in response to changes in market conditions. Demand is, among other things, affected by agricultural product prices, weather conditions, population growth, changes in dietary habits and planted acreage, and fertiliser application rates. Supply is affected by available capacity and operating rates, raw material costs, government policies and global trade. Periods of high demand, high capacity utilisation and increasing profit margins tend to result in new plant investment and increased production, causing supply to exceed demand and prices and capacity utilisation to decline. Reduced prices restrict investment, initiating a new cycle.

During periods of industry oversupply, the Group’s results of operations tend to be adversely affected as the price at which it sells its products typically declines, resulting in reduced profit margins, lower production volumes of its products, and possible plant downtimes and closures. For example, as a result of the global economic downturn that commenced in the second half of 2008, fertiliser demand and prices substantially declined during the global economic downturn in all major markets where the Group operates, with the revenue per tonne for the Group’s principal fertiliser products and feed phosphate declining by more than 30 per cent. in 2009 compared to 2008, which in turn led to a 37.2 per cent. decrease in the Group’s revenues from sales of fertilisers. Accordingly, the cyclical nature of the fertiliser industry has had and may have a material adverse effect on the Group’s business, results of operations, financial condition and prospects in some years compared with other years.

The Group is subject to mining risks

The Group’s apatite-nepheline ore mining operations are subject to the hazards and risks normally associated with the exploration and extraction of natural resources, any of which could result in extraction

shortfalls or damage to persons or property. In particular, hazards associated with the Group's open-pit mining operations include:

- accidents associated with blasting operations;
- accidents associated with construction activities;
- collapses of the mine walls;
- accidents associated with the operation of large mining and transportation equipment;
- falling of personnel into ore passes; and
- flooding.

Hazards associated with the Group's underground mining operations include:

- cave-ins or ground falls;
- discharges of toxic chemicals;
- ground subsidence and movement of soil layers;
- falling of personnel into ore passes; and
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

The occurrence of any of these hazards could delay apatite-nepheline ore extraction, increase production costs and result in injury to, or death of, the Group's employees, contractors or other persons and damage to property as well as in liability for the Group. A total of 27, 29 and 29 workplace-related accidents occurred at the Group's apatite-nepheline ore mines in 2008, 2009 and 2010, respectively, of which 13, 3 and 5, respectively, resulted in deaths. See "*Business—Health and Safety*" for more information. Although none of these accidents had a material adverse effect on the Group's operations or financial condition, there can be no assurance that future accidents will not materially adversely impact the Group's operations and/or financial condition.

The occurrence of any of these events could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Accidents involving the Group's products could cause severe damage or injury to property, the environment and human health, which could materially adversely affect the Group's business, results of operations, financial condition and prospects

As a fertiliser business working with chemicals and hazardous substances, the Group's business is inherently subject to the risk of spills, discharges or other releases of hazardous substances into the environment. The Group manufactures, stores and transports ammonia, ammonium nitrate, sulphuric, phosphoric and fluosilicate acids and other chemicals and chemical products that are volatile, explosive and/or the release of which may have an adverse impact on the environment. Environmental risks associated with the Group's operations include:

- explosions at the Group's ammonia and other production facilities;
- discharges of ammonia or toxic gases into the atmosphere;
- spillage of sulphuric or phosphoric acid; and
- discharge of gypsum in waterways.

Accidents involving these or other substances could result in fires, explosions, severe pollution or other catastrophic circumstances, which could cause severe damage or injury to persons, property or the environment as well as disruptions to the Group's business. Such events could result in equipment failures or shutdowns, civil lawsuits, criminal investigations and regulatory enforcement proceedings, all of which could lead to significant liabilities for the Group. For example, in May 2010, an accident at one of the Group's companies resulted in the release of waste water containing gypsum. Authorities have demanded that the Group pay 34.5 million roubles, which includes restoration costs. A sanitary protection zone was also established around the production site. The Group is currently disputing this amount on the grounds that an incorrect methodology was used to assess the damages. If the Group's challenge is unsuccessful and the Group is required to pay 34.5 million roubles, approximately 8.6 million roubles would be covered by insurance. In another example unrelated to the Group, an explosion resulting in fire took place at one of

the ammonia plants of U.S.-based fertiliser producer Agrium in April 2011. Although there were no injuries or release of anhydrous ammonia, there was speculation in the press that the plant may not be operational for a period of approximately four to six months as a result of the fire. Any damage to persons, equipment or property or other disruption to the Group's ability to produce or distribute its products could result in a significant decrease in Group revenues and profits and significant additional cost to replace or repair the Group's assets, and depending on the nature of the incident the Group may not be fully insured, or insured at all, all of which could result in a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, certain environmental laws applicable to the Group impose joint and several liability, without regard to fault, for clean-up costs on persons who have disposed of or released hazardous substances into the environment. As a result, given the nature of the Group's business, it may incur environmental clean-up liabilities in respect of its current or former facilities, adjacent or nearby third-party facilities or offsite disposal locations. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. The costs associated with future clean-up activities that the Group may be required to conduct or finance may be material. Additionally, the Group may become liable to third parties for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

Furthermore, the Group's properties have a long history of industrial operations and its mines and plants generate large amounts of waste materials. The Group incurs substantial costs to manage and dispose of such waste materials. The Group's properties generally have not been subject to comprehensive environmental audits to fully assess whether contamination is present. Any findings of contamination could require removal and reclamation action and result in other liabilities that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group faces intense competition in the markets in which it operates

The Group is subject to intense competition from both domestic and foreign producers. Fertilisers are global commodities with little or no product differentiation, and customers make their purchasing decisions principally on the basis of delivered price and, to a lesser extent, on customer service and product quality. The Group competes with a number of domestic and foreign producers, including state-owned and government-subsidised entities. Some of these competitors have greater total resources and are less dependent on earnings from fertiliser sales, which make them less vulnerable to industry downturns and better positioned to pursue new expansion and development opportunities. Some of the Group's traditional competitors (including, among others, Mosaic (USA), OCP (Morocco), Yara (Norway), EuroChem (Russia), URALCHEM (Russia) and Acron (Russia)) may have competitive advantages similar to or even superior to those of the Group, such as control over or access to low-cost raw materials base, access to low-cost credit, locations close to major suppliers or consumers, good market reputation and long-standing trade relationships with global market participants. The Group's inability to compete successfully could result in the loss of customers, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Imposition of export duties by the Russian Government may have a material adverse effect on the Group's business, results of operation, financial condition and prospects

Export sales comprise a significant part of the Group's total sales. In 2010, export sales accounted for 65.1 per cent. of the Group's revenue. In April 2008, the Russian Government introduced export duties on sales of fertilisers and phosphate rock (except for exports to certain members of the Commonwealth of Independent States ("CIS")) that were equal to 8.5 per cent. and 6.5 per cent. of the declared customs value of fertilisers and phosphate rock, respectively. Although the Russian Government abolished these export duties on sales of fertilisers from 1 February 2009 and on sales of phosphate rock from 1 May 2009, there is no assurance that such or similar export duties will not be imposed in the future, which could have a material adverse effect on the Group's profitability and as a result on the Group's business, results of operations, financial condition and prospects.

The Group may be unable to apply Russian zero VAT rate and recover or obtain a refund of Russian VAT paid to vendors or at customs

Many Russian companies encounter difficulties with the recovery of VAT paid to vendors or at customs ("input VAT"). The procedure of confirming eligibility for zero VAT rate application on export of goods or

provision of export-related services is complicated and requires substantive administrative efforts and paperwork. Under the Tax Code of the Russian Federation (the “**Russian Tax Code**”), the Group is entitled to recover the excess of input VAT over VAT collected from the customers (“**output VAT**”), either through cash refunds or offsets against future tax liabilities, while the Company and its Russian subsidiaries are also entitled to earn interest on any excess input VAT amounts which have not been timely refunded by the Russian tax authorities. In practice, the receipt of cash refunds is normally a time- and resource-consuming process, which frequently triggers special tax audit by the Russian tax authorities. For that reason, Russian companies often elect to seek recovery of excess input VAT through an offset against future tax liabilities, while receipt of interest on any excess input VAT amounts is not likely. Furthermore, the Russian tax authorities often scrutinise more vigorously the companies that show substantial excess input VAT amounts in their tax declarations and use any pretext to refuse recovery/refund or to delay it. As a result, the Group may be unable to apply Russian zero VAT rate and recover or obtain a refund of all or part of the excess of input VAT and/or such recovery/refund may take a significant amount of time, which could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

Currency fluctuations, and in particular the appreciation of the rouble against the U.S. dollar, may materially adversely affect the Group’s results of operations

The Group is exposed to foreign currency exchange rate risks. The Group’s presentation and functional currency is the Russian rouble. However, since a large proportion of the Group’s revenue is from export sales, such revenue is received in foreign currencies, principally the U.S. dollar. For example, in 2010 export sales accounted for 65.1 per cent. of the Group’s revenue. While some of the Group’s costs, such as interest expense and costs of equipment are incurred in currencies other than the rouble and some of the Group’s loans are denominated in U.S. dollars, there is still a mismatch between the proportion of total revenue received in foreign currencies and the proportion of total costs paid in foreign currencies, so that the appreciation of the rouble against the U.S. dollar tends to result in an increase in the Group’s costs relative to the Group’s revenue. As the Group makes only a limited use of financial instruments to hedge its foreign currency exposure (in 2008, 2009 and 2010, the Group entered into forward contracts in the amounts of USD 40 million, USD 60 million and USD 85.2 million, respectively, which accounted for less than 10 per cent. of the Group’s total export revenue in each of those years), a material appreciation of the rouble against the U.S. dollar could have a material adverse effect on the Group’s business, results of operation, financial condition and prospects.

The Group may not be able to secure funding sufficient for the implementation of its capital expenditure programme

Apatite-nepheline ore mining and phosphate rock and fertiliser production are capital-intensive businesses. The Group is in the process of developing a number of investment projects relating to (i) the capacity expansion and modernisation of its existing fertiliser and feed phosphate production facilities, (ii) the construction of a new urea production plant, and (iii) the modernisation of existing, and the construction of new, power plants. See “*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*” for more information on the Group’s capital expenditure programme.

The Group has in the past funded and continues to fund its capital expenditure programme primarily through cash flow from operations as well as short- and long-term bank loans. However, the Group might be unable to generate adequate cash flow from current operations and external funding may not be available at the level the Group requires, on a timely basis, on commercially acceptable terms or at all during the periods when the Group requires external funding for any of its projects. In addition, Russian securities regulations set a limit on the portion of shares of a Russian company that may be circulated abroad through depositary receipt programs or otherwise. As of the date of this Prospectus, the limit applicable to the Company is 25 per cent. As a result, following the Offering, the Group may be unable to raise funds through GDR issuances.

In addition, some of the Group’s material loan agreements currently include certain financial covenants. For example, in several agreements of the Group’s companies with Sberbank, there are covenants in relation to the Group’s leverage (net debt/EBITDA ratio) and restrictions on certain transactions, including restrictions on indebtedness. See “*Material Contracts—Loan Agreements*”. Such financial covenants impose limitations on the Group’s ability to incur additional debt in the future and may limit the Group’s ability to secure funding sufficient for the implementation of its capital expenditure programme.

If the Group is unable to finance planned capital expenditures, or to finance such expenditures on reasonable terms, any or all projects that constitute the Group's capital expenditure programme may not be implemented according to schedule or at all. As a result, the existing constraints that limit extraction and/or production volumes or those that can limit future growth will remain, the expected efficiency gains from modernising the existing production facilities and constructing the new facilities will not be achieved and any growth prospects based on the assumption that these projects are completed will not materialise, which may have a material adverse effect on the Group's business, growth prospects and competitive position.

The Group's capital expenditure programme is subject to various risks and uncertainties

Capital expenditure programmes are subject to a variety of potential problems and uncertainties, including incompleteness, cost overruns and defects in design or construction, which may require additional investments; as well as changes in economic and market conditions, which may affect the economic viability of such capital expenditures. In addition, the Group relies to a significant degree on third-party contractors for the implementation of its construction projects. If these third-party contractors cease their operations due to any reasons the Group could incur higher costs and expenses and experience construction delays. There can be no assurance that the Group will successfully implement its capital expenditure programme, either on time or on budget. If any or all major projects that constitute the Group's capital expenditure programme are not implemented according to schedule or at all, the existing constraints that limit production volumes or those that can limit future growth will remain, the efficiency gains from modernising the existing production facilities and constructing the new facilities will not be achieved and any growth prospects based on the assumption that these projects are completed will not materialise, which may have a material adverse effect on the Group's business, growth prospects and competitive position.

The Group's mining capital expenditure projects are subject to the completion of planned development on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Mining equipment required for the mining capital expenditure projects may not be available in a timely manner due to high demand, insufficient supply or other reasons. There may also be a shortage of suitably qualified personnel for the implementation of the Group's mining capital expenditure projects. Any such failure may result in delays in the completion of the Group's mining capital expenditure projects which could result in reduced extraction volumes at the Group's mines, which in turn would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's production costs may increase

The Group's production costs may increase significantly, particularly as Russia's economic environment moves closer to those of Western countries. The Group's significant non-raw materials related production costs are salaries and social contributions, fuel costs, expenditures on natural gas and electricity costs. Natural gas is the principal raw material for the production of ammonia, which in turn is the main raw material for the production of Nitrogen-Based Fertilisers including urea and is also used in the production of Phosphate-Based Fertilisers. The Group also uses natural gas for heating, electricity production and other production related purposes.

Salaries and social contributions are the second largest component of the Group's cost of sales after materials and services costs and the largest component of the Group's administrative expenses, accounting for 20.3 per cent., 20.3 per cent. and 18.4 per cent. of total cost of sales and 50.8 per cent., 52.4 per cent. and 53.5 per cent. of the Group's administrative expenses in 2008, 2009 and 2010, respectively. Labour costs in Russia have historically been significantly lower than those in the more developed market economies of Western Europe and North America for similarly skilled employees; however, the average wage in Russia has been rising significantly in recent years. According to Rosstat, wages in the Russian Federation calculated in roubles rose by 17.0 per cent. and 11.5 per cent. in 2007 and 2008, respectively, declined by 3.5 per cent. in 2009, and then increased by 4.2 per cent. in 2010 (preliminary Rosstat data), in each case in real terms. Given that a significant proportion of the Group's production facility workforce is unionised (94.5 per cent. of Apatit employees, 70.0 per cent. of Ammophos employees, 88.0 per cent. of BMF employees and 63.0 per cent. of Cherepovetsky Azot employees were members of trade unions as of 1 January 2011), the Group could be limited in its flexibility in managing its workforce and limiting increases in payroll costs. If the Group is unable to pass on any such increases in labour costs to its

customers, the Group's profit margins could be adversely affected, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's expenditures on natural gas, fuel and electricity in the aggregate accounted for 23.1 per cent., 22.2 per cent. and 23.7 per cent. of the Group's cost of sales in 2008, 2009 and 2010, respectively. Fuel, natural gas and electricity prices have been rising in Russia in recent years. In particular, fuel costs in Russia have been generally rising as a result of the increases in the oil price, which, following its sharp decline during the global economic downturn, increased from less than US\$37 per barrel in December 2008 to over US\$113 per barrel in April 2011. Despite recent price increases, natural gas prices in Russia currently remain significantly below those of Western Europe and North America. The Group's average natural gas purchase price increased by 13.7 per cent. from 1,852 roubles per one thousand cubic metres in 2008 to 2,106 roubles per one thousand cubic metres in 2009, and further increased by 25.0 per cent. to 2,633 roubles per one thousand cubic metres in 2010. The Russian government announced plans to increase domestic gas prices by up to 15 per cent. per year for the years 2011, 2012 and 2013 with the aim of ultimately reaching netback parity with Gazprom's European export prices. Furthermore, the Group's gas utilisation rates in the ammonia production process are generally higher than those of some of its international peers (for example, gas utilisation rates of some of the European ammonia producers are approximately 35 per cent. lower) resulting in the Group consuming more gas per tonne of ammonia produced. Modernising the Group's ammonia production facilities to make them as efficient as their international, particularly European, peers would require a significant capital investment and take a substantial period of time. Domestic electricity prices in Russia have also been and remain substantially below those in Western Europe and North America. Moreover, as the power generating companies created during the restructuring of the Russian power sector are financed and controlled to a greater extent by the private sector, electricity prices are likely to increase for industrial users of electricity such as the Group. If the prices at which the Group purchases fuel, natural gas or electricity continue to increase, the Group's cost of sales could increase significantly, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects if the Group is unable to pass these cost increases to its customers.

The Group is dependent on a limited number of suppliers, some of which are natural monopolies or have a dominant market position, and may be subject to increased costs of raw materials and supply disruptions

The Group purchases certain raw materials, including natural gas, sulphur and potassium chloride, from external suppliers.

In 2010, the Group consumed approximately 1.7 billion cubic metres of natural gas and spent 4,459 million roubles on natural gas. The Group purchases natural gas primarily from LLC Gazprom Mezhtregiongaz Vologda (a subsidiary of Gazprom). The Russian Government sets the prices for the natural gas that Gazprom sells in Russia. Despite recent price increases, natural gas prices in Russia currently remain significantly below those of Western Europe and North America. The Group's average natural gas purchase price increased by 13.7 per cent. from 1,852 roubles per one thousand cubic metres in 2008 to 2,106 roubles per one thousand cubic metres in 2009, and further increased by 25.0 per cent. to 2,633 roubles per one thousand cubic metres in 2010. The Russian government announced plans to increase domestic gas prices by up to 15 per cent. per year for the years 2011, 2012 and 2013 with the aim of ultimately reaching netback parity with Gazprom's European export prices.

In 2010, the Group consumed approximately 1.4 million tonnes of sulphur and spent 2,447 million roubles on sulphur and sulphuric acid. The Group depends on a limited number of third-party suppliers to provide sulphur. The Group purchases sulphur principally from Gazprom Sulphur, Astrakhangasprom, Orenburggasprom and TengizChevroil. The Group company Ammophos is able to purchase sulphur only from Gazprom Sulphur as other sulphur providers do not have the adequate infrastructure to supply sulphur to Ammophos in the volumes that it requires. Prices of sulphur purchased from Gazprom Sulphur are generally negotiated annually. The Group's average sulphur purchase price decreased by 57.5 per cent. from 4,713 roubles per tonne in 2008 to 2,002 roubles per tonne in 2009, and then further decreased by 13.0 per cent. to 1,742 roubles per tonne in 2010.

In 2010, the Group consumed approximately 370 thousand tonnes of potassium chloride and spent approximately 2 billion roubles on potassium chloride. The Group purchases potassium chloride from a third-party producer Uralkalij to satisfy all of its potassium chloride requirements. The Group's average potassium chloride purchase price decreased by 3.3 per cent. from 4,868 roubles per tonne in 2008 to 4,707 roubles per tonne in 2009, and then increased by 10.6 per cent. to 5,204 roubles per tonne in 2010.

A material increase in the price or disruptions in the supply of natural gas (due to Gazprom's dominant position in Russia and the Russian government's natural gas price regulation or other reasons), sulphur or potassium chloride could have a material adverse effect on the Group's business, results of operations, financial condition and prospects if the Group is unable to pass on the increased costs to its customers due to contractual, market or other constraints.

In addition, if any of the Group's principal raw materials suppliers were to experience business interruptions, or go out of business, or if the Group were unable to renew contracts with its suppliers on commercially reasonable terms, it could be difficult to replace these suppliers in a timely fashion, if at all. Moreover, in the event that either the Group's demand increases or its suppliers experience a scarcity of resources, the Group's suppliers may be unable to meet its demand for raw materials, and the Group may not be able to locate additional suppliers to cover any shortfall.

Furthermore, the Company's subsidiaries, in particular Apatit, might not be able to continue to maintain current levels of supply of raw materials to other Group companies in the future. The expansion of the Group's business and production capabilities, or disruptions to the Group's ability to mine apatite-nepheline ore or produce phosphate rock, may require the Group to purchase raw materials in wholesale markets in the future. The only producer of phosphate rock in Russia other than Apatit is EuroChem, which consumes internally most of the phosphate rock that it produces and currently does not sell phosphate rock in Russia. If supply of phosphate rock from Apatit to other Group companies were disrupted, the Group may have to purchase phosphate rock from export markets, which could materially adversely affect the Group's costs (for example, due to higher prices than those at which the Group companies purchase from Apatit, higher transportation costs and/or import, customs or other duties) and materially adversely affect the Group's profit margins and as a result have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, if the ability of the Group to extract apatite-nepheline ore or produce phosphate rock is impaired and the Group has to rely on third-party suppliers of phosphate rock, the risks associated with third-party suppliers discussed in the preceding paragraphs may have an even more pronounced adverse effect on the Group.

The Group relies heavily on the Russian railroad network, which is predominantly operated by Russian Railways, and, to a lesser extent, on railcars provided by Russian Railways for the transportation of raw materials and Group's products

Railway transportation is the Group's principal means of transporting raw materials from third-party suppliers and Group companies to the Group's production facilities and for transporting the Group's products to its customers as well as to ports for onward transportation overseas. Moreover, the Group's production facilities are located at considerable distances (500–3,000 kilometres) from most of the destination markets and ports. As a result, the Group's operations heavily depend on the Russian railway system and rely predominantly on the rail freight network operated by OJSC Russian Railways ("**Russian Railways**"). Russian Railways is a state-owned monopoly company handling a significant majority of all railway freight in Russia. In 2010, the Group incurred expenses in the amount of 5,800 million roubles payable to Russian Railways for railway transportation services. The Russian Government sets rail tariffs and may further increase these tariffs as it has done in the past. Railway tariffs for freight were increased by 9.4 per cent. on 1 January 2010. Although initially a 9.2 per cent. increase in railway tariffs for freight was announced for 2011, railway tariffs for freight are now expected to increase by up to 14 per cent. in 2011 and have been increased by 8 per cent. in 2011 to date, according to the Russian Federal Tariff Service. Railway tariffs for freight are expected to increase by 7-12 per cent. in 2012 and by 6.5-11 per cent. in 2013 based on the information from the Russian Federal Tariff Service. Past and future increases in railway tariffs for freight have resulted and will continue to result in significant increases in the Group's transportation costs. In the past, the Group has been able to pass to its customers most of the increases in railway transportation costs associated with the delivery of the Group's products to its domestic customers, however there can be no assurance that the Group will be able to do so in the future. The Group is usually unable to pass to its customers increases in railway transportation costs associated with the delivery of raw materials to or between Group companies and the delivery of the Group's products to ports for onward transportation overseas to the Group's export customers. If railway transportation costs in Russia continue to rise without a matching increase in the Group's product prices, the Group's profit margins would decrease, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects if the Group is unable to pass these cost increases to its customers.

In addition, there has been insufficient investment in the Russian rolling stock and locomotives in the past, which has caused their quality to deteriorate. In particular, there is a shortage of railcars capable of

transporting the Group's products and raw materials (phosphate rock and fertilisers) and locomotives. The Group owns and operates approximately 1,900 railcars, and leases and operates approximately 1,700 additional railcars from third-party transportation companies. The Group also uses on a trip-by-trip basis approximately 2,600 cargo railcars. No assurance can be given that the Group will have adequate availability of railcars and/or locomotives. Failure by Russian Railways to upgrade its rolling stock and locomotives within the next few years could result in a shortage of available adequate rolling stock and locomotives and, as a result, in a disruption in transportation of the Group's raw materials and products, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Moreover, a strike or industrial action involving Russian Railways, for example in connection with the continued reorganisation and/or proposed privatisation of Russian Railways, could result in disruption to the transportation of the Group's raw materials and products, including delays, and increased railway transportation costs for the Group, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is reliant on two international traders for a large portion of its export sales of fertilisers and a deterioration of the Group's relationship with one or both of these traders could materially adversely affect the Group's business, results of operations, financial condition and prospects

The Group sells its fertilisers on export markets primarily through traders (principally Ameropa and Mekatrade) and distributors. In 2008, 2009 and 2010, sales through Ameropa and Mekatrade accounted for 95.6 per cent., 85.5 per cent. and 81.1 per cent., respectively, of the Group's Phosphate-Based Fertiliser export sales based on sales volume. A deterioration of the Group's relationship with one or both of these traders could adversely affect the Group's ability to sell its fertilisers on export markets if the Group were unable to find substitute traders or if substitute traders were unable to offer the same prices to the Group as those offered by Ameropa and Mekatrade, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, if some of the end purchasers of the Group's products buy the Group's products primarily through Ameropa or Mekatrade, a termination of business relationship with Ameropa or Mekatrade could result in a loss of one or more of the Group's major customers or in a decrease in the volume of the Group's products sold to these customers. In turn, such termination could lead to a decrease in the Group's revenue if the Group were unable to replace sales to such customers with sales to other customers, which could have a material adverse effect on Group's business, results of operations, financial condition and prospects.

Furthermore, there are approximately 15 large international traders that meet the Group's criteria. If the Group were unable to sell its products through these international traders due to them ceasing operations or for other reasons, the Group will have to develop its own international sales and distribution network, which would require investment of capital and management's resources. In addition, by selling through traders the Group transfers to traders credit, country and transportation risks arising after the Group has fulfilled its delivery obligations. Developing and using own international sales and distribution network could therefore expose the Group to greater risks, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Disruptions in sea transportation could materially adversely affect the Group's business

A significant part of the Group's export products are shipped through the ports of St. Petersburg, Murmansk, Novorossiysk, Kaliningrad and Tallinn. Were these ports to experience a sustained disruption due to, among other things, inclement weather, political factors or strikes, the Group could face difficulties transporting export products or accessing raw materials or doing so at a reasonable cost. For example, waterways around the St. Petersburg port became frozen during the 2010/2011 winter season. As a result, the Group had to use alternative ports for shipping its products, which resulted in higher transportation costs. Disruptions in sea transportation could result in higher transportation costs and delays for the Group, and, if alternative shipment routes through other sea ports are not available at a reasonable cost or at all, such disruptions may have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, shipments of fertilisers by river from the Vologda region, where the production facilities of the Group companies Ammophos, Cherepovetsky Azot and Agro-Cherepovets are located, are sometimes adversely affected by difficulties with navigation in winter, which may also result in higher shipping costs and/or delays.

Weather conditions in the areas where the Group's mines and production facilities are located may materially adversely affect the Group

Some of the regions where the Group's mines and production facilities are located are subject to severe weather conditions, which results in a number of risks to the Group. In particular, the Group's mines are located on the Kola Peninsula in the Murmansk region of North West Russia, where extremely low temperatures and heavy snow and ice are quite common during the winter season. Severe weather conditions may disrupt or halt the Group's operations as well as deliveries of raw materials and the Group's products (including the export of the Group's products through sea ports). Disruptions or suspensions of the Group's operations, including due to the shortage of raw materials, as a result of adverse weather conditions may result in decreases in the Group's revenues and profits. In addition, severe weather conditions can adversely affect the Group's capital expenditure and other development activities. Should weather conditions disrupt the Group's capital expenditure programme, including the development of the Group's mines, the currently existing bottlenecks that adversely affect extraction or production volumes or constrain future growth will remain, the efficiency gains from modernising the existing extraction or production facilities and constructing new facilities will not be achieved, and any growth prospects based on the assumption that these projects are completed will not materialise. The Group's capital expenditure projects may also be subject to delays in operations (including the operation of the Group's mining equipment), disruptions in delivery of supplies, equipment and fuel, and cost overruns due to adverse weather. Any of the above risks or other risks associated with adverse weather conditions, alone or in combination, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may experience equipment failure, production curtailment or shutdowns, or other interruptions in apatite-nepheline ore mining or phosphate rock or fertiliser production processes

The Group's business depends on the uninterrupted operation of the Group's apatite-nepheline ore mines, the Group's phosphate rock beneficiation plants and the Group's fertiliser production facilities as well as various critical pieces of equipment at these and other facilities. The Group's facilities may experience shutdowns, downtime or periods of reduced production as a result of unanticipated malfunction including due to power shortages, equipment failure or defect, human error or other circumstances. In addition, the Group's facilities may be damaged due to unanticipated events, including natural disasters such as floods or fires resulting in property damage, casualties or loss of life. While the Group maintains certain types of insurance, the Group does not maintain insurance against lost profits resulting from business interruption. In the event of equipment failure or damage to the Group's facilities, the Group may experience loss of, or decrease in, revenue due to lower production levels and may require additional capital expenditure to repair or replace faulty equipment. Furthermore, restarting a production line may be costly and time consuming. In addition, due to the Group's vertically integrated business model, disruption at one of the Group's facilities could adversely affect the Group's other facilities. Any of these factors or events could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group will remain under the control of the current group of shareholders whose interests could conflict with those of the holders of the Shares or the GDRs

Immediately prior to the Offering, Mr. Andrey Guriev and certain members of his family are economic beneficiaries of 81.2 per cent. of the Company's ordinary shares. Following the Offering, approximately 89.7 per cent. of the Company's outstanding ordinary shares (assuming no exercise of the Over-allotment Option) will be owned by the existing shareholders, which principally comprise entities controlled by various trust companies whose economic beneficiaries are Mr. Andrey Guriev and certain members of his family who will, following the Offering, be the economic beneficiaries of 70.9 per cent. of the Company's outstanding ordinary shares. See "Principal and Selling Shareholders" for more information on the Company's shareholding structure. In addition, on 21 March 2011, five of the existing shareholders that currently own in the aggregate 52.7 per cent. of the Company's outstanding common shares signed a merger memorandum in which they declared their intention to merge. If these and/or other existing shareholders that collectively own a majority of the Company's outstanding common shares after the completion of the Offering, act jointly, they will have control over the Group and the ability to elect a majority of the Company's directors, appoint management, issue additional shares and approve certain actions requiring the approval of a majority of the Company's shareholders.

In addition, the Group's management believes that the current shareholders of the Group may have interests in other businesses. The interests of these shareholders could conflict with those of other holders of the Shares or the GDRs, which could materially adversely affect the value of the Shares or the GDRs.

Furthermore, a disagreement among major shareholders could prevent key strategic decisions from being made in a timely manner. In the event major shareholders are unable to continue to work well together and with other shareholders and with directors and management, the Group's business, results of operations, financial condition and prospects could be materially adversely affected.

The Group engaged in the past and may engage in the future in transactions with related and other parties that may present conflicts of interest

In the past, the Group engaged in transactions with related parties such as its shareholders, companies in which the Group has an ownership interest and other affiliates, including sales of the Group's products to and purchases of goods and services from related parties and issuances of loans to related parties. See "Related Party Transactions" for information on the Group's related party transactions. The Group's management expects that the Group will continue to enter into related party transactions in the future, including sales of the Group's products to affiliates. While the Group's management currently expects that related party transactions will be conducted on an arm's length basis, conflicts of interest may nevertheless arise between the Group and its related parties, which could have adverse consequences for the Group.

The Group does not carry all of the types of insurance coverage customary in other countries for a business of the Group's size and nature, and the Group may be unable to obtain adequate insurance cover

The Group does not carry all of the types of insurance coverage customary in certain other countries for a business of the Group's size and nature, such as coverage for business interruption, principally due to the relative underdevelopment of the Russian insurance market. While the Group has mandatory insurance coverage for its hazardous production sites, if a major event, such as a large fire or explosion were to affect the Group's other production facilities, the Group could experience substantial property loss, significant disruptions in its extraction and/or production capacity or development activities, for which the Group may not be adequately compensated. For example, if substantial extraction or production capacity were lost at one of the Group's mines or production facilities, the Group may not be able to adequately replace this capacity, potentially resulting in the interruption of the extraction and/or production of the Group's raw materials and/or products, respectively, which could cause significant harm to the Group's operations and profitability. Depending on the severity of the property damage, the Group may also not be able to rebuild damaged property in a timely manner or at all.

The insurance market in Russia remains relatively underdeveloped, and many forms of insurance protection available in more economically developed countries are not yet available in the Russian Federation on comparable terms as in Western Europe or the United States or at all, including coverage for business interruption. For example, insurance in respect of environmental liabilities the Group may incur is currently unlikely to be available on commercially reasonable terms. Therefore, the Group may find it difficult or impossible to obtain adequate insurance cover at rates which are commercially viable or at all.

The lack of insurance or occurrence of claims or costs above the Group's policy caps could materially adversely affect the Group's business, results of operation, financial condition and prospects.

Estimates of the Group's reserves and resources are subject to uncertainties

The estimates contained in this Prospectus concerning the Group's apatite-nepheline ore reserves and resources are subject to considerable uncertainties. These estimates are generally based on site visits of representatives of IMC to the Group's mining operations, their review of statistical data, their discussions with the Group's management on the current status and future plans of the Group and projected rates of apatite-nepheline ore extraction in the future. In particular, preparation of the estimates involves the analysis of the geological conditions and nature of the deposits, the review of historical and current methods of exploration and sampling, the assessment of the suitability and efficiency of the current and planned mining methods, the assessment of the suitability of the existing surface and underground infrastructure and the status and operating availability of the equipment and infrastructure facilities. The reserves and resources estimates contained in this Prospectus have been stated in accordance with the JORC Code which permits a number of assumptions to be made. However, there is no certainty that the levels set out in the Competent Person's Report will actually be realised.

In addition, actual extraction results may differ significantly from these estimates. Furthermore, it may take many years from the exploration phase before extraction of apatite-nepheline ore becomes possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant raw materials. The Group's ability to develop these reserves and resources is also subject to the Group's ability to maintain and renew the licences relating to those reserves and resources. To the extent that the actual reserves and resources are less than the estimated reserves and resources, or cannot be extracted cost effectively or at all, the Group may incur a significant write-down of such assets and the Group's extraction of apatite-nepheline ore may become disrupted and/or decrease and the Group's extraction costs for these raw materials may increase significantly, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Loss of the Group's senior management could have a material adverse effect on the Group's competitive position and future prospects

The Group's ability to maintain its competitive position and to implement the Group's strategy is dependent to a large degree on the services of the Group's senior management team. The Group depends on its existing senior management for the implementation of the Group's strategy and management of day-to-day activities. In addition, the business and governmental connections of members of senior management are important to the Group's business. There can be no assurance that current senior management will continue to remain employed with the Group in the future. The Group does not carry key personnel insurance.

The loss of, or the deterioration in the performance of, the Group's existing senior management or the Group's inability to attract, retain and motivate additional senior management personnel could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, competition in Russia for personnel with relevant expertise is intense due to the relatively small number of qualified individuals, which adversely affects the Group's ability to retain existing senior management and attract additional qualified senior management.

The Group's business may be affected by shortages of skilled labour or labour disputes

Competition for skilled labour is intense in the Russian fertiliser industry. The demand for skilled engineers, technicians, chemical experts, mining and construction workers, and operators of specialised equipment continues to increase, reflecting the significant demand from other industries and public infrastructure projects. Further increases in demand for skilled labour are likely to lead to increases in labour costs, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

A significant proportion of the Group's employees are members of trade unions. As of 1 January 2011, 94.5 per cent. of Apatit employees, 70.0 per cent. of Ammophos employees, 88.0 per cent. of BMF employees and 63.0 of Cherepovetsky Azot employees were members of trade unions. Large union representation subjects the Group's businesses to the threat of interruptions through strikes, lock-outs or delays in renegotiations of labour contracts. In addition, the Group may be adversely affected by labour strikes or other disruptions due to labour disputes at companies acting as contractors for the Group. There can be no assurance that such industrial actions will not occur. Furthermore, the Group may not be able to renew its existing collective bargaining agreements with the Group's employees on favourable terms, or at all. Failure to renew the Group's collective bargaining agreements, significant work slowdowns, stoppages or other labour-related developments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group company Apatit may be characterised as a natural monopoly in the future and therefore may be exposed to various regulatory risks including state regulation of prices for its products

Under the Federal Law on Natural Monopolies in the Russian Federation (the "Natural Monopolies Law"), a natural monopoly is an entity engaged in the production and/or supply of products under the "natural monopoly" market conditions, which exist when (i) very high fixed costs and low marginal costs make it more efficient for one supplier to supply the entire market, and (ii) products supplied by natural monopolies cannot be replaced with substitutes as a result of which demand for such products is less affected by changes in product prices as compared to demand for products not supplied by natural monopolies. The Natural Monopolies Law lists the industries in Russia such that companies operating in these industries may be characterised as natural monopolies. This list currently does not cover Apatit's

activities; therefore, characterising Apatit as a natural monopoly would require an amendment to the Natural Monopolies Law. Apatit is one of the only two Russian phosphate rock producers. The other producer is EuroChem, which consumes internally most of the phosphate rock that it produces and currently does not sell phosphate rock in Russia. Consequently, the Natural Monopolies Law may be amended in the future in a way that would make it possible to characterise Apatit as a natural monopoly, which could result in government regulation of its prices for the relevant products and imposition of restrictions on its commercial activities in the relevant market sector. Although the Group is currently not aware of any proposals or plans to introduce amendments to the Natural Monopolies Law which could result in characterising Apatit as a natural monopoly, should such amendments be introduced and should Apatit be characterised as a natural monopoly the prices at which the Group would be permitted to sell phosphate rock or nepheline concentrate could be materially lower than market prices or prices at which Apatit would otherwise sell its products, which could result in a decrease in the Group's revenue and have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Although Apatit has never been included in the list of natural monopolies, there have been instances in the past when prices for its products were set at certain levels in accordance with courts decisions. For example, in July 2006, following the claim of OJSC "Acron", the court set the price for the phosphate rock supplied by Apatit to OJSC "Acron" at 1,600 roubles per tonne. The market price for phosphate rock supplied by Apatit to its customers in 2007 was 1,850 roubles per tonne and had been increasing whereas the price at which Apatit was ordered to sell to OJSC "Acron" was fixed and could be altered only with Acron's consent. In December 2008, the appeal court reaffirmed this decision. In 2009, Apatit and Acron mutually agreed to increase the phosphate rock price to 2,800 roubles per tonne, which was still lower than the domestic market price of over 3,000 roubles per tonne at the time, and set the formula for annual indexation of the price based on the Russian producer price index ("PPI"). For 2011, the price is 3,278 roubles per tonne. The agreement with OJSC "Acron" has been extended until 31 December 2012. In addition, in 2008, following the claim of OAO Voskresensk Mineral Fertilizers and ZAO ZMU KChKhK, the court set the price for the phosphate rock supplied by Apatit to these companies for a period of three years beginning from 1 January 2009 at a price that does not take into account fluctuations in the costs of phosphate rock production. The resulting price for OAO Voskresensk Mineral Fertilizers and ZAO ZMU KChKhK in 2009 was 3,050 roubles per tonne, whereas the average cost to produce one tonne of phosphate rock in 2009 was 3,225 roubles per tonne. In 2010, the selling price decreased to 2,985 roubles per tonne, while the market price was in the range of 3,050-3,500 roubles per tonne. For 2011, the price at which OAO Voskresensk Mineral Fertilizers and ZAO ZMU KChKhK purchase phosphate rock from Apatit is 3,278 roubles per tonne. The price is recalculated annually based on the Russian PPI. The agreement with OAO Voskresensk Mineral Fertilizers and ZAO ZMU KChKhK has been extended until 31 December 2013. In 2010, sales of phosphate rock to companies at prices that have been set or negotiated following court decisions accounted for approximately 26 per cent. of the Group's domestic external phosphate rock sales. There is no assurance that in the future other claimants will not be successful in obtaining court decisions prescribing that Apatit sells its products at prices materially lower than market prices or prices at which Apatit would otherwise sell its products, which could result in a decrease in the Group's revenue and have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, FAS is in the process of developing a new regime aimed at ensuring non-discriminatory access by Russian phosphate rock consumers to the Russian phosphate rock market. The regime is expected to contain recommendations applicable to phosphate rock sales by Russian producers to Russian consumers. As the regime is currently at the preliminary stage, no specific rules have been publicised yet. However, according to the preliminary information, the regime will contain recommendations prescribing that (i) phosphate rock producers satisfy the requirements of the domestic phosphate rock market prior to selling any phosphate rock on export markets and (ii) phosphate rock producers satisfy the requirements of the Russian phosphate rock consumers in volumes pro rata to producers' production volumes. Under the new regime, prices are expected to be set using one of the following methods: (i) at the weighted average prior year's industry price adjusted for PPI and taking into account additional costs resulting from the deterioration (if any) of apatite-nepheline ore mining conditions, (ii) calculated taking into account DAP export prices, (iii) calculated taking into account the global phosphoric acid price, or (iv) based on minimum export price for phosphate rock. The new regime is expected to be finalised by the end of 2011, come into force not earlier than in 2013 and be in effect for at least three years. As the details of the new regime are not finalised, it is difficult to assess its precise impact on the Group; however, as a result of the new regime, the Group may be required to sell on the domestic market phosphate rock at prices lower than those that the Group was able to achieve on the Russian phosphate rock market in the past, which

could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, the Group may have to conclude phosphate rock sale contracts with Russian consumers first before entering into contacts for export sales of phosphate rock. As a result, the Group may have less visibility on how much phosphate rock it will be able to sell on export and be forced to sell some of its phosphate rock outside Russia at lower prices.

The Group's acquisitions or title to, or other rights in, land that it owns or leases may be challenged

The Group's business has grown partially through acquisitions, many of which required the prior approval or subsequent notification of FAS or its predecessor agencies. Relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without such approval or notification. The relevant legislation is vague in certain parts and subject to varying interpretations.

The Group's acquisitions of certain assets in Russia have been subject to various conditions imposed by FAS in the past. Although at present the Group is not subject to any conditions imposed by FAS, in the future FAS may issue prescriptions to the Group, in particular if the Group decides to increase its presence in a particular market or if FAS receives a claim alleging monopolistic behaviour by the Group and decides in favour of the claimant. There can be no assurance that FAS will not impose additional restrictions on the Group in the future similar to the restrictions it has imposed on other Russian companies, for example requiring the Group to reduce the price of its products, requiring prior notification to FAS before the Group increases the price of any of its products or requiring prior approval of or notification of FAS before the acquisition of shares in certain companies. In addition, there can be no assurance that the Group will remain in compliance with the requirements established by FAS in the future in respect of the Group's operations or that the Group's past conduct will not be challenged. See “—*The Group company Apatit may be regarded as natural monopoly and therefore may be exposed to various regulatory risks including state regulation of prices for its products*”.

In the event that the Group's past acquisitions are challenged and the Group is unable to defeat such claims, the Group may lose ownership interest in the relevant entity or assets. In particular, if the Group loses its ownership interest in Apatit (which is the Group's only apatite-nepheline ore mining and phosphate rock and nepheline concentrate production subsidiary and is a significant subsidiary of the Group), the Group will be required to purchase phosphate rock from third parties. The only producer of phosphate rock in Russia other than Apatit is EuroChem, which consumes internally most of the phosphate rock that it produces and currently does not sell phosphate rock in Russia. If the Group loses its ownership interest in Apatit, its phosphate rock purchase prices are likely to increase, which could materially adversely affect the Group's costs (for example, due to higher prices than those at which the Group companies purchase from Apatit, higher transportation costs and/or import, customs or other duties) and materially adversely affect the Group's profit margins and as a result have a material adverse effect on the Group's business, results of operations, financial condition and prospects. If the Group loses its ownership interest in one of its fertiliser production subsidiaries (Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets), the Group's revenue would decrease, which would have a material adverse effect the Group's business, results of operations, financial condition and prospects. See “*Business—Group's Key Development Stages*” for information on the Group's acquisitions of Apatit, Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets. In addition, the expenses associated with defending against such claims and the diversion of the management's time from managing the Group's business activities could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

Furthermore, the Group either owns or leases the land plots on which its mines and production facilities are located. Any challenge to the validity or enforceability of the Group's title to, or the Group's rights in, such land could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's group-wide management controls and processes are not fully developed and may fail to ensure proper oversight, reporting and control of the Group's business

The Group's group-wide policies, procedures and systems, including management controls and corporate governance practices, are not as sophisticated or robust as those of companies in Western Europe or the United States and there can be no assurance that they will function effectively or as designed. Failure of the Group's group-wide management controls and processes to ensure proper oversight, reporting and

control of the Group's operations could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In particular, the Group has identified deficiencies in the process of the financial statement preparation. In particular, the Group does not have a fully integrated automated accounting system for financial statement preparation, transformation and consolidation or for the conversion of statutory accounts into IFRS. Each of the Company's subsidiaries prepares separate financial statements under Russian accounting standards for statutory purposes. The preparation of the Group's IFRS financial statements is primarily a manual process that involves the conversion of the statutory financial statements of the Company's subsidiaries into IFRS schedules through accounting adjustments, followed by the consolidation of these financial statements. This process is complex and time-consuming. If the Group is unable to maintain adequate financial reporting functions and internal control systems, the Group's business, results of operations, financial condition and prospects may be materially adversely affected.

The Company has taken steps to improve its financial reporting system, including introduction of an integrated IT system, improving the controls over the oversight of the financial statements preparation, hiring more staff experienced in financial reporting, improving the internal audit function. Therefore, and notwithstanding these risks, the Company believes that its financial reporting functions and internal control systems are sufficient to ensure its compliance with the requirements of the FSA's Disclosure and Transparency Rules as a listed company, and the Group believes that, despite the difficulties identified, the Group will be able to produce adequate financial information on a timely basis.

Acts of terrorism could negatively affect the Group's business

Like other companies with major industrial facilities, the Group's production facilities may be targets of terrorist activities. Many of these plants and facilities store significant quantities of ammonia and other items that can be explosive and/or volatile. Any damage to infrastructure facilities, such as electricity generation, transmission and distribution facilities, or injury to employees, who could be direct targets or indirect casualties of an act of terrorism, may also affect the Group's operations. Any disruption of the Group's ability to produce or distribute its products could result in a significant decrease in revenues and significant additional costs to replace, repair or insure the Group's assets, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, due to concerns related to terrorism or the potential use of certain fertilisers, acids and other chemical substances as explosives or poisonous materials, local, state and federal governments could implement new regulations impacting the security of the Group's plants, warehouses and other facilities or the transportation and use of fertilisers and other chemicals. These regulations could result in higher operating costs or limitations on the sale of the Group's products and could result in significant currently unanticipated costs and/or lower revenues, each of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

A change in agricultural production in favour of organic production could adversely affect the Group's business, results of operations, financial condition and prospects

An increase in organic farming could have an adverse effect on the Group's business. Organic farming generally makes use of manure or other organic materials and not fertilisers. Organic farming has been growing due, in large part, to agricultural subsidies and consumer pressure related to pesticides, food scares, health, environment and animal welfare. Markets where organic farming is growing most, for example the European Union, are markets where the Group is able to achieve comparatively high margins on its products. If organic farming becomes more common in Russia or the Group's major export markets, demand for fertilisers may decrease, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group operates as a vertically integrated business, which involves certain risks

The Group's management and shareholders believe that increasing the level of vertical integration of the Group's operations is a sound business strategy as it reduces the Group's dependence on third-party suppliers of raw materials for the production of the Group's key products, and also reduces the Group's

exposure to the volatile phosphate rock, ammonia and electricity markets. However, risks associated with this strategy exist and include:

- If a third-party supplier defaults, the Group can take legal action against this supplier to cover its losses caused by such default. If the defaulting supplier is one of the Group's companies, however, as is usually the case with vertically integrated groups of companies, it is economically justifiable for the Group to sue the defaulting supplier only if the Group's ownership interest in the claiming entity exceeds the Group's ownership interest in the defendant or if another material economic benefit for the claiming entity emerges in the future in the event of a successful claim; and
- In case of a downturn in the fertilisers markets, vertical integration can amplify the Group's losses if the Group is unable to find alternative markets for its phosphate rock, as the Group could be left with a surplus of phosphate rock with a limited ability to sell it to third parties at a profit.

An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in demand for the Group's products in those markets

The Group's products are subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, which include markets in Asia, Europe and South America. These trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. Some markets are effectively closed for import of the Group's products due to considerably high anti-dumping duties. For example, such duties currently apply to ammonium nitrate in Europe and DAP in Argentina. There is almost no visibility as to how anti-dumping regimes will evolve in the future and there can be no assurance that the regulators in the Group's principal markets will not amend the anti-dumping duties currently in force. An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in demand for the Group's products in its principal export markets, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Stricter environmental laws and regulations or stricter enforcement of existing environmental laws and regulations in the Russian Federation may have a material adverse effect on the Group's business, results of operations, financial condition and prospects

The Group's operations and properties are subject to laws, regulations and other legal requirements relating to protection of the environment and health and safety, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites and protection of flora and fauna. For the description of the environmental issues facing the Group's apatite-nepheline ore mines and processing facilities, see "*Annex I: Competent Person's Report—Overview—Environmental Issues and Environmental Permitting*" and "*Annex I: Competent Person's Report—OAO Apatit—Environmental*". Any failure by the Group to comply with existing or future environmental requirements could result in fines, assessments, or other liabilities or costs that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's mines and production facilities are currently subject to statutory limits on air emissions and the discharge of liquids and other substances. Russian authorities may permit, in accordance with the relevant Russian laws and regulations, a particular facility to exceed these statutory limits, provided that the facility develops a plan for the reduction of the emissions or discharge and pays a fee based on the amount of contaminants released in excess of the limits. Fees are assessed on a sliding scale: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within individually approved limits and the highest fees are imposed for pollution exceeding such limits. It is within the discretion of the Russian authorities to allow pollution in excess of statutory limits, and any request for such increase in permitted limits may be denied. Moreover, the payment of fees for exceeding these limits does not provide relief from responsibility to implement environmental protection measures and undertake restoration and clean-up activities. Due to uncertainties in the legislation and the vague criteria in respect of the five categories of waste, no assurance can be given that the waste produced by the Group's operations will not be reclassified as more hazardous waste. Any reclassification of the category of waste produced by the Group's operations as more hazardous, as well as any amendments to the existing regulations to increase the amount of payments, could result in substantial increases in the amounts payable, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, in the course, or as a result, of an environmental or regulatory investigation, the relevant authorities may issue an order to shut down part or all of the

production at a mine or plant that is in violation of environmental limits, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Furthermore, the Group's management believes that there is currently an increasing awareness in Russia of damage caused to the environment. More stringent environmental standards may be introduced, or the existing environmental laws and regulations may be more vigorously enforced in the Russian Federation. Any change in this regulatory environment could result in substantial liabilities and costs for the Group, for which the Group has not made any provisions.

The Group's operations could be adversely affected if it fails to comply with applicable health and safety laws, regulations or rules or instructions of the relevant health and safety authorities

Violations of health and safety laws, regulations or rules or failures to comply with the instructions of the relevant health and safety authorities could lead to, among other things, higher rate of occurrence of workplace related accidents or a court order or an order from the relevant regulatory authorities to shut down part of or all of the production at a Group's mine, plant or other production facility that is in violation of such laws, regulations, rules or instructions and/or the imposition of costly compliance procedures. Accidents resulting in deaths of the Group's employees could also result in a shutdown of at least a part of the production at a Group's mine, plant or other production facility. Such shutdowns could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Failure of the Depositary or future investors to obtain approval from the Strategic Enterprises Committee under the Law on Strategic Enterprises may, respectively, result in the cancellation of the Offering and limit the Group's ability to obtain equity funding in the future

The Russian Federal Law "On the Procedure for Implementing Foreign Investment in Commercial Enterprises Having Strategic Importance for Securing the National Defence and Security of the State" No. 57-FZ (the "**Law on Strategic Enterprises**"), which came into force in May 2008, provides that foreign investors acquiring direct or indirect control over Russian companies that have strategic importance for the national defence and security of the Russian Federation ("**Strategic Enterprises**") are required to obtain prior approval or, in certain cases, post-transaction approval, of a special commission created by the Russian Government (the "**Strategic Enterprises Committee**"). Such approval is subject to the determination by the Russian Federal Security Service that the acquisition of control does not threaten the national defence and security of the state. Additionally, the approval may be subject to the fulfilment of certain conditions by the foreign investor, including, among others, fulfilling the Strategic Enterprise's business plan and securing the employment of a certain number of personnel.

Strategic Enterprises include Russian companies that develop subsoil fields of federal importance. As a result of its development of apatite-nepheline ore mines, the Group company Apatit meets the definition of a Strategic Enterprise and falls within the scope of the Law on Strategic Enterprises. As a result, the direct or indirect acquisition of control over Apatit by a foreign investor (or a group of affiliated foreign investors) is subject to the prior consent, or in limited circumstances, post-transaction approval, of the Strategic Enterprises Committee. Under the Law on Strategic Enterprises, a person is deemed to control a Strategic Enterprise involved in the development of the subsoil fields of federal importance if, among other things, such person controls directly or indirectly 10 per cent. or more of the total number of votes attributable to the voting shares comprising the charter capital of such Strategic Enterprise. As a result, if the Offering results in a foreign investor (or a group of affiliated foreign investors) acquiring direct or indirect control over 10 per cent. or more of Apatit's voting shares, the approval of the Strategic Enterprises Committee would be required. The Group believes, however, that these rules should not apply to the deposit of the Shares with the Depositary or its nominee (to the extent such Shares may give indirect control over 10 per cent. or more of votes in Apatit) because the Depositary does not acquire control over votes in Apatit, as the Depositary does not vote the Shares independently of the GDR holders due to the fact that under Russian law and the Deposit Agreements the Depositary may only vote in accordance with the instructions of the GDR holders. To the best of the Group's knowledge, in practice, international depositary banks have not sought such approvals in connection with an issue of global depositary receipts, and the authorities have not raised objections to this approach. However, since the Law on Strategic Enterprises does not expressly refer to depositaries as entities which are not required to apply for the prior consent of the Strategic Enterprises Committee in connection with depositary receipts programmes and given the lack of judicial guidance, which would provide the only official interpretation of the Law on Strategic Enterprises, uncertainty remains as to whether the FAS or a Russian court might take a different

view in the future as to whether the Depositary is exercising control and prior approval was required, whether as a result of general weaknesses in the Russian legal system, arbitrary government action or otherwise. Transactions made in violation of the Law on Strategic Enterprises are considered to be void under Russian law and an authorised person may file a claim seeking to deprive a foreign investor of its right to vote at shareholders' meetings or invalidate the decisions of the management bodies of the Strategic Enterprise and transactions entered into by the Strategic Enterprise after acquisition by a foreign investor of control over the Strategic Enterprise without obtaining approval of the Strategic Enterprises Committee. If there is a successful claim against the Depositary that the Depositary can indirectly control 10 per cent. or more of Apatit's voting shares, the deposit of Shares with the Depositary may be invalidated by the Russian authorities. The general statute of limitation for invalidating the Offering is three years. If the Offering were to be invalidated, the GDR holders may be required by order of the Russian courts to return the GDRs and the Selling Shareholders and/or the Company may be required to pay monies equivalent to proceeds from the Offering to the GDR holders. To the best of the Group's knowledge, the Russian authorities have not invalidated deposits of shares with a depositary in similar circumstances in the past. Whilst there is no legislative or court guidance or market practice on the mechanics, or calculation of the amount, of such repayment, to the extent the Selling Shareholders and/or the Company have funds to return proceeds from the Offering, they intend to do so based on the Offer Price with respect to GDRs acquired by investors both in the Offering and in the secondary market. Consequently, those GDR holders who may acquire GDRs in the secondary market at a price higher than the Offer Price will incur a loss as a result of such invalidation. If the Selling Shareholders and/or the Company do not pay monies equivalent to proceeds from the Offering to the GDR holders, the GDR holders will suffer a loss in respect of their investments in the Offering.

In addition, future sales of the Company's equity securities to foreign investors resulting in the acquisition by a foreign investor (or a group of affiliated foreign investors) of direct or indirect control over 10 per cent. or more of Apatit's voting shares will require the prior consent of the Strategic Enterprises Committee. The consent of the Strategic Enterprise Committee may be difficult to obtain. Accordingly, the Group's ability to raise funds through sales of equity securities to foreign investors may be constrained in the future, which would have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, the necessity to receive approval from the Strategic Enterprises Committee and the possibility that such consent will not be granted may affect the Group's ability to create joint ventures with foreign partners or restructure the Group which, in turn, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In the event that the title to any asset acquired by the Group through privatisation, bankruptcy sale or by other means is successfully challenged, the Group may lose its ownership interest in such assets

Although the Group has not directly acquired any assets through privatisation, some of the Group's assets were acquired by previous owners through privatisation and later transferred to the Group. In addition, the Group may seek to acquire additional assets or companies that have been privatised or that have undergone bankruptcy proceedings. Privatisation and bankruptcy legislation in the Russian Federation is vague, internally inconsistent and in conflict with other elements of Russian legislation. Although the statute of limitations for challenging transactions entered into in the course of privatisations and as a result of bankruptcy proceedings is currently three years, privatisations and acquisitions of assets or companies that have undergone bankruptcy proceedings may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations. Although the Company has not directly participated in any privatisations, historically such material subsidiaries as Apatit, Ammophos and Cherepovetsky Azot were privatised. BMF acquired a substantial part of its assets in the bankruptcy proceedings of OAO "Irgiz".

In 2006, the Russian Government submitted a claim to the Moscow arbitration court demanding that shares representing a 20 per cent. stake in Apatit's share capital be transferred from the Company back to the Russian Government on the grounds that the privatisation process in respect of these shares was not carried out properly. In 2008, the Moscow arbitration court decided in favour of the Russian Government. In 2009, the court's decision was enforced and the shares representing a 20 per cent. stake in Apatit's share capital were transferred from the Company back to the Russian Government. The Company does not intend to appeal or challenge this decision.

In the event that the Group's past acquisitions are challenged and the Group is unable to defeat such claims, the Group may lose ownership interest in the relevant entity or assets. In particular, if the Group loses its ownership interest in Apatit (which is the Group's only apatite-nepheline ore mining and

phosphate rock and nepheline concentrate production subsidiary and is a significant subsidiary of the Group), the Group will be required to purchase phosphate rock from third parties. The only producer of phosphate rock in Russia other than Apatit is EuroChem, which consumes internally most of the phosphate rock that it produces and currently does not sell phosphate rock in Russia. If the Group loses its ownership interest in Apatit, its phosphate rock purchase prices are likely to increase, which could materially adversely affect the Group's costs (for example, due to higher prices than those at which the Group companies purchase from Apatit, higher transportation costs and/or import, customs or other duties) and materially adversely affect the Group's profit margins and as a result have a material adverse effect on the Group's business, results of operations, financial condition and prospects. If the Group loses its ownership interest in one of its fertiliser production subsidiaries (Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets), the Group's revenue would decrease, which would have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See "*Business—Group's Key Development Stages*" for information on the Group's acquisitions of Apatit, Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets. In addition, the expenses associated with defending against such claims and the diversion of the management's time from managing the Group's business activities could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

Risks Relating to the Russian Federation

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises, or even turmoil in any large emerging market country, could have an adverse effect on the Group's business and the value of the Shares or GDRs

Investments in emerging markets are subject to certain risks relating to the nature of such markets. Generally, investments in emerging markets are only suitable for investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisers before making an investment in the Shares and the GDRs.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid changes of landscape and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices of securities of issuers from other emerging market countries as investors tend to move their money to more stable, developed markets in such circumstances. Russian financial markets have been highly volatile during the recent global economic downturn that commenced in the second half of 2008. Specifically, values of securities traded on the MICEX and RTS securities exchanges in Russia have experienced significant overall declines during the crisis. Such volatility and declines have prompted the Russian financial markets regulator to temporarily suspend trading on the MICEX and RTS stock exchanges on a number of occasions. In addition, during times of financial turmoil, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources become more limited. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could decrease foreign investment in Russia and also otherwise adversely affect the Russian economy. Accordingly, investors should exercise particular care in evaluating the risks involved in investing in an emerging market such as Russia and must decide for themselves whether, in light of those risks, their investment is appropriate.

Economic instability in the Russian Federation could materially adversely affect the Group's business, results of operations, financial condition and prospects

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the rouble, providing a certain degree of economic soundness. However, the Russian economy has been adversely affected by the recent global economic downturn that commenced in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. According to the data published by the CBR, real growth of Russia's GDP decreased from 8.1 per cent. in 2007 to 5.2 per cent. in 2008. In 2009, the Russian GDP contracted by 7.8 per cent. in real terms, however, in 2010 the GDP in Russia grew by 4.0 per cent. As the price of oil and other commodities collapsed in 2008, with oil falling from over U.S.\$146 per barrel in July 2008 to less than U.S.\$37 per barrel in December 2008, the Russian economy, whose performance depends closely on export revenues from oil and other

commodities, fell into a recession, while tightening global credit and capital markets left many highly leveraged Russian financial institutions and corporations unable to borrow or raise equity in the capital markets. Although market prices of most commodities, including oil, have recovered since March 2009, there can be no assurance that current market prices will persist, especially if deteriorating government fiscal positions were to prevent the cyclical upturn that developed economies began to experience in the second half of 2009 from continuing.

In connection with the deteriorating economic conditions in Russia during the global economic downturn and the collapse of global commodity market prices, the value of the Rouble against the US dollar, the Euro and currencies of some of Russia's other major trading partners dropped. The Rouble depreciated against the US dollar from under RUB 23.5 per U.S.\$1 in July 2008 to over RUB 36 per U.S.\$1 in January–February 2009, thereby raising the cost of funding for financial institutions and corporations that borrowed internationally in foreign currency. The value of the Rouble as well as the domestic inflation rate remain vulnerable to any downside relapse in global commodity prices. In addition, during the global economic downturn, Russia experienced declines in debt and equity prices, capital markets price volatility, occasional suspension in trading of public securities on local exchanges, and outflows of capital from the country, in particular in 2008 and early 2009. Although Russian equity markets rebounded in 2009, 2010 and the first five months of 2011, there can be no assurance that such market volatility and downside risk will not persist in the future.

Any of the following risks, which the Russian economy has experienced at various times in the past and some of which have already occurred during the recent global economic downturn, may have or have already had a significant adverse effect on the investment climate in Russia and, in turn, may adversely affect or have already adversely affected the Group:

- significant declines in GDP and consumption;
- high levels of inflation;
- sudden price declines in the natural resource sector;
- high state debt/GDP ratio;
- an unstable currency and instability in the local currency market;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- pervasive capital flight;
- corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population;
- large amount of unprofitable enterprises which continue to operate due to deficiency in the existing bankruptcy procedure and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- wide use of barter and non-liquid bills in settlements for commercial transactions;
- widespread tax evasion; and
- growth of the grey-market economy.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

Any deterioration in the general economic conditions in Russia could adversely impact the level of demand for various products, including those sold by the Group, and therefore could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Fluctuations in the global economy may have an adverse effect on the Russian Federation's economy and thus on the Group's business, results of operations, financial condition and prospects

Russian Federation's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008, have experienced significant decreases during the global economic downturn (particularly the price of crude oil, which decreased by more than 70 per cent. between July 2008 and the beginning of 2009), and have recovered since then but have not reached the peak levels of 2008. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union or by other principal export markets. A sustained decline in the prices of crude oil, natural gas and other commodities could further disrupt the Russian economy. These developments could seriously limit the Group's access to capital and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Political instability in the Russian Federation may have a material adverse effect on the Group's business, results of operations, financial condition and prospects

The Russian political system may be vulnerable to popular dissatisfaction, including dissatisfaction with the results of the privatisations of the 1990s, as well as to demands for autonomy from certain regional and ethnic groups. The course of political and other reforms has in some respects been uneven and the composition of the Russian government has at times been unstable. Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities, which negatively impacted the business and investment climate in the Russian Federation. Over the past two decades the course of political and other reforms has in some respects been uneven and the composition of the Russian Government has at times been unstable.

Mr. Vladimir Putin, former President of the Russian Federation is generally credited with having increased governmental stability. The most recent elections of the State Duma, the lower house of the Russian Parliament, took place on 2 December 2007 and presidential elections took place on 2 March 2008. Although the political forces in the State Duma remained substantially the same, Mr. Dmitry Medvedev was elected as the new President and on 8 May 2008, he appointed Mr. Vladimir Putin to the position of Prime Minister of the Russian Federation. While the Russian political system and the relationship between the President, the Russian Government and the Russian parliament currently appear to be stable, the potential for political instability resulting from the worsening economic situation in Russia and deteriorating standards of living should not be underestimated. Any such instability could negatively affect the economic and political environment, particularly in the short-term.

Shifts in government policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Any significant change in the Government's program of reform in Russia could lead to a deterioration in Russia's investment climate that might limit the ability of the Group to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, results of operations, financial condition and prospects.

In addition, actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market. In particular, the events surrounding claims brought by the Russian authorities against several major Russian and foreign companies have led to questions being raised regarding the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy. Any further similar actions by Russian authorities that result in a negative effect on investor confidence in Russia's business or legal environment could have a material adverse effect on the Russian

securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Shares and the GDRs.

Lack of consensus between federal and regional authorities and other internal conflicts or conflicts with other countries create an uncertain operating environment that could hinder the Group's long-term planning ability

The Russian Federation is a federation of 83 political units, which include republics, territories, regions, cities of federal importance, autonomous regions and autonomous districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Russian Government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, conflicting laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in Russian courts and such challenges may occur in the future. One of the recent examples of the lack of consensus between the federal government and regional or local authorities is the dismissal of Mr. Yuri Luzhkov, the former Moscow mayor, by the President on 28 September 2010 on the grounds of the loss of credibility. The consequences of this dismissal are yet unclear.

This lack of consensus could hinder the Group's long-term planning efforts and could create uncertainties in its operating environment, either of which may prevent the Group from effectively and efficiently carrying out its business strategy.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. The emergence of any new or escalation of existing tensions in the region may negatively affect the economy of Russia and other countries that are involved and lead to a deterioration of the investment environment. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity and trading prices of the Shares and the GDRs and on the Group's ability to raise debt or equity capital in the international capital markets.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts (both internal and with other countries) and terrorist attacks. For example, the conflict in Chechnya significantly reduced normal economic activity within Chechnya for a period of time and negatively affected the economic and political situation in neighboring regions. Various acts of terrorism have been committed and are being performed not only in the regions of Ingushetia and Dagestan neighboring to Chechnya, but also in major population centres within other regions of the Russian Federation, where the Group maintains a presence.

In particular, on 29 March 2010, there were a series of suicide bombings in the Moscow underground system, which temporarily paralysed operations and business activity in Moscow. Moreover, on 24 January 2011, a suicide bombing in the international arrivals hall of the Moscow international airport Domodedovo killed 36 and injured over 180 people. Any further terrorist attacks could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, the Russian Federation and could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Group's business, results of operations, financial condition and prospects as well as investments in Russia more generally

During the former presidency of Vladimir Putin and the current presidency of Dmitry Medvedev, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms or the reversal of the reform process could lead to a deterioration in Russia's investment climate that might constrain the Group's ability to obtain financing on the international capital markets, adversely impact the Group's sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Moreover, regulatory authorities in Russia have a high degree of discretion and at times appear to exercise their discretion selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Such arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. In this environment, the Group's competitors may receive preferential treatment from the Russian government and governmental authorities, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at the Group's operations, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Furthermore, the government has the power in certain circumstances to interfere with the performance of, nullify or terminate contracts and, through its tax, environmental and prosecutorial arms, has engaged in selective investigations and prosecutions of particular companies or persons. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, such prosecutions and challenges resulted in significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers speculate that in certain cases these challenges and prosecutions were intended to punish and deter opposition to the government or the pursuit of disfavoured political or economic agendas, or to further the interests of the Russian government and individual officials or business groups. Some observers have also speculated that certain environmental challenges initiated recently by the Russian authorities in the oil and natural gas sector have been targeted at specific Russian businesses under non-Russian control, with a view to bringing them under state control. More generally, some observers have noted that takeovers in recent years of major private sector companies in the oil and natural gas, metals and manufacturing sectors by state-controlled companies following tax, environmental and other challenges may reflect a shift in the official policy in favour of state control as opposed to individual or private ownership, at least in respect of large and significant enterprises.

In the international sphere, Russia has adopted a more assertive approach to the definition and pursuit of its interests. To some observers, Russia has appeared on several occasions to have used economic leverage or control over oil and natural gas supplies to achieve political objectives. If Russia were to adopt restrictive economic measures against countries that are important to the Group's export business, or if trade between Russia and such countries were otherwise disrupted for political or other reasons, the Group's business, results of operations, financial condition could be materially adversely affected.

The reversal of reforms, arbitrary government action or the use of government power, if directed at the Group, its major shareholders or its beneficial owners, could have a material adverse effect on the value of investments in Russia generally and on the Group's business, results of operations, financial condition and prospects.

The Russian banking system remains underdeveloped and another banking crisis could place severe liquidity constraints on the Group's operations

The Russian banking and other financial systems are not well developed and regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind international banking standards. Aided by inadequate supervision by the regulators, many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks. In addition, it is expected that the number of non-performing loans will increase as a result of the global economic downturn.

As a result of the global economic downturn, there has been a rapid decrease in lending by Russian banks, while the lending terms have become more onerous. As a result, many Russian companies are subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources.

The global economic downturn led to the collapse or bailout of some Russian banks and to significant liquidity constraints for others. Profitability levels of most Russian banks have been adversely affected. The global crisis has prompted the government to inject substantial funds into the banking system amid reports

of difficulties among Russian banks and other financial institutions. The Group generally conducts its banking activities through, and maintains accounts in, a small number of Russian banks, including Sberbank and Bank of Moscow. The bankruptcy or insolvency of one or more of these banks could adversely affect the Group. A banking crisis or the bankruptcy or insolvency of the banks in which the Group holds its funds could prevent the Group from accessing its funds or affect its ability to complete banking transactions, or may result in the loss of its deposits altogether, which would have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group's assets may be nationalised or expropriated despite existing legislation to protect against nationalisation and expropriation

Although the Russian Government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and the lack of sufficient mechanisms to enforce judgments.

The concept of property rights is not well established in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of the Group's assets. Although the Group is currently not aware of any plans, actions or decisions which may result in the expropriation or nationalisation of any of the Group's or its respective shareholders' assets, should such expropriation or nationalisation occur without fair compensation in the future, it may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Inflation could increase the Group's costs

The Russian economy has been characterised by high rates of inflation, including an annual inflation rate of 84.4 per cent. in 1998. According to the CBR, the annual inflation rate in Russia based on the consumer price index was approximately 13.3 per cent. in 2008, 8.8 per cent. in 2009 and 8.8 per cent. in 2010. According to Rosstat, Russian PPI decreased by 7.0 per cent. in 2008 and then increased by 13.9 per cent. in 2009 and 16.7 per cent. in 2010. Certain of the Group's costs, including salaries, rent and utilities are sensitive to inflation in Russia. Due to competitive pressures, regulatory constraints or other factors, the Group may not be able to increase its prices sufficiently to preserve its margins. As a result, high rates of inflation could increase the Group's costs, and there can be no assurance that the Group will be able to maintain or increase its margins.

The infrastructure in Russia is inadequate, which could increase costs or result in losses for businesses and disrupt normal business activities

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained in the past. As a result, it is unreliable and may fail temporarily or completely at any time. Particularly affected are the rail and road networks; power generation and transmission systems; communication systems; and building stock. In the past, fires have occurred at power stations resulting in large power outages that disrupted transportation, mobile communications, electricity and water supply in commercial and residential buildings. For example, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant, the largest hydro power plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of roubles in damage. As a result of the accident, the plant halted power production, leading to severe power shortages for both residential and industrial consumers. Abnormal adverse weather conditions, such as very low temperatures and heavy snowfalls in winter, among others, may result in overloading of power grids, power supply disruptions, transportation lags or other disruptions, malfunctioning or failure of the infrastructure, which may materially adversely affect the Group's business results of operations, financial condition and prospects.

The poor condition and further deterioration of the infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. The Russian government is actively reorganising the nation's rail, electricity and communications systems. Any such reorganisation may result in increased charges and tariffs while failing

to generate the anticipated capital investment needed to repair, maintain and improve these systems. These factors could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Crime, corruption and social instability could disrupt the Group's ability to conduct business and could materially adversely affect its business, results of operations, financial condition and prospects

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. Illegal activities, corruption or claims implicating the Group in illegal activities could have a material adverse effect on the Group's business, financial condition, results of operation and prospects and the value of the Shares and the GDRs.

Social instability in the Russian Federation, coupled with difficult economic conditions and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past to labour and social unrest (principally in urban areas). The rising level of unemployment and deteriorating standards of living in Russia that were principally caused by the global economic downturn could make labour and social unrest more likely in the future. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the Russian economy and increased violence. Any of these could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Social and labour unrest could lead to increased support for renewed centralised authority and a rise in nationalism or violence could restrict the Group's ability to conduct its business effectively

Social and labour unrest has arisen in the past and may arise in the future due to a failure of the Russian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living and the elimination of many subsidised services. These conditions have already led to a certain amount of labour and social unrest that may continue or escalate in the future. Such social and labour unrest may cause other significant political, social and economic consequences, such as increased violence and support for renewed centralisation of authority, re-nationalisation or expropriation of property, or restrictions on foreign involvement in the economy of the Russian Federation. Any of these consequences, in particular those which would delay completion of the Group's capital expenditure projects or disrupt operations at its production facilities could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, the Group cannot assure prospective investors that the official sources from which the Group has drawn some of the information set out herein are reliable or complete. Russian state entities may produce official statistics based on methodologies different from those used by comparable bodies in other jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Russian Legal Risks and Uncertainties

Weakness relating to the Russian legal system and legislation create an uncertain environment for investment and business activity that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, and the value of the Shares and the GDRs

The Russian Federation is still developing an adequate legal framework to facilitate the proper functioning of a market economy. Certain fundamental Russian laws have only recently become effective and are subject to frequent amendments. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal

system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that the Group's management make:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime. There may be inconsistencies between existing laws, presidential decrees, state resolutions and ministerial orders, and between federal, regional and local legislation and regulations;
- in the absence of a sufficiently clear constitutional or legislative basis, decrees, resolutions and regulations may be adopted by state authorities and agencies with a high degree of discretion, which could make them controversial and less predictable. State authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions, and use defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- there are substantial gaps in the Russian regulatory structure;
- there is a lack of judicial and administrative guidance on interpreting certain laws and regulations;
- judicial decisions have limited or no precedent value;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market oriented legislation that is vulnerable to economic and political influence;
- bankruptcy procedures are not well developed and often subject to abuse; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. Some of the judges and courts in the Russian Federation are inexperienced in business and corporate law. In addition, some of the court decisions are not readily available to the public. Enforcement of court judgments can, in practice, be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Court claims are often used to further political aims. The Group may be subject to such claims and may not be able to receive a fair hearing. Moreover, court judgments are not always enforced or followed by law enforcement agencies.

In addition, the relatively recent enactment of many laws and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt, and many new laws remain untested. Any or all of these weaknesses could affect the Company's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

The above risks could affect the Group's ability to ascertain its rights or to seek or obtain effective redress in the Russian courts, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects

The independence of the judicial system remains largely untested. The court system in the Russian Federation is understaffed and under-funded and not immune to external influences. Judges and the courts in the Russian Federation are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to mineral rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience of the courts in the Russian Federation in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Group's entities, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, results of operations, financial condition, and prospects.

Difficulty in enforcing the Group's rights in Russia may have an adverse effect on the Group's financial condition, results operations and prospects

The current status of the Russian legal system makes it uncertain whether the Group would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian Government has rapidly introduced laws and regulations in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. The Group's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

Foreign judgments and arbitral awards may not be enforceable against the Group

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom or the United States and the Russian Federation for the reciprocal enforcement of foreign court judgments.

In the absence of an applicable treaty, a final judgment rendered by a foreign court may still be recognised and enforced by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgment on these grounds, the existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

The Underwriting Agreement and the Listing Agreement (both as defined in "*Material Contracts—Agreements for the Offering*") are governed by English law and provide that any dispute or difference arising from or in connection with the Underwriting Agreement or the Listing Agreement shall be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), subject to the right of the Managers to elect by notice in writing before an arbitrator has been appointed for such dispute or difference to be heard by a court of law. The seat of any arbitration will be London, England. The United Kingdom and Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Underwriting Agreement and the Listing Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

Lack of developed corporate and securities laws and regulations in the Russian Federation may limit the Group's ability to attract future investment

The regulation and supervision of the securities markets, financial intermediaries and issuers are considerably less developed in the Russian Federation than in more developed countries. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted in Russia, whereas laws relating to anti-fraud safeguards, insider trading and fiduciary duties are rudimentary. In addition, the Russian securities markets are regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the FAS;
- the CBR; and
- various professional self-regulatory organisations.

Rules and regulations of these various authorities are not always consistent with each other and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect the Company's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Group. As a result, the Group may be subject to fines or other enforcement measures.

Restrictive currency regulations may adversely affect the Group's business, results of operations, financial condition and prospects

The Russian currency control regime has been substantially developed and liberalised during the last decade. Notwithstanding that, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "**Currency Law**") and current regulations contain a number of limitations. These include a general prohibition on foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law and the operations between the authorised banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings in Russia. Restrictions on the Group's ability to conduct some of these transactions could increase its costs, prevent the Group from continuing necessary businesses, or from successfully implementing its business strategy, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, because of the limited development of the foreign currency market in Russia, the Group may experience difficulty converting roubles into other currencies. Any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit the Group's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. Furthermore, there is only a limited number of available rouble

denominated instruments in which the Group may invest its excess cash. Any balances maintained in roubles will give rise to losses if the rouble devalues against major foreign currencies.

Selective or arbitrary government action may have an adverse effect on the Group's business, results of operations, financial condition and prospects

Russian regulatory authorities have a high degree of discretion and at times appear to exercise their discretion selectively, without hearing or prior notice. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Such selective governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Unlawful, selective or arbitrary government action, if directed at the Group, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its subsidiaries

Russian law generally provides that shareholders in a Russian joint stock company or a limited liability company are not liable for the obligations of such joint stock company or, as the case may be, limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is called an effective parent. The entity whose decisions are capable of being so determined is called an effective subsidiary. Under Russian law, the effective parent bears joint and several responsibility for transactions performed by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons or entities; and
- the effective parent directs the actions of the effective subsidiary.

Moreover, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent (bankrupt) as a result of the action or inaction of the effective parent, which has been intentionally taken or abstained from, leading the effective subsidiary to its insolvency, regardless of how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent, which caused the effective subsidiary to take action or fail to take action knowing that such action or inaction would result in losses. Accordingly, in its position as an effective parent, the Company may be held liable by a court decision in some cases for the debts of its effective subsidiaries if it is proved that the Company caused its effective subsidiary to take action or fail to take action knowing that such action or inaction could result in loss.

Because there is little minority shareholder protection in the Russian Federation, investors' ability to bring, or recover in, an action against the Company will be limited

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate action, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. For more details, see *"Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions"*. While these protections are similar to the types of protections available to minority shareholders in US corporations or United Kingdom companies, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In Russia, General Shareholders' Meetings have been irregularly conducted, and management has not always respected shareholders' resolutions. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75 per cent. of all voting shares that are present at a General Shareholders' Meeting. Thus, controlling shareholders owning slightly less than 75 per cent. of outstanding shares of a company may have a 75 per cent. or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75 per cent. or more of the voting power at a General Shareholders' Meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that the controlling shareholders of the Group in the future may not operate the Group for the benefit of minority shareholders, which could have a material adverse effect on the value of the Shares and GDRs.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in the Russian Federation. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to the Company and its subsidiaries or to its shareholders could materially adversely affect the value of the Shares and GDRs.

The lack of a central rigorously regulated share registration system in Russia may result in improper record ownership of the Company's shares, including the Shares and the Shares underlying the GDRs

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central share registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing registrar functions. In practice, however, these regulations have not been strictly enforced and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. If shares are incorrectly registered it may not be possible for a holder of GDRs to exchange these for the underlying shares. Furthermore, the Depositary, under the terms of the Deposit Agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. Holders of GDRs do not have direct recourse to the registrar or the Company as they are not the registered holder of the shares. See "*Description of Share Capital and Certain Requirements of Russian Legislation*" for a further discussion of the share registration system and registrars in the Russian Federation.

There may be difficulties in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continually during the following years. More than 100 federal laws, presidential decrees and governmental resolutions were issued and almost all Russian regions passed their own real estate legislation. Until recently, land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had the power to sell, lease or otherwise dispose of land. In 2001, the Civil Code of the Russian Federation (the "**Civil Code**") was amended and the new Land Code of the Russian Federation No. 136-FZ dated 25 October 2001, as amended (the "**Land Code**"), as well as a number of other federal laws regulating land use and ownership, were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. As a result, the Group may not have properly obtained or registered the rights to its land plots, buildings located thereon and other real property. These

uncertainties may have a material adverse effect on its business, results of operations, financial condition and prospects.

Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States

In 2002, Russia introduced its first corporate governance code, which is recommended for companies listed on Russian stock exchanges. Corporate governance standards in Russia are not of the same standard as corporate governance standards in Western European countries or in the United States and may provide less protection for investors. In particular, corporate governance practices in Russia have suffered from the lack of transparency and information disclosure, both to the public and to shareholders; lack of independence of directors; and insufficient regulatory oversight and protection of shareholders' rights. According to the European Bank of Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. Minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

While the Joint Stock Companies Law provides that shareholders owning not less than 1 per cent. of the company's shares may bring an action for damages on behalf of the company against members of a board of directors or against executive bodies, Russian courts to date do not have much experience with respect to such lawsuits. Accordingly, investors' ability to pursue legal redress against the Company may be limited, reducing the protections available to investors as holders of the Shares and GDRs. In addition, as a joint stock company incorporated in the Russian Federation, the Company is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Some Russian courts, in deciding whether to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction for such violations.

For example, under Russian corporate law, negative net assets calculated on the basis of Russian Accounting Standards ("RAS") as of the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Negative Net Assets*". Many Russian companies have negative net assets due to very low historical asset values reflected on their RAS balance sheets; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Although neither the Company, nor any of its material subsidiaries currently has or has had net negative assets in the recent past, should they fail to maintain positive net assets in the future, it may result in their involuntary liquidation, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Company's "interested party" transactions, including transactions between the Company and its subsidiaries, may be challenged under Russian law

Subject to certain exceptions, according to the Joint Stock Companies Law, any transaction the Company enters into with an "interested party" must be approved by a majority vote of disinterested directors or shareholders before it is concluded. Russian law defines "interested party" transaction as a transaction that meets certain criteria and in which one of the following persons has an interest: a company's shareholder, a member of the company's board of directors, a member of the executive body of the company, or their affiliates. For a description of the rules applicable to "interested party" transactions, see "*Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions*". The Company's minority shareholders may not approve transactions that are "interested party" transactions requiring shareholders' approval or there may be an insufficient number of disinterested shareholders to constitute a quorum required for approval of "interested party" transactions. Any transaction which is not so approved may be challenged in court by a range of parties, including the Company, any of its shareholders or, if insolvency proceedings are commenced against the Company, by a court-appointed arbitration manager acting on behalf of its creditors. If a challenge is upheld, the relevant transaction can be overturned.

In addition, due to the technical requirements of Russian law, entities within the Group may be deemed "interested parties" with respect to certain transactions among themselves. As some of the Group companies, including certain material subsidiaries, are not wholly-owned, this may limit the Group's ability to engage in certain transactions (including financing transactions) within the Group as such transactions may be characterised as "interested party" transactions under Russian law and be required to be approved as "interested parties" transactions. Furthermore, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons" under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are also subject to differing interpretations. The Company cannot be certain that any interested party transactions will not be free from challenge. Any such challenge could result in the invalidation of transactions that are important to the Group's business. Failure to obtain the necessary approvals for transactions within its group or any such challenge could have a material adverse effect on its business, results of operations, financial condition and prospects.

In the event disinterested minority shareholders do not approve "interested party" transactions or successfully challenge them, the Group could be limited in its operational flexibility in connection with such transactions and its business, results of operations, financial condition and prospects could be materially adversely affected.

Shareholder rights provisions under Russian law may impose additional costs on the Company, which could have a material adverse effect on its business, results of operations, financial condition and prospects

Russian law provides that shareholders that voted against or did not participate in voting on certain matters have the right to sell their shares to a company at market value, as determined in accordance with Russian law. The decisions that trigger this right to sell shares include:

- reorganisation of the company;
- approval by shareholders of certain "major transactions"; and
- amendment of the company's charter that restricts shareholders' rights.

The Company's obligation to purchase the shares in these instances is limited to 10 per cent. of its net assets calculated under RAs of the time the matter at issue is voted upon. If the Company is required to purchase shares in these circumstances, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Russian tax legislation is relatively undeveloped and subject to frequent changes

Despite certain improvements of the Russian tax system undertaken by the Russian Government over the last 10 years, such as the adoption of the unified legislative act (the Russian Tax Code) and successive reduction of major tax rates, Russian tax legislation is still subject to frequent changes. In addition, it is expected that Russian tax legislation will introduce additional revenue-raising measures. For instance, starting from 1 January 2010, the unified social tax was replaced with direct mandatory contributions to the

Social Security Fund, the Medical Insurance Fund and the Pension Fund. As a result, from 1 January 2011 the rate of the contributions increased from 26 to 34 per cent. Moreover, tax administration rules are now split between the Russian Tax Code and a special law on social security contributions. The Pension Fund received more power and became a separate administrative body authorised to conduct full-scope tax audits in respect of contributions. In addition, Russia introduced temporary rules reducing deductibility of interest in respect of the loans nominated in foreign currency. These limitations will be in force at least until the end of 2012. These changes affect the overall tax climate in Russia and may result in additional tax liabilities for the Group, have a material adverse effect on the Group's overall tax position and undermine the Group's tax planning efforts, which, individually or in combination, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Russian tax authorities' approach to tax law enforcement and interpretation of legislation may be unpredictable and selective

The fiscal deficit that Russia is facing following the global economic downturn results in increases of the overall tax burden (see “—*Russian tax legislation is relatively undeveloped and subject to frequent changes*” above) and in more scrutiny of the Russian companies by the Russian tax authorities. Due to the absence or ambiguity of some of enforcement regulations, lack of legislative and/or judicial guidance and frequent changes in the regulator's (the Russian Ministry of Finance) interpretation of the relevant legislation, additional tax audits and groundless claims of the Russian tax authorities are not rare. The absence of effective out-of-court dispute resolution procedure also results in additional costs and administrative efforts for taxpayers forced to file claims in courts in most of the cases when a dispute with tax authorities arises.

In addition, court precedents are generally not binding in Russia. As a result, even though in recent years the highest Russian courts gradually tried to regulate court practice in the sphere of taxation and develop unified approaches to deciding particular types of cases, there are still no clear rules for distinguishing between lawful tax optimisation and tax evasion. The courts tried to develop some anti-avoidance approaches such as a concept of “a taxpayer acting in bad faith” and a concept of an “unjustified tax enrichment” moving towards the substance-over-form approach and limiting the possibility of taxpayers to rely on literal interpretation of the law. These concepts, however, are formulated quite broadly, are open to different interpretations and their status in the Russian legal system is unclear. The positions of the highest courts are also not stable and may change within relatively short period of time. As a result, the Group's tax position may be difficult to assess, the Group may be subject to selective actions, including audits, by the Russian tax authorities, and enter into unpredictable disputes with the Russian tax authorities, which, individually or in combination, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Repeated tax audits and extension of liability beyond the limitation period may result in additional tax liabilities for the Group

Tax returns in Russia remain open and subject to tax audit by the tax authorities for the year in which the decision to conduct a tax audit is taken and for a period of three calendar years immediately preceding such year. However, the fact that a particular tax period has been reviewed does not automatically exclude the possibility of a repetitive review of the same period by the same or a higher tax body (where such audit is carried out in connection with the restructuring/liquidation of a taxpayer, or as a result of filing by such taxpayer of an amended tax return decreasing the tax payable, or by a higher-level tax authority for the purpose of examining the activities of lower-level tax authorities). Any such review could, if it is concluded that the Company or its subsidiaries had significant unpaid taxes relating to such periods, have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, Russian tax legislation provides for the three-year statute of limitations in respect of imposition of fines for underpayment of taxes and other tax offences. At the same time, the law provides for the possibility to extend the three-year statute of limitations if the taxpayer actively obstructed or hindered tax audit. These provisions, however, are unclear and may be broadly interpreted by the tax authorities with the purpose to apply penalties beyond the three-year term. There can be no assurance that the Russian tax authorities will not review the Group's compliance with applicable tax law and attempt to assess additional taxes beyond the three-year limitation period.

Russian transfer pricing legislation is unclear and subject to change

Russian transfer pricing legislation allows Russian tax authorities to regulate prices, make transfer pricing adjustments and impose additional tax liabilities in case of breach of the rules in respect of certain types of transactions. There are also special transfer pricing rules for interest payments and transactions with securities and derivatives. Russian transfer pricing rules are not well-developed with little legislative guidance and court practice, which makes interpretation, application and enforcement of these rules by the Russian tax authorities and courts unpredictable. Moreover, general and specific transfer pricing provisions may contradict each other and there is no clear guidance as to which rule shall prevail. There are also no “mirror adjustment” (i.e. offsetting adjustment to the counterparty in the transaction) rules in Russia.

In addition, the Russian State Duma is currently considering a draft law that would substantially change the Russian transfer pricing rules. It is expected that most of the provisions of this draft law will be enacted in 2012 which will most likely result in stricter transfer pricing regulations. At this point it is impossible to predict whether this draft law will be enacted and what impact it will have on the Group.

Furthermore, currently there is no consolidated tax reporting in Russia, therefore, Russian subsidiaries of the Company are liable for their own taxes only and are unable to offset their profits or losses against the losses or profits of other entities within the Group. The draft law on consolidated tax reporting is currently being considered by the State Duma but it is still not clear whether and when it will be adopted.

Imposition by the Russian tax authorities of material tax liabilities on the Group as a result of transfer pricing adjustments could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

Risks Relating to the Shares and GDRs

The trading price of the Shares or the GDRs may be highly volatile and an active and liquid market for the Shares or the GDRs may not develop

The Russian stock markets have experienced extreme price and volume volatility, especially since the beginning of the global economic downturn. In addition, before the Offering, there has been no public trading market for the Shares or the GDRs. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Consequently, the trading prices of the Shares and the GDRs may be subject to volatility in response to a number of factors, some of which may be unrelated to the Company or its performance, including:

- operating results of the Group and of other Russian companies;
- changes in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by the Company or its competitors;
- changes in governmental legislation or regulation;
- general business, political, social and economic developments;
- changes in, or failure to meet earning estimates of research analysts;
- failure to pay dividends at anticipated levels;
- changes in market valuation of peers;
- key personnel departure;
- general economic conditions within the Group’s business sector or in Russia and the other emerging markets in which the Group sells its products; or
- extreme price and volume volatility on the Russian or other emerging market stock exchanges.

Moreover, the market price of the Shares and the GDRs may decline below the offer price per Share and the offer price per GDR, respectively, which will be determined based on the results of the bookbuilding exercise conducted by the Managers. The Offer Price has been determined through negotiations among the Company, the Selling Shareholders and the Managers and may not be indicative of the price at which

the Shares or the GDRs will trade following completion of the Offering. After the Offering, the Shares or the GDRs could be subject to significant volatility and investors may not be able to resell the Shares or the GDRs at or above the Offer Price.

Future sales of the Shares and/or the GDRs may affect the market price of the Shares and/or the GDRs

Sales, or the possibility of sales, of substantial volumes of the Shares or the GDRs in the public markets, including, in the case of the Shares on the Russian stock market, following the Offering could have an adverse effect on the trading prices of the Shares and the GDRs and could affect the Company's ability to obtain further capital through an offering of equity securities. The Company and the Selling Shareholders have undertaken not to offer, issue or sell any of their securities that are substantially similar to the Shares or GDRs for 180 days after the Closing Date, subject to certain limited exceptions. See "*The Offering—Lock-up*". Sales of such securities by the Company and the Selling Shareholders following the end of this period or the waiver of these restrictions could have an adverse effect on the trading prices of the Shares and/or the GDRs. Furthermore, subsequent equity offerings may reduce the percentage ownership of the existing shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Shares.

The Shares may be de-listed from MICEX and/or RTS, the FSFM permission for the GDR programme may be revoked, and the GDR facilities may have to be terminated

In order to maintain the Company's "V" listing on MICEX and its admission to trading on RTS, the Company will be required to comply with listing requirements, in addition to the securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements and minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company.

While the Company is not aware of any Russian issuer that has been de-listed on such grounds, there can be no assurance that a failure to comply with corporate governance requirements will not have such consequences. In addition, FSFM regulations require the Company or the Selling Shareholders to submit a notification on the results of the Offering to the FSFM within 30 days after the Closing Date. Should the Company or the Selling Shareholders for any reason fail to submit such a notification, the Company's GDR permit may be revoked after internal consideration by the FSFM. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of the Shares and the GDRs.

Although the Company paid dividends in the past, the Company may decide not to pay dividends in the future, and its ability to pay dividends will depend upon the level of dividends and distributions, if any, received from its operating subsidiaries and other factors

Although the Company has paid dividends in the past, it may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by the Company will depend on, among other things, its future profits, financial position and capital requirements, the sufficiency of its distributable reserves, the ability of subsidiaries to pay dividends or distributions to the Company, credit terms, general economic conditions and other factors that its directors deem to be important from time to time. Should the Company decide against declaring dividends in the future, the trading price of the Shares and GDRs may be adversely affected.

Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Shares may be seized in legal proceedings in Russia against the Depositary

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

Russian law, however, may not recognise the distinction between legal and beneficial ownership. Russian law treats a depositary as the owner of shares underlying GDRs and, accordingly, may not recognise GDR holders' beneficial ownership in such shares.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary open to seizure.

In the past, a lawsuit was filed against a depositary seeking the seizure of various Russian companies' shares represented by global depositary receipts issued by that depositary. However, the case was dismissed. In the event that a lawsuit seeking the seizure of the Shares underlying the GDRs were to be successful in the future against the Depositary, and the Shares underlying the GDRs were to be seized, the affected GDR holders would lose their rights to such underlying Shares and all or part of the money invested in them.

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

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs, the terms and conditions of the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, Russian Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995 (the "**Joint Stock Companies Law**") requires the Company to notify shareholders not less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect its Board of Directors and to pass upon certain other matters. Holders of the Shares, therefore, will receive notice directly from the Company and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreements, the Company will provide the notice to the Depositary or, as the case may be, the DR Servicer. The Depositary has undertaken, in turn, as soon as practicable after receipt of such notice and such other information as the Depositary or the DR Servicer reasonably requests, to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary or the DR Servicer from the Company) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary via the DR Servicer how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary and the DR Servicer, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary via the DR Servicer in a timely manner. GDRs for which the Depositary do not receive voting instructions in time will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the underlying Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary via the DR Servicer, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "*Terms and Conditions of the Global Depositary Receipts—Condition 16*" for a description of the voting rights of holders of GDRs.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, because of the additional procedural step involving the Depositary, holders of GDRs may not be able to instruct the Depositary to (1) vote the Shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for the Company's Board of Directors or review committee. If GDR holders wish to receive notice directly from the Company, they should timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owners of the Shares on the company's share register.

Following the Offering investors may not be able to deposit the Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering

Whenever the Depositary believes that the Shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by the Company and its affiliates for its or their proprietary accounts or as to which the Company or they exercise voting and investment power) represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or triggers any condition for the making of any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits from being exceeded or conditions from being breached or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being breached and to comply with any such law, directive or regulation, including, subject to prior consultation with the Company to the extent reasonably practicable, causing *pro rata* cancellation of GDRs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to comply with the applicable law.

Russian securities regulations set a limit on the portion of shares of a Russian company that may be circulated abroad through depositary receipt programs or otherwise. As of the date of this Prospectus, the statutory limit applicable to the Company is 25 per cent. FSFM granted permission for the placement and circulation of up to 2,661,927 Shares outside of Russia in the form of GDRs, which constitutes 21.35 per cent. of the Company's share capital. As a result, following the Offering, investors may not be able to deposit the Shares in the GDR programme in order to receive GDRs.

The aforementioned restriction has been changed in the past and may be subject to change at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and/or size of the Company's depositary receipt programs, which could adversely affect the value of the Shares or the GDRs.

Any additional issuance of the Company's Shares must be registered with the FSFM and will be assigned a provisional State registration number containing a suffix distinguishing it from the previous issuance of the Shares of the same class. Following completion of the issuance and the expiry of the three-month period after the registration of the related placement report (or filing of the placement notification), the provisional suffix is cancelled. The FSFM's permission for the Company's GDR programme expressly permits the deposit of the Shares having a specific registration number, namely 1-01-06556-A (30.11.2001), its general share registration number. Shares issued in the future which have a different registration number, may not be deposited in the Company's GDR programme and the Depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the GDR programme though existing holders of GDRs are not affected. Furthermore, deposit of additional Shares in the Company's GDR programme after the Offering may require the publication of a supplemental prospectus approved by the UKLA during the period of twelve months after the date hereof for which this Prospectus is valid or an additional prospectus after such period.

Following a share split, holders of GDRs will not be able to withdraw underlying Shares from the GDR programme and additional shares will not be allowed to be deposited with the GDR programme

By the end of 2011, the Company plans to conduct a share split of its ordinary shares. After the share split, the Company will have to approve a report on the share split results and file it for registration with the FSFM, which takes approximately two weeks. The new ordinary shares resulting from the share split will become freely tradable only upon registration of the report on the share split results by the FSFM. For the period starting on or about the date of the share split and until the registration of the report on the share split results, trading of the Shares on MICEX and RTS will be suspended. Trading of the GDRs will not be suspended and the Depositary will continue to update its register. However, for the period starting on or about the date of the share split and until the registration of the report on the share split results, GDR holders will not be able to withdraw underlying Shares from the GDR programme and additional shares will not be allowed to be deposited with the GDR programme. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Share Split*".

Holders of Shares and/or GDRs in certain jurisdictions (including the United States) may not be able to exercise their pre-emptive rights

In order to raise funding in the future, the Company may issue additional Shares, including in the form of GDRs. Generally, existing holders of ordinary shares in Russian open joint stock companies are in certain circumstances entitled to pre-emptive rights on the issue of new ordinary shares in that company as described in “*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Rights Attaching to the Shares*”. However, holders of Shares or GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights with respect to any new equity issuances by the Company unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company is unlikely to adhere to such requirements and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Shares and/or GDRs, and, as a result, their percentage ownership interest in the Company would be reduced.

GDR holders who are not Russian residents may be unable to obtain benefits under relevant double tax treaties in respect of Russian withholding tax on dividends payable through the Depositary

Although generally 15 per cent. Russian dividend withholding tax may be reduced by virtue of the application of the relevant double tax treaty (see “*Taxation*”), these treaty benefits may be unavailable for GDR holders who are not Russian residents.

Russian tax law provides no clear rules in respect of the treatment of dividend payments payable to GDR holders. For instance, it is unclear as to whether non-resident investors may be treated as beneficial owners of dividends payable in respect of GDRs and, therefore, be eligible for treaty benefits. In its letters issued in 2005, 2006 and 2007 the Russian Ministry of Finance expressed an opinion that GDR holders shall be treated as beneficial owners of dividend income for the purposes of the application of double tax treaties provided they were able to confirm their residency. However, in a situation when no clear rules and guidance are in place there is no assurance that local tax authorities and courts would uphold this position of the Ministry. As a result, investors (both individuals and legal entities) may face difficulties in obtaining a refund or credit of the tax withheld.

In addition, the Company will most likely be unable to comply with an advance tax treaty clearance procedure (available for non-individual investors) as it is likely that it will not receive information from the Depositary in respect of the exact amount of income payable to each investor and it may be practically impossible for the Depositary to collect residence confirmations from all investors required under such advance treaty clearance procedure.

In light of the above, the Company intends to withhold Russian dividend withholding tax at the rate of 15 per cent. regardless of whether the Depositary or an investor would be entitled to reduced rates under the relevant double tax treaty.

GDR holders who are not Russian residents and who are individuals may suffer a higher effective tax rate on dividends

GDR holders who are not Russian residents and who are individuals are subject to the risk that the Russian tax authorities may not take into account the 15 per cent. tax withheld from the payment of dividends to the Depositary and state that such non-resident investors are liable to additional Russian personal income tax of up to 30 per cent. payable on a self-assessed basis, if dividends are treated as a Russian source income. Coupled with the above mentioned risk of potential unavailability of the relevant double tax treaty, this may lead to an effective tax rate on dividends of up to 45 per cent. for GDR holders who are not Russian residents and who are individuals.

Russian resident investors holding GDRs may suffer from a higher effective rate of tax on dividends

As the dividends on GDRs would be received by resident investors from the Depositary rather than from the Company, there is a risk of such income being classified as dividends received from foreign sources and thus subject to a 9 per cent. tax in addition to the tax withheld by the Company. Although the Russian Ministry of Finance in its letter dated 15 December 2010 provided some comfort stating that it is a Russian issuer of shares that should be recognised as a source of income under GDRs, in light of the overall lack of clarity and regulations in respect of GDRs’ status, the risk remains.

In addition, the Russian tax authorities may not recognise income received under GDRs as dividends if they consider such income as not falling under the definition of dividends set out in the Russian Tax Code. Should this risk materialise, the dividends may be subject to additional taxation at the rate of 13 per cent. for individual investors and 20 per cent. for legal entities.

Investors who are not Russian residents may be subject to Russian withholding tax on disposal of the Shares or GDRs through or to certain Russian payers

The disposition of Shares or GDRs by non-resident investors which are legal entities or organisations may lead to the imposition of Russian 20 per cent. tax to the extent that income from such disposal is received from a Russian source, immovable property located in Russia constitutes more than 50 per cent. of the Company's assets and the Shares cease to be considered as listed according to the rules set by the Russian tax legislation. (See "Taxation"). This risk may be mitigated if the taxable gains in question arise from a sale of the GDRs by non-resident investors on a foreign stock exchange where such GDRs are listed and/or by virtue of the relevant double tax treaty application (if the respective exemption is available under the treaty).

Investors may be unable to repatriate their earnings from distributions made on the Shares and GDRs

Currently, Russian currency control legislation pertaining to the payment of dividends does not prohibit payment of rouble dividends on shares to non-Russian residents, however, there can be no assurance that it will not be reversed in the future. The ability of non-Russian shareholders to convert roubles into hard currencies is subject to the availability of hard currency in Russia's currency markets. Although there is an existing market within the Russian Federation for the conversion of roubles into hard currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside the Russian Federation and no viable market in which to hedge the rouble and rouble-denominated investments.

Investors may have limited recourse against the Selling Shareholders, the Company or the Company's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the current directors and executive officers reside outside the United States and the United Kingdom

The Company's and the Selling Shareholders' presence outside the United States and the United Kingdom may limit the legal recourse of investors against them. The Company is organised under the laws of the Russian Federation and the Selling Shareholders reside in Cyprus. All of the Company's current directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of the Company's and the Selling Shareholders' assets and the assets of the Company's current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company or its directors and executive officers or the Selling Shareholders or to enforce US or UK court judgments obtained against the Company or its directors and executive officers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to their investment in the Shares and GDRs. The Deposit Agreements provide for actions brought by any party thereto against the Company to be settled by arbitration in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors and Russian courts' inability to enforce such orders and corruption in Russia.

THE OFFERING

The Company	OJSC “PhosAgro”, an open joint stock company organised under the laws of the Russian Federation, with its registered office at Leninsky prospekt 55/1, building 1, Moscow 119333, Russian Federation. The Company’s state registration number is 1027700190572.
The Selling Shareholders	(i) Adorabella Limited and (ii) Miles Ahead Management Limited, each of which is a company organised and existing under the laws of Cyprus. See “ <i>Principal and Selling Shareholders</i> ”.
The Offering	The Offering comprises an offering of 1,282,000 Shares in the form of Shares and GDRs. The Shares and GDRs are being offered (i) in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act and (ii) outside the United States to certain persons in offshore transactions in reliance on Regulation S. The Shares are being offered in the Russian Federation, to certain investors in reliance on Regulation S. In the application for obtaining the FSFM permission for the placement and circulation of Shares in the form of GDRs outside Russia, the Selling Shareholders together with certain other shareholders of the Company have committed to offer up to 5,323,854 Shares in the Offering. On 24 May 2011, the FSFM granted permission for the placement and circulation of up to 2,661,927 Shares outside of Russia, including in the form of GDRs. The Selling Shareholders may sell fewer Shares, including in the form of GDRs, than the maximum number committed for sale. See “<i>Description of Share Capital and Certain Requirements of Russian Legislation—Offering Outside the Russian Federation</i>” for further details.
Offer Price	The offer price is \$420.00 per Share and \$14.00 per GDR.
Share Capital	Immediately prior to the Offering, the Company’s share capital consists of (i) 12,411,709 ordinary shares, and (iii) 35,999 A2 Type preferred shares convertible into ordinary shares (the “A2 Convertible Preferred Shares”), each with a nominal value of 25 roubles, which are fully paid and issued. The Company’s Shares are subject to applicable provisions of Russian corporate law and its charter and have the rights described under “<i>Description of Share Capital and Certain Requirements of Russian Legislation</i>”.
Over-allotment Option	Adorabella Limited has granted an Over-allotment Option to the Joint Bookrunners to acquire up to 15 per cent. of the total number of GDRs sold in the Offering at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to Adorabella Limited from the Stabilising Manager on behalf of the Joint Bookrunners at any time during the Stabilisation Period. If the Stabilising Manager on behalf of the Joint Bookrunners exercises this option, Adorabella Limited will be obligated to procure the issue and delivery of such GDRs, and each Joint Bookrunner will be severally obligated, subject to

the conditions contained in the underwriting agreement among the Selling Shareholders, certain other existing shareholders of the Company and the Joint Bookrunners, on behalf of the Managers, to purchase such additional GDRs proportionate to that Joint Bookrunner's initial underwriting commitment.

The GDRs Thirty GDRs will represent an interest in one Share on deposit with ZAO Citibank (the “**Custodian**”), as custodian for the Depositary. The GDRs will be issued pursuant to one of two separate deposit agreements, each as amended and restated on 1 July 2011, one relating to the Rule 144A GDRs (the “**Rule 144A Deposit Agreement**”) and one relating to the Regulation S GDRs (the “**Regulation S Deposit Agreement**” and, together with the Rule 144A Deposit Agreement, the “**Deposit Agreements**”), between the Company, Citibank, N.A. acting as, among other things, GDR registrar, GDR transfer agent, GDR paying agent and GDR servicing agent (the “**DR Servicer**”) and the Depositary. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the Deposit Agreements. Pursuant to the Deposit Agreements, the Shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.

The Depositary may deduct per-GDR fees and other fees and expenses from dividend distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See “*Terms and Conditions of the Global Depositary Receipts—Condition 19*”.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading*”.

Closing Date The GDRs are expected to be delivered, and payment for them made on or about 18 July 2011.

Use of Proceeds The Company will not receive any proceeds from the Offering. Gross proceeds from the Offering total approximately \$538 million. Net proceeds from the Offering total approximately \$524 million and reflect the deduction of the aggregate underwriting commissions of \$13.4 million and expenses of the Joint Bookrunners of approximately \$1.15 million. Estimated other aggregate expenses of the Offering, excluding such underwriting commissions and expenses, are expected to total approximately \$3.6 million and will be paid by the Company. In addition, the Company may pay the Joint Bookrunners, at its sole discretion, an incentive fee of up to \$2.7 million (0.5 per cent. of the aggregate gross proceeds of the Offering). This incentive fee will be determined by the Company and paid to the Joint Bookrunners by no later than 30 days from the Closing Date.

For more information on the Company's future capital requirements, see "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*".

For information on the Company's future capital requirements, see "*Operating and Financial Review—Capital Expenditures*".

Dividend Policy The Company's dividend policy post-Offering is based on the following principles:

- balancing shareholders' interests between payment of dividends and reinvestment;
- a transparent and predictable dividend policy that is attractive to investors; and
- the majority of profit will be used for reinvestment to support growth.

The dividends available for distribution will be recommended by the Board of Directors at the General Shareholders' Meeting.

Having regard to the principles above and the size of the Group's consolidated profit for the year calculated in accordance with IFRS, the Company expects to continue to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent. of the Group's consolidated profit for the year calculated in accordance with IFRS. The Company intends to pay a dividend of not less than 30 per cent. of the Group's consolidated profit for the period calculated in accordance with IFRS for the period between 1 April 2011 and 31 December 2011. The Company has already paid dividends for the first quarter of 2011. See "*Operating and Financial Review—Recent Developments—Dividend Payments*". Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

For more information on the Company's dividend policy, see "*Dividend Policy*".

Depository Citigroup Global Markets Deutschland AG.

DR Servicer Citibank, N.A.

Lock-up The Company has agreed, in the Listing Agreement, subject to certain exceptions, for a period of 180 days after the Closing Date, that it shall not, nor shall any other member of the Group, nor shall any affiliate of any member of the Group, nor shall any person acting on its or their behalf, without the prior written consent of the Joint Bookrunners (a) issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs or any Shares, or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any GDRs or any

Shares, or any security or financial product whose value is determined directly or indirectly by reference to the price of any GDRs or any Shares or any other such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any GDRs or Shares, or (c) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above. See “*Subscription and Sale and Selling Restrictions—Lock-up Arrangements—Company lock-up*”.

The Selling Shareholders and certain other existing shareholders of the Company, in the Underwriting Agreement, and all other existing shareholders of the Company, in deeds of lock-up entered into as required in the Underwriting Agreement, have agreed, subject to certain exceptions, for a period of 180 days after the Closing Date, that they shall not, nor shall any of their subsidiaries, affiliates or connected persons, nor shall any person acting on its or their behalf, without the prior written consent of the Joint Bookrunners (a) offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs or any Shares, or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any GDRs or any Shares, or any security or financial product whose value is determined directly or indirectly by reference to the price of any GDRs or any Shares or any other such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities, without the prior written consent of the Joint Bookrunners, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any GDRs or Shares or (c) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above. See “*Subscription and Sale and Selling Restrictions—Lock-up Arrangements—Shareholder lock-up*”.

Voting Holders of Shares will generally be entitled to one vote per Share at a shareholders’ meeting, subject to certain exceptions described in “*Description of Share Capital and Certain Requirements of Russian Legislation—General Shareholders’ Meeting*”.

The Depositary will endeavour to exercise, on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary or, as the case may be, the DR Servicer receives timely notice, the voting rights relating to the Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. The Company will notify the Depositary or, as the case may be, the DR Servicer of any resolution to be proposed at any general meeting. See “*Terms and Conditions of the Global Depositary Receipts—Condition 16*”.

Taxation	For a discussion of certain US, UK and Russian tax consequences of purchasing and holding the Shares or GDRs, see “ <i>Taxation</i> ”.
Transfer Restrictions	The Shares and GDRs will be subject to certain restrictions on transfer as described under and “ <i>Transfer Restrictions</i> ”.
Listing and Trading	The Shares have been admitted to quotation list “V” on MICEX and admitted to trading on RTS, in each case under the symbol “PHOR”. Trading in Shares is expected to start on RTS on or about 13 July 2011 and on MICEX on or about 18 July 2011.

Application has been made to (i) the UK Listing Authority for a listing of up to 79,857,810 GDRs, consisting of 26,535,120 GDRs to be issued on the Closing Date and up to 3,980,250 GDRs to be issued in connection with the Over-allotment Option, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs through the International Order Book (the “IOB”) is expected to commence on an if-and-when issued basis on or about 13 July 2011. Closing and settlement are expected to take place on or about 18 July 2011, and admission to the Official List of the UK Listing Authority and to unconditional trading through the IOB is expected to take place on or about 18 July 2011. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

An additional 49,342,440 Shares may be deposited, subject to the provisions set forth under “*Terms and Conditions of the Global Depositary Receipts*” and in the Deposit Agreements, with the Custodian against which the Depositary shall issue, and the DR Servicer shall process the issuance of, GDRs representing such shares up to the maximum aggregate number of 79,857,810 GDRs permitted under the UK Listing Authority block listing application subject to maintaining permission therefor from the FSFM.

Settlement Procedures	It is expected that delivery of the Shares in the Offering will commence on or about 18 July 2011, and each purchaser of the Shares in the Offering must pay for such Shares on or prior to the date agreed with the Joint Bookrunners. The Shares are payable in U.S. dollars or in roubles. For Shares payable in roubles, the exchange rate between roubles and U.S. dollars will be the official exchange rate quoted by the CBR for 13 July 2011.

The Shares are admitted to trading on quotation list “V” on MICEX and to trading on RTS. In order to make the Shares eligible for trading on the MICEX and the RTS, a potential purchaser must have a depositary account with CJSC Depositary Clearing Company or National Settlement Depository or any depositary that has an account with CJSC Depositary Clearing Company or National Settlement Depository. Purchasers may at their own expense choose to hold the Shares through a direct account with the share registrar of OJSC “PhosAgro”, however, directly-held Shares are ineligible for trading on the MICEX and the RTS. The timing for the delivery of the Shares to the

purchasers' accounts will in each case depend on which account will be used for the delivery of Shares.

Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. An application has been made to DTC to have the Rule 144A GDRs accepted for clearance through DTC and to have the Regulation S GDRs accepted for clearance through the systems of Euroclear and Clearstream. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR Certificates only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “*Settlement and Delivery—Global Clearance and Settlement Procedures*”.

General Information It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security identification numbers for the Shares and the GDRs offered hereby are as follows:

Shares ISIN: RU000A0JRK8

Regulation S GDR ISIN: US71922G2093

Regulation S GDR Common Code: 065008939

Regulation S GDR CUSIP: 71922G209

Regulation S GDR SEDOL: B62QPJ1

Rule 144A GDR ISIN: US71922G1004

Rule 144A GDR Common Code: 064985922

Rule 144A GDR CUSIP: 71922G100

Rule 144A GDR SEDOL: B5N6Z48

London Stock Exchange GDR trading symbol: PHOR

MICEX trading symbol: PHOR

RTS trading symbol: PHOR

Risk Factors Prospective investors should carefully consider certain risks discussed under “*Risk Factors*”.

USE OF PROCEEDS

The Company will not receive any proceeds from the Offering. Gross proceeds from the Offering total approximately \$538 million. Net proceeds from the Offering total approximately \$524 million and reflect the deduction of the aggregate underwriting commissions of \$13.4 million and expenses of the Joint Bookrunners of approximately \$1.15 million. Estimated other aggregate expenses of the Offering, excluding such underwriting commissions and expenses, are expected to total approximately \$3.6 million and will be paid by the Company. In addition, the Company may pay the Joint Bookrunners, at its sole discretion, an incentive fee of up to \$2.7 million (0.5 per cent. of the aggregate gross proceeds of the Offering). This incentive fee will be determined by the Company and paid to the Joint Bookrunners by no later than 30 days from the Closing Date.

For more information on the Company's future capital requirements, see "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*".

DIVIDEND POLICY

The Company's dividend policy post-Offering is based on the following principles:

- balancing shareholders' interests between payment of dividends and reinvestment;
- a transparent and predictable dividend policy that is attractive to investors; and
- the majority of profit will be used for reinvestment to support growth.

The dividends available for distribution will be recommended by the Board of Directors at the General Shareholders' Meeting.

Having regard to the principles above and the size of the Group's consolidated profit for the year calculated in accordance with IFRS, the Company expects to continue to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent. of the Group's consolidated profit for the year calculated in accordance with IFRS. The Company intends to pay a dividend of not less than 30 per cent. of the Group's consolidated profit for the period calculated in accordance with IFRS for the period between 1 April 2011 and 31 December 2011. The Company has already paid dividends for the first quarter of 2011. See *"Operating and Financial Review—Recent Developments—Dividend Payments"*. Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

Dividend payments, if any, must be recommended by the Board of Directors and approved by the General Shareholders' Meeting, neither of whom is under any obligation to recommend or approve any dividend payments. The ability to pay dividends is also restricted by Russian law and the Company's charter. In particular, dividends may be declared and paid only out of net profits for the first quarter, six months, nine months and/or full year calculated under RAS and as long as the following conditions have been met:

- the Company's share capital has been paid in full;
- the value of the Company's net assets, calculated under RAS, is not less (and would not become less as a result of the proposed dividend payment) than the sum of its share capital, its reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares, if any;
- the Company has repurchased all shares from shareholders having the right to demand repurchase; and
- the Company is not insolvent, and would not become insolvent, as a result of the proposed dividend payment.

Dividends, if declared, are payable to the Company's shareholders within 60 days from the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. For additional information, please see *"Description of Share Capital and Certain Requirements of Russian Legislation—Rights of Shareholders—Dividends"*.

To the extent that dividends are declared and paid by the Company in the future, holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreements. For additional information, please see *"Description of Share Capital and Certain Requirements of Russian Legislation—Rights of Shareholders—Dividends"*.

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, current and non-current debt, equity and capitalisation (i) as of 31 March 2011 and (ii) as adjusted (with adjustments based on the financial information extracted from the management accounts) for (a) the dividend payment in the aggregate amount of 29,634 million roubles, net of dividend on treasury shares in the amount of 216 million roubles, that the Group paid to its shareholders in May-June 2011 for the year ended 31 December 2010 and the three months ended 31 March 2011 (see “*Operating and Financial Review—Recent Developments*” for more information) and (b) the receipt of funds in the aggregate amount of U.S.\$649.25 million, net of bank commissions of U.S.\$0.75 million (18,458 million roubles at the exchange rate as quoted by the CBR on 31 March 2011 of 28.43 roubles per U.S.\$1.00, of which 7,100 million roubles comprised current debt and 11,358 million roubles comprised non-current debt) in May-June 2011 pursuant to three loan agreements entered into by the Group in May 2011 in order to finance the above mentioned dividend payment (see “*Material Contracts—Loan Agreements—Loan Agreements with Sberbank*” for more information).

The following section should be read in conjunction with “*Operating and Financial Review*” and the “*Consolidated Financial Statements*” included elsewhere in this Prospectus.

	As of 31 March 2011 ⁽¹⁾	As adjusted
	RUB million	
	(Unaudited)	
<i>Cash and cash equivalents:</i>		
Cash and cash equivalents	9,206	(1,970) ⁽²⁾
Total cash and cash equivalents	9,206	(1,970)
<i>Current debt (including current portion of non-current debt):</i>		
Loans and borrowings	4,741	11,841 ⁽³⁾
Total current debt (including current portion of non-current debt)	4,741	11,841
<i>Non-current debt:</i>		
Loans and borrowings	3,829	15,187 ⁽⁴⁾
Total non-current debt	3,829	15,187
<i>Equity:</i>		
Share capital	360	360
Share premium	496	496
Treasury shares	(37)	(37)
Retained earnings	60,357	30,723 ⁽⁵⁾
Reserves	1,815	1,815
Equity attributable to the Equity holders of the Parent	62,991	33,357 ⁽⁵⁾
Equity attributable to non-controlling interests	16,530	16,530
Total equity	79,521	49,887
Total Capitalisation⁽⁶⁾	83,350	65,074

(1) Financial information has been extracted without material adjustment from the 2011 Interim Financial Statements included elsewhere in this Prospectus.

(2) Reflects a decrease of 29,634 million roubles as a result of the dividend payment as described above and an increase of 18,458 million roubles following the receipt of proceeds from the three credit facilities described above. Does not take into account cash generated between 31 March 2011 and the time of the dividend payment in May-June 2011. A portion of such cash was used to fund the dividend payment. See “*Operating and Financial Review—Recent Developments—Dividend Payments*” for more information. Subsequent to 31 March 2011, certain loans and receivables from related parties of the Group in the aggregate amount of 8,291 million roubles have been repaid. See “*Related Party Transactions—Related Party Transactions Subsequent to the Balance Sheet Date (31 March 2011)*” for more information.

(3) Reflects a 7,100 million roubles increase in current debt following the receipt of proceeds from the three credit facilities as described above.

(4) Reflects a 11,358 million roubles increase in non-current debt following the receipt of proceeds from the three credit facilities as described above.

(5) Reflects a 29,634 million roubles decrease in retained earnings as a result of the 29,634 million roubles dividend payment as described above.

(6) Total capitalisation is the sum of total non-current debt and total equity.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER FINANCIAL DATA

The following selected consolidated financial statement data, segment financial data and other financial data relating to the Group as of and for the years ended 31 December 2008, 2009 and 2010 has been extracted from the Audited Financial Statements, which are included elsewhere in this Prospectus. The unaudited selected consolidated historical interim financial information as of 31 March 2011 and for the three months ended 31 March 2011 and 2010 has been extracted from the 2011 Interim Financial Statements, which are included elsewhere in this Prospectus. The 2011 Interim Financial Statements have been prepared in accordance with IAS 34. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

The selected consolidated financial statement data set forth below has been extracted from, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere in this Prospectus. Certain operating data relating to the Group is also set forth below. EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, capital expenditures, net debt and cash costs are non-IFRS measures and were calculated by the Company based on data derived from its Consolidated Financial Statements.

The selected consolidated financial statements should be read in conjunction with “*Operating and Financial Review*”.

Selected Statement of Financial Position Data

	As of 31 December			As of
	2008	2009	2010	31 March
		(RUB million)		2011
				(unaudited)
ASSETS				
<i>Non-current assets</i>				
Property, plant and equipment	37,640	42,557	46,480	47,056
Intangible assets	577	711	776	784
Investments in associates	—	—	9,365	7,296
Other non-current assets	5,216	10,992	7,147	8,113
Total non-current assets	43,433	54,260	63,768	63,249
<i>Current assets</i>				
Other current investments	7,972	917	3,300	4,782
Inventories	8,781	6,847	7,716	8,703
Current income tax receivable	1,245	717	379	68
Trade and other receivables	9,773	12,642	15,521	14,642
Cash and cash equivalents	14,348	5,622	5,261	9,206
Total current assets	42,119	26,745	32,177	37,401
Total assets	85,552	81,005	95,945	100,650

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			(unaudited)
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital	360	360	360	360
Share premium	210	210	496	496
Treasury shares	—	—	(37)	(37)
Retained earnings	46,847	49,215	55,311	60,357
Reserves	691	2,147	2,120	1,815
	48,108	51,932	58,250	62,991
Equity attributable to Equity holders of the Parent	48,108	51,932	58,250	62,991
Equity attributable to non-controlling interests	14,754	15,064	15,079	16,530
	62,862	66,996	73,329	79,521
<i>Non-current liabilities</i>				
Loans and borrowings	2,086	2,020	3,423	3,829
Defined benefit obligations	690	646	931	948
Deferred tax liabilities	1,770	2,557	2,700	2,633
Total non-current liabilities	4,546	5,223	7,054	7,410
<i>Current liabilities</i>				
Trade and other payables	14,216	6,252	9,461	8,057
Current income tax payable	41	374	592	921
Loans and borrowings	3,887	2,160	5,509	4,741
Total current liabilities	18,144	8,786	15,562	13,719
Total equity and liabilities	85,552	81,005	95,945	100,650

Selected Statement of Comprehensive Income Data

	Years ended 31 December			Three months ended	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Revenues	92,191	60,785	76,951	16,963	24,486
Cost of sales	(36,594)	(39,894)	(47,670)	(11,495)	(13,511)
Gross profit	55,597	20,891	29,281	5,468	10,975
Administrative expenses	(3,416)	(3,914)	(5,247)	(1,242)	(1,057)
Selling expenses	(7,400)	(5,451)	(6,515)	(1,406)	(1,570)
Taxes, other than income tax	(1,044)	(1,113)	(999)	(265)	(322)
Other income/(expenses), net	(1,564)	664	(1,833)	(87)	(368)
Operating profit	42,173	11,077	14,687	2,468	7,658
Finance income	2,231	1,694	1,380	251	289
Finance costs	(1,063)	(845)	(437)	(85)	(85)
Profit before taxation	43,341	11,926	15,630	2,634	7,862
Income tax expense	(10,824)	(3,250)	(3,649)	(671)	(1,627)
Profit for the year	32,517	8,676	11,981	1,963	6,235
Attributable to:					
Non-controlling interests	4,941	2,295	1,403	114	900
Equity holders of the Parent	27,576	6,381	10,578	1,849	5,335

Selected Cash Flow Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Cash flows from operating activities	36,252	8,731	15,133	2,265	11,936
Cash flows used in investing activities	(14,121)	(9,357)	(16,975)	(3,774)	(4,318)
Cash flows from/(used in) financing activities	(10,005)	(8,179)	1,481	1,339	(3,673)

Segmental Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Segment external revenues					
Phosphate-based products	83,809	53,283	68,832	15,019	21,105
Nitrogen fertilisers	8,820	6,469	7,012	1,658	3,175
Other	1,512	1,071	1,106	285	213
Total	94,141	60,823	76,950	16,962	24,493

Other Financial Data

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)				
EBITDA ⁽¹⁾ (in millions of roubles)	45,404	15,177	20,464	3,669	9,109
Adjusted EBITDA ⁽¹⁾ (in millions of roubles)	47,396	13,185	20,464	3,669	9,109
EBITDA margin ⁽²⁾ (in percentages)	49.2	25.0	26.6	21.6	37.2
Adjusted EBITDA margin ⁽³⁾ (in percentages)	51.4	21.7	26.6	21.6	37.2
Capital expenditures ⁽⁴⁾ (in millions of roubles)	11,124	9,303	10,614	1,049	2,168

- (1) EBITDA is defined as profit or loss for the year before finance income and finance costs; income tax expense or benefit; and depreciation, amortisation and impairment. Adjusted EBITDA is defined as EBITDA adjusted to exclude in the period items which the Company views as exceptional and non-recurring. In 2008 and 2009, the exceptional adjustment comprised accrual/reversal of litigation provision (the Group recorded an accrual of litigation provision in 2008, which was subsequently reversed in 2009). EBITDA and adjusted EBITDA are not presentations defined by IFRS, are not a measure of financial condition, liquidity or profitability and should not be considered as alternatives to income/(loss) determined in accordance with IFRS or operating cash flows determined in accordance with IFRS. Additionally, EBITDA and adjusted EBITDA are not intended to be a measure of free cash flow for management's discretionary use, as they do not take into account certain items such as investments in the Group's associates, interest and principal payments on the Group's indebtedness, depreciation and amortisation expense (because the Group uses capital assets, depreciation and amortisation expense is a necessary element of the Group's costs and ability to generate revenue), working capital needs and tax payments (because the payment of taxes is part of the Group's operations, it is a necessary element of the Group's costs and ability to operate). The Company believes that inclusion of EBITDA and adjusted EBITDA is appropriate to provide additional information to investors about the Group's operating performance and to provide a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. Because not all companies calculate EBITDA, adjusted EBITDA or similarly entitled measures identically, this presentation of EBITDA and adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

The following table reconciles the Group's EBITDA and adjusted EBITDA calculation described above to profit for the year:

	Years ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)			(unaudited)	
Profit for the year	32,517	8,676	11,981	1,963	6,235
Finance income	(2,231)	(1,694)	(1,380)	(251)	(289)
Finance costs	1,063	845	437	85	85
Income tax expense	10,824	3,250	3,649	671	1,627
Depreciation, amortisation and impairment	3,231	4,100	5,777	1,201	1,451
EBITDA	45,404	15,177	20,464	3,669	9,109
Accrual/(reversal) of litigation provision	1,992	(1,992)	—	—	—
Adjusted EBITDA	47,396	13,185	20,464	3,669	9,109

- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue.
- (4) The Company defines capital expenditures as all additions to property, plant and equipment.

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			
Net debt ⁽¹⁾	(8,375)	(1,442)	3,671	(636)

- (1) Net debt is defined as total loans and borrowings less cash and cash equivalents. Net debt is not a presentation defined by IFRS, is not a measure of financial condition, liquidity or profitability and should not be considered as an alternative to total loans and borrowings or other line items determined in accordance with IFRS. Additionally, net debt is not intended to be a measure of free cash flow for management's discretionary use. The Company believes that inclusion of net debt is appropriate to provide additional information to investors about the Group's operating performance. Because not all companies calculate net debt identically, this presentation of net debt may not be comparable to other similarly titled measures of other companies.

In the three months ended 31 March 2011, the Group's total phosphate rock cash cost was 4,351 million roubles. The Group's cash cost per tonne of phosphate rock produced was 2,167.9 roubles in the same period. The Company defines cash costs as cost of goods sold less depreciation, amortisation and impairment expense plus land tax and tax on exploration of mineral resources. Cash cost is not a presentation defined by IFRS, is not a measure of financial condition or profitability and should not be considered as an alternative to cost of goods sold or other line items determined in accordance with IFRS. The Company believes that inclusion of cash cost is appropriate to provide additional information to investors about the Group's operating performance. Because not all companies calculate cash costs identically, this presentation of cash cost may not be comparable to other similarly titled measures of other companies.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's operating and financial results and prospects is based on the Consolidated Financial Statements prepared in accordance with IFRS, as well as the Group management's internal financial and operating records. Prospective investors should read the following discussion together with the whole of this Prospectus, including "Risk Factors" and the Consolidated Financial Statements (including the related notes), and should not rely solely on the information set out in this section.

The following discussion includes certain forward-looking statements that, although based on assumptions that the Group's management considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Prospectus. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" in this Prospectus. All statements other than statements of historical fact, such as statements regarding the Group's future financial position, risks and uncertainties related to the Group's business, plans and objectives for future operations, are forward-looking statements.

Overview

The Group is a leading global vertically integrated phosphate-based fertiliser producer. The Group focuses on the production of Phosphate-Based Fertilisers, feed phosphate and high-grade phosphate rock with P_2O_5 content of not less than 39 per cent. as well as ammonia and Nitrogen-Based Fertilisers. In 2010, the Group was the largest phosphate-based fertiliser producer in Europe, the largest producer of high-grade phosphate rock (defined as phosphate rock with P_2O_5 content of not less than 35.7 per cent.) worldwide and the third largest MAP/DAP producer in the world (excluding China), according to Fertecon. The Group's reserves and resources of apatite-nepheline ore, which contains P_2O_5 , Al_2O_3 , TiO_2 (titanium oxide) and rare earth minerals, were measured by IMC as of 1 June 2011 according to the JORC Code and consisted of proved and probable reserves of 771.4 million tonnes and measured and indicated resources (inclusive of reserves) of 2,073.9 million tonnes. The Group's mines and phosphate rock production facilities are located in the mountain areas of the Kola Peninsula in the Murmansk region of North West Russia, whereas the Group's fertiliser and feed phosphate production assets are located near the city of Cherepovets in the Vologda region of North West Russia and near the city of Balakovo in the Saratov region of South East part of European Russia.

As part of its vertically integrated business model, the Group mines apatite-nepheline ore from its own mines and extracts high-grade phosphate rock from the ore at the Group's beneficiation plants. The Group then uses approximately between 50 and 60 per cent. of its phosphate rock output as a raw material to produce Phosphate-Based Fertilisers and MCP, which is a feed phosphate mainly used in the agricultural husbandry feed industry. The Group also sells phosphate rock to third parties in the domestic and European markets. In addition, the Group produces ammonia, which it uses internally principally for the production of Phosphate-Based and Nitrogen-Based Fertilisers and sells any excess to third parties. The Group also extracts nepheline concentrate from its apatite-nepheline ore and sells it to third parties for the production of alumina, cement, soda ash, potassium carbonate and gallium.

The Group's principal product groups are (i) phosphate rock, (ii) Phosphate-Based Fertilisers and feed phosphate MCP, and (iii) Nitrogen-Based Fertilisers and ammonia. These product groups accounted for 18.0 per cent., 58.7 per cent. (of which 91.0 per cent. accounted for sales of MAP/DAP/NPK) and 9.1 per cent., respectively, of the Group's external sales revenue in 2010. The Group's remaining external sales revenue principally related to the sales of nepheline concentrate (0.8 per cent. of the Group's external sales revenue in 2010), sales of electricity and heat energy (steam and hot water), sales of consulting, transportation and other services, and other sales.

The Group sells its fertilisers outside Russia through large and well-known international traders and distributors. Export sales accounted for 81.9 per cent. of the Group's fertiliser and feed phosphate sales in 2010, with the Group's fertilisers and feed phosphate exported to more than 60 countries. The principal export markets for the Group's fertiliser products are South Asia, Latin America and West Europe. The Group sells phosphate rock outside Russia directly to end customers in Europe. In 2010, export sales of the Group's phosphate rock accounted for 42.4 per cent. of the Group's external phosphate rock sales. Overall, export sales accounted for 65.1 per cent. of the Group's total sales in 2010. Most of the sales of the Group's fertilisers in Russia are made directly to end customers through the Group's domestic distribution platform comprising seven distribution centres located in the major agricultural regions of Russia. The Group also

sells third-party fertilisers domestically through its distribution network. Most of the sales of the Group's phosphate rock in Russia are made directly to end customers outside of the Group's distribution network. In 2010, domestic sales of fertilisers and feed phosphate accounted for 18.1 per cent. of the Group's fertiliser and feed phosphate sales, while domestic phosphate rock sales accounted for 57.6 per cent. of the Group's external phosphate rock sales. Overall, domestic sales accounted for 34.9 per cent. of the Group's total sales in 2010.

Segment Information

The Group has two reportable segments: "phosphate-based products", which mainly includes production and distribution of Phosphate-Based Fertilisers and feed phosphate MCP and production and distribution of phosphate rock produced from the apatite-nepheline ore mined by the Group, and "nitrogen fertilisers", which mainly includes production and distribution of Nitrogen-Based Fertilisers and ammonia.

For the discussion of the Group's principal operations, see "*Business—Operations*". The operations of the "phosphate rock" division, which is principally involved in the extraction of phosphate—nepheline ore and production of phosphate rock and nepheline concentrate, and the "Phosphate-Based Fertilisers and feed phosphate" division, which produces Phosphate-Based Fertilisers and feed phosphate MCP, are reflected in the results of operation of the "phosphate-based products" segment, whereas the operations of the "ammonia and Nitrogen-Based Fertilisers" division, which is principally involved in the production of ammonia and Nitrogen-Based Fertilisers, are reflected in the results of operation of the "nitrogen fertilisers" segment.

Certain assets, revenue and expenses are not allocated to any particular segment and are therefore included under the "other operations" segment, which includes, among other things, third-party transportation services provided by the Group company FosAgro-Trans; research and development services provided by the Group company NIUIF; fertiliser transportation, storage, blending and packaging services offered by the Group's domestic distribution network; and consulting and other services offered by other subsidiaries of the Group. None of these operations meet any of the quantitative thresholds for determining reportable segments in the three months ended 31 March 2011 and in the years ended 31 December 2010, 2009 or 2008.

Significant Factors Affecting Results of Operations

The Group's operations have historically been influenced by the following key factors, which the Group's management believes will continue to affect the Group's results of operations in the future:

Global Macroeconomic Conditions and Agricultural Commodity Prices

Changes in Selling Prices of the Group's Principal Products

Selling prices for the Group's fertilisers, feed phosphate, phosphate rock and ammonia, revenue from the sales of which in the aggregate accounted for 93.9 per cent., 94.3 per cent., 94.9 per cent. and 95.6 per cent. of the Group's total revenue in the years ended 31 December 2008, 2009 and 2010 and in the three months ended 31 March 2011, respectively, significantly affect the Group's revenue and profitability and have fluctuated significantly during the period under review. Selling prices for the Group's products generally move in line with global market prices for these products, which are directly influenced by global macroeconomic conditions and agricultural commodity prices.

In late 2008 and the first quarter of 2009, the global economic downturn resulted in a decrease in agricultural commodity prices which, in turn, led to a significant decrease in demand and in prices for fertilisers, feed phosphates, phosphate rock and ammonia. The impact of fertiliser price decreases on Phosphate-Based Fertilisers has been more pronounced than on Nitrogen-Based Fertilisers as nitrogen cannot be retained by soil for an extended period of time and needs to be applied annually. Demand was further weakened by the negative impact of the turmoil in the financial markets on farmers and traders' access to trade finance, which limited their ability to purchase fertilisers and feed phosphates. While demand for the Group's products increased in the second half of 2009, prices remained depressed through the end of 2009. In 2010, as the economies of the principal fertiliser consuming markets began to grow, prices for the Group's products generally started to increase. This upward trend generally continued during the first quarter of 2011.

Fluctuations in agricultural commodity prices also had a material effect on the selling prices for the Group's products. Global grain prices increased significantly in early 2008 and remained very high as a

result of various factors, including crop failures, low grain stocks, increased demand from emerging economies and increased biofuel production. In 2009, 2010 and the first quarter of 2011, grain consumption continued to rise both in developed and emerging markets, and global production of major crops and biofuels was generally increasing. However, global prices for major crops significantly declined at the end of 2008 as a result of the global economic downturn, remained flat (except for soybean) until the middle of 2010, and then increased by more than 50 per cent. as of the beginning of 2011 compared to the middle of 2010 as a result of increases in global crop consumption and global crop stock decreases. Global prices for major crops generally remained flat in the first quarter of 2011. Higher grain prices normally stimulate increased grain production, increasing the demand for fertilisers, which can result in upward pressure on fertiliser prices.

The Group sells its fertilisers outside Russia through large and well-known international traders and distributors based on the best netback price (selling price less selling costs) that the Group can obtain for its products. The following table sets forth information on the Group's revenue per tonne for the Group's principal fertiliser products, feed phosphate and phosphate rock in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December					Three months ended 31 March		
	2008	2009		2010		2010	2011	
	Revenue per tonne	Revenue per tonne	Change from prior year	Revenue per tonne	Change from prior year	Revenue per tonne	Revenue per tonne	Change from prior period
	(in roubles, except percentages)							
DAP—Russia	19,245	11,009	(43)%	13,304	21%	9,192	17,321	88.4%
DAP—Exports	20,553	9,464	(54)%	11,871	25%	9,543	15,916	66.8%
MAP—Russia	17,431	10,925	(37)%	11,898	9%	9,453	15,018	58.9%
MAP—Exports	24,227	9,421	(61)%	14,135	50%	10,588	15,871	49.9%
NPK—Russia	14,268	9,841	(31)%	10,345	5%	8,982	14,575	62.3%
NPK—Exports	19,118	9,982	(48)%	10,650	7%	9,235	12,803	38.6%
MCP—Russia	23,528	18,487	(21)%	16,798	(9)%	17,123	20,114	17.5%
MCP—Exports	26,040	13,178	(49)%	12,334	(6)%	9,953	15,527	56.0%
Phosphate rock—Russia	3,146	3,193	2%	3,575	12%	3,169	3,585	13.1%
Phosphate rock—Exports	5,597	5,910	6%	4,849	(18)%	4,055	8,043	98.3%
Ammonium nitrate—Russia	6,195	4,514	(27)%	5,725	27%	5,444	7,599	39.6%
Ammonium nitrate—Exports	7,723	4,378	(43)%	6,030	38%	—	8,169	—
Urea—Russia	5,977	6,950	16%	8,898	28%	8,497	10,100	18.9%
Urea—Exports	9,485	7,387	(22)%	7,838	6%	9,295	10,438	12.3%

Fluctuations in the revenue per tonne of the Group's principal products during the period under review largely reflected the trends in the global and Russian market prices for these products.

Global prices for fertilisers, feed phosphates, phosphate rock and ammonia have a significant impact not only on the Group's revenue but also on the Group's profitability, which generally tends to increase when global prices for these products are increasing. The Group's management believes that a high proportion of internally produced inputs in the Group's fertiliser and feed phosphate production processes helps the Group to translate higher revenues from fertiliser and feed phosphate sales into higher profitability of its overall operations. When fertiliser and feed phosphate prices rise, the costs of most of the associated raw materials (such as phosphate rock, ammonia, sulphur and sulphuric acid and potash) also tend to rise, and *vice versa*. Since changes in prices of fertilisers and feed phosphate and raw materials do not correlate exactly, the profit margins in the Group's core business segments (phosphate-based products and nitrogen fertilisers) can vary from period to period.

Changes in Sale Volumes of the Group's Principal Products

Sale volumes of the Group's products also affect the Group's revenue and profitability. However, the Group adopted a strategy to focus on maintaining sales volumes during the global economic downturn that commenced in the second half of 2008 as long as sales could be made at prices above marginal cost. Despite the adverse effect on the Group's profitability, this strategy allowed the Group to avoid production shut-downs of its production facilities as restarting production is costly and time-consuming. As a result, changes in the Group's sales volumes during the period under review were less significant than changes in prices, and therefore had a less pronounced effect on the Group's revenue and profitability. The following table sets forth information on external sales volumes of the Group's principal products in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(in thousands of tonnes)				
Phosphate-Based Fertilisers and feed phosphate MCP	3,103	3,635	3,842	917	978
Phosphate rock	3,517	2,807	3,712	1,031	835
Nitrogen-Based Fertilisers	900	922	850	197	268
Ammonia	171	155	142	33	58

The increases in fertiliser, feed phosphate and ammonia sales in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 were mainly due to increases in global demand for these products. The decrease in phosphate rock sales in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 was principally due to a slight decrease in phosphate rock production and an increase in the production and sales of Phosphate-Based Fertilisers and feed phosphate, which resulted in an increase in internal consumption of phosphate rock by the Group.

The increase in the Group's sales of Phosphate-Based Fertilisers and feed phosphate MCP in 2009 compared to 2008 was principally due to an increase in the export sales of DAP and NPK as a result of an overall increase in global demand for these fertilisers, partially offset by a decrease in sales of MAP due to an overall decrease in worldwide demand for MAP. The decrease in external sales of phosphate rock in 2009 compared to 2008 was primarily due to the decrease in the Group's phosphate rock production as a result of a decrease in phosphate rock demand from external customers and due to the increase in the Group's internal consumption of phosphate rock resulting from the increase in the Group's production of fertilisers in that year. The increase in external sales of phosphate rock in 2010 compared to 2009 was due to the increase in the Group's production of phosphate rock outpacing the increase in the Group's internal phosphate rock consumption and an increase in phosphate rock demand from external customers. See "*Business—Products and Sales*" for more information on sales of the Group's products.

Composition of sales volumes in terms of the product mix has also fluctuated during the period under review due to changes in market demand and other factors. The principal changes in product mix during the period under review include the following:

- the share of MAP in the Group's export sales of Phosphate-Based Fertilisers and feed phosphate MCP by volume increased from 4.7 per cent. in the three months ended 31 March 2010 to 46.7 per cent. in the three months ended 31 March 2011 while the share of DAP in the Group's export sales of Phosphate-Based Fertilisers and feed phosphate MCP by volume decreased from 75.3 per cent. in the three months ended 31 March 2010 to 33.2 per cent. in the three months ended 31 March 2011, principally due to a shift in global demand from DAP to MAP;
- the share of DAP in the Group's export sales of Phosphate-Based Fertilisers and feed phosphate MCP by volume increased from 59.4 per cent. in 2008 to 68.2 per cent. in 2009 and subsequently decreased to 56.1 per cent. in 2010 as a result of changes in market demand;
- the share of MAP in the Group's export sales of Phosphate-Based Fertilisers and feed phosphate MCP by volume decreased from 26.9 per cent. in 2008 to 13.1 per cent. in 2009 and subsequently increased to 17.6 per cent. in 2010 due to changes in market demand; and
- the share of NPK in the Group's export sales of Phosphate-Based Fertilisers and feed phosphate MCP by volume increased from 4.1 per cent. in 2008 to 11.8 per cent. in 2009 and further increased to 15.8 per cent. in 2010 as a result of changes in market demand.

Long-Term Global Demand and Supply Factors

In the longer term, the Group's management believes that a number of factors will drive demand for fertiliser products. These factors include:

- rising populations and declining arable land, leading to a decline in available arable land per capita, which results in the need for more intensive application of fertiliser products in order to achieve adequate crop yields;
- income growth in emerging economies resulting in changes in diet (such as increased consumption of meat, which results in increased demand for grain and other animal feed, and increased consumption

of fruit and vegetables, which are higher-priced crops requiring higher fertiliser application rates to ensure crop yield and quality); and

- increasing demand for biofuel.

Supply-related factors influencing fertiliser prices in the future will most notably include changes in worldwide fertiliser production capacity and increased availability of fertiliser product exports from major producing regions such as the former Soviet Union, the United States, the Middle East, Trinidad, India, China and Venezuela. According to Fertecon, fertiliser producers outside Russia, in particular in Asia, the Middle East and North Africa, have announced an intention to commission a substantial amount of new MAP/DAP production capacity in the next few years, which, if successfully completed, could result in downward pressure on global fertiliser prices. See “*Risk Factors—Worldwide supply and production of fertilisers are expected to increase, which could result in a decrease in fertiliser prices*”.

See “*Industry*” for more information on factors affecting fertiliser demand and supply.

Prices of Raw Materials and Services and Production Costs

Materials and Services

Materials and services are the largest component of the Group’s cost of sales, accounting for 38.5 per cent., 38.6 per cent., 44.1 per cent. and 42.5 per cent. of the Group’s cost of sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The Group’s materials and services costs principally relate to the Group’s purchases of goods and services required for the Group’s mining and production activities. Approximately half of the Group’s materials and services costs are variable costs, which include, among other things, certain intra-Group transportation costs, external purchases of ammonia, purchases of potash, expenditures on explosives and phosphate rock production materials such as for example, steel balls for the grinding process, and tyres and other transportation machinery replacement parts. Fixed costs include, among other items, maintenance and repair related costs, facilities cleaning costs, work clothes and individual protective gear for employees, passenger transportation services for employees, materials for chemical laboratories, and IT and telecommunications related expenses. During the period under review, trends in most of the Group’s materials and services prices have generally followed the Russian PPI trends except for the costs associated with external purchases of ammonia and potash and intra-group transportation costs.

Materials and services are also the second largest component of the Group’s selling expenses, accounting for 17.1 per cent., 24.0 per cent., 21.5 per cent. and 15.6 per cent. of the Group’s selling expenses in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The Group’s costs of materials and services which are part of the selling expenses include costs of materials and services used in selling, loading and shipping activities such as railcar cleaning and maintenance expenses and expenditures on packaging materials.

Salaries and Social Contributions

Salaries and social contributions are the second largest component of the Group’s cost of sales and the largest component of the Group’s administrative expenses, accounting for 20.3 per cent., 20.3 per cent., 18.4 per cent. and 19.6 per cent. of the Group’s cost of sales and 50.8 per cent., 52.4 per cent., 53.5 per cent. and 61.5 per cent. of the Group’s administrative expenses in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. Labour costs in Russia have historically been significantly lower than those in the more developed market economies of Western Europe and North America for similarly skilled employees; however, the average wage in Russia has been rising in recent years. According to Rosstat, wages in the Russian Federation calculated in roubles rose by 17.0 per cent. and 11.5 per cent. in 2007 and 2008, respectively, declined by 3.5 per cent. in 2009, and then increased by 4.2 per cent. in 2010 (preliminary Rosstat data), in each case in real terms. In addition, given that a significant proportion of the Group’s production facility workforce is unionised (94.5 per cent. of Apatit employees, 70.0 per cent. of Ammophos employees, 88.0 per cent. of BMF employees and 63.0 per cent. of Cherepovetsky Azot employees were members of trade unions as of 1 January 2011), the Group could be limited in its flexibility in managing its workforce and limiting increases in payroll costs.

Cost of Natural Gas

Natural gas accounted for 8.8 per cent., 9.3 per cent., 9.4 per cent. and 10.6 per cent. of the Group’s cost of sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011,

respectively. Natural gas is the principal raw material for the production of ammonia, which in turn is the main raw material for the production of Nitrogen-Based Fertilisers including urea and is also used in the production of Phosphate-Based Fertilisers. The Group also uses natural gas for heating, electricity production and other production related purposes. The Group's average natural gas purchase price increased by 13.7 per cent. from 1,852 roubles per one thousand cubic metres in 2008 to 2,106 roubles per one thousand cubic metres in 2009, and further increased by 25.0 per cent. to 2,633 roubles per one thousand cubic metres in 2010.

The Group purchases natural gas primarily from LLC Gazprom Mezhhregiongaz Vologda (a subsidiary of Gazprom). Similarly to most industrial natural gas consumers, the Group purchases natural gas from Gazprom at regulated prices. Domestic natural gas prices in Russia are regulated by the Government and have been rising over the last few years. Despite recent price increases, Russian natural gas prices currently remain significantly below Western European and North American levels. Following a governmental session held on 30 November 2006, the Russian Government began to implement a steady increase in domestic natural gas prices with the aim of ultimately reaching netback parity with Gazprom's European export prices. Furthermore, the Group's gas utilisation rates in the ammonia production process are generally higher than those of some of its international peers (for example, gas utilisation rates of some of the European ammonia producers are approximately 35 per cent. lower) resulting in the Group consuming more gas per tonne of ammonia produced. According to a report by the Russian Ministry of Economic Development which provides economic forecasts and guidance to the Federal Tariff Service, the agency in charge of setting natural gas prices, the regulated prices of natural gas in Russia are expected to increase by up to 15 per cent. in nominal terms for each of 2011, 2012 and 2013. The Russian Government is currently considering the introduction of a discount on natural gas prices for companies, including fertiliser producers, that use natural gas as a raw material in the production of other products.

Fuel and Electricity Costs

The Group's fuel and electricity costs in the aggregate accounted for 14.3 per cent., 12.8 per cent., 14.3 per cent. and 16.7 per cent. of the Group's cost of sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. Fuel and electricity prices have been rising in Russia in recent years. Fuel costs in Russia have been generally rising as a result of the increases in the oil price, which, following its sharp decline during the global economic downturn, increased from less than US\$37 per barrel in December 2008 to over US\$113 per barrel in April 2011. Domestic electricity prices in Russia have also been and remain substantially below those in Western Europe and North America. As the power generating companies created during the restructuring of the Russian power sector are financed and controlled to a greater extent by the private sector, electricity prices are likely to increase for industrial users of electricity such as the Group.

Expenditures on Sulphur and Sulphuric Acid

Expenditures on sulphur and sulphuric acid accounted for 15.0 per cent., 6.5 per cent., 5.1 per cent. and 4.7 per cent. of the Group's cost of sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. Sulphur is the principal raw material used in the production of sulphuric acid, which is required for the production of phosphoric acid used in the production of Phosphate-Based Fertilisers. The Group's average sulphur purchase price decreased by 57.5 per cent. from 4,713 roubles per tonne in 2008 to 2,002 roubles per tonne in 2009, and then further decreased by 13.0 per cent. to 1,742 roubles per tonne in 2010. These decreases were principally due to declines in sulphur prices. The Group purchases sulphur principally from Gazprom Sulphur, Astrakhangasprom, Orenburggasprom and TengizChevroil.

Expenditures on Potassium Chloride

Expenditures on potassium chloride accounted for 2.8 per cent., 3.6 per cent., 4.0 per cent. and 4.1 per cent. of the Group's cost of sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. Potassium chloride is one of the principal raw materials used in the production of NPK. The Group's average potassium chloride purchase price decreased by 3.3 per cent. from 4,868 roubles per tonne in 2008 to 4,707 roubles per tonne in 2009, and then increased by 10.6 per cent. to 5,204 roubles per tonne in 2010, while the Group's consumption and purchase volumes of potassium chloride increased in 2009 as compared to 2008 and in 2010 as compared to 2009 as a result of a 58.5 per cent. increase in NPK production volume in 2009 as compared to 2008 and a 13.6 per cent.

increase in NPK production volume in 2010 as compared to 2009. The Group purchases potassium chloride from a third-party producer, Uralkalij, to satisfy all of its potassium chloride requirements.

Freight and Rail Costs

The Group offers to sell products to its customers on the basis of certain industry-standard delivery terms reflecting different levels of the Group's responsibilities in terms of the cost and execution of delivery of its products. When the Group arranges and pays for transport, the Group's selling prices are higher and include expected freight and rail costs to the point of delivery, resulting in higher revenues and selling expenses. In the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively, selling expenses constituted 8.0 per cent., 9.0 per cent., 8.5 per cent. and 6.4 per cent. of the Group's revenue, respectively, and freight and rail costs (comprised of Russian Railways infrastructure tariff and operators' fees as well as port and stevedoring expenses) accounted for 36.3 per cent., 65.8 per cent., 70.0 per cent. and 73.8 per cent. of the Group's selling expenses, respectively. As the Group's selling prices must remain competitive with prices charged by other suppliers, the Group's profit margins may be adversely affected to the extent the Group is required to compete with suppliers who have lower delivery costs to the customer.

Russian Railways infrastructure tariff and operators' fees are a significant component of the Group's selling expenses, accounting for 25.9 per cent., 43.8 per cent., 50.2 per cent. and 54.2 per cent. of the Group's selling expenses in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The Group mainly uses the Russian railway system for transportation of raw materials from third-party suppliers and Group companies to the Group's production facilities and for deliveries of the Group's products to its domestic customers and to ports and rail border points for onward transportation to foreign customers. The Group's mining and production facilities are located at considerable distances (500-3,000 kilometres) from key seaports and rail border points. As a result, the Group's operations heavily depend on the Russian railway system and rely predominantly on the rail freight network operated by Russian Railways, which is a state-owned monopoly company handling a significant majority of all railway freight in Russia. Russian railway tariffs are set in roubles and are regulated by the Government. Railway tariffs for freight were increased by 9.4 per cent. on 1 January 2010. Although initially a 9.2 per cent. increase in railway tariffs for freight was announced for 2011, railway tariffs for freight are now expected to increase by up to 14 per cent. in 2011 and have been increased by 8 per cent. in 2011 to date, according to the Russian Federal Tariff Service. Railway tariffs for freight are expected to increase by 7-12 per cent. in 2012 and by 6.5-11 per cent. in 2013 based on the information from the Russian Federal Tariff Service. Past and future increases in railway tariffs for freight have resulted and will continue to result in significant increases in the Group's transportation costs. In the past, the Group has been able to pass to its customers most of the increases in railway transportation costs associated with the delivery of the Group's products to its domestic customers, however there can be no assurance that the Group will be able to do so in the future. The Group is usually unable to pass to its customers increases in railway transportation costs associated with the delivery of raw materials to or between Group companies and the delivery of the Group's products to ports for onward transportation overseas to the Group's export customers. The Group may not be able to increase its prices to fully recoup railway tariff increases, which could have a material adverse effect on the Group's profit margins.

Port and stevedoring expenses are also a significant component of the Group's selling expenses, accounting for 10.4 per cent., 21.9 per cent., 19.8 per cent. and 19.6 per cent. of the Group's selling expenses in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The Group's average port and stevedoring expense per tonne increased by 42.5 per cent. from 247 roubles per tonne in 2008 to 352 roubles per tonne in 2009 and generally remained flat in 2010.

The Group categorises the delivery terms it uses as follows. See "*Presentation of Financial and Other Information—Definitions*" for definitions of the below delivery terms.

- Main carriage unpaid
 - FCA—Free Carrier (named place). The prices the Group charges to customers for these deliveries are lower than the Group's export prices given that delivery is made close to the production facility and without the additional expense for onward transportation. The Group delivers most of its domestic sales on FCA terms.
- Carriage paid to port or border

- FOB—Free on Board (named loading port). The Group makes the majority of its sales to Asia, Latin America and some European sales, such as those to Belgium, on FOB terms.
- DAF—Delivered At Frontier (named place). The Group makes certain European export sales, such as those to Poland, Lithuania, Latvia and Finland, when made by rail, on DAF terms. The Group's CIS sales are mostly made on DAF terms.
- Main carriage paid
 - CPT—Carriage Paid To (named place of destination). Some of the Group's domestic sales are made on CPT basis.

Fluctuations in the Exchange Rate of the Rouble against the U.S. Dollar

Approximately two thirds of the Group's revenue relates to sales of the Group's products outside Russia. Export sales accounted for 66.5 per cent., 64.2 per cent., 65.1 per cent. and 67.5 per cent. of the Group's total sales in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The U.S. dollar is the principal currency in which the Group's export sales are denominated. In contrast, the Group's costs of sales and administrative and selling expenses are predominantly denominated in rouble, including almost all wages and salaries of the Group's employees. As a result, the Group is exposed to fluctuations in exchange rates.

From the beginning of 2007 and until mid-summer of 2008, the rouble appreciated against the U.S. dollar (from 26.33 roubles per U.S. dollar as of 1 January 2007 to 23.13 roubles per U.S. dollar as of 16 July 2008). However, the rouble fell sharply against the U.S. dollar towards the end of 2008 and the beginning of 2009 to a low of 36.43 roubles per U.S. dollar as of 19 February 2009. Since then, the rouble has recovered somewhat and the exchange rate was 30.48 roubles per U.S. dollar at the end of 2010. The rouble continued to strengthen against the U.S. dollar in the first quarter of 2011 and the exchange rate was 28.43 roubles per U.S. dollar as of 31 March 2011. See "*Currencies and Exchange Rates*".

Fluctuations in the exchange rate of the rouble against the U.S. dollar have had and will continue to have a significant effect on the Group's revenue and profitability. In general, the depreciation of the rouble against the U.S. dollar improves the Group's profitability because a large portion of its revenue is earned in U.S. dollars, whereas most of its costs are incurred in roubles. The appreciation of the rouble against the U.S. dollar has the opposite effect on the Group's profitability. Although the Group makes a limited use of hedging financial instruments to hedge its foreign currency exposure (in 2008, 2009 and 2010, the Group entered into forward contracts in the amounts of USD 40 million, USD 60 million and USD 85.2 million, respectively, which accounted for less than 10 per cent. of the Group's total export revenue in each of those years), the Group seeks to create a "natural hedge" by borrowing in foreign currencies, primarily the U.S. dollar. The effect of borrowing in foreign currencies is to offset somewhat the foregoing trends. For example, the depreciation of the rouble against the U.S. dollar results in higher interest expense on the Group's U.S. dollar denominated borrowings (in rouble terms) and in losses from translation of U.S. dollar-denominated monetary liabilities into roubles at the end of each reporting period. The appreciation of the rouble against the U.S. dollar has the opposite effect on these line items in the Group's income statement. Due to the significant depreciation of the rouble against the U.S. dollar in 2008 and a further depreciation of the rouble against the U.S. dollar in 2009, the Group recognised foreign exchange gains in the amounts of 512 million roubles and 226 million roubles in 2008 and 2009, respectively. Due to the appreciation of the rouble against the U.S. dollar in 2010, the Group recognised a foreign exchange loss in the amount of 132 million roubles in that year. In the three months ended 31 March 2011, the Group recognised foreign exchange gains in the amount of 61 million roubles due to the effects of a "natural hedge" as the exchange gain on the Group's borrowings denominated in foreign currencies as a result of a strengthening of the rouble against the U.S. dollar more than offset the negative effect of the appreciation of the rouble on the Group's foreign currency denominated cash and cash equivalents and trade accounts receivable.

The overall impact of fluctuations in the exchange rate of the rouble against the U.S. dollar principally depends on the proportion of the Group's export sales in its total sales, expenditures denominated in foreign currencies or linked to foreign currencies-denominated prices, and on the outstanding amount of the Group's U.S. dollar-denominated borrowings, as well as on the magnitude of the appreciation or depreciation of the rouble against the U.S. dollar within any particular reporting period.

Government Regulation of Fertiliser and Phosphate Rock Export Sales

The Group's selling expenses include custom duties. The Group's custom duties decreased from 3,189 million roubles in 2008 to 233 million roubles in 2009 (nil in 2010 and the three months ended 31 March 2011) principally due to the Russian Government abolishing exports duties on sales of Phosphate-Based Fertilisers and phosphate rock from 1 February 2009 and from 1 May 2009, respectively. The customs duties, introduced in April 2008, were equal to 8.5 per cent. and 6.5 per cent. of the declared customs value of fertilisers and phosphate rock, respectively. Imposition of customs duties in the future may have a material adverse effect on the Group's results of operations in the future. See "*Risk Factors—Risks Related to the Group's Business and Industry—Imposition of export duties by the Russian Government may have a material adverse effect on the Group's business, results of operation, financial condition and prospects*".

Seasonality

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group's revenue is partially offset by the facts that the Group sells its fertilisers globally and fertiliser application and purchases vary by region. In particular, in Russia purchases of fertilisers by farmers generally peak in the third quarter. Due to the fact that Russia is the main fertiliser market for the Group, this normally results in the Group having a somewhat higher revenue in the third quarter as compared to the other quarters. However, fertiliser demand from other regions tends to peak in other periods of the year (for example, fertiliser demand from India and Brazil generally peaks in the first quarter while fertiliser purchases by European customers normally prevail in the second quarter), which partially offsets the increase in the Group's revenue in third quarter resulting from fertiliser sales in Russia.

The Group's costs are generally stable throughout the year with the exception of a slight increase during May-June as a result of maintenance activities undertaken at the Group's production facilities.

Recent Developments

Production Volumes

In the three months ended 31 March 2011, the Group:

- extracted 6,688 thousand tonnes of apatite-nepheline ore;
- produced 2,007 thousand tonnes of phosphate rock and 1,029 thousand tonnes of Phosphate-Based Fertilisers and feed phosphate;
- produced 298 thousand tonnes of ammonia, 123 thousand tonnes of ammonium nitrate and 124 thousand tonnes of urea; and
- produced 248 thousand tonnes of nepheline concentrate.

Dividend Payments

In May-June 2011, the Group paid dividends to all its existing shareholders for the year ended 31 December 2010 in the amount of 26,000 million roubles and for the three months ended 31 March 2011 in the amount of 3,850 million roubles. The amount of 216 million roubles was retained by the Group as dividends on treasury shares. The Group financed approximately one third of the payments using cash flows from operating activities and approximately two thirds of the payments using short-term and long-term debt. See "*Material Contracts—Loan Agreements—Loan Agreements with Sberbank*" for a description of certain loan agreements entered into by the Group in order to finance the dividend payment.

Acquisitions

In June 2011, the Group company BMF acquired a 24.0 per cent. stake in CJSC Metachem for a consideration of U.S.\$6,006 thousand and a 20.85 per cent. stake in CJSC Pikalevskaya Soda (approximately 80 per cent. of which is owned by CJSC Metachem) for a consideration of U.S.\$5,157 thousand. The acquisitions were made as part of the Group's vertical integration strategy. The Group is also in the process of discussing a joint venture between the Group and Basel Cement Pikalevo (which produces alumina from the Group's nepheline concentrate) pursuant to which the Group's

nepheline concentrate would be utilised by the production of facilities of CJSC Pikalevskaya Soda and Basel Cement Pikalevo. On 26 April 2011, the Group signed an agreement with a Danish engineering company pursuant to which the parties intend to develop energy-efficient technology of nepheline concentrate processing, which is expected to be used when constructing new and modernising existing Basel Cement Pikalevo's production facilities. Furthermore, the Group is currently negotiating an agency agreement with CJSC Metachem pursuant to which the Group would be selling Metachem's STPP and SOP.

Debt Repayment

Subsequent to 31 March 2011, certain loans and receivables from related parties of the Group in the aggregate amount of 8,291 million roubles have been repaid. See "*Related Party Transactions—Related Party Transactions Subsequent to the Balance Sheet Date (31 March 2011)*" for more information.

Description of Key Consolidated Statement of Comprehensive Income Items

Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies' warehouses (mainly for domestic sales) or upon loading the goods onto the relevant carrier (mainly for export sales).

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

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

Cost of Sales

The Group's cost of sales comprise expenditures on raw materials and services; salaries and social contributions of employees involved in the Group's mining and production activities; expenditures on natural gas; charges in respect of depreciation and amortisation of property, plant and equipment used in the mining and production processes; fuel costs; expenditures on sulphur and sulphuric acid; electricity costs; change in stock of work-in-progress and finished goods; and other items.

Administrative Expenses

The Group's administrative expenses consist of salaries and social contributions of employees not involved in the Group's mining and production activities; charges in respect of depreciation, amortisation and impairment of property, plant and equipment not used in the mining and production processes; and other expenses, which principally include insurance costs, external audit fees, legal services fees, repairs and maintenance expenses, land rent expenses and utilities.

Selling Expenses

The Group's selling expenses comprise Russian Railways infrastructure tariff and operators' fees; costs of materials and services used in selling, loading and shipping activities such as railcar cleaning and maintenance expenses and expenditures on packaging materials; port and stevedoring expenses; salaries and social contributions of employees involved in selling, loading and shipping activities; custom duties; and depreciation and amortisation of the Group's assets used in selling, loading and shipping activities such as loading/unloading platforms, weighing facilities and sections of railway tracks owned by the Group.

Taxes Other Than Income Tax

The Group's taxes other than income tax consist of property tax, mineral resources extraction tax, land tax, transportation tax, tax penalties and fines, and other taxes. Mineral resources extraction tax is calculated as

a percentage of the costs incurred in connection with mineral resources extraction and is currently set at 4.0 per cent. for apatite-nepheline ore.

Other Income/(Expenses), Net

Other income/(expenses), net comprise accruals/reversals of provisions; loss on disposal of fixed assets; decrease/(increase) in provision for inventory obsolescence; depreciation and amortisation of other assets; impairment losses; social and charity related expenditures; and other operating expenses which principally include rental income/(expenses), decrease/(increase) in bad debt reserve, gains/(losses) from bad debt write-off and fines receivable/(payable).

Net Finance Income/(Expense)

Net finance income/(expense) comprises finance income less finance costs.

Finance income comprises dividend income, interest income on funds invested (including available-for-sale financial assets), foreign exchange gains/(losses), net and gains on disposal of investments. Dividend income is recognised in profit or loss on the date the Group's right to receive payment is established. Interest income is recognised as it accrues in profit or loss using the effective interest method. Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to an acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Income Tax Expense

Income tax expense comprises current and deferred tax. The Group pays income taxes in accordance with the laws of the Russian Federation. The Company's statutory tax rate was 24 per cent. in the year ended 31 December 2008 and 20 per cent. in each of the years ended 31 December 2009 and 2010 and in the three months ended 31 March 2011. The Group's income tax expense is based on the taxable profit of the Company and each of its subsidiaries for each year and takes into account deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Company and each of its subsidiaries separately pays taxes, on an unconsolidated basis, under Russian tax law, and accordingly losses on one entity in a tax reporting period may not be offset against gains on another entity in that period. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Revaluation of Available-For-Sale Securities

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Following the initial recognition, they are measured at fair value and changes therein (other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items) are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Actuarial Gains and Losses

Actuarial gains and losses relate to the Group's obligations under its pension plans. All actuarial gains and losses are recognised in full in other comprehensive income when they arise.

Results of Operations

The following table sets forth selected consolidated statement of comprehensive income data for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(in millions of roubles)				
Revenues	92,191	60,785	76,951	16,963	24,486
Cost of sales	(36,594)	(39,894)	(47,670)	(11,495)	(13,511)
Gross profit	55,597	20,891	29,281	5,468	10,975
Administrative expenses	(3,416)	(3,914)	(5,247)	(1,242)	(1,057)
Selling expenses	(7,400)	(5,451)	(6,515)	(1,406)	(1,570)
Taxes, other than income tax	(1,044)	(1,113)	(999)	(265)	(322)
Other (expenses)/income, net	(1,564)	664	(1,833)	(87)	(368)
Operating profit	42,173	11,077	14,687	2,468	7,658
Finance income	2,231	1,694	1,380	251	289
Finance costs	(1,063)	(845)	(437)	(85)	(85)
Profit before taxation	43,341	11,926	15,630	2,634	7,862
Income tax expense	(10,824)	(3,250)	(3,649)	(671)	(1,627)
Profit for the period	32,517	8,676	11,981	1,963	6,235
Other comprehensive income/(expense):					
Revaluation of available-for-sale securities	(1,925)	1,405	227	470	261
Actuarial gains and losses	417	74	(377)	(36)	(21)
Foreign entity translation difference	38	35	25	(366)	(551)
Other comprehensive (expense)/income for the period	(1,470)	1,514	(125)	68	(311)
Total comprehensive income for the period	31,047	10,190	11,856	2,031	5,924

The following table sets forth the external revenue of the “phosphate-based products”, “nitrogen fertilisers” and “other operations” segments of the Group and a reconciliation of total external segment revenue to total revenue in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(in million of roubles)				
Phosphate-based products	83,809	53,283	68,832	15,019	21,105
Nitrogen fertilisers	8,820	6,469	7,012	1,658	3,175
Other operations	1,512	1,071	1,106	285	213
Total external segment revenue	94,141	60,823	76,950	16,962	24,493
Adjustments ⁽¹⁾	(1,950)	(38)	1	1	(7)
Total revenue	92,191	60,785	76,951	16,963	24,486

(1) In 2008, adjustments comprised accrual of provision for litigation in the amount of 1,992 million roubles made in 2008 in connection with a claim made by a customer against the Group company Apatit in relation to phosphate rock sales to that customer which was subsequently withdrawn, and a gain in the amount of 42 million roubles as a result of the difference in timing of revenue recognition between management accounts and IFRS. In 2009, adjustments comprised a loss in the amount of 38 million roubles as a result of the difference in timing of revenue recognition between management accounts and IFRS. In 2010, adjustments comprised a gain in the amount of 1 million roubles as a result of the difference in timing of revenue recognition between management accounts and IFRS. In the three months ended 31 March 2010 and 2011, adjustments comprised a 1 million roubles gain and a 7 million roubles loss, respectively, due to the differences in timing of revenue recognition between management accounts and IFRS.

Three Months Ended 31 March 2011 Compared to Three Months Ended 31 March 2010

Revenue

The following table sets forth the external revenue of the Group’s segments, the Group’s total revenue and the percentage of the Group’s total external segment revenue represented by the external revenue of each segment in the three months ended 31 March 2010 and 2011 and the percentage change between the two periods.

	Three months ended 31 March 2010	Share of total external segment revenue	Three months ended 31 March 2011	Share of total external segment revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Phosphate-based products	15,019	88.5	21,105	86.2	40.5
Nitrogen fertilisers	1,658	9.8	3,175	13.0	91.5
Other operations	285	1.7	213	0.9	(25.3)
Total external segment revenue	16,962	100.0	24,493	100.0	44.4
Adjustments ⁽¹⁾	1	—	(7)	—	—
Total revenue	16,963	—	24,486	—	44.3

(1) In the three months ended 31 March 2010 and 2011, adjustments comprised a 1 million roubles gain and a 7 million roubles loss, respectively, due to the differences in timing of revenue recognition between management accounts and IFRS.

The following table sets forth revenue from sales of the Group’s principal products in Russia and outside Russia and the percentage of the Group’s total external segment revenue represented by sales of each product in Russia and outside Russia in the three months ended 31 March 2010 and 2011, the percentage

change in such sales between the two periods and the share that changes in revenue from sales of the Group's principal products contributed to the overall change in revenue between the two periods.

	Three months ended 31 March 2010 (in millions of roubles)	Share of total external segment revenue (%)	Three months ended 31 March 2011 (in millions of roubles)	Share of total external segment revenue	Percentage change (%)	Contribution to overall change in revenue
Phosphate-based products segment						
Sales of MAP:						
—In Russia	398	2.3	138	0.6	(65.3)	(3.5)
—In other countries	350	2.1	6,065	24.8	1,632.9	75.9
Sales of DAP:						
—In Russia	4	—	144	0.6	3,500.0	1.9
—In other countries	5,033	29.7	4,319	17.6	(14.2)	(9.5)
Sales of NPK:						
—In Russia	1,405	8.3	1,628	6.6	15.9	3.0
—In other countries	813	4.8	1,676	6.8	106.2	11.5
Sales of APP:						
—In Russia	3	—	51	0.2	1600.0	0.6
—In other countries	100	0.6	131	0.5	31.0	0.4
Sales of MCP:						
—In Russia	307	1.8	407	1.7	32.6	1.3
—In other countries	420	2.5	387	1.6	(7.9)	(0.4)
Sales of phosphate rock:						
—In Russia	1,983	11.7	2,351	9.6	18.6	4.9
—In other countries	1,645	9.7	1,445	5.9	(12.2)	(2.7)
Sales of nepheline concentrate . . .	143	0.8	177	0.7	23.8	0.5
Sales of other phosphate-based products:						
—In Russia	2,400	14.1	2,177	8.9	(9.3)	(3.0)
—In other countries	16	0.1	9	—	(43.8)	(0.1)
Total phosphate-based products segment revenue	15,019	88.5	21,105	86.2	40.5	80.8
Nitrogen fertilisers segment:						
Sales of ammonia:						
—In Russia	76	0.4	68	0.3	(10.5)	(0.1)
—In other countries	141	0.8	638	2.6	352.5	6.6
Sales of ammonium nitrate:						
—In Russia	572	3.4	556	2.3	(2.8)	(0.2)
—In other countries	—	—	656	2.7	—	8.7
Sales of urea:						
—In Russia	1	—	2	—	100.0	—
—In other countries	856	5.0	1198	4.9	40.0	4.5
Sales of other nitrogen-based products:						
—In Russia	12	0.1	57	0.2	375.0	0.6
—In other countries	—	—	—	—	—	—
Total nitrogen fertilisers segment revenue	1,658	9.8	3,175	13.0	91.5	20.1
Other operations segment:⁽¹⁾						
—In Russia	265	1.6	213	0.9	(19.6)	(0.7)
—In other countries	20	0.1	—	—	(100.0)	(0.3)
Total other operations segment revenue	285	1.7	213	0.9	(25.3)	(1.0)
Total sales in Russia	7,568	44.6	7,968	32.5	5.3	5.3
Total sales in other countries . . .	9,394	55.4	16,525	67.5	75.9	94.7
Total external segment revenue . .	16,962	100.0	24,493	100.0	44.4	100.0

(1) Includes sales of transportation services to third parties, research and development services, consulting services and other miscellaneous services.

The Group's total external segment revenue increased by 7,531 million roubles or 44.4 per cent., from 16,962 million roubles in the three months ended 31 March 2010 to 24,493 million roubles in the three months ended 31 March 2011, primarily due to:

- a 5,715 million roubles or more than 17-fold increase in revenue from export sales of MAP from 350 million roubles in the three months ended 31 March 2010 to 6,065 million roubles in the three months ended 31 March 2011 as a result of a 49.9 per cent. increase in revenue per tonne from export sales of MAP and a more than 10-fold increase in MAP export sales volume;
- a 863 million roubles or 106.2 per cent. increase in revenue from export sales of NPK from 813 million roubles in the three months ended 31 March 2010 to 1,676 million roubles in the three months ended 31 March 2011 as a result of a 38.6 per cent. increase in revenue per tonne from export sales of NPK and a 48.7 per cent. increase in NPK export sales volume; and
- a 656 million roubles increase in revenue from export sales of ammonium nitrate from nil in the three months ended 31 March 2010 to 656 million roubles in the three months ended 31 March 2011 principally due to a significant increase in ammonium nitrate demand worldwide in the first quarter of 2011.

The increase in the Group's total external segment revenue in three months ended 31 March 2010 compared to three months ended 31 March 2011 was partially offset by:

- a 714 million roubles or 14.2 per cent. decrease in revenue from export sales of DAP from 5,033 million roubles in the three months ended 31 March 2010 to 4,319 million roubles in the three months ended 31 March 2011 as a result of a 48.6 per cent. decrease in DAP export sales volume (primarily due to an increase in demand for other phosphate-based fertilisers, mainly MAP), partially offset by a 66.8 per cent. increase in revenue per tonne from export sales of DAP.

Overall, the increase in revenue from the phosphate-based products segment accounted for 80.8 per cent. of the overall increase in the Group's total external segment revenue in the three months ended 31 March 2011. The increase in domestic sales accounted for 5.3 per cent. of the overall increase in the Group's total external segment revenue in the three months ended 31 March 2011, while the increase in export sales accounted for 94.7 per cent. of the overall increase in the Group's total external segment revenue in that period.

See “—*Significant Factors Affecting Results of Operations—Global Macroeconomic Conditions and Agricultural Commodity Prices*” for information on revenue per tonne for the Group's principal fertiliser products, feed phosphate and phosphate rock in the three months ended 31 March 2010 and 2011.

The following table sets forth the Group's export revenue by region, the Group's total export revenue and the percentage of the Group's total export revenue represented by the revenue of each region in the three months ended 31 March 2010 and 2011.

	Three months ended 31 March 2010	Share of total export revenue	Three months ended 31 March 2011	Share of total export revenue
	(in millions of roubles)	(%)	(in millions of roubles)	(%)
Europe	4,011	42.7	3,976	24.1
India	1,255	13.4	3	—
North and South America	1,746	18.6	9,640	58.3
Other regions	2,382	25.4	2,906	17.6
Total export revenue	9,394	100.0	16,525	100.0

The Group sells its fertilisers outside Russia through international traders and distributors based on the best netback price (selling price less selling costs) that the Group can obtain for its products. As a result, the break-down of the Group's export revenue by region often changes from period to period. Such changes are frequently short-term as the reasons underlying the changes can be short-term in nature. The decrease in the Group's revenue from sales to Europe in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 was principally due to a decrease in the Group's export sales of phosphate rock as a result of an increase in internal consumption of phosphate rock within the Group. The decrease in the Group's revenue from sales to India in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 was primarily due to increases in fertiliser prices to levels above fertiliser purchase state subsidies and the fact that most Indian growers purchase fertilisers rely on state

subsidies and are not willing to purchase at prices in excess of state subsidies. The Group resumed sales to India in May 2011 as the Indian Government increased fertiliser subsidies. The increase in the Group's revenue from sales to North and South Americas in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 was principally as a result of the increase in the Group's sales to the US, mainly due to the fact that the US exported large volumes of fertilisers in the three months ended 31 March 2011 and required substantial fertiliser imports in that period.

The appreciation of the rouble against the U.S. dollar in the three months ended 31 March 2011 as compared to the three months ended 31 March 2010, with the average exchange rate decreasing from 29.89 roubles per U.S. dollar in the three months ended 31 March 2010 to 29.27 roubles per U.S. dollar in the three months ended 31 March 2011, had an adverse effect on the Group's export revenue.

Cost of Sales

The following table sets forth the components of the Group's cost of sales in the three months ended 31 March 2010 and 2011, the percentage of the Group's total revenue that each of the components of the Group's cost of sales represented in these two periods and the percentage change in each of the components of the Group's cost of sales between these two periods.

	Three months ended 31 March 2010	Share of total revenue	Three months ended 31 March 2011	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Materials and services	(5,238)	(30.9)	(5,739)	(23.4)	9.6
Salaries and social contributions . . .	(2,478)	(14.6)	(2,648)	(10.8)	6.9
Natural gas	(1,195)	(7.0)	(1,430)	(5.8)	19.7
Depreciation and amortisation	(1,125)	(6.6)	(1,332)	(5.4)	18.4
Fuel	(1,134)	(6.7)	(1,301)	(5.3)	14.7
Sulphur and sulphuric acid	(566)	(3.3)	(629)	(2.6)	11.1
Electricity	(777)	(4.6)	(956)	(3.9)	23.0
Change in stock of WIP and finished goods	1,034	6.1	536	2.2	(48.2)
Other items	(16)	(0.1)	(12)	—	(25.0)
Total cost of sales	<u>(11,495)</u>	<u>(67.8)</u>	<u>(13,511)</u>	<u>(55.2)</u>	<u>17.5</u>

The Group's cost of sales increased by 2,016 million roubles, or 17.5 per cent., from 11,495 million roubles in the three months ended 31 March 2010 to 13,511 million roubles in the three months ended 31 March 2011, principally due to:

- a 501 million roubles or 9.6 per cent. increase in the cost of materials and services, mainly due to an increase in prices for raw materials primarily as a result of the general cost inflation in Russia and an increase in purchase volumes of raw materials as a result of increases in production volumes;
- a 498 million roubles or 48.2 per cent. negative change in stock of work-in-progress and finished goods from a 1,034 million roubles increase in the three months ended 31 March 2010 to a 536 million roubles increase in the three months ended 31 March 2011. The change was principally due to the fact that the Group normally accumulates fertiliser inventories during the winter-spring period in advance of the Russian fertiliser application and purchase season (which typically commences in mid-summer) and in the three months ended 31 March 2011 the increase in stock of work-in-progress and finished goods was smaller than the increase in the three months ended 31 March 2010 mainly as a result of higher demand and prices in Russia for the Group's fertilisers in the first quarter of 2011 compared to the first quarter of 2010 as a result of which the Group started selling fertilisers in Russia earlier in 2011 than in 2010;
- a 235 million roubles or 19.7 per cent. increase in the cost of natural gas, mainly due to increases in natural gas prices and in natural gas consumption by the Group as a result of an increase in the Group's production volumes;
- a 179 million roubles or 23.0 per cent. increase in the cost of electricity, mainly due to increases in electricity tariffs and in electricity consumption by the Group as a result of an increase in the Group's production volumes; and

- a 167 million roubles or 14.7 per cent. increase in expenditures on fuel, principally due to increases in fuel prices and in fuel purchase volumes by the Group as a result of an increase in the Group's production volumes.

Gross Profit and Gross Margin

The Group's gross profit increased by 5,507 million roubles, or 100.7 per cent., from 5,468 million roubles in the three months ended 31 March 2010 to 10,975 million roubles in the three months ended 31 March 2011 and the Group's gross margin increased from 32.2 per cent. in the three months ended 31 March 2010 to 44.8 per cent. in the three months ended 31 March 2011 primarily due to a 44.3 per cent. increase in the Group's revenue in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 while the Group's costs of sales increased by 17.5 per cent. during the same period.

Administrative Expenses

The following table sets forth the components of the Group's administrative expenses in the three months ended 31 March 2010 and 2011, the percentage of the Group's total revenue that each of the components of the Group's administrative expenses represented in these two periods and the percentage change in each of the components of the Group's administrative expenses between these two periods.

	Three months ended 31 March 2010 (in millions of roubles)	Share of total revenue (%)	Three months ended 31 March 2011 (in millions of roubles)	Share of total revenue (%)	Percentage change
Salaries and social contributions . . .	(854)	(5.0)	(650)	(2.7)	(23.9)
Depreciation and amortisation	(46)	(0.3)	(49)	(0.2)	6.5
Other ⁽¹⁾	(342)	(2.0)	(358)	(1.5)	4.7
Total administrative expenses	<u>(1,242)</u>	<u>(7.3)</u>	<u>(1,057)</u>	<u>(4.3)</u>	<u>(14.9)</u>

(1) Principally includes insurance costs, repairs and maintenance expenses, land rent costs, utilities, external audit fees and legal services fees.

The Group's administrative expenses decreased by 185 million roubles, or 14.9 per cent., from 1,242 million roubles in the three months ended 31 March 2010 to 1,057 million roubles in the three months ended 31 March 2011. The decrease was primarily a result of a 204 million roubles or 23.9 per cent. decrease in salaries and social contributions principally due to the fact that the salaries and social contributions amount for the three months ended 31 March 2010 reflects the 2009 annual bonus which was determined and paid in the first quarter of 2010 while salaries and social contributions for the three months ended 31 March 2011 do not include any bonus payments for 2010 because the decision in respect of such bonus had not been made at 31 March 2011.

Selling Expenses

The following table sets forth the components of the Group's selling expenses in the three months ended 31 March 2010 and 2011, the percentage of the Group's total revenue that each of the components of the Group's selling expenses represented in these two periods and the percentage change in each of the components of the Group's selling expenses between these two periods.

	Three months ended 31 March 2010 (in millions of roubles)	Share of total revenue (%)	Three months ended 31 March 2011 (in millions of roubles)	Share of total revenue (%)	Percentage change
Russian Railways infrastructure tariff and operators' fees	(698)	(4.1)	(851)	(3.5)	21.9
Materials and services	(291)	(1.7)	(245)	(1.0)	(15.8)
Port and stevedoring expenses	(274)	(1.6)	(307)	(1.3)	12.0
Salaries and social contributions . . .	(129)	(0.8)	(149)	(0.6)	15.5
Depreciation and amortisation	(14)	(0.1)	(18)	(0.1)	28.6
Total selling expenses	<u>(1,406)</u>	<u>(8.3)</u>	<u>(1,570)</u>	<u>(6.4)</u>	<u>11.7</u>

The Group's selling expenses increased by 164 million roubles, or 11.7 per cent., from 1,406 million roubles in the three months ended 31 March 2010 to 1,570 million roubles in the three months ended 31 March 2011, primarily due to a 153 million roubles or 21.9 per cent. increase in Russian Railways infrastructure tariff and operators' fees principally as a result of an 8.0 per cent. increase in Russian Railways tariffs applicable since 1 January 2011 and an approximately 11.0 per cent. increase in the Group's railway shipment volume in the three months ended 31 March 2011 compared to the three months ended 31 March 2010 due to the overall increase in the Group's production and sales volume between the two periods. The increase in the Group's selling expenses in the three months ended 31 March 2011 was partially offset by a 46 million roubles or 15.8 per cent. decrease in materials and services principally due to a decrease in expenditures on railcar repair and maintenance and other services due to the fact that the Group's railcar repair and maintenance schedule varies from year to year and resulting expenditures are incurred in different periods from year to year.

Taxes Other than Income Tax

The Group's taxes other than income tax increased by 57 million roubles, or 21.5 per cent., from 265 million roubles in the three months ended 31 March 2010 to 322 million roubles in the three months ended 31 March 2011 principally due to a 20 million roubles increase in taxes related to environmental emissions, a 15 million roubles increase in land tax due to an increase in values of objects subject to land tax and a 13 million roubles increase in mineral resources extraction tax as a result of an increase in costs incurred in connection with apatite-nepheline ore extraction.

Other Expenses, Net

The Group's other expenses, net increased by 281 million roubles, or 323.0 per cent., from 87 million roubles in the three months ended 31 March 2010 to 368 million roubles in the three months ended 31 March 2011 principally due to a 173 million roubles negative change in provision for inventory obsolescence from a 136 million roubles decrease in the three months ended 31 March 2010 to a 37 million roubles increase in the three months ended 31 March 2011, primarily as a result of a change in the calculation of the provision for inventory obsolescence as certain items included in the provision as of 1 January 2010 were recognised as a strategic reserve in the first quarter of 2010 resulting in a 136 million roubles decrease in provision for inventory obsolescence in the first quarter of 2010. In the first quarter of 2011, no items included in the provision for inventory obsolescence were recognised as a strategic reserve.

Income Tax Expense

The Group's income tax expense increased by 956 million roubles, or 142.5 per cent., from 671 million roubles in the three months ended 31 March 2010 to 1,627 million roubles in the three months ended 31 March 2011 principally reflecting a 1,017 million roubles or 150.2 per cent. increase in the Group's current tax expense due to a 198.5 per cent. increase in the Group's profit before taxation. The Group's effective income tax rate decreased from 25.5 per cent. in the three months ended 31 March 2010 to 20.7 per cent. in the three months ended 31 March 2011.

Profit for the Period

For the reasons discussed above, the Group's profit for the period increased by 4,272 million roubles, or 217.6 per cent., from 1,963 million roubles in the three months ended 31 March 2010 to 6,235 million roubles in the three months ended 31 March 2011.

Income from Revaluation of Available-For-Sale Securities

The Group's income from revaluation of available-for-sale securities decreased by 209 million roubles, or 44.5 per cent., from 470 million roubles in the three months ended 31 March 2010 to 261 million roubles in the three months ended 31 March 2011 principally as a result of the disposal of a controlling stake in PhosInt Limited in the second half of 2010.

Total Comprehensive Income for the Period

For the reasons discussed above, the Group's total comprehensive income for the period increased by 3,893 million roubles, or 191.7 per cent., from 2,031 million roubles in the three months ended 31 March 2010 to 5,924 million roubles in the three months ended 31 March 2011.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

Revenue

The following table sets forth the external revenue of the Group's segments, the Group's total revenue and the percentage of the Group's total external segment revenue represented by the external revenue of each segment in the years ended 31 December 2009 and 2010 and the percentage change between the two years.

	Year ended 31 December 2009	Share of total external segment revenue	Year ended 31 December 2010	Share of total external segment revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Phosphate-based products . . .	53,283	87.6	68,832	89.5	29.2
Nitrogen fertilisers	6,469	10.6	7,012	9.1	8.4
Other operations	1,071	1.8	1,106	1.4	3.3
Total external segment revenue	60,823	100.0	76,950	100.0	26.5
Adjustments ⁽¹⁾	(38)	—	1	—	—
Total revenue	60,785	—	76,951	—	26.6

(1) In 2009, adjustments comprised a loss in the amount of 38 million roubles as a result of the difference in timing of revenue recognition between management accounts and IFRS. In 2010, adjustments comprised a gain in the amount of 1 million roubles as a result of the difference in timing of revenue recognition between management accounts and IFRS.

The following table sets forth revenue from sales of the Group's principal products in Russia and outside Russia and the percentage of the Group's total external segment revenue represented by sales of each product in Russia and outside Russia in the years ended 31 December 2009 and 2010, the percentage

change in such sales between the two years and the share that changes in revenue from sales of the Group's principal products contributed to the overall change in revenue between the two years.

	Year ended 31 December 2009 (in millions of roubles)	Share of total external segment revenue (%)	Year ended 31 December 2010 (in millions of roubles)	Share of total external segment revenue (%)	Percentage change	Contribution to overall change in revenue
Phosphate-based products segment						
Sales of MAP:						
—In Russia	3,211	5.3	2,214	2.9	(31.0)	(6.2)
—In other countries	3,426	5.6	7,814	10.2	128.1	27.2
Sales of DAP:						
—In Russia	132	0.2	147	0.2	11.4	0.1
—In other countries	18,070	29.7	20,936	27.2	15.9	17.8
Sales of NPK:						
—In Russia	4,179	6.9	4,683	6.1	12.1	3.1
—In other countries	2,980	4.9	5,280	6.9	77.2	14.3
Sales of APP:						
—In Russia	169	0.3	229	0.3	35.5	0.4
—In other countries	287	0.5	478	0.6	66.6	1.2
Sales of MCP:						
—In Russia	1,208	2.0	1,322	1.7	9.4	0.7
—In other countries	1,487	2.4	2,041	2.7	37.3	3.4
Sales of phosphate rock:						
—In Russia	5,220	8.6	7,995	10.4	53.2	17.2
—In other countries	6,708	11.0	5,891	7.7	(12.2)	(5.1)
Sales of nepheline concentrate	378	0.6	615	0.8	62.7	1.5
Sales of other phosphate-based products:						
—In Russia	4,981	8.2	7,752	10.1	55.6	17.2
—In other countries	847	1.4	1,435	1.9	69.4	3.6
Total phosphate-based products segment revenue	53,283	87.6	68,832	89.5	29.2	96.4
Nitrogen fertilisers segment:						
Sales of ammonia:						
—In Russia	148	0.2	196	0.3	32.4	0.3
—In other countries	787	1.3	971	1.3	23.4	1.1
Sales of ammonium nitrate:						
—In Russia	1,130	1.9	614	0.8	(45.7)	(3.2)
—In other countries	815	1.3	1,643	2.1	101.6	5.1
Sales of urea:						
—In Russia	7	—	3	—	(57.1)	—
—In other countries	3,458	5.7	3,518	4.6	1.7	0.4
Sales of other nitrogen-based products:						
—In Russia	48	0.1	68	0.1	41.7	0.1
—In other countries	76	0.1	—	—	(100.0)	(0.5)
Total nitrogen fertilisers segment revenue .	6,469	10.6	7,012	9.1	8.4	3.4
Other operations segment:⁽¹⁾						
—In Russia	986	1.6	1,028	1.3	4.3	0.3
—In other countries	85	0.1	78	0.1	(8.2)	—
Total other operations segment revenue . .	1,071	1.8	1,106	1.4	3.3	—
Total sales in Russia	21,797	35.8	26,866	34.9	23.3	31.4
Total sales in other countries	39,026	64.2	50,084	65.1	28.3	68.6
Total external segment revenue	60,823	100.0	76,950	100.0	26.5	100.0

(1) Includes sales of transportation services to third parties, research and development services, consulting services and other miscellaneous services.

The Group's total external segment revenue increased by 16,127 million roubles or 26.5 per cent., from 60,823 million roubles in 2009 to 76,950 million roubles in 2010, primarily due to:

- a 4,388 million roubles or 128.1 per cent. increase in revenue from export sales of MAP from 3,426 million roubles in 2009 to 7,814 million roubles in 2010 as a result of a 50 per cent. increase in

revenue per tonne from export sales of MAP and a 50.4 per cent. increase in MAP export sales volume;

- a 2,866 million roubles or 15.9 per cent. increase in revenue from export sales of DAP from 18,070 million roubles in 2009 to 20,936 million roubles in 2010 as a result of a 25 per cent. increase in revenue per tonne from export sales of DAP, partially offset by a 7.6 per cent. decrease in DAP export sales volume;
- a 2,775 million roubles or 53.2 per cent. increase in revenue from domestic sales of phosphate rock from 5,220 million roubles in 2009 to 7,995 million roubles in 2010 as a result of a 12 per cent. increase in revenue per tonne from domestic external sales of phosphate rock and a 43.7 per cent. increase in phosphate rock domestic external sales volume;
- a 2,771 million roubles or a 55.6 per cent. increase in revenue from sales of other phosphate-based products in Russia from 4,981 million roubles in 2009 to 7,752 million roubles in 2010 principally as a result of a 86 per cent. increase in sales of the products of other producers by the Group's domestic distribution network; and
- a 2,300 million roubles or 77.2 per cent. increase in revenue from export sales of NPK from 2,980 million roubles in 2009 to 5,280 million roubles in 2010 as a result of a 7 per cent. increase in revenue per tonne from export sales of NPK and a 49.4 per cent. increase in NPK export sales volume.

The increase in the Group's total external segment revenue in 2010 compared to 2009 was partially offset by:

- a 997 million roubles or 31.0 per cent. decrease in revenue from domestic sales of MAP from 3,211 million roubles in 2009 to 2,214 million roubles in 2010 as a result of a 33.3 per cent. decrease in domestic MAP sales volume, partially offset by a 9 per cent. increase in revenue per tonne from domestic sales of MAP;
- a 817 million roubles or 12.2 per cent. decrease in revenue from export sales of phosphate rock from 6,708 million roubles in 2009 to 5,891 million roubles in 2010 as a result of an 18 per cent. decrease in revenue per tonne from export sales of phosphate rock, partially offset by a 13.1 per cent. increase in phosphate rock export sales volume; and
- a 516 million roubles or 45.7 per cent. decrease in revenue from domestic sales of ammonium nitrate from 1,130 million roubles in 2009 to 614 million roubles in 2010 as a result of a 49.7 per cent. decrease in ammonium nitrate domestic sales volume, partially offset by a 27 per cent. increase in revenue per tonne from domestic sales of ammonium nitrate.

Overall, the increase in revenue from the phosphate-based products segment accounted for 96.4 per cent. of the overall increase in the Group's total external segment revenue in 2010. The increase in domestic sales accounted for 31.4 per cent. of the overall increase in the Group's total external segment revenue in 2010, while the increase in export sales accounted for 68.6 per cent. of the overall increase in the Group's total external segment revenue in that year.

See “—Significant Factors Affecting Results of Operations—Global Macroeconomic Conditions and Agricultural Commodity Prices” for information on revenue per tonne for the Group's principal fertiliser products, feed phosphate and phosphate rock in 2009 and 2010 and “Business—Operations—Products and Sales” for information on sales volumes for the Group's principal fertiliser products, feed phosphate and phosphate rock in these years.

The following table sets forth the Group's export revenue by region, the Group's total export revenue and the percentage of the Group's total export revenue represented by the revenue of each region in the years ended 31 December 2009 and 2010.

	Year ended 31 December 2009	Share of total export revenue	Year ended 31 December 2010	Share of total export revenue
	(in millions of roubles)	(%)	(in millions of roubles)	(%)
Europe	11,407	29.2	14,381	28.7
India	10,064	25.8	9,127	18.2
North and South America	4,731	12.1	14,334	28.6
Other regions	12,824	32.9	12,242	24.4
Total export revenue	<u>39,026</u>	<u>100.0</u>	<u>50,084</u>	<u>100.0</u>

The increase in the Group's revenue from sales to North and South Americas in 2010 compared to 2009 was principally as a result of (i) the increase in the Group's sales to the US mainly due to the fact that the US exported large volumes of fertilisers in 2010 and required substantial fertiliser imports in that year and (ii) the increase in demand from North and South Americas as a result of an increase in fertiliser application following the decrease in 2009 as a result of the global economic downturn. The decrease in the Group's revenue from sales to India in 2010 compared to 2009 was primarily due to decreases in fertiliser purchase state subsidies to levels below fertiliser market prices and the fact that most Indian growers purchase fertilisers using state subsidies and are not willing to purchase at prices in excess of state subsidies.

The appreciation of the rouble against the U.S. dollar in 2010 as compared to 2009, with the average exchange rate decreasing from 31.72 roubles per U.S. dollar in 2009 to 30.37 roubles per U.S. dollar in 2010, had an adverse effect on the Group's export revenue.

Cost of Sales

The following table sets forth the components of the Group's cost of sales in the years ended 31 December 2009 and 2010, the percentage of the Group's total revenue that each of the components of the Group's cost of sales represented in these two years and the percentage change in each of the components of the Group's cost of sales between these two years.

	Year ended 31 December 2009	Share of total revenue	Year ended 31 December 2010	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Materials and services	(15,390)	25.3	(21,013)	27.3	36.5
Salaries and social contributions	(8,117)	13.4	(8,789)	11.4	8.3
Natural gas	(3,726)	6.1	(4,459)	5.8	19.7
Depreciation and amortisation	(3,770)	6.2	(4,774)	6.2	26.6
Fuel	(2,625)	4.3	(3,674)	4.8	40.0
Sulphur and sulphuric acid	(2,613)	4.3	(2,447)	3.2	(6.4)
Electricity	(2,499)	4.1	(3,152)	4.1	26.1
Change in stock of WIP and finished goods	(1,125)	1.9	681	0.9	(160.5)
Other items	(29)	—	(43)	0.1	48.3
Total cost of sales	<u>(39,894)</u>	<u>65.6</u>	<u>(47,670)</u>	<u>61.9</u>	<u>19.5</u>

The Group's cost of sales increased by 7,776 million roubles, or 19.5 per cent., from 39,894 million roubles in 2009 to 47,670 million roubles in 2010, principally due to:

- a 5,623 million roubles or 36.5 per cent. increase in cost of materials and services, mainly due to an increase in prices for raw materials by between 7 per cent. and 32 per cent. for different types of raw materials primarily as a result of the general cost inflation as evidenced by the 16.7 per cent. increase in the Russian PPI in 2010 (according to Rosstat) and an increase in purchase volumes of raw materials as a result of increases in production volumes;

- a 1,049 million roubles or 40.0 per cent. increase in fuel expenses mainly due to the increases in prices for diesel fuel and heating fuel by approximately 18 per cent. and 29 per cent. in 2010, respectively, as a result of the increase in oil prices; and
- a 1,004 million roubles or 26.6 per cent. increase in depreciation and amortisation due to the significant capital expenditures made during 2008-2010 which resulted in higher depreciable asset base in 2010.

The increase in the Group's cost of sales in 2010 was partially offset by a 1,806 million roubles or 160.5 per cent. positive change in stock of work-in-progress and finished goods from a 1,125 million roubles decrease in 2009 to a 681 million roubles increase in 2010 as a result of an increase in fertiliser volumes stored at (i) the warehouses of regional subsidiaries (the domestic distribution network) in order to accommodate any increases in demand compared to 2009, and (ii) at ports and storage facilities of the Group's production facilities due to the icy weather conditions at the end of 2010 at some of the ports through which the Group exports its products as a result of which many vessels were stuck in ports.

Gross Profit and Gross Margin

The Group's gross profit increased by 8,390 million roubles, or 40.2 per cent., from 20,891 million roubles in 2009 to 29,281 million roubles in 2010 and the Group's gross margin increased from 34.4 per cent. in 2009 to 38.1 per cent. in 2010 primarily due to a 26.6 per cent. increase in the Group's revenue in 2010 compared to 2009 while the Group's costs of sales increased by 19.5 per cent. during the same period.

Administrative Expenses

The following table sets forth the components of the Group's administrative expenses in the years ended 31 December 2009 and 2010, the percentage of the Group's total revenue that each of the components of the Group's administrative expenses represented in these two years and the percentage change in each of the components of the Group's administrative expenses between these two years.

	Year ended 31 December 2009	Share of total revenue	Year ended 31 December 2010	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Salaries and social contributions	(2,050)	3.4	(2,809)	3.7	37.0
Depreciation, amortisation and impairment	(180)	0.3	(428)	0.6	137.8
Other ⁽¹⁾	(1,684)	2.8	(2,010)	2.6	19.4
Total administrative expenses	(3,914)	6.5	(5,247)	6.8	34.1

(1) Principally includes insurance costs, repairs and maintenance expenses, land rent costs, utilities, external audit fees and legal services fees.

The Group's administrative expenses increased by 1,333 million roubles, or 34.1 per cent., from 3,914 million roubles in 2009 to 5,247 million roubles in 2010, primarily as a result of a 759 million roubles or 37.0 per cent. increase in salaries and social contributions due to increases in salaries, a 326 million roubles or 19.4 per cent. increase in other administrative expenses, and a 248 million roubles or 137.8 per cent. increase in depreciation, amortisation and impairment of property, plant and equipment not used in the mining and production processes.

More than half of the Group's administrative expenses in both 2009 and 2010 were accounted for by salaries and social contributions of its employees at the Group's head office in Moscow and the offices of various Group companies. The 37.0 per cent. increase in such salaries and social contributions in 2010 was principally due to a bonus payment accrued and paid in 2010 (no bonuses were paid in 2008 and 2009). Salaries and social contributions amounted to 3.7 per cent. of the Group's total revenue in 2010 compared to 3.4 per cent. in 2009.

Selling Expenses

The following table sets forth the components of the Group's selling expenses in the years ended 31 December 2009 and 2010, the percentage of the Group's total revenue that each of the components of

the Group's selling expenses represented in these two years and the percentage change in each of the components of the Group's selling expenses between these two years.

	Year ended 31 December 2009	Share of total revenue	Year ended 31 December 2010	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Russian Railways infrastructure tariff and operators' fees	(2,390)	3.9	(3,272)	4.3	36.9
Materials and services	(1,307)	2.2	(1,401)	1.8	7.2
Port and stevedoring expenses	(1,196)	2.0	(1,291)	1.7	7.9
Salaries and social contributions	(286)	0.5	(461)	0.6	61.2
Custom duties	(233)	0.4	—	—	(100.0)
Depreciation and amortisation	(39)	0.1	(90)	0.1	130.8
Total selling expenses	(5,451)	9.0	(6,515)	8.5	19.5

The Group's selling expenses increased by 1,064 million roubles, or 19.5 per cent., from 5,451 million roubles in 2009 to 6,515 million roubles in 2010, primarily due to a 882 million roubles or 36.9 per cent. increase in Russian Railways infrastructure tariff and operators' fees principally as a result of (i) a 9.4 per cent. increase in Russian Railways tariffs applicable since 1 January 2010, (ii) a 7.7 per cent. increase in the Group's railway shipment volume in 2010 as compared to 2009, (iii) the abolishment in 2009 of an 8 per cent. Russian Railways discount on railway shipments of phosphate rock for distances longer than 2,500 kilometres which was in effect during the first half of 2009, and (iv) changes in routes and destinations of some of the Group's shipments resulting in longer travel distances. The increase in the Group's selling expenses in 2010 was partially offset by a 233 million roubles or 100.0 per cent. decrease in custom duties due to the Russian Government abolishing export duties on sales of Phosphate-Based Fertilisers and phosphate rock from 1 February 2009 and from 1 May 2009, respectively. The customs duties, introduced in April 2008, were equal to 8.5 per cent. and 6.5 per cent. of the declared customs value of fertilisers and phosphate rock, respectively.

Taxes Other than Income Tax

The following table sets forth the components of the Group's taxes other than income tax in the years ended 31 December 2009 and 2010, the percentage of the Group's total revenue that each of the components of the Group's taxes other than income tax represented in these two years and the percentage change in each of the components of the Group's taxes other than income tax between these two years.

	Year ended 31 December 2009	Share of total revenue	Year ended 31 December 2010	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	
Property tax	(316)	0.5	(296)	0.4	(6.3)
Mineral resources extraction tax	(452)	0.7	(491)	0.6	8.6
Land tax	(136)	0.2	(148)	0.2	8.8
Transportation tax	(18)	—	(17)	—	(5.6)
Penalties and fines	—	—	(1)	—	—
Other taxes	(191)	0.3	(46)	0.1	(75.9)
Total taxes other than income tax	(1,113)	1.7	(999)	1.3	(10.2)

The Group's taxes other than income tax decreased by 114 million roubles, or 10.2 per cent., from 1,113 million roubles in 2009 to 999 million roubles in 2010. This decrease was principally due to a 146 million roubles or 75.9 per cent. decrease in other taxes mainly due to certain tax liabilities being payable in 2009 but not in 2010, partially offset by a 39 million roubles or 8.6 per cent. increase in mineral resources extraction tax as a result of an increase in costs incurred in connection with apatite-nepheline ore extraction in 2010 compared to 2009.

Other Income/(Expenses), Net

The Group's other income/(expenses), net decreased by 2,497 million roubles, or 376.1 per cent., from an income of 664 million roubles in 2009 to an expense of 1,833 million roubles in 2010 principally due to (i) a reversal in 2009 of provision for litigation in the amount of 1,992 million roubles made in 2008 in connection with a claim made by a customer against the Group company Apatit in relation to phosphate rock sales to that customer which was subsequently withdrawn and (ii) impairment losses in the amount of 402 million roubles recognised in 2010 (2009: nil) as a result of (a) a 190 million roubles write-off of construction-in-progress related to a construction project undertaken by one of the Group's subsidiaries for charitable purposes and (b) the impairment loss in relation to the acquisition of this subsidiary which at the time of the acquisition had net assets in the amount of 88 million roubles for a consideration of 300 million roubles resulting in the impairment loss (write-off of goodwill) of 212 million roubles.

Net Finance Income

The Group's net finance income increased by 94 million roubles, or 11.1 per cent., from 849 million roubles in 2009 to 943 million roubles in 2010 principally due to a 408 million roubles or 48.3 per cent. decrease in finance costs, partially offset by a 314 million roubles or 18.5 per cent. decrease in finance income. Finance costs decreased in 2010 compared to 2009 principally due to a decrease in interest rates payable on the Group's borrowings, partially offset by an increase in the Group's indebtedness between the two years. Finance income decreased in 2010 compared to 2009 primarily as a result of (i) a 371 million roubles or 34.5 per cent. decrease in interest income due to a reduction in bank interest rates and (ii) a 358 million roubles or 158.4 per cent. negative change in foreign exchange gains/(losses) from a gain of 226 million roubles in 2009 to a loss of 132 million roubles in 2010 due to the appreciation of the rouble against the U.S. dollar in 2010, partially offset by a 394 million roubles or 116.9 per cent. increase in gain on disposal of investments mainly as a result of a gain on disposal of a 60 per cent. stake in a subsidiary LLC "FOSAGRO UKRAINE" to a third party for 1 million roubles (at the time of the disposal, this subsidiary had negative net assets in the amount of 288 million roubles, which resulted in the recognition of a gain on disposal of 289 million roubles).

Income Tax Expense

The Group's income tax expense increased by 399 million roubles, or 12.3 per cent., from 3,250 million roubles in 2009 to 3,649 million roubles in 2010 principally reflecting a 1,043 million roubles or 42.3 per cent. increase in the Group's current tax expense due to a 31.1 per cent. increase in the Group's profit before taxation. The Group's effective income tax rate decreased from 27 per cent. in 2009 to 23 per cent. in 2010.

Profit for the Year

For the reasons discussed above, the Group's profit for the year increased by 3,305 million roubles, or 38.1 per cent., from 8,676 million roubles in 2009 to 11,981 million roubles in 2010.

Income from Revaluation of Available-For-Sale Securities

The Group's income from revaluation of available-for-sale securities decreased by 1,178 million roubles, or 83.8 per cent., from 1,405 million roubles in 2009 to 227 million roubles in 2010 principally as a result of a slowdown in the growth of financial markets in 2010 as compared to 2009.

Actuarial Gains and Losses

The Group's actuarial gains/(losses) decreased by 451 million roubles, or 609.5 per cent., from a gain of 74 million roubles in 2009 to a loss of 377 million roubles in 2010 as a result of an increase in defined benefit obligations of the Group primarily due to (i) an increase in the amounts paid under the pension plans by approximately 40 per cent. due to additional amounts payable under new collective bargaining agreements and policies related to pension payments, (ii) an increase in the amounts of long-term service benefits other than pension plans at Apatit (which has the largest number of employees of all the Group companies) by approximately 40 per cent. for similar reasons, (iii) transfer of pension plans of Ammophos and Cherepovetsky Azot to a non-state pension fund with a one-off payment of the entire amount of pension obligations for current pensioners to this fund (prior to the transfer, each month the Group paid a pension to each pensioner; in connection with the transfer the Group paid the pension fund the amount equal to the aggregate discounted pension payment obligations for all existing pensioners and going

forward the fund is responsible for all pension payment obligations in respect of Ammophos and Cherepovetsky Azot pensioners), and (iv) the decrease in the discount rate used in calculations of obligations from 9.0 per cent. in 2009 to 7.45 per cent. in 2010.

Total Comprehensive Income for the Year

For the reasons discussed above, the Group's total comprehensive income for the year increased by 1,666 million roubles, or 16.3 per cent., from 10,190 million roubles in 2009 to 11,856 million roubles in 2010.

Year Ended 31 December 2009 Compared to Year Ended 31 December 2008

Revenue

The following table sets forth the external revenue of the Group's segments, the Group's total revenue and the percentage of the Group's total external segment revenue represented by the external revenue of each segment in the years ended 31 December 2008 and 2009 and the percentage change between the two years.

	Year ended 31 December 2008	Share of total external segment revenue	Year ended 31 December 2009	Share of total external segment revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	(%)
Phosphate-based products	83,809	89.0	53,283	87.6	(36.4)
Nitrogen fertilisers	8,820	9.4	6,469	10.6	(26.7)
Other operations	1,512	1.6	1,071	1.8	(29.2)
Total external segment revenue	94,141	100.0	60,823	100.0	(35.4)
Adjustments ⁽¹⁾	(1,950)	—	(38)	—	—
Total revenue	92,191	—	60,785	—	(34.1)

(1) In 2008, adjustments comprised accrual of provision for litigation in the amount of 1,992 million roubles made in 2008 in connection with a claim made by a customer against the Group company Apatit in relation to phosphate rock sales to that customer which was subsequently withdrawn, and a gain as a result of the difference in timing of revenue recognition between management accounts and IFRS in the amount of 42 million roubles. In 2009, adjustments comprised a loss as a result of the difference in timing of revenue recognition between management accounts and IFRS in the amount of 38 million roubles.

The following table sets forth revenue from sales of the Group's principal products in Russia and outside Russia and the percentage of the Group's total external segment revenue represented by sales of each product in Russia and outside Russia in the years ended 31 December 2008 and 2009, the percentage

change in such sales between the two years and the share that changes in revenue from sales of the Group's principal products contributed to the overall change in revenue between the two years.

	Year ended 31 December 2008 (in millions of roubles)	Share of total external segment revenue (%)	Year ended 31 December 2009 (in millions of roubles)	Share of total external segment revenue	Percentage change	Contribution to overall change in revenue (%)
Phosphate-based products segment						
Sales of MAP:						
—Inside Russia	3,447	3.7	3,211	5.3	(6.8)	(0.7)
—In other countries	14,678	15.6	3,426	5.6	(76.7)	(33.8)
Sales of DAP:						
—Inside Russia	241	0.3	132	0.2	(45.2)	(0.3)
—In other countries	28,277	30.0	18,070	29.7	(36.1)	(30.6)
Sales of NPK:						
—Inside Russia	5,385	5.7	4,179	6.9	(22.4)	(3.6)
—In other countries	2,991	3.2	2,980	4.9	(0.4)	—
Sales of APP:						
—Inside Russia	320	0.3	169	0.3	(47.2)	(0.5)
—In other countries	589	0.6	287	0.5	(51.3)	(0.9)
Sales of MCP:						
—Inside Russia	1,139	1.2	1,208	2.0	6.1	0.2
—In other countries	1,200	1.3	1,487	2.4	23.9	0.9
Sales of phosphate rock:						
—Inside Russia	7,990	8.5	5,220	8.6	(34.7)	(8.3)
—In other countries	8,281	8.8	6,708	11.0	(19.0)	(4.7)
Sales of nepheline concentrate	715	0.8	378	0.6	(47.1)	(1.0)
Sales of other phosphate-based products:						
—Inside Russia	8,257	8.8	4,981	8.2	(39.7)	(9.8)
—In other countries	299	0.3	847	1.4	183.3	1.6
Total phosphate-based products segment revenue	83,809	89.0	53,283	87.6	(36.4)	(91.6)
Nitrogen fertilisers segment						
Sales of ammonia:						
—Inside Russia	593	0.6	148	0.2	(75.0)	(1.3)
—In other countries	1,380	1.5	787	1.3	(43.0)	(1.8)
Sales of ammonium nitrate:						
—Inside Russia	1,657	1.8	1,130	1.9	(31.8)	(1.6)
—In other countries	751	0.8	815	1.3	8.5	0.2
Sales of urea:						
—Inside Russia	39	—	7	—	(82.1)	(0.1)
—In other countries	3,937	4.2	3,458	5.7	(12.2)	(1.4)
Sales of other nitrogen-based products:						
—Inside Russia	212	0.2	48	0.1	(77.4)	(0.5)
—In other countries	251	0.3	76	0.1	(69.7)	(0.5)
Total nitrogen fertilisers segment revenue	8,820	9.4	6,469	10.6	(26.7)	(7.1)
Other operations segment⁽¹⁾						
—Inside Russia	1,512	1.6	986	1.6	(34.8)	(1.6)
—In other countries	—	—	85	0.1	—	0.3
Total other operations segment revenue	1,512	1.6	1,071	1.8	(29.2)	(1.3)
Total sales in Russia	31,507	33.5	21,797	35.8	(30.8)	(29.1)
Total sales in other countries	62,634	66.5	39,026	64.2	(37.7)	(70.9)
Total external segment revenue	94,141	100.0	60,823	100.0	(35.4)	(100.0)

(1) Includes sales of transportation services to third parties, research and development services, consulting services and other miscellaneous services.

The Group's total external segment revenue decreased by 33,318 million roubles, or 35.4 per cent., from 94,141 million roubles in 2008 to 60,823 million roubles in 2009 primarily due to decreases in selling prices as a result of the global economic downturn that commenced in the second half of 2008. As the Group adopted a policy focused on maintaining sales volumes during the global economic downturn as long as sales could be made at prices above marginal cost, changes in the Group's sales volumes in 2009 compared

to 2008 were less significant than changes in prices, and therefore had a less pronounced effect on the Group's revenue. See "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Global Macroeconomic Conditions and Agricultural Commodity Prices*". The principal contributors to the decrease in the Group's total external segment revenue in 2009 compared to 2008 included:

- a 11,252 million roubles or 76.7 per cent. decrease in revenue from export sales of MAP from 14,678 million roubles in 2008 to 3,426 million roubles in 2009 as a result of a 61 per cent. decrease in revenue per tonne from export sales of MAP (due to the decreases in global MAP prices as a result of the global economic downturn) and a 41.0 per cent. decrease in MAP export sales volume;
- a 10,207 million roubles or 36.1 per cent. decrease in revenue from export sales of DAP from 28,277 million roubles in 2008 to 18,070 million roubles in 2009 as a result of a 54 per cent. decrease in revenue per tonne from export sales of DAP (due to the decreases in global DAP prices as a result of the global economic downturn), partially offset by a 38.8 per cent. increase in DAP export sales volume mainly as a result of the Group company BMF becoming capable of producing DAP which allowed the Group to produce and sell larger volumes of DAP in 2009 as compared to 2008; and
- a 3,276 million roubles or 39.7 per cent. decrease in revenue from domestic sales of other phosphate-based products from 8,257 million roubles in 2008 to 4,981 million roubles in 2009 as a result of a 39.2 per cent. decrease in sales of the products of other producers by the Group's domestic distribution network. The share of domestic sales of other phosphate-based products in total sales changed insignificantly from 8.8 per cent. in 2008 to 8.2 per cent. in 2009.

Overall, the decrease in revenue from the phosphate-based products segment accounted for 91.6 per cent. of the overall decrease in the Group's total external segment revenue in 2009. The decrease in domestic sales accounted for 29.1 per cent. of the overall decrease in the Group's total external segment revenue in 2009, while the decrease in export sales accounted for 70.9 per cent. of the overall decrease in the Group's total external segment revenue in that year.

See "*—Significant Factors Affecting Results of Operations—Global Macroeconomic Conditions and Agricultural Commodity Prices*" for information on revenue per tonne for the Group's principal fertiliser products, feed phosphate and phosphate rock in 2008 and 2009 and "*Business—Operations—Products and Sales*" for information on sales volumes for the Group's principal fertiliser products, feed phosphate and phosphate rock in these years.

The following table sets forth the Group's export revenue by region, the Group's total export revenue and the percentage of the Group's total export revenue represented by the revenue of each region in the years ended 31 December 2008 and 2009.

	Year ended 31 December 2008	Share of total export revenue	Year ended 31 December 2009	Share of total export revenue
	(in millions of roubles)	(%)	(in millions of roubles)	(%)
Europe	14,443	23.1	11,407	29.2
India	13,411	21.4	10,064	25.8
North and South America	19,108	30.5	4,731	12.1
Other regions	15,672	25.0	12,824	32.9
Total export revenue	62,634	100.0	39,026	100.0

The decrease in the Group's revenue from sales to North and South Americas in 2009 compared to 2008 was principally due to a decrease in demand from North and South Americas as a result of the global economic downturn.

The depreciation of the rouble against the U.S. dollar in 2009 as compared to 2008, with the average exchange rate increasing from 24.86 roubles per U.S. dollar to 31.72 roubles per U.S. dollar between the two years, was a significant mitigating factor in the decrease in revenues between 2008 and 2009.

Cost of Sales

The following table sets forth the components of the Group's cost of sales in the years ended 31 December 2008 and 2009, the percentage of the Group's total revenue that each of the components of the Group's

cost of sales represented in these two years and the percentage change in each of the components of the Group's cost of sales between these two years.

	Year ended 31 December 2008	Share of total revenue	Year ended 31 December 2009	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)		(%)
Materials and services	(14,102)	15.3	(15,390)	25.3	9.1
Salaries and social contributions	(7,424)	8.1	(8,117)	13.4	9.3
Natural gas	(3,222)	3.5	(3,726)	6.1	15.6
Depreciation and amortisation	(3,100)	3.4	(3,770)	6.2	21.6
Fuel	(3,243)	3.5	(2,625)	4.3	(19.1)
Sulphur and sulphuric acid	(5,474)	5.9	(2,613)	4.3	(52.3)
Electricity	(1,981)	2.1	(2,499)	4.1	26.1
Change in stock of WIP and finished goods . . .	1,989	2.2	(1,125)	1.9	156.6
Other items	(37)	—	(29)	—	(21.6)
Total cost of sales	(36,594)	39.7	(39,894)	65.6	9.0

The Group's cost of sales increased by 3,300 million roubles, or 9.0 per cent., from 36,594 million roubles in 2008 to 39,894 million roubles in 2009, principally as a result of:

- a 3,114 million roubles or 156.6 per cent. negative change in stock of work-in-progress and finished goods from a 1,989 million roubles increase in 2008 to a 1,125 million roubles decrease in 2009 (deteriorating fertiliser market conditions in the last quarter of 2008 due to the global economic downturn resulted in the accumulation of finished goods at the Group's production facilities at the end of 2008; as the world economy and fertiliser market began to stabilise towards the end of 2009, the Group was able to decrease its stock of work-in-progress and finished goods);
- a 1,288 million roubles or 9.1 per cent. increase in materials and services mainly due to increases in consumption and purchase volumes of potassium chloride (one of the main raw materials used for NPK production) as a result of a 58.5 per cent. increase in NPK production volume from 517.2 thousand tonnes in 2008 to 819.4 thousand tonnes in 2009;
- a 693 million roubles or 9.3 per cent. increase in salaries and social contributions primarily due to salary increases in late 2008; and
- a 670 million roubles or 21.6 per cent. increase in depreciation and amortisation principally due to substantial capital expenditures in 2008-2009 which resulted in higher depreciable asset base;

partially offset by

- a 2,861 million roubles or 52.3 per cent. decrease in expenditure on sulphur and sulphuric acid principally due to an approximately 57.6 per cent. decrease in sulphur and sulphuric acid prices as a result of the global economic downturn; and
- a 618 million roubles or 19.1 per cent. decrease in fuel costs principally due to decreases in prices for heating oil and diesel oil by approximately 11 per cent. and 36 per cent., respectively.

Gross Profit and Gross Margin

The Group's gross profit decreased by 34,706 million roubles, or 62.4 per cent., from 55,597 million roubles in 2008 to 20,891 million roubles in 2009 and the Group's gross margin decreased from 60.3 per cent. in 2008 to 34.4 per cent. in 2009 primarily due to a 34.1 per cent. decrease in the Group's revenue in 2009 compared to 2008 while the Group's costs of sales increased by 9.0 per cent. for the same period.

Administrative Expenses

The following table sets forth the components of the Group's administrative expenses in the years ended 31 December 2008 and 2009, the percentage of the Group's total revenue that each of the components of

the Group's administrative expenses represented in these two years and the percentage change in each of the components of the Group's administrative expenses between these two years.

	Year ended 31 December 2008	Share of total revenue	Year ended 31 December 2009	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)		(%)
Salaries and social contributions	(1,735)	1.9	(2,050)	3.4	18.2
Depreciation, amortisation and impairment . . .	(91)	0.1	(180)	0.3	97.8
Other ⁽¹⁾	(1,590)	1.7	(1,684)	2.8	5.9
Total administrative expenses	(3,416)	3.7	(3,914)	6.5	14.6

(1) Principally includes insurance costs, repairs and maintenance expenses, land rent costs, utilities, external audit fees and legal services fees.

The Group's administrative expenses increased by 498 million roubles, or 14.6 per cent., from 3,416 million roubles in 2008 to 3,914 million roubles in 2009, primarily as a result of a 315 million roubles or 18.2 per cent. increase in salaries and social contributions due to increases in salaries and bonuses in 2009.

More than half of the Group's administrative expenses in both 2008 and 2009 were accounted for by salaries and social contributions of its employees at the Group's head office in Moscow and the offices of various Group companies. The 18.2 per cent. increase in such salaries and social contributions in 2009 compared to 2008 was primarily due to an increase in the average wage of such employees between the two years principally due to a significant increase in the overall compensation of the managers working at the management company PhosAgro AG in 2009 (this increase was in recognition of a higher workload of, and greater range of responsibilities taken by, such managers as a result of the impact of the global economic downturn and increased instability of the Russian economy in 2009) and, to a lesser extent, due to an increase in the number of employees performing administrative functions.

While the increase in salaries and social contributions was relatively small in absolute terms in 2009, salaries and social contributions amounted to 3.4 per cent. of the Group's total revenue in that year compared to 1.9 per cent. in 2008 due to a sharp decline in the Group's total revenue between the two years.

Selling Expenses

The following table sets forth the components of the Group's selling expenses in the years ended 31 December 2008 and 2009, the percentage of the Group's total revenue that each of the components of the Group's selling expenses represented in these two years and the percentage change in each of the components of the Group's selling expenses between these two years.

	Year ended 31 December 2008	Share of total revenue	Year ended 31 December 2009	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)		(%)
Russian Railways infrastructure tariff and operators' fees	(1,918)	2.1	(2,390)	3.9	24.6
Materials and services	(1,268)	1.4	(1,307)	2.2	3.1
Port and stevedoring expenses	(767)	0.8	(1,196)	2.0	55.9
Salaries and social contributions	(240)	0.3	(286)	0.5	19.2
Custom duties	(3,189)	3.5	(233)	0.4	(92.7)
Depreciation and amortisation	(18)	—	(39)	0.1	116.7
Total selling expenses	(7,400)	8.0	(5,451)	9.0	26.3

The Group's selling expenses decreased by 1,949 million roubles, or 26.3 per cent., from 7,400 million roubles in 2008 to 5,451 million roubles in 2009, primarily as a result of a 2,956 million roubles or 92.7 per cent. decrease in custom duties, principally due to the Russian Government abolishing export duties on sales of Phosphate-Based Fertilisers and phosphate rock from 1 February 2009 and from 1 May 2009, respectively. The customs duties, introduced in April 2008, were equal to 8.5 per cent. and 6.5 per cent. of

the declared customs value of fertilisers and phosphate rock, respectively. The decrease in selling expenses in 2009 compared to 2008 was partially offset by:

- a 472 million roubles or 24.6 per cent. increase in Russian Railways infrastructure tariff and operators' fees due to (i) a 5.0 per cent. increase in Russian Railways tariffs on 1 January 2009 and a 5.7 per cent. increase in Russian Railways tariffs on 1 July 2009, (ii) the fact that during 2008 the Group benefited from a 17 per cent. Russian Railways discount on railway shipments of phosphate rock for distances longer than 2,500 kilometres, which was reduced to 8 per cent. for the first half of 2009 and completely abolished for the second half of 2009, (iii) an increase in shipping volumes (mainly as a result of a 17.2 per cent. increase in sale volumes of Phosphate-Based Fertilisers and feed phosphate MCP), and (iv) a change in routes and destinations of some of the Group's shipments resulting in longer travel distances; and
- a 429 million roubles or 55.9 per cent. increase in port and stevedoring expenses due to a 42 per cent. increase in stevedoring expenses per tonne from 247 roubles per tonne in 2008 to 352 roubles per tonne in 2009 and a 27 per cent. increase in loading volumes in 2009 compared to 2008 (mainly as a result of a 21.0 per cent. increase in export sale volumes of Phosphate-Based Fertilisers and feed phosphate MCP).

Taxes Other than Income Tax

The following table sets forth the components of the Group's taxes other than income tax in the years ended 31 December 2008 and 2009, the percentage of the Group's total revenue that each of the components of the Group's taxes other than income tax represented in these two years and the percentage change in each of the components of the Group's taxes other than income tax between these two years.

	Year ended 31 December 2008	Share of total revenue	Year ended 31 December 2009	Share of total revenue	Percentage change
	(in millions of roubles)	(%)	(in millions of roubles)	(%)	(%)
Property tax	(322)	0.4	(316)	0.5	(1.9)
Mineral resources extraction tax	(367)	0.4	(452)	0.7	23.2
Land tax	(112)	0.1	(136)	0.2	21.4
Transportation tax	(16)	—	(18)	—	12.5
Other taxes	(227)	0.3	(191)	0.3	(15.9)
Total taxes other than income tax	(1,044)	1.2	(1,113)	1.7	6.6

The Group's taxes other than income tax increased by 69 million roubles, or 6.6 per cent., from 1,044 million roubles in 2008 to 1,113 million roubles in 2009 principally due to an 85 million roubles or 23.2 per cent. increase in mineral resources extraction tax as a result of an increase in costs incurred in connection with apatite-nepheline ore extraction in 2009 compared to 2008.

Other Income/(Expenses), Net

The Group's other income/(expenses), net changed by 2,228 million roubles, or 142.5 per cent., from an expense 1,564 million roubles in 2008 to an income of 664 million roubles in 2009 principally due to a reversal of provision for litigation in the amount of 1,992 million roubles made in 2008 in connection with a claim made by a customer against the Group company Apatit in relation to phosphate rock sales to that customer which was subsequently withdrawn. See "Risk Factors—Risks Related to the Group's Business and Industry—The Group company Apatit may be characterised as a natural monopoly in the future and therefore may be exposed to various regulatory risks including state regulation of prices for its products" for more details.

Net Finance Income

The Group's net finance income decreased by 319 million roubles, or 27.3 per cent., from 1,168 million roubles in 2008 to 849 million roubles in 2009 principally due a 537 million roubles or 24.1 per cent. decrease in finance income, partially offset by a 218 million roubles or 20.5 per cent. decrease in finance costs. Finance income decreased in 2009 compared to 2008 primarily as a result of (i) a 401 million roubles or 27.2 per cent. decrease in interest income due to a decrease in interest bearing deposits with banks and (ii) a 286 million roubles or 55.9 per cent. decrease in foreign exchange gains due to the fact that the Group was retaining foreign currency received from export sales at the time of the significant depreciation

of the rouble in 2008, which resulted in larger foreign exchange gains in 2008, partially offset by a 263 million roubles or 355.4 per cent. increase in gain on disposal of investments as a result of the Group's disposal of two subsidiaries, both of which at that time had negative net assets. Finance costs decreased in 2009 compared to 2008 principally due to a decrease in interest rates payable on the Group's borrowings, mainly as a result of the increase in the share of foreign currency denominated borrowings in the Group's indebtedness which generally tend to bear lower interest rates than Rouble-denominated debt.

Income Tax Expense

The Group's income tax expense decreased by 7,574 million roubles, or 70.0 per cent., from 10,824 million roubles in 2008 to 3,250 million roubles in 2009 principally as a result of a 9,119 million roubles or 78.7 per cent. decrease in the Group's current tax expense due to a significant decrease in the Group's profit before taxation and a decrease in the Russian corporate income tax from 24 per cent. in 2008 to 20 per cent. in 2009. The Group's effective income tax rate was relatively stable between the two years and increased from 25 per cent. in 2008 to 27 per cent. in 2009.

Profit for the Year

For the reasons discussed above, the Group's profit for the year decreased by 23,841 million roubles, or 73.3 per cent., from 32,517 million roubles in 2008 to 8,676 million roubles in 2009.

Income/(Expense) from Revaluation of Available-For-Sale Securities

The Group's income/(expense) from revaluation of available-for-sale securities increased by 3,330 million roubles, or 173.0 per cent., from the expense of 1,925 million roubles in 2008 to the income of 1,405 million roubles in 2009 as a result of significant declines on the world financial markets in the last quarter of 2008 due to the global economic downturn as compared to the growth of the world financial markets in 2009.

Actuarial Gains and Losses

The Group's actuarial gains decreased by 343 million roubles, or 82.3 per cent., from 417 million roubles in 2008 to 74 million roubles in 2009 due to the following: in 2008 and 2009 the discount rate used in calculations was 9 per cent, therefore the amount of present value of defined benefit obligations between 31 December 2008 and 31 December 2009 changed insignificantly (decreased by 44 million roubles) leading to a relatively small effect on actuarial gains and losses in 2009; however, the discount rate used in calculations in 2007 was much lower than in 2008 (6.58 per cent. in 2007 as compared to 9 per cent. in 2008), therefore the amount of present value of defined benefit obligations as of 1 January 2008 was 413 million roubles higher than the amount as of 31 December 2008 resulting in a significant actuarial gain in 2008.

Total Comprehensive Income for the Year

For the reasons discussed above, the Group's total comprehensive income for the year decreased by 20,857 million roubles, or 67.2 per cent., from 31,047 million roubles in 2008 to 10,190 million roubles in 2009.

Liquidity and Capital Resources

During the period under review, the Group satisfied its liquidity needs with net cash generated from operations and through short- and long-term bank borrowings and finance leases. The Group's management expects that net cash generated from operations, short- and long-term loans and finance leases will continue to be important sources of cash in the future. The Group's management may also consider raising funds on debt capital markets.

The Group's liquidity needs in the future will arise principally from (i) the need to finance its working capital, (ii) the need to finance its capital expenditure programme intended, among other things, to allow the Group to achieve greater self-sufficiency in key raw materials required for the production of fertilisers and feed phosphate, to modernise the Group's existing production facilities and to construct new production facilities required for the production of fertilisers, including a new urea plant at Cherepovetsky Azot, (iii) payment of dividends to the Company's shareholders in accordance with the Company's dividend policy, and (iv) repayment of maturing debt.

The following table sets forth the Group's cash and cash equivalents as of 31 December 2008, 2009 and 2010 and as of 31 March 2011. The majority of the Group's cash and cash equivalents are currently held in Russian roubles.

	Year ended 31 December			Three months ended 31 March
	2008	2009	2010	2011
	(in millions of roubles)			
Cash in bank	9,409	1,914	2,857	6,654
Call deposits	4,901	3,642	2,400	2,549
Petty cash	38	66	4	3
Total cash and cash equivalents	14,348	5,622	5,261	9,206

The Group's management believes that the Group's liquidity and working capital position will allow the Group to meet its obligations, including debt obligations, for the next 12 months.

Cash Flows

The following table sets forth the Group's summary cash flow information for the years ended 31 December 2008, 2009 and 2010 and for the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(in millions of roubles)				
Cash flows from operating activities	36,252	8,731	15,133	2,265	11,936
Cash flows (used in) investing activities	(14,121)	(9,357)	(16,975)	(3,774)	(4,318)
Cash flows (used in)/from financing activities	(10,005)	(8,179)	1,481	1,339	(3,673)
Net increase/(decrease) in cash and cash equivalents	12,126	(8,805)	(361)	(170)	3,945
Effect of change in exchange rates	27	79	—	—	—

Cash Flows from Operating Activities

Three Months Ended 31 March 2011 Compared to Three Months Ended 31 March 2010. Cash flows from operating activities increased by 9,671 million roubles, or 427.0 per cent., from 2,265 million roubles in the three months ended 31 March 2010 to 11,936 million roubles in the three months ended 31 March 2011. This increase was principally caused by a 5,228 million roubles, or 198.5 per cent., increase in the Group's profit before taxation in the three months ended 31 March 2010 compared to the three months ended 31 March 2011.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009. Cash flows from operating activities increased by 6,402 million roubles, or 73.3 per cent., from 8,731 million roubles in 2009 to 15,133 million roubles in 2010. This increase was principally caused by (i) a 3,704 million roubles or 31.1 per cent. increase in the Group's profit before taxation in 2010 compared to 2009, (ii) a 2,408 million roubles negative movements in working capital (from a 4,636 million roubles increase in working capital in 2009 to a 2,228 million roubles increase in working capital in 2010), and (iii) a 1,677 million roubles increase in depreciation, amortisation and impairment mainly due to the significant capital expenditures made during 2008-2010 which resulted in higher depreciable asset base. The increase in the Group's cash flows from operating activities in 2010 compared to 2009 was partially offset by a 1,338 million roubles increase in income tax paid (from 1,602 million roubles in 2009 to 2,940 million roubles in 2010).

Changes in working capital consist of changes in trade and other payables, changes in trade and other receivables and changes in inventories. The negative movement between 2010 and 2009 reflected:

- a 8,414 million roubles change in trade and other payables (a 594 million roubles increase in trade and other payables in 2010 compared to a 7,820 million roubles decrease in trade and other payables in 2009)

partially offset by

- a 3,203 million roubles change in trade and other receivables (a 1,953 million roubles increase in trade and other receivables in 2010 compared to a 1,250 million roubles decrease in trade and other receivables in 2009), and a 2,803 million roubles change in inventories (a 869 million roubles increase in inventories in 2010 compared to a 1,934 million roubles decrease in inventories in 2009).

The increase in trade and other payables in 2010 was principally due to an increase in production and sales volumes. The increase in trade and other receivables in 2010 was mainly as a result of (i) a 1,466 million roubles or 135.7 per cent. increase in receivables from related parties from 1,080 million roubles in 2009 to 2,546 million roubles in 2010 due to an increase in sales volumes to related parties, (ii) a 619 million roubles or 124.3 per cent. increase in other receivables from 498 million roubles in 2009 to 1,117 million roubles in 2010 due to increases in sales volumes, and (iii) a 479 million roubles or 24.2 per cent. increase in advances issued from 1,983 million roubles in 2009 to 2,462 million roubles in 2010 due to a general increase in expenditures mainly as a result of increases in production volumes. The increases in trade and other payables and in trade and other receivables in 2010 were principally the result of the improving market conditions following the liquidity crisis that affected most companies operating in Russia and abroad following the onset of the global economic downturn.

The increase in inventories in 2010 compared to 2009 primarily reflected the increase in inventories of fertilisers principally due to (i) the accumulation of the Group's fertilisers at ports and storage facilities of the Group's production facilities due to the icy weather conditions at the end of 2010 at some of the ports through which the Group exports its products as a result of which many vessels were stuck in ports and (ii) the Group's policy to accumulate larger stocks at its regional subsidiaries prior to the beginning of the agricultural season in order to meet any potential increases in fertiliser demand.

Year Ended 31 December 2009 Compared to Year Ended 31 December 2008. Cash flows from operating activities decreased by 27,521 million roubles, or 75.9 per cent., from 36,252 million roubles in 2008 to 8,731 million roubles in 2009. This decrease was principally caused by a 31,415 million roubles, or 72.5 per cent., decrease in the Group's profit before taxation in 2009 compared to 2008 and, to a lesser extent, by a 7,995 million roubles positive movements in working capital (from a 3,359 million roubles decrease in working capital in 2008 to a 4,636 million roubles increase in working capital in 2009). The impact of these two factors was partially offset by a 10,989 million roubles decrease in income tax paid (from 12,591 million roubles in 2008 to 1,602 million roubles in 2009).

The positive movements in working capital between 2009 and 2008 resulted from:

- a 17,527 million roubles change in trade and other payables (a 7,820 million roubles decrease in trade and other payables in 2009 compared to a 9,707 million roubles increase in trade and other payables in 2008)

partially offset by

- a 5,142 million roubles change in inventories (a 1,934 million roubles decrease in inventories in 2009 compared to a 3,208 million roubles increase in inventories in 2008), and a 4,390 million roubles change in trade and other receivables (a 1,250 million roubles decrease in trade and other receivables in 2009 compared to a 3,140 million roubles increase in trade and other receivables in 2008).

The increases in trade and other receivables and in trade and other payables in 2008 were principally the result of the liquidity crisis that affected most companies operating in Russia and abroad following the onset of the global economic downturn. As availability of credit decreased and liquidity problems became apparent at most Russian and foreign companies, both the Group and its trade counterparties increased delays in payments due from them. In 2009, movements in trade and other receivables and in trade and other payables were in the opposite direction, indicating a return to normalcy. The decrease in inventories primarily reflected the decrease in inventories of fertilisers and phosphate rock as a result of the fertiliser and phosphate rock markets stabilising in the second half of 2009 following the onset of the global economic downturn in the autumn of 2008.

Cash Flows Used in Investing Activities

Three Months Ended 31 March 2011. Cash flows used in investing activities in the three months ended 31 March 2011 were 4,318 million roubles. This principally reflected the acquisition of property, plant and equipment in the amount of 3,021 million roubles, the acquisition of intangible assets in the amount of 50 million roubles, the acquisition of investments in the amount of 18 million roubles and loan issuances in

the amount of 1,518 million roubles, partially offset by proceeds from interest received in the amount of 168 million roubles and proceeds from disposal of property, plant and equipment in the amount of 121 million roubles.

Year Ended 31 December 2010. Cash flows used in investing activities in the year ended 31 December 2010 were 16,975 million roubles. This principally reflected the acquisition of property, plant and equipment in the amount of 13,040 million roubles, the acquisition of investments in the amount of 1,580 million roubles, the acquisition of intangible assets in the amount of 191 million roubles, loan issuances in the amount of 4,376 million roubles and cash and cash equivalents included in investments in associates upon deconsolidation in the amount of 977 million roubles, partially offset by proceeds from disposal of investments in the amount of 2,359 million roubles, interest received in the amount of 703 million roubles, dividends received in the amount of 78 million roubles and proceeds from disposal of property, plant and equipment in the amount of 49 million roubles.

Year Ended 31 December 2009. Cash flows used in investing activities in the year ended 31 December 2009 were 9,357 million roubles. This principally reflected the acquisition of property, plant and equipment in the amount of 12,206 million roubles, the acquisition of OJSC “AgroGard-Finance” in the amount of 4,801 million roubles, the acquisition of investments in the amount of 1,046 million roubles and the acquisition of intangible assets in the amount of 166 million roubles, partially offset by loan repayments in the amount of 5,074 million roubles, proceeds from disposal of investments in the amount of 2,605 million roubles, interest received in the amount of 1,074 million roubles, dividends received in the amount of 57 million roubles and proceeds from disposal of property, plant and equipment in the amount of 52 million roubles.

Year Ended 31 December 2008. Cash flows used in investing activities in the year ended 31 December 2008 were 14,121 million roubles. This principally reflected the acquisition of property, plant and equipment in the amount of 11,124 million roubles, the acquisition of subsidiaries in the amount of 1,079 million roubles (in 2008, the Group acquired a 67 per cent. stake in Agro-Cherepovets for 1,089 million roubles payable in cash), the acquisition of investments in the amount of 676 million roubles, the acquisition of intangible assets in the amount of 190 million roubles and loan issuances in the amount of 6,007 million roubles, partially offset by proceeds from disposal of investments in the amount of 2,935 million roubles, interest received in the amount of 1,475 million roubles, proceeds from disposal of property, plant and equipment in the amount of 375 million roubles and dividends received in the amount of 170 million roubles.

Cash Flows (Used in)/From Financing Activities

Three Months Ended 31 March 2011. Cash flows used in financing activities in the three months ended 31 March 2011 were 3,673 million roubles. This principally reflected cash flows used in acquisition of non-controlling interests in the amount of 9,177 million roubles, repayment of borrowings in the amount of 3,512 million roubles, payment of dividends in the amounts of 2,419 million roubles, dividends paid to non-controlling interests in the amount of 159 million roubles, and payments in relation to finance leases in the amount of 51 million roubles, partially offset by proceeds from disposal of non-controlling interests in the amount of 8,460 million roubles and proceeds from borrowings in the amount of 3,185 million roubles.

Year Ended 31 December 2010. Cash flows from financing activities in the year ended 31 December 2010 were 1,481 million roubles. This principally reflected proceeds from borrowings in the amount of 21,182 million roubles partially offset by repayment of borrowings in the amount of 16,110 million roubles, payment of dividends to majority and minority shareholders in the amounts of 2,469 million roubles and 859 million roubles, respectively, and payments in relation to finance leases in the amount of 227 million roubles.

Year Ended 31 December 2009. Cash flows used in financing activities in the year ended 31 December 2009 were 8,179 million roubles. This principally reflected the repayment of borrowings in the amount of 17,078 million roubles, cash flows used in acquisition of non-controlling interests in the amount of 5,133 million roubles, payment of dividends to majority and minority shareholders in the amounts of 948 million roubles and 483 million roubles, respectively, and payments in relation to finance leases in the amount of 207 million roubles, partially offset by proceeds from borrowings in the amount of 15,412 million roubles and proceeds from disposal of non-controlling interests in the amount of 258 million roubles. Given much higher interest rates on new loans in 2009, the Group’s management did not renew or

replace all of the Group's maturing loans and instead endeavoured to reduce the amount of outstanding debt.

Year Ended 31 December 2008. Cash flows used in financing activities in the year ended 31 December 2008 were 10,005 million roubles. This principally reflected the repayment of borrowings in the amount of 28,153 million roubles, cash flows used in acquisition of non-controlling interests in the amount of 7,475 million roubles, payment of dividends to majority and minority shareholders in the amounts of 943 million roubles and 140 million roubles, respectively, and payments in relation to finance leases in the amount of 245 million roubles, partially offset by proceeds from borrowings in the amount of 26,951 million roubles.

Indebtedness

The following table sets forth the Group's current and non-current loans and borrowings and the Group's total loans and borrowings as of 31 December 2008, 2009 and 2010 and as of 31 March 2011.

		Year ended 31 December			Three months ended March 31
		2008	2009	2010	2011
Contractual interest rate		(in millions of roubles)			
Current loans and borrowings:					
Secured bank loans:					
RUB-denominated	Fixed at 2.0%-10.75%	3,606	632	1,944	1,000
USD-denominated	Variable at 1m LIBOR + 3.0%-3.3%	—	—	2,438	2,274
Unsecured loans:					
RUB-denominated ⁽¹⁾	Fixed at 11%		250	—	—
RUB- denominated	Fixed at 2.1%-2.33%			229	142
RUB- denominated	Fixed at 8%-11.5%	40	1,143	—	—
RUB- denominated	Fixed at 12%	—	—	—	5
USD-denominated	Fixed at 2.33%	—	—	674	569
USD-denominated	Variable at 1m LIBOR + 2.45%	—	—	—	569
Secured letters of credit:					
EUR-denominated	Fixed at 0.9%-1.2%	83	—	31	—
Secured finance leases:					
USD-denominated	Fixed at 11.2%-13.9%	114	123	187	179
Interest payable:					
USD-denominated		30	7	—	—
RUB- denominated		14	5	6	3
Total current loans and borrowings		3,887	2,160	5,509	4,741
Non-current loans and borrowings:					
Secured bank loans:					
USD-denominated	Variable at 1m LIBOR + 3.7%	955	983	—	—
Secured letters of credit:					
RUB-denominated	Fixed at 0.9%	—	—	—	200
USD-denominated	Variable at 6m EURIBOR + 0.8%	325	334	—	314
EUR-denominated	Variable at 3m EURIBOR + 4.35%	—	—	1,855	1,801
EUR-denominated	Variable at 6m EURIBOR + 0.8%	—	—	337	—
EUR-denominated	Fixed at 0.9%	—	—	57	88
EUR-denominated	Fixed at 1.1%	—	—	—	328
EUR-denominated	Fixed at 1.25%	—	—	596	591
Secured finance leases:					
USD-denominated	Fixed at 11.2%-13.9%	806	703	578	507
Total non-current loans and borrowings		2,086	2,020	3,423	3,829
Total loans and borrowings		5,973	4,180	8,932	8,570

(1) Represents a 250 million short-term loan from a related party OJSC "AgroGard-Finance".

As of 31 December 2008, 2009 and 2010 and 31 March 2011, 61.3 per cent., 48.6 per cent., 24.4 per cent. and 15.8 per cent., respectively, of the Group's total debt was denominated in roubles, with the remainder denominated in U.S. dollars and euro. As of 31 March 2011, 42.1 per cent. and 57.9 per cent., respectively, of the Group's total debt bore interest at fixed and floating interest rates, respectively.

As of 31 March 2011, the aggregate amount available under the Group's existing bank facilities was 12,404 million roubles. Of this amount, the Group borrowed 7,859 million roubles as of that date and the remainder was available to it.

The Group's management considers the ratio of net debt to adjusted EBITDA as the principal statistic for evaluating the impact of the total size of the Group's borrowings on its operations. Net debt is equal to the sum of long-term borrowings, short-term borrowings and the current portion of long-term borrowings minus cash and cash equivalents. For the definition of adjusted EBITDA and its reconciliation to profit for a year, see "*Selected Consolidated Financial Information and Other Financial Data*". As of 31 December 2008, 2009 and 2010 and 31 March 2011, the Group's net debt to adjusted EBITDA ratio was (0.18), (0.11), 0.18 and (0.07), respectively. Net debt to adjusted EBITDA represents a non-IFRS measure and may not be comparable to similarly titled measures disclosed by other companies, and investors should not use this non-IFRS measure as a substitute for figures provided in the Group's Consolidated Financial Information.

Some of the Group's loan agreements contain financial covenants, including net debt to EBITDA and EBITDA to interest expense (interest coverage). Most of the existing financial covenants are required to be calculated under IFRS. Calculating methods in those agreements may differ from those implemented by the Group for its internal purposes, including for reporting it in its financial statements. As of the date of this Prospectus, the Group was in compliance with these covenants at all dates when compliance with such covenants was tested. For the description of the Group's material loan agreements and the financial covenants in those agreements, see "*Material Contracts—Loan Agreements*".

Capital Expenditures

The Group made capital expenditures, which consist of all additions to property, plant and equipment, of 11,124 million roubles, 9,303 million roubles, 10,614 million roubles and 2,168 million roubles in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, respectively. The Group funded its capital expenditures during these periods principally through net cash generated from operating activities and, to a lesser extent, from funds raised through bank borrowings.

The following table summarises the Group's capital expenditures in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended March 31	
	2008	2009	2010	2010	2011
	(in millions of roubles)				
Phosphate rock	3,700	4,935	5,103	483	1,087
Phosphate-based products	4,882	3,191	3,263	493	385
Nitrogen fertilisers	560	908	1,101	37	636
Other	1,982	269	1,147	36	60
Total capital expenditures	11,124	9,303	10,614	1,049	2,168

The Group's management currently plans to make capital expenditures in the amount of approximately 16,586 million roubles in 2011, of which 6,787 million roubles had been spent (including advances paid in the amount of 4,619 million roubles) as of 31 March 2011, and approximately 7,640 million roubles in 2012. However, the amount ultimately spent on capital expenditures in 2011 and 2012 will be highly dependent on market conditions, the Group's cash flow from operations and available financing at the time of the proposed expenditures. The Group's managements currently expects to fund these capital expenditures using cash flows from operations and the proceeds of additional borrowings. See "*Liquidity and Capital Resources*".

In the longer term, the Group's management plans to construct new production facilities and modernise some of the existing facilities. As part of its capital expenditure program, the Group plans to implement the following projects at BMF:

- BMF uses a technology developed by the Group that allows it to satisfy up to 5 per cent. of its phosphate rock requirements with less expensive low-grade phosphate rock (P₂O₅ content of approximately 25 per cent.) purchased from a third party. The Group plans to increase the share of third party phosphate rock that BMF can use to 15 per cent. by the second half of 2011, which is

expected to result in the capital expenditure of approximately 106 million roubles. The project is at the preliminary stage and no capital expenditure has been incurred yet; and

- the Group plans to increase MCP production capacity from 240 thousand tonnes per year currently to 320 thousand tonnes per year by 2015, which is expected to result in the capital expenditure of approximately 600 million roubles. The expansion of the Group's MCP production capacity may be carried out either at BMF or other production sites of the Group. The project has not been commenced and no capital expenditure has been incurred yet.

The Group plans to implement the following project at Ammophos:

- by 2012, the Group intends to modernise the fourth MAP/DAP production line to make it capable of producing MAP, DAP or NPK, which is expected to result in the capital expenditure of approximately 30 million roubles. The project is at the initial stage and no capital expenditure has been incurred yet.

The Group plans to implement the following projects at Cherepovetsky Azot:

- as part of the Group's vertical integration strategy, in 2009 the Group commenced the construction of a new urea plant at Cherepovetsky Azot in order to increase the internal Group consumption of the ammonia produced by the Group. The new plant is expected to be completed in 2012, have an urea production capacity of 500 thousand tonnes per year, and is expected to require capital expenditure in the amount of 4,988 million roubles, of which approximately 36.6 per cent. has been spent as of 31 March 2011; and
- in connection with the new urea plant, during 2009-2012 the Group also plans to build at Cherepovetsky Azot a new electricity generation facility powered by natural gas with a power generation capacity of 32 MW at an estimated cost of 2,132 million roubles, of which approximately 20.9 per cent. has been spent as of 31 March 2011.

In addition, in 2012, the Group plans to construct a new purified phosphoric acids production facility with an annual capacity of approximately 20 thousand tonnes P_2O_5 , which is expected to result in the capital expenditure of approximately 900 million roubles, of which approximately 7.6 per cent. has been spent as of 31 March 2011. Purified phosphoric acids are not currently produced in Russia and are used in a variety of applications including production of food products and household chemicals.

Furthermore, the Group currently owns and operates approximately 1,900 railcars, and leases and operates approximately 1,700 additional railcars from third-party transportation companies. The Group also uses on a trip-by-trip basis approximately 2,600 cargo railcars. In order to mitigate reliance on third-party railcar providers, the Group plans to increase its owned railcar fleet by 500 units by the end of 2011 which is expected to result in the capital expenditure of approximately 933 million roubles, none of which has been incurred as of 31 March 2011.

There can be no assurance that the Group will be able to generate funding sufficient for the implementation of its current capital expenditure programme. See *“Risk Factors—Risks Relating to the Group's Business—The Group may not be able to secure funding sufficient for the implementation of its capital expenditure programme”*.

The Group's management expects annual maintenance related capital expenditure to be approximately 4,000 million roubles for its current operations over the next several years.

Contractual Obligations and Commercial Commitments

The following table sets forth the Group's aggregate contractual obligations and commercial commitments, excluding obligations under agreements with the Group's suppliers, as of 31 March 2011 and the payments due by period under such obligations and commitments.

	As of 31 March 2011				
	Total	Less than one year	More than one and less than three years	More than three and less than five years	More than five years ⁽¹⁾
	(in millions of roubles)				
Capital commitments ⁽¹⁾	8,650	8,024	626	—	—
Long-term and short-term loans ⁽²⁾	4,559	4,559	—	—	—
Letters of credit	3,322	—	616	314	2,392
Financial guarantees given ⁽³⁾	2,287	2,287	—	—	—
Finance lease commitments	686	179	224	164	119
Operating lease commitments	443	264	179	—	—
Total contractual obligations and commercial commitments⁽⁴⁾⁽⁵⁾	19,947	15,313	1,645	478	2,511

(1) Principally includes contracts for purchase or construction of plant and equipment.

(2) This amount excludes future interest payments associated with the loans. Furthermore, the loans are subject to specific repayment terms and any default on the repayments could result in the acceleration of these payments.

(3) Primarily includes guarantees given by the Group to related parties in respect of bank loans received by related parties.

(4) This contractual obligations and commercial commitments table does not reflect purchase orders entered into in the normal course of business or long-term commitments for normal purchases and sales.

(5) This contractual obligations and commercial commitments table does not include amounts relating to deferred tax liabilities. Due to uncertainty regarding the timing of payments associated with these liabilities, the Company is unable to make a reasonable estimate of the periods in which these liabilities might be paid.

Off-Balance Sheet Arrangements

The following table sets forth the Group's off-balance sheet arrangements as of 31 December 2008, 2009 and 2010 and as of 31 March 2011.

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(in millions of roubles)			
Fixed assets pledged to secure bank loans	4,989	4,970	4,643	3,265
Financial guarantees given	1,105	1,415	1,779	2,287
Operating lease commitments	721	540	480	443
Finished goods pledged to secure bank loans	79	183	36	—
Total off-balance sheet arrangements	6,894	7,108	6,938	5,995

Qualitative and Quantitative Disclosures about Market Risk

The Group is exposed to the following risks: credit risk, liquidity risk, market risk, currency risk and interest rate risk. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, set appropriate risk limits and controls, and monitor risks and compliance with limits. Risk management policies and systems are periodically reviewed to reflect changes in market conditions and the Group's activities.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk principally arises in connection with the Group's receivables from customers and from loans issued to related parties.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has a less pronounced effect on the Group's credit risk. The Group's management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings (when available) and, in some cases, bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's creditworthiness criteria may transact with the Group only on a prepayment basis. The majority of the Group's customers have been the Group's customers for several years and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers. The Group does not require collateral in respect of trade and other receivables except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee. The Group maintains an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component, which relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

As of 31 December 2010, there were no significant past due trade accounts receivable.

Current and Non-Current Financial Assets and Cash and Cash Equivalents

In the past, the Group lent money to related parties with good credit standing. The Group's management does not plan to issue loans in material amounts to related parties in the future and generally seeks to reduce the credit risk in respect of third party loans and related party loans by taking security over collateral. Cash and cash equivalents are primarily held with reputable banks with high credit rating.

Guarantees

The Group's policy is to provide financial guarantees only to subsidiaries or related parties with good credit standing. As of 31 March 2011, financial guarantees issued by the Group amounted to 2,287 million roubles.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group's approach to managing liquidity is to ensure, to the extent possible, that it will at all times have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of force majeure circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit with several Russian and international banks.

Market Risk

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

Currency Risk

The Group is exposed to foreign currency exchange rate risks. The Group's presentation and functional currency is the Russian rouble. However, since a large proportion of the Group's revenue is from export sales, such revenue is received in foreign currencies, principally the U.S. dollar. While some of the Group's costs, such as interest expense and costs of equipment are incurred in currencies other than the rouble and some of the Group's loans are denominated in U.S. dollars, there is still a mismatch between the

proportion of total revenue received in foreign currencies and the proportion of total costs paid in foreign currencies, so that the appreciation of the rouble against the U.S. dollar tends to result in an increase in the Group's costs relative to the Group's revenue.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group seeks to reduce its net exposure by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk.

The Group's management estimates that a 10 per cent. strengthening/(weakening) of the U.S. dollar and EUR against the rouble, based on the Group's exposure as of 31 December 2010, would have decreased/(increased) the Group's profit for the year by 505 million roubles before any tax effect (2009: 34 million roubles, 2008: (929) million roubles). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest Rate Risk

The Group's management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings the Group's management exercises judgment to decide whether a fixed or variable rate would be more favourable to the Group over the expected period until maturity. As of 31 December 2010, 48.1 per cent. and 51.9 per cent., respectively, of the Group's total debt bore interest at fixed and floating interest rates, respectively. The Group does not hedge its interest rate risk exposure.

As of 31 December 2010, a 1 per cent. increase/decrease in LIBOR/EURIBOR interest rate would have decreased/increased the Group's profit or loss and equity by 46 million roubles (31 December 2009: 13 million roubles, 31 December 2008: 13 million roubles).

Critical Accounting Estimates and Judgements

The Group's management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on the experience of the Group's management and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial information and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include the following:

Consolidation of Apatit

As of 31 December 2010, the Group held 50 per cent. of ordinary shares and 85.5 per cent. of preferred shares of Apatit. See "*Business—Organisational Structure of the Group*" for information on other Apatit's shareholders. In accordance with Apatit's charter, under certain circumstances, holders of preferred shares are entitled to vote at shareholder meetings. As of 31 December 2010, Apatit's preferred shares were non-voting. The Group's management believes that the Group's current shareholding in Apatit allows the Group to exercise *de facto* control over OJSC Apatit.

Impairment Testing

The Group performed an impairment testing under IAS 36 on 31 December 2010. Cash flow forecasts for different Group's facilities representing separate cash-generating units were prepared for the forecast period of 5 to 10 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate of 13.8 per cent. (2009: 12.1 per cent., 2008: 17 per cent.)
- Terminal growth rate of 3 per cent. (2009: 3 per cent., 2008: 3 per cent.)

Based on the analysis, no impairment loss was recognised. A 2 per cent. change in the discount rate would not have resulted in an impairment loss.

THE FERTILISER INDUSTRY

The following section is based on information provided by Fertecon, unless otherwise indicated.

Introduction

General Background on Fertilisers

Nutrients are chemical elements that are required by plants and other living organisms to grow and survive. The term ‘chemical fertiliser’ is used to describe manufactured chemical compounds that contain one or more of the nutrients that have been removed from the soil by intensive farming systems. Intensive crop farming takes place throughout the world, producing food for a growing world population. Crops are also fed to animals to produce meat. In terms of nutrients consumed, the production of meat is 2-7 times less efficient than direct human consumption of crops. Increasing wealth, particularly in the developing world is producing an increasing demand for meat. Growing populations and increasing wealth therefore form the main drivers for increased fertiliser requirements. More recently, the use of crops as a raw material for producing energy (biofuels) has also added to the requirements for increased crop production and hence higher fertiliser use.

The main nutrients required by plants (macro-nutrients) are **nitrogen** (or “N”), **phosphate** (or “ P_2O_5 ”) and **potash** (or “ K_2O ”). Additionally sulphur is an emerging nutrient, which although vital for crop development, historically has not been added in large quantities to soil as sufficient quantities existed naturally. Global initiatives to limit emissions of sulphur through heating oil, gasoline and coal power stations may potentially cause a deficit of sulphur in the soil. Other chemicals (micro-nutrients) are required in much lower concentration levels, but nonetheless can still limit yields if not available to the plant in sufficient quantities.

Fertilisers are usually described by the contained percentages of the three macro-nutrients, nitrogen, phosphate and potash. A compound (or complex) fertiliser is one with more than one nutrient, thus a fertiliser with a formulation 5-20-10 would contain 5% N, 20% P_2O_5 , and 10% K_2O . A fertiliser blend (or ‘Bulk Blend’) is a physical mixture of more than one fertiliser to give an overall analysis of a compound-type product within each bag, even though each individual granule remains in its original product form.

Each of the three macro-nutrients is important for a particular aspect of plant growth. Nitrogen promotes green growth, i.e. foliage, whilst phosphate is important for root development and potash for development of fruits and seeds. The fertiliser requirements will depend on a number of factors such as residual nutrient status of the soil, the type of soil, the crop to be grown, and the climatic conditions.

Whilst under some circumstances nitrogen can be extracted from the air, there is no substitute for the application of phosphate fertilisers in growing crops. While some phosphate and nitrogen is recycled in farmyard manure and sewage treatment systems, around 40 million tonnes of $P_2O_5^{(1)}$ and 105 million tonnes N are added to the farming system each year through the application of chemical fertiliser products.

Global fertiliser consumption has been growing through the last few decades, reacting to increased demand for food from an increasing population. It is food production that links population growth and fertiliser consumption. Economic changes on a global and local level, coupled with climatic factors have prevented fertiliser demand from attaining a steady growth pattern. Most notable was the build-up in phosphate fertiliser use in the Former Soviet Union (the “FSU”) in the 1960s and 1970s and the subsequent precipitous decline following the political and economic changes at the end of the 1980s. This decline in the FSU partly explains the overall decline in the world phosphate fertiliser consumption during 1989-1993. World phosphate fertiliser consumption gradually started to increase in 1994.

(1) P_2O_5 is the standard measure of phosphate content. 1 tonne of P_2O_5 is equivalent to 0.436 tonnes of element P and consumes roughly 3.6 tonnes of phosphate rock. As phosphate fertilisers, phosphate rock and phosphoric acid all contain different levels of P_2O_5 the conversion from product tonnes to P_2O_5 tonnes allows comparison and, where appropriate, summation of the different products.

WORLD FERTILISER CONSUMPTION
Million tonnes nutrient

	N	P ₂ O ₅	K ₂ O
1980	60.5	31.9	23.8
1985	70.1	33.5	25.1
1990	76.8	35.9	24.3
1995	78.2	31.0	20.6
2000	82.1	32.8	22.1
2005	92.9	37.3	26.1
2006	96.9	38.8	27.2
2007	100.5	38.8	28.8
2008	99.5	34.4	24.2
2009	101.9	36.0	22.1
2010(F)	104.1	38.6	26.7
Gross % Growth 1980-2010			
Population Growth = 55%	72%	21%	12%

Source: IFA, UN

The outlook for fertiliser demand continues to be driven by population growth, with increasing prosperity in developing nations and the production of biofuels adding to demand for crops.

Population growth, forecast by the IMF to be 1.2% per year during 2011 and 2012, is increasing pressure on limited arable land to produce sufficient grain to feed the world. A greater yield can be achieved with increased application of fertiliser, particularly in emerging market countries that currently apply sub-optimal levels of fertiliser. At the same time, the large populations of some emerging market countries are becoming richer and turning to increased meat and dairy product consumption. Meat production consumes up to 7 times the amount of cereal (and hence fertiliser) compared to a grain-based diet. Higher meat consumption also drives demand for feed phosphates which are used directly in the diets of animals. Also important in this respect is that the fastest growing GDP rates are now in the developing world.

WORLD MEAT CONSUMPTION

	Kilograms per capita per year
1980	30.6
1985	31.5
1990	33.5
1995	35.6
2000	37.9
2005	39.3
2006	39.9
2007	40.1

Source: FAO, UN

In addition to the demand for crops for human consumption, the last decade has seen a number of countries turning to crops as feedstock in the production of bio-ethanol and bio-diesel as energy sources. Political support in the form of economic incentives, coupled with the steady increase in crude oil prices, resulted in a tripling in bio-fuel production in the period between 2000 and 2008. The main crops used are maize and sugar cane for bio-ethanol and rapeseed and soybean for bio-diesel. In 2008/2009 around 109 million tonnes of grains (93% maize) were used in bio-ethanol production and in 2009, some 333 million tonnes of sugarcane were consumed in this sector in Brazil. In the United States up to 40% of total maize production in 2010/11 was used in the production of bio-ethanol, according to the USDA.

As with many commodities, the price of fertiliser products on the international market surged to extraordinarily high levels in 2008 after several decades of stagnation at a relatively low level. The high price levels were supported by high crop prices for those farmers able to access the international market. Despite high raw material costs, producers also enjoyed significantly higher margins over costs for a period. The global economic problems towards the end of 2008 led to major dislocations in the fertiliser

sector and a cut-back in fertiliser use, impacting particularly the phosphate and potash sectors. Since then growth has re-established itself; historically low grain inventory levels and strong grain prices continue to underpin the recovery, which is expected to see fertiliser use growing by 2.5% p.a. from the 2007-2009 average through to 2014.

Phosphate Fertilisers

Phosphorus (or “P”) is an essential element for all forms of life. Phosphorus in the earth’s crust is mostly contained in soils and sediments. Soils contain both organic and inorganic P containing compounds. Phosphorus reactions in soils can be quite complex. Crops take up dissolved inorganic P from soil water, and because soil solution P concentration is usually very low it must be continually replenished over the life of the plant to meet P demands. Phosphate fertiliser application is necessary where soil phosphorus reserves are insufficient or unable to maintain adequate solution concentrations for crop production.

Phosphorus is essential for plant growth and function and no other nutrient can be substituted for it. Phosphorus is involved in photosynthesis, respiration, energy storage and transfer, cell division, cell enlargement, and several other processes in the plant. It promotes early root formation and growth. Phosphorus improves the quality of fruit, vegetable, and grain crops and is vital to seed formation. It is involved in the transfer of hereditary traits from one generation to the next. It helps roots and seedlings to develop more rapidly and improves winter hardiness. An adequate P supply can increase water use efficiency, contributes to disease resistance in some plants, and hastens maturity important to harvest and crop quality. Perhaps the most noted function of P in plants is in energy storage and transfer. Orthophosphate is at the base of almost every metabolic reaction in plants, and P either directly or indirectly affects all biological processes.

Phosphorus is essential for animal nutrition; it is present in every living cell and is essential in energy transfer and utilisation. About 80% of the P in animal bodies is contained in the skeleton. Its major role (along with calcium or “Ca”) is as a constituent of bones and teeth. The remainder is widely distributed throughout the body in combination with proteins and fats and as inorganic salts. Ca and P are closely associated in animal nutrition. A liberal supply of Ca and P are essential for lactation; these two elements make up about 50% of milk ash. Lactating animals as well as young and developing animals which are gestating need more P than other classes of mature animals.

Phosphates are formed from ancient marine fossils and must be mined from an ore, which usually contains multiple trace elements, such as rare earth. It is a non-renewal resource with reserves limited to a small number of countries. It is essential for crop development and helps crops withstand adverse weather. In order to convert fallow land into arable land, phosphate must be added to the soil. Failure to add phosphate to the soil at growth stage cannot be remedied in the future.

Unlike potash which is mined and directly shipped to customers ready to be applied, phosphates generally need to be transformed into fertilisers through chemical processing to increase the solubility of the phosphorus element which allows its absorption by the plants. To enter into the phosphate fertiliser business requires the investment in substantial plant and equipment for phosphate rock mining, sulphuric acid, phosphoric acid and phosphate fertilisers production lines. It also requires access to significant volumes of other raw materials, namely ammonia and sulphur. A world scale integrated MAP/DAP plant, including a mine, is estimated to cost approximately US\$1.5bn per metric tonne of P₂O₅ capacity, excluding any necessary supporting infrastructure.

The two main phosphate fertilisers are **di-ammonium phosphate (“DAP”)** and **mono-ammonium phosphate (“MAP”)**, which also contain significant quantities of ammonia and sulphur. The majority of phosphate fertilisers are made from **phosphoric acid** (P₂O₅ content of 35-80%), which is dominantly produced by the ‘wet-process’. This process requires phosphate rock to be mixed with sulphuric acid. The phosphate rock is mined from an ore body and beneficiated to a concentrate. The sulphuric acid is manufactured from elemental sulphur, which most major phosphate fertiliser producers must import. In some regions sulphuric acid is available as a by-product of metals smelting operations.

From this process phosphoric acid and phosphogypsum, a solid product that contains acid and other contaminants, are produced. Each tonne P₂O₅ of phosphoric acid produced results in the production of 5 tonnes of phosphogypsum. The disposal of this waste phosphogypsum is a significant environmental problem in many phosphoric acid production centres and has been one of the key reasons for the closure of capacity in Europe over the last few decades. The ‘filter-acid’ that is the primary product of the phosphoric acid reaction usually has a strength in the range 26-42% P₂O₅. It is either directly converted at

this strength into fertiliser products on the same site or is concentrated to merchant-grade (the “MGA”) strength at 54% P_2O_5 or higher for food and industrial applications.

The addition of ammonia to phosphoric acid produces solid **ammonium phosphate** fertilisers. The substitution of a hydrogen ion in the phosphoric acid by one molecule of ammonia produces MAP (11-52-0) whilst further ammonia substitution results in DAP (18-46-0). MAP is easier to produce than DAP, that is DAP requires a higher quality acid than MAP to attain full solubility. United States’ phosphate rock has been declining in quality over the last few decades and producers have been finding it more difficult to produce a full specification DAP (sometimes adding a nitrogen product to boost the N solubility). For this reason, in recent years the United States has been selling more MAP.

The addition of potash as a source of potassium to the above reactions enables the production of various PK or NPK formulations. If phosphoric acid is reacted with more phosphate rock it results in the solid fertiliser **triple superphosphate** (TSP 0-46-0).

These solid fertilisers are normally produced in a granulation plant, which often allows production of a range of different fertiliser products. Depending on the process used and plant design it is possible to produce DAP, MAP, TSP and a range of NPK products in the same plant. Most DAP plants can also produce MAP. The production of TSP and NPK products entails additional physical equipment to handle the solid inputs into the reaction.

Fertilisers not produced through phosphoric acid as an intermediate tend to be simpler to produce and of lower phosphate content. By reacting phosphate rock with sulphuric acid (in lower quantities than required to make phosphoric acid), a solid product **single superphosphate** (SSP—16-24% P_2O_5) is produced. The advantages of SSP production are that the technology is simple and not capital intensive. In addition, low quality phosphate rock can be used, although all the elements of the rock end up in the end product so impurities can be an issue. SSP is widely produced and consumed in India and China, but has been declining in importance in other markets. In China, there is also some production of fused magnesium phosphate (FMP—18% P_2O_5) by heating phosphate rock with a source of silica. Otherwise, the most popular simple phosphate fertiliser is **ground rock phosphate** (GRP—18-30% P_2O_5) which is simply a finely ground form of the unprocessed phosphate rock product. To be successful, GRP has to be made from a relatively reactive phosphate rock and be used in acid soil situations.

Finally, by reacting phosphate rock with nitric acid, a compound **NP fertiliser** is produced directly. This tends to have more or less equal levels of N and P (such as 26-26-0) which is not ideal for all agronomic situations, but was developed by Norsk Hydro (now Yara) as a means of valorising the abundant hydro electric power available in Norway.

Historically, low analysis phosphate fertiliser products were the first to be developed, but in modern times it has been high analysis fertilisers, derived through phosphoric acid as an intermediate, that have captured all the growth in consumption. We expect this trend to continue in future.

Nitrogen Fertilisers

Nitrogen additions to the soil in the form of chemical fertilisers are either consumed by plants or are lost to the soil system on an annual cycle. Some crops (clovers and others) have the ability to extract nitrogen directly from the air, which is a large source of nitrogen. Transference of this ability to major crop types such as grains would clearly have a significant impact on demand for nitrogen fertilisers. Such transference is still in the theoretical stage, however.

Most (over 95%) nitrogen fertilisers are produced from **ammonia** (82% N). Ammonia is a poisonous gas at room temperature and pressure. It is often transported in pressurised containers as a liquid. Ammonia production is energy intensive and therefore has been developed mainly at sites of low-cost energy. Only a small amount of ammonia is used directly as a fertiliser, mostly in the United States.

The major solid nitrogen fertiliser is **urea** (46% N) which is produced directly from ammonia. Urea accounts for around 50% of the N contained in fertilisers today. **Ammonium nitrate** (AN—34% N) is produced from nitric acid, which is itself produced from ammonia. AN has some agronomic advantages over urea in that the N is in a more readily accessible form to plants. However, in pure form AN is an explosive and there are significant safety issues with the manufacture of the product. As a result, derived forms such as **urea ammonium nitrate** (UAN—28% N) and **calcium ammonium nitrate** (CAN—27% N) are generally produced. Being alkaline, the CAN is often used on acidic soils to lower the pH value.

Ammonium sulphate (AS 21% N, 24% S) is widely available as a by-product, but is also produced in some situations where there is surplus sulphuric acid availability.

Phosphates

Phosphate Sectors and Applications

The phosphate industry comprises three main sectors. Fertilisers is the largest sector, consuming around 85% of phosphate rock produced each year in total. The second sector, the production of feed additives for animal feeds consumes around 6% of phosphate rock produced. The remainder, around 9%, goes into the production of numerous industrial phosphate chemicals, including salts that are derived from phosphoric acid (produced either by clean-up of wet process acid or from elemental phosphorus) and compounds that can only be produced directly from elemental phosphorus. The former include STPP for detergents, and food uses. Direct compounds from elemental phosphorus include glyphosate for weed killers, fire retardant chemicals, electric car batteries (a high growth market with relatively new technology) and many other uses.

Phosphate Rock

The production of phosphate-based products requires phosphate rock as a raw material. Phosphate rock comprises mineral assemblages that have had the phosphate minerals concentrated sufficiently to form an economic deposit. Phosphate rock is mainly mined by open-pit methods using mechanical mining machines. Most phosphate rock is sedimentary in origin, however, fewer deposits, including those in Russia, are of igneous origin. The phosphate beds (or phosphate 'ore') can be near the surface or under a layer of overburden, which has to be removed before the ore can be mined.

Large phosphate resources are concentrated in a small number of countries and production on an industrial scale is happening in around 30 countries today. The amount of phosphate product that is ultimately recoverable globally is an issue of debate, however sufficient reserves exist for the foreseeable future. A recent study by the IFDC has shown that the reserve base for phosphate rock is probably in the order of 60 billion tonnes and the resource base is in the order of 290 billion tonnes. Morocco is by far the largest player, holding around 70-85% of the total reserves and resources. Other large sedimentary phosphate 'provinces' occur in Florida and North Carolina in the United States, North Africa, the Middle East, West Africa, Australia, and China. Igneous deposits are exploited in Russia, South Africa, Canada, Brazil and Finland.

The phosphate industry currently mines around 177 million tonnes of phosphate rock annually.

The behaviour of the various constituents of phosphate rock when it is treated chemically is very complex and varied. The specific effect of each constituent will vary according to the type of process used, the physical parameters of the reaction (temperature, pressure etc.) and the levels of other constituents in the phosphate rock. A few general criteria are well established, however:

- ***P₂O₅ Content***

The content of P₂O₅ in a rock determines the volume of phosphate rock required to produce a P₂O₅ tonne of acid. Lower grade rocks provide less P₂O₅ per tonne of raw material and thereby increases the quantity of material to be handled. In addition, low grade rock tends to consume more sulphuric acid. Rock products from igneous sources, such as that mined by **PhosAgro**, tend to have the highest grade and therefore some of the lowest sulphuric acid consumption per unit of P₂O₅ produced.

- ***MER Level***

The MER or 'minor element ratio' of a rock is defined as the sum of the iron, aluminium and magnesium content divided by the P₂O₅ content. The ratio largely determines the quality of the resulting phosphoric acid, the amount of solid 'sludge' the acid produces when stored and the ability of the acid to absorb ammonia in the production of DAP. A rock with a MER of less than 0.10 will generally be capable of producing a phosphoric acid of high enough quality to produce DAP with an acceptable water solubility. United States (Florida) rock has seen its MER increasing from an average of 0.09 in 1990 to 0.11 today, hence the increasing problems of producing high specification DAP and move to produce MAP, in which less ammonia has to be absorbed. The high grade of Russian igneous rock produced by PhosAgro has an MER suitable for DAP production, despite relatively high levels of aluminium in the rock, by virtue of its high grade. Russian rock produced by a Eurochem subsidiary at the Kovdor mines is less suitable as it contains high levels of magnesium.

- *Organic Carbon Content*

Organic carbon occurs in practically all sedimentary rock types, whilst igneous rocks tend to have very low organic carbon content. In the phosphoric acid reaction, organic carbon tends to stabilise the foam produced. Often de-foaming agents have to be added to allow the reaction to proceed. The presence of organic carbon tends to leave the resultant acid with a pronounced coloration. If clear acid is required, either the rock has to be calcined or a rock with naturally low organic carbon content must be used. Generally organic carbon levels below 0.65% are desirable.

- *Heavy Metals, Radioactive Elements and other Metal Contents*

Some metallic elements (zinc, copper, manganese etc.) are beneficial in small quantities in fertiliser products as they supply micro-nutrients, which may be lacking in the soil. The heavy metal group has the opposite effect as they are poisonous to animal life when in significant quantities. They do not have a half-life but accumulate in the environment. For individuals, they also have a residual effect, in that they are not kept in balance in the body's system, but tend to gradually build up in certain organs of the body. There has been sufficient evidence of toxic effects for a number of governments, particularly in Europe, to impose limits on the levels of heavy metal elements in fertilisers and in waste products such as phosphogypsum.

The most widely noted heavy metal element as far as phosphate rock is concerned is cadmium. Restrictions on cadmium content of fertilisers now exist in a number of European countries and this has been the main reason why certain types of rock, such as those from Senegal and Togo, are no longer used despite their high in P_2O_5 content. Rock produced by PhosAgro contains a very low level of cadmium.

Radioactivity is common in phosphate rock products, mainly in the form of uranium and thorium. Some sedimentary rocks in particular have significant levels of radioactive minerals. In the United States, uranium was recovered from phosphoric acid for a number of years and sold as a by-product. Falling uranium prices eventually halted this practice, however recently there has been talk of constructing new recovery facilities as the price has recovered. The uranium content of the rock tends to stay with the phosphoric acid produced, whereas the thorium usually passes into the phosphogypsum waste. Uranium levels are significant in some instances and prescribed limits have been set for some fertilisers. Thorium levels are particularly sensitive where the phosphogypsum is being used as a by-product (in gypsum wall-boards and other building processes).

Russian igneous rock, such as that mined by the Group, has relatively low uranium levels and low thorium levels. Russian Kovdor rock is high in uranium and low in thorium.

Production of phosphate rock

Phosphate ore is typically transported by trucks from the quarry to a primary screen where large boulders are removed. From the primary screen, the ore travels usually by conveyor (or slurry pipeline in Florida) to the beneficiation sector. Beneficiation increases the phosphate content and lowers the unwanted chemicals in the ore (impurities) to acceptable levels. In increasing order of cost, beneficiation can include screening, washing, cyclone separation, flotation, heavy media separation or calcination. The type of beneficiation employed and degree of success in recovering the phosphate values in the ore depend on the mineralogy of the original ore-body. Sedimentary ores tend to start off typically in the range 15-25% P_2O_5 and ends up at 25-36% P_2O_5 , whereas the relatively simple mineralogy of igneous ores allows flotation to be employed to increase the 4-8% ore to up to a 40% P_2O_5 commercial product.

Production costs depend largely on the volumes of material (ore and overburden) that have to be moved per tonne of final product, the type of beneficiation employed and the logistical costs involved in transporting the rock to its consumption point.

Phosphate Fertilisers

The production of phosphate fertilisers began in the 19th century, however, significant production only began after the second World War. It was the technologically advanced regions such as North America and West Europe that constructed the first phosphoric acid-based fertiliser facilities. The North American industry was fed from abundant local phosphate rock reserves in the south-east (Florida and North Carolina). In Europe, the lack of local rock resources meant that rock had to be imported from deposits in North and West Africa, the Middle East and elsewhere. In the United States, the bulk production and sale

of DAP, MAP and to a lesser extent TSP was developed to feed the large-scale domestic farms and to suit the crops grown. However due to the seasonality of the United States market, products were offered to overseas markets during off seasons. Hence the development of bulk shipments of DAP and MAP as the dominant fertiliser types. In Europe, the smaller distances involved, the larger mix of crop types and climatic conditions led to the development of an industry largely producing PK, NPK and other compound formulations. Trade was significant, but largely intra-regional and over relatively short distances.

The US market has historically been the largest DAP export market. However, rationalisation of US production began from the mid 1980s with the start of large-scale production of phosphoric acid in North Africa and other phosphate rock producing countries. At the end of the 1990s, new phosphate fertiliser production facilities, based on local rock production, were developed in Australia, Canada and China. The new supply displaced United States products and competition intensified as some producers were forced out of business by low prices worldwide.

Whilst the US remains one of the largest global exporters of DAP/MAP, China, Russia and Morocco have emerged as important players.

The fertiliser market in Europe has moved away from phosphate fertiliser production to imported phosphate fertilisers. The disposal of phosphogypsum and other environmental concerns, coupled with the emergence of large-scale production and export of phosphate fertilisers from North Africa and Russia led to an increasing level of phosphate fertiliser imports into Europe. Imports were for direct application, mixing into blends or further production into NPK products incorporating locally produced nitrogen and potash products. A large number of phosphoric acid plants have closed in West Europe in the last two decades, the most recent examples being plants in Spain at the end of 2010.

Feed Phosphates

Phosphorus and calcium are essential for animal nutrition. They assist in animal metabolism to maintain health, enhance digestion which leads to better quality animal products. Phosphorus has a key metabolic role in maintenance of osmotic pressure and the acid-base balance, utilisation and transfer of energy, and protein synthesis. Both calcium and phosphorus are major constituents of bones. Currently livestock receive phosphorus from three sources: plants (50%), animal by-products (10%) and inorganic feed phosphates (40%).

Fertiliser phosphates, feed phosphates and industrial phosphates differ primarily in quality. The former two are similar in terms of quality while industrial phosphates are a much higher quality. The main commercial inorganic feed phosphates (**IFP**) are dicalcium phosphate (**DCP**), monocalcium phosphate (**MCP**) and defluorinated phosphate rock (**DFP**). These contain between 40% and 45% P_2O_5 . Calcium phosphates are produced by reacting a defluorinated phosphoric acid with lime or calcium hydroxide.

DCP is the most common product, accounting for approximately 60% of total animal feed phosphate consumption (in P_2O_5 terms). DFP is used in fewer markets globally, including North America and FSU. MCP and MDCP have the most growth potential as they have better digestibility characteristics in monogastrics (single-chambered stomach species). There has been a shift towards products with higher digestible phosphorus due to increasing regulation on phosphorus run-off from livestock manure.

The quality of feed phosphates is determined by the chemical, physical and biological properties. The quality depends on consistent nutrient content, low levels of undesirable elements, particle size and good handling properties, physical form (granular vs powder) and bulk density, pH/reactivity and bioavailability. MCP has the higher phosphorus content compared to both DCP and DFP and also offers the highest digestibility.

Demand for phosphate has been growing over the last decade in line with increases in global meat consumption. The growth is largely attributed to the rapid expansion and modernisation of meat production in Asia and other emerging markets.

There is limited trade of feed phosphate, with plants usually built in areas of demand. Tessenderlo (Belgian based chemicals conglomerate) is the largest feed phosphates producer in Europe followed by Phosagro. Other key European players include Ercros (Spain), Lifosa (Lithuania) owned by Eurochem, Yara (Norway), Fosfitalia (Italy) and Timac (United States).

Integrated vs. Non-integrated Producers of Phosphate-based Products

Integrated Producers

The term “integrated producer” generally refers to a phosphate fertiliser producer with access to its own supply of phosphate rock, which it mines and beneficiates to use as feedstock. A fully integrated producer has access to all feedstock required to produce most phosphate fertilisers (DAP/MAP/NPK), which includes phosphate rock supply, an ammonia plant and either a captive sulphuric acid supply or a captive sulphur supply and a sulphuric acid plant. PCS, Mosaic, CF Industries and Eurochem are examples of integrated producers. However some of the integrated players have been increasing their external purchases of phosphate rock for various reasons. Mosaic’s mines face environmental issues and suffer from depleting high grade ore reserves, thereby increasing its imports of Moroccan rock, and Eurochem in recent years is also increasing imports of Moroccan rock. PhosAgro is fully self-sufficient in phosphate rock controlling both the mines and beneficiation plants and also has own ammonia and sulphuric acid plants.

Non-integrated Producers

Non-integrated producers are those that purchase phosphate rock or phosphoric acid to use as feedstock in the production of phosphate fertilisers. A large number of non-integrated producers are based in India, however other producers operate around the world, for example Mississippi Phosphate Corp. in the U.S., Acron in Russia and Yara in Norway (for the production of NPK). Yara buys the majority of its phosphate rock requirements from Russia and Morocco, because its own mining capacities are small. As these producers generally have the highest costs, they tend to be marginal producers and establish the floor price for phosphate fertilisers.

A number of factors act on the decision to buy a certain type of phosphate rock for a chemical process. Firstly the rock has to be suitable for the plant and process in which the rock is to be used. Generally the grade of rock (P_2O_5 content), the level of other chemical constituents (CaO , MgO , Fe_2O_3 , Al_2O_3 , F , SiO_2 , Cl , and others), the hardness, and the reactivity all have a bearing on suitability. On a broad scale, rock products fall into two groups, depending on whether or not they are suitable for most phosphoric acid processes. Rock products unsuitable for the production of phosphoric acid can only be converted into non-acid products such as SSP, FMP and GRP. Some low quality rock is also used in the United States, Kazakhstan and China for the production of elemental sulphur. There is some overlap between the two groups of rock, partly because a phosphoric acid plant can be designed to accept a particular rock type, and partly because suitability sometimes comes down to economics rather than process chemistry.

Demand and Supply Dynamics for Phosphates

Phosphate Rock Demand

Demand for phosphate rock naturally follows levels of production in the phosphate fertiliser sector. Increasingly, phosphate rock is being consumed in the country of production. In the mid-1980s, two-thirds of phosphate rock produced was consumed in the same country. Today that figure is closer to 85%.

WORLD PHOSPHATE ROCK CONSUMPTION
(thousand tonnes product)

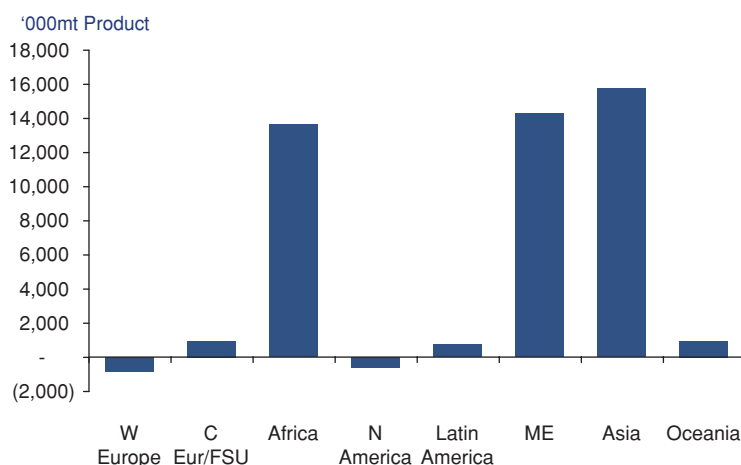
	2000	2005	2009	2010E	2010 Share %	2000-2010 Growth
China*	28,987	48,096	63,650	66,498	37.2	37,511
USA	39,354	38,115	27,598	30,434	17.0	−8,920
Morocco	11,197	13,595	12,439	16,600	9.3	5,403
FSU	9,056	12,199	11,003	12,114	6.8	3,058
Tunisia	6,259	6,655	5,583	6,200	3.5	−59
Jordan	2,085	2,282	1,942	2,010	1.1	−75
Brazil	5,766	6,458	6,885	7,113	4.0	1,347
South Africa	2,310	2,452	2,309	2,300	1.3	−10
India	5,444	6,216	6,509	7,550	4.2	2,106
others Asia	6,159	7,114	4,911	6,064	3.4	−95
Europe	11,713	10,504	4,845	8,681	4.9	−3,032
Israel	3,008	2,529	1,866	2,236	1.3	−772
others	10,366	10,680	8,043	10,991	6.1	624
Total	141,704	166,894	157,582	178,791	100.0	37,087
Domestic Use	111,505	136,067	138,185	149,922	84	38,417
Imports	30,198	30,827	19,397	28,869	16	−1,329

* FRC Estimates, Official Chinese statistics show lower production levels

Annual demand for phosphate rock is expected to grow by almost 50 million tonnes in the next 15 years from an estimated 177 million tonnes in 2010 to 226 million tonnes in 2025. Phosphate rock consumption is expected to produce an average growth of around 2% p.a. over the next 15 years, adding 3.5 million tonnes each year to phosphate rock demand levels. Given its main end market is the production of fertilisers, growth is expected to slow beyond 2025 as arable land growth is limited and emerging markets achieve optimal levels of fertiliser application in line with developed countries.

The following charts show the regional split in phosphate rock demand growth. Asia had the largest growth in phosphate rock demand but it is almost equalled by Africa and the Middle East. Africa continues to expand its rock consumption through projects for new phosphoric acid capacity in Morocco, Algeria, Tunisia and Egypt. The Middle East has the second largest growth increment, mainly by virtue of projects in Saudi Arabia and Jordan. Latin America has the fourth largest growth in phosphate rock demand but will need to source some of this from overseas as its phosphate fertiliser industry struggles to keep pace with increases in demand. The decline in North American phosphate rock consumption partly reflects an expected step-down in phosphate fertiliser exports after the commissioning of the Ma'aden Project.

**Phosphate Rock Demand Increment
2010-2025**



Most of the increased demand for phosphate rock is expected to continue to be sourced largely from captive rock mines rather than phosphate rock imports. Only 3 million tonnes of the expected 51 million tonnes increase in rock consumption in the 2010 to 2025 period is expected to accrue to phosphate rock trade. The remainder will be captured by domestic or captive rock use. Exporters of phosphate rock will continue to price their products to extract as much of the profitability from the end-use markets as possible. It is expected that only in times of heightened competition will phosphate rock prices come down to lower levels relative to those in the end-product markets. Such a period of increased competitiveness is expected to emerge as Vale bring its new mine at Bayovar, Peru up to full capacity over the next two years.

Phosphate Rock Supply

World production of phosphate rock reached a temporary peak of 162 million tonnes in 1988 and declined in the following years but has since increased to a new high of over 177 million tonnes in 2010. Three countries dominate production: United States, China and Morocco together account for 67% of World production. The top 12 countries account for 93% of production.

The major trend in supply in the current decade has been a large increase in production from China and Morocco. A significant factor in future world phosphate rock production, and ultimately fertiliser production, is the projected U.S. phosphate rock mine capacity. Jasinski (USGS, 2005) has pointed out reserves in Florida could be depleted by 60 percent by 2030 and totally depleted in 50 years. Growth in the 'others' category has included new mines at green-field sites in Canada, Australia and Peru.

WORLD PHOSPHATE ROCK PRODUCTION (million tonnes product)

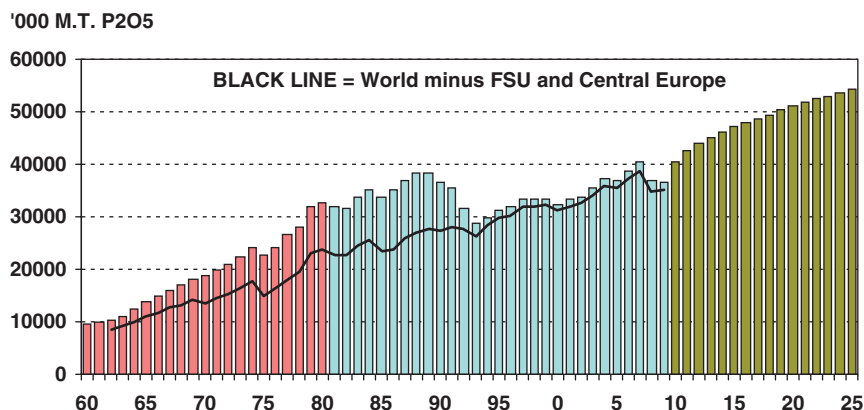
	2000	2005	2009	2010E	2010 Share %	2000-2010 Growth
China*	32,434	50,210	64,000	67,380	38.0	34,946
USA	39,161	35,516	26,000	24,650	13.9	-14,511
Morocco	21,568	27,601	18,163	26,820	15.1	5,252
FSU	11,839	13,289	11,543	12,500	7.1	661
Tunisia	8,304	8,204	7,298	7,200	4.1	-1,104
Jordan	5,526	6,381	5,271	6,310	3.6	784
Brazil	4,725	5,488	6,050	5,696	3.2	971
South Africa	2,778	2,643	2,237	2,250	1.3	-528
Togo	1,370	1,021	726	830	0.5	-540
Syria	2,166	3,496	2,147	3,600	2.0	1,434
Senegal	1,806	1,542	967	980	0.6	-826
Israel	4,110	2,917	2,530	2,980	1.7	-1,130
others	9,210	11,212	14,531	16,082	9.1	6,873
Total	144,997	169,520	161,463	177,278	100.0	32,282

* FRC Estimates, Official Chinese statistics show lower production levels

Phosphate Fertilisers Demand

From 1990 to 2005 there was virtually no overall growth in global phosphate fertiliser demand, despite the rapidly increasing global population and increases in both grain output and per capita meat consumption. This stagnation was largely due to a significant build-up in phosphate fertiliser use in the states of the FSU and Central Europe from the 1960s to the 1980s, followed by a sharp reduction following the political and economic changes at the end of the 1980s. This reduction in phosphate fertiliser use in the FSU was a one-off event that dropped global phosphate fertiliser demand down to a lower level. Although the levels of fertiliser demand in the FSU are now improving, they are unlikely to reach the level of usage of the 1980s. Phosphate fertiliser demand in the remainder of the world was growing at an average of around 2% p.a. from 1990 to 2007. This growth level is less than was apparent in previous decades.

PHOSPHATE FERTILISER DEMAND



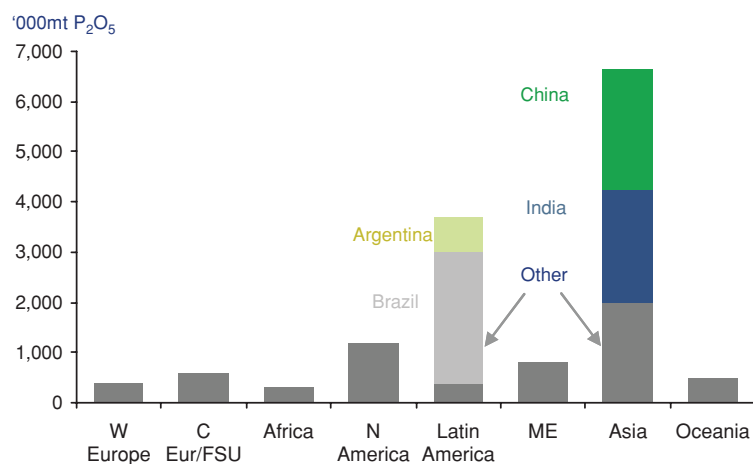
From the second half of 2008 through 2009, phosphate fertiliser demand sharply declined in some regions, such as Europe and Latin America. A decline in crop prices, coupled with a sharp fall in availability of farm credit resulted in buyers reducing phosphate fertiliser inventories before committing to new purchases. However, the lower level of phosphate fertiliser prices and freights costs into 2009, coupled with the low inventory position of importers, resulted in a progressive recovery in import levels through 2009, and phosphate fertiliser demand in 2010.

Future growth in phosphate fertiliser demand in the short term is expected to be higher than the 2% p.a. historical average as the market recovers from the drop in usage in 2009. Phosphate fertiliser consumption will continue to be driven by:

- increasing demand for food from increasing populations;
- more intense use of fertilisers due to decrease in arable land per capita;
- increasing consumption of meat calories rather than grain calories as populations become richer; and
- the increased use of crops to produce bio-fuels.

The expected fertiliser demand growth in the coming decade will be largely centred on increased phosphate fertiliser use in Asia and, to a lesser extent, Latin America. However, in Asia, China will supply all its own growth in P₂O₅ demand. In Latin America, Brazil will also supply some of the growth, particularly now that Vale has taken over most of the domestic industry. In terms of import demand, therefore, it will be India and to a lesser extent Brazil that will dominate in coming years.

Phosphate Fertiliser Demand Increment 2010-2025



In contrast to the phosphate rock markets, the development of phosphate fertiliser demand over the next 15 years is expected to result in a significant rise in global trade, following stagnant growth in the last 15 years. Trade volumes in 2010 for the main traded fertilisers, DAP, MAP, NPKs and TSP will be circa

1995 levels. The lack of overall growth in phosphate fertiliser trade in the last 15 years is due to China progressively replacing its import demand with local production.

Of the major markets shown in the following table, only India and Brazil had a net positive impact on trade.

**INCREMENTS IN PHOSPHATE FERTILISER
PRODUCTION, CONSUMPTION AND NET IMPORTS**
Million tonnes P₂O₅

Major Markets	1995–2010			2010–2025		
	Production Increment	Consumption Increment	Net Import Increment	Production Increment	Consumption Increment	Net Import Increment
China	8.3	2.6	–2.6	2.0	2.5	–0.1
India	1.3	4.9	3.2	0.7	2.2	1.4
Brazil	0.7	1.9	1.2	1.7	2.6	1.0
W Europe	–0.9	–1.7	–1.5	0.0	0.3	0.3
Net impact on imports			0.3			2.6

The main growth products in future trade are likely to continue to be DAP and MAP, with lesser growth in NPK and TSP trade. Markets in the Indian sub-continent, Oceania and Latin America are expected to mainly take increased volumes of DAP, whilst most of the MAP trade increments will go to Latin American markets. Latin American markets, particularly Brazil, will see most of the growth in import demand for TSP. The following table sets forth the increases in phosphate fertilisers trade during 1995–2010 and forecast increases during 2010–2025.

INCREMENTS IN PHOSPHATE FERTILISER PRODUCT TRADE
Thousand tonnes P₂O₅

	1995–2010	2010–2025 (forecast)
Major Products		
DAP	755	3,188
MAP	761	1,404
TSP	263	494
NPKs	65	309

Less phosphate fertiliser consumption growth is forecast over next 15 years, relative to the previous 15 year period. However, without the negative impact of China on the market, global phosphate fertiliser trade is expected to increase by a net 5.4 million tonnes P₂O₅. Latin American and Asian markets will account for 4.4 million tonnes P₂O₅ of increased import demand, with imports into India and Brazil alone growing by 1.4 million and 1.0 million tonnes P₂O₅ respectively.

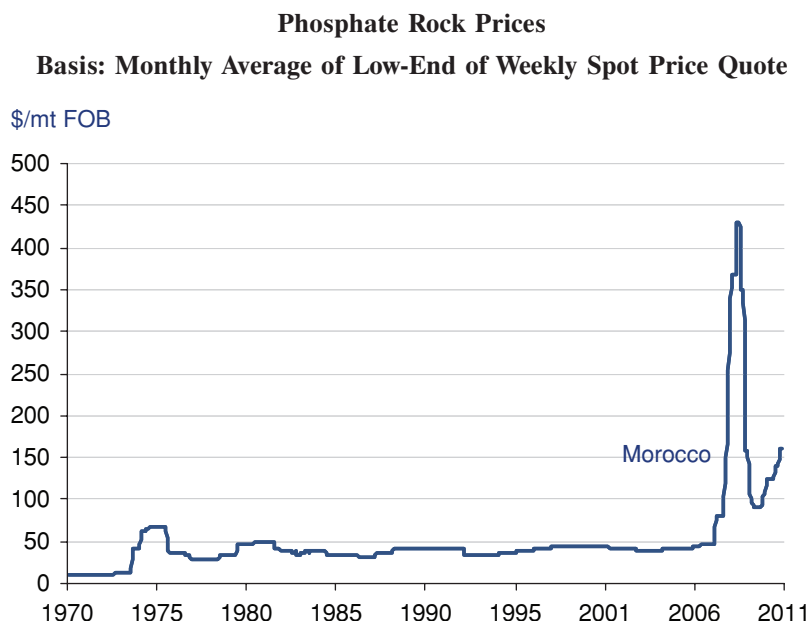
Pricing Dynamics

Phosphate Rock Pricing

Morocco is the key trading port of phosphate rock and hence is an important pricing point, however phosphate rock with superior quality and higher P₂O₅ content, such as that produced by PhosAgro, has historically traded at a premium to the Moroccan price.

Phosphate rock prices were in the range US\$29–52 per tonne FOB (basis 69½% BPL acid-grade product) in the two decades to 2007, with an average of US\$38 per tonne. In 2007, prices began to rise and surged to all time highs of up to US\$400 per tonne in 2008. This was partly attributed to the increased ability of Morocco’s producers to push prices higher as their market share had increased to 45%. A corresponding increase in downstream phosphate fertiliser prices enabled rock importers to remain profitable even at elevated price levels. However, when the economic downturn began in the second half of 2008 phosphate fertiliser demand plummeted leaving many producers with high priced stocks of fertiliser or raw materials. The last two years have been a period of recovery from the 2008 boom and bust. Market fundamentals, such as crop prices, have remained strong, supporting fertiliser use at a continued high price level. The

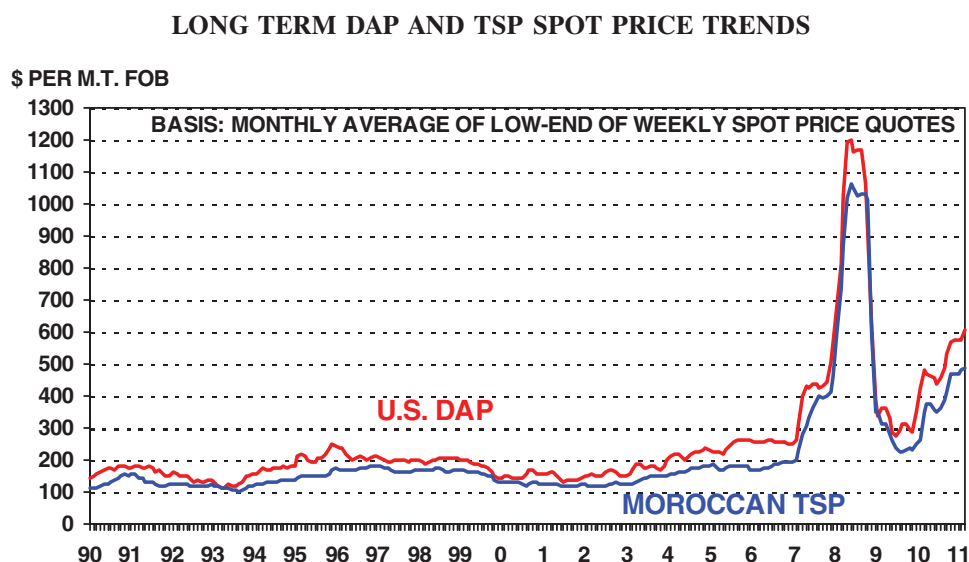
following chart sets forth the monthly average low-end weekly spot prices of phosphate rock between 1970 and present.



Pricing Dynamics for Phosphate Fertilisers

DAP prices tend to be the basic industry indicator by virtue of the large volume of trade. Prices for other products tend to follow the level of DAP pricing, which is generally priced FOB Tampa. Phosphate fertiliser prices have followed a cyclical pattern in the last few decades. Phosphate fertiliser sales are made largely on a spot basis and so prices move on a daily basis. Phosphate fertiliser prices have tended to be fixed in longer-term contracts, which partly follow the trend in the downstream phosphates markets and partly respond to supply/demand pressures within the phosphate rock industry itself. DAP prices had been in the range US\$120-245 per tonne FOB Tampa prior to 2007, with an average of around US\$180 and no overall long-term trend. In the 2008 price spike, DAP prices reached US\$1,200 per tonne.

The following chart sets forth the monthly average low-end weekly spot prices of DAP and TSP between 1990 and present.



Average returns on investment in fertiliser plants in the decades prior to 2007 had been poor, but new investments were still forthcoming from the large state-owned sector in the industry, so that new capacity additions continued despite the poor overall pricing levels.

Pricing Outlook

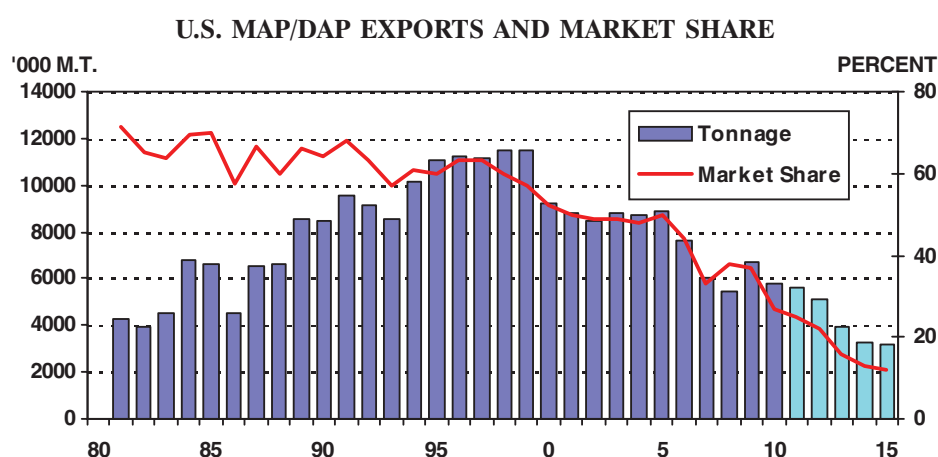
Industry pricing for both phosphate rock and phosphate fertilisers is expected to remain cyclical and driven by the balance of supply and demand in the market. Price cycles are generated by new investments in the industry, which tend to bring onstream several large units of capacity within a short space of time, against a backdrop of slowly increasing demand. The supply/demand balance is thus usually weakened after a period of investment and prices fall. The industry is currently going through such a period of investment, spurred by the high level of prices available in the last four years. Investments made in the last four years will begin to be translated into new capacity from 2011. Supply/demand balance in the future will depend on the successful commissioning of new capacity and demand growth.

Key Phosphate Fertiliser Markets

The phosphate fertiliser industry is highly structured with the top 5 producing countries accounting for 84% of global DAP/MAP production (United States, China, Russia, Morocco and Tunisia). The key consuming countries include China, which is self sufficient, Brazil, which is a net importer, India, which imports the vast majority of its requirements, and the United States, which is largely self sufficient.

United States

The United States is the world's largest exporter of DAP/MAP despite losing market share over the last few decades, as indicated by the chart below.



The table below summarises production and consumption of phosphates in the United States.

PHOSPHATE PRODUCTION AND CONSUMPTION IN THE USA (thousand tonnes P₂O₅)

	Rock Production Product	Rock Exports Product	MGA P ₂ O ₅ Production	P ₂ O ₅ Exports Acid+Ferts	P ₂ O ₅ Imports Acid+Ferts	P ₂ O ₅ Consumption
2000	39,161	179	10,268	4,929	164	3,862
2010	24,650	0	8,057	3,167	319	3,746
2020	26,265	0	7,636	1,654	441	4,753

In 2010, two-thirds of United States DAP exports went to India. Given the likely displacement of product into India by the Ma'aden Project (see *Middle East and Israel* section below), which has significant cost advantages into the region, the United States' market share may decline further. This may be offset by exports into Brazil and higher domestic consumption.

North Africa

North Africa contains the vast majority of the world's phosphate reserves, most of which it exports. The table below summarises its production and consumption.

PHOSPHATE PRODUCTION AND CONSUMPTION IN NORTH AFRICA
(thousand tonnes P₂O₅)

	<u>Rock Production Product</u>	<u>Rock Exports Product</u>	<u>MGA P₂O₅ Production</u>	<u>P₂O₅ Exports Acid+Ferts</u>	<u>P₂O₅ Imports Acid+Ferts</u>	<u>P₂O₅ Consumption</u>
Morocco						
2000	21,568	10,488	2,731	2,595	7	90
2010	26,820	10,220	4,100	3,866	8	319
Tunisia						
2000	8,304	1,071	1,460	1,445	0	45
2010	7,200	600	1,450	1,350	0	39

Morocco has approximately two-thirds of the world's known phosphate rock resources. As such it is a long-term player and sees itself as the natural industry leader. The major producer is the state owned enterprise OCP. Rock production at OCP's mines grew by 5 million tonnes in the 10 years to 2010, all of which was processed and exported as phosphoric acid and phosphate fertilisers. OCP is implementing a number of projects for new production capacity, primarily in downstream fertilisers. These are intended to be joint venture units, however OCP indicated it will proceed on its own if suitable agreements are not forthcoming. Also OCP management was recently reported to have stated that introduction of new capacities will be matched with overall demand growth. Morocco faces competitive pressure from Vale's new rock capacity (see *Latin America* section below) and Ma'aden's new DAP capacity (see *Middle East and Israel* section below).

Russia

The Russian market for phosphate fertiliser products consumes mainly MAP and NPK products. Under the Soviet system, there was a large build-up in phosphate fertiliser supply and consumption rose to high levels. Following the political changes at the end of the 1980s, phosphate fertiliser consumption in the region, particularly in Russia, plummeted. As some phosphate fertiliser producers were able to access the export market, Russian production fell by less than consumption. Local consumption of phosphate fertilisers is still recovering from the 1990's slump, and with support from government policies, it is expected to continue to recover in coming years. Growth in P₂O₅ consumption in Russia is expected to average over 3% p.a. in the next decade, well above the global average. The table below summarises production and consumption of phosphates in Russia.

PHOSPHATE PRODUCTION AND CONSUMPTION IN RUSSIA
(thousand tonnes P₂O₅)

	<u>Rock Production Product</u>	<u>Rock Exports Product</u>	<u>MGA P₂O₅ Production</u>	<u>P₂O₅ Exports Acid+Ferts</u>	<u>P₂O₅ Imports Acid+Ferts</u>	<u>P₂O₅ Consumption</u>
2000	11,079	2,965	1,960	2,076	0	280
2010	10,829	2,150	2,528	2,124	0	533
2020	11,600	2,200	2,735	2,240	0	740

Russia has significant availability of domestic nitrogen and potash resources and by-product sulphuric acid from metals smelting operations that impart a relatively low cost on the production of phosphate fertiliser products in Russia. This ability to compete in most of the major market areas is expected to allow producers there to continue to export at current levels. However, if better margins can be obtained in the Russian domestic market, product is expected to be channelled there, particularly in the peak domestic seasons.

Most of the Russian phosphate fertiliser industry now comprises plants owned by PhosAgro and Eurochem, both of which have access to their own phosphate raw materials. Four other Russian phosphate fertiliser producers, UralChem, Rossosh, GMZ and ACRON produce phosphate fertiliser products from phosphate rock purchased from PhosAgro.

India

India is the world's largest importer of DAP/MAP due to a large agricultural market and a lack of sufficient local nutrients. It has only a small amount of low grade phosphate rock, sulphur and ammonia. In

addition to DAP/MAP, it imports phosphate rock and acid to produce fertiliser locally. The Indian government has subsidised phosphate fertilisers throughout the last two decades and for the last decade has kept the price of DAP to the Indian farmer flat at approximately US\$200 per tonne. This has led to a significant growth in phosphate fertiliser consumption, but with application rates still low by world standards, there is still a significant potential for increase.

Until recently the Indian government gave a preferential subsidy level to local DAP producers to guarantee their profitability compared to DAP importers. This led to a significant development of local DAP production capacity based on imported feedstock including phosphate rock (or phosphoric acid), sulphur and ammonia due to a lack of local reserves. Last year the new Nutrient Based Subsidy (NBS) system was introduced, which removed the preferential support for local DAP producers. This is expected to curb growth in the output of local DAP producers and consequently boost import demand for DAP and other solid phosphate fertilisers in India.

The Indian Government's subsidy is a burden on its budget and a drive towards raising farm-gate DAP prices in 2011/2012 has re-emerged. However, when the government previously tried to increase the farm-gate price almost a decade ago, it faced strong opposition. Any reaction from farmers in terms of lower offtake would be a serious threat to food security in India and would also impact negatively the outlook for phosphate fertiliser consumption.

China

China is the largest fertiliser market in the world. It is largely self-sufficient in phosphate fertiliser production. It has the second largest reserves of phosphate in the world, however the average grade is only 16.95% P₂O₅. Only 6.6% of phosphate rock in China is high grade (more than 30% P₂O₅). Low and medium grade collophanite accounts for more than 90% of total reserves. The table below summarises its production and consumption.

PHOSPHATE PRODUCTION AND CONSUMPTION IN CHINA (thousand tonnes P₂O₅)

	Rock Production Product	Rock Exports Product	MGA P₂O₅ Production	P₂O₅ Exports Acid + Ferts	P₂O₅ Imports Acid + Ferts	P₂O₅ Consumption
2000	32,434	3,447	1,750	355	2,149	8,445
2010	67,380	882	11,573	3,516	286	11,521
2020	73,880	420	13,229	2,711	180	13,380

Originally China was the world's largest importer of DAP/MAP until the mid-1990s when the Chinese government implemented a policy aimed at China becoming self sufficient in phosphate fertiliser production, based on its large phosphate rock resource base. In a decade China went from being an importer of over 5 million tonnes of (largely United States) DAP per year, to being an exporter of 2-4 million tonnes depending on the government's export duty system.

The build-up in Chinese phosphate fertiliser production in the last decade has been rapid. Phosphate rock production doubled in the 10 years to 2010, whilst MGA production increased by around 18-20% in most years. Domestic fertiliser consumption grew by a more modest 3% p.a. in the same period, which is forecast to decrease to 1.5% p.a. This rate of increase results from decreased population growth and a slowing of gains in per capita calorie consumption given it has reached a relatively high level. The continued increase in GDP growth will continue to create a shift to greater meat consumption, which results in expected fertiliser demand to grow at more than twice the rate of population growth.

With little growth in domestic demand expected, the growth in supply of 15-20% p.a. will have to be reduced, unless significantly larger export markets can be accessed. So far, the Chinese government has followed a policy of maintaining a cap on exports of P₂O₅ in order to assure sufficient product is available for the domestic market. At the beginning of 2000, the Chinese government reported that China's resources of high grade phosphate were depleting. This depletion could limit the ability of Chinese producers to make DAP of internationally accepted standards. However, given the projected widening gap between production and demand, the government could move towards a quota system rather than the current policy of having 'low tax windows' at certain times of year which allow exports to be more competitive. Alternatively, the government may decide to conserve Chinese rock resources for local consumption and continue to restrict exports.

Latin America

Brazil is one of the world's major phosphate fertiliser consumers, which also produces a significant quantity of phosphate rock and downstream products from its own domestic resources. It has a large agricultural industry, a trend towards bio-ethanol use and vast availability of additional agricultural land (even excluding the rainforest). This places it as one of the few countries with real potential for increasing land use for agriculture and it is expected to show significant growth in phosphate fertiliser demand in the coming decade. It consumes greater quantities of MAP than DAP for NPK production and application to the soybean crop. The table below summarises production and consumption of phosphates in Latin America.

PHOSPHATE PRODUCTION AND CONSUMPTION IN LATIN AMERICA (thousand tonnes P₂O₅)

	Rock Production Product	Rock Exports Product	MGA P ₂ O ₅ Production	P ₂ O ₅ Exports Acid+Ferts	P ₂ O ₅ Imports Acid+Ferts	P ₂ O ₅ Consumption
Brazil						
2000	4,725	0	923	30	1,168	2,338
2010	5,695	0	1,075	123	1,681	3,374
Peru						
2000	6	0	0	0	43	45
2010	750	650	0	0	51	96

Since the fertiliser price spike in 2008, the Brazilian government has been promoting the development of domestic phosphate rock resources. The Vale division of CVRD has taken over most of the phosphate fertiliser operations in Brazil in the last 18 months. Post Vale's purchase of the phosphate assets of Bunge and a majority stake in Fosfertil, Copebras remains the only other major producer of phosphate rock and downstream products in Brazil. There are several projects for additional capacity that Vale has acquired, which are expected to continue to increase phosphate rock production levels over the current decade.

Additionally Vale has brought onstream its 3.9mtpa phosphate rock mine in Peru, which is aimed at the export market. It has also announced a fast-track to adding a further 2mtpa to the operation within 5 years.

Middle East and Israel

The table below summarises production and consumption of phosphates in the Middle East and Israel.

PHOSPHATE PRODUCTION AND CONSUMPTION IN THE MIDDLE EAST AND ISRAEL (thousand tonnes P₂O₅)

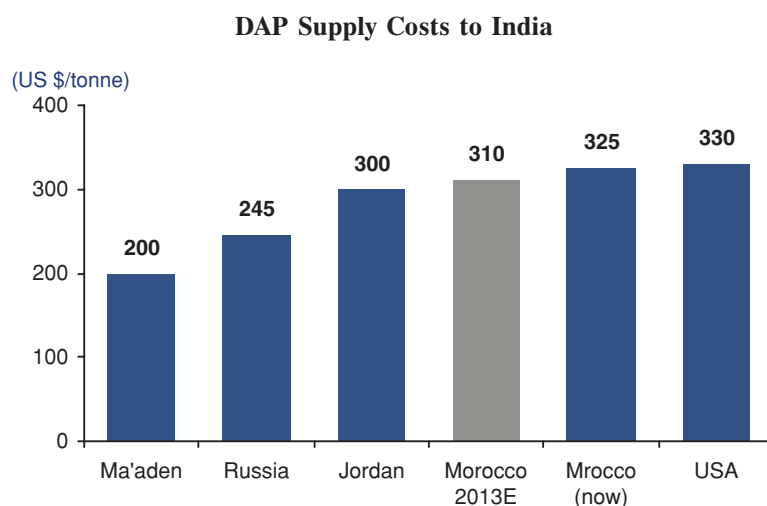
	Rock Production Product	Rock Exports Product	MGA P ₂ O ₅ Production	P ₂ O ₅ Exports Acid+Ferts	P ₂ O ₅ Imports Acid+Ferts	P ₂ O ₅ Consumption
Saudi Arabia						
2000	0	0	0	0	216	160
2010	0	0	0	0	101	146
Syria						
2000	2,166	1,595	89	0	23	125
2010	3,600	3,250	80	0	24	139
Israel						
2000	4,110	1,125	565	604	1	22
2010	2,980	760	556	492	5	23
Jordan						
2000	5,526	3,126	580	568	2	11
2010	6,310	4,300	575	529	2	45

The most significant capacity expansion in DAP/MAP is expected in Saudi Arabia. Following a 5-year construction phase, the new mine at Al Jalamid in the north of the country and plants at Ras az Zawr, just in land from Al Jubail, are nearing completion. Operations at the 2.9 million tonnes of DAP (1,850 thousand tonnes of P₂O₅) per year export complex begin this year. The Ma'aden Project is expected to

commence production early in the second half of 2011 and to ship around 1.5-2.0 million tonnes of DAP per year to India.

Ma'aden benefits from availability of low-cost natural gas, local sulphur, a good source of rock and a low freight rate to major markets in the Indian sub-continent. The capital cost of the project is estimated to be US\$5.6 billion, which makes it one of the highest capital cost facilities in terms of \$/tonne of DAP capacity.

Ma'aden will become the lowest cash cost supplier into the lucrative Indian DAP market due to its significant freight advantage and access to low cost feedstocks. The chart below illustrates costs of producing and supplying DAP from the key regions into India.



BUSINESS

Overview

The Group is a leading global vertically integrated phosphate-based fertiliser producer. The Group focuses on the production of Phosphate-Based Fertilisers, feed phosphate and high-grade phosphate rock with P_2O_5 content of not less than 39 per cent. as well as ammonia and Nitrogen-Based Fertilisers. In 2010, the Group was the largest phosphate-based fertiliser producer in Europe, the largest producer of high-grade phosphate rock (defined as phosphate rock with P_2O_5 content of not less than 35.7 per cent.) worldwide and the third largest MAP/DAP producer in the world (excluding China), according to Fertecon. The Group's reserves and resources of apatite-nepheline ore, which contains P_2O_5 , Al_2O_3 , TiO_2 (titanium oxide) and rare earth minerals, were measured by IMC as of 1 June 2011 according to the JORC Code and consisted of proved and probable reserves of 771.4 million tonnes and measured and indicated resources (inclusive of reserves) of 2,073.9 million tonnes. The Group's mines and phosphate rock production facilities are located in the mountain areas of the Kola Peninsula in the Murmansk region of North West Russia, whereas the Group's fertiliser and feed phosphate production assets are located near the city of Cherepovets in the Vologda region of North West Russia and near the city of Balakovo in the Saratov region of South East part of European Russia.

As part of its vertically integrated business model, the Group mines apatite-nepheline ore from its own mines and extracts high-grade phosphate rock from the ore at the Group's beneficiation plants. The Group then uses approximately between 50 and 60 per cent. of its phosphate rock output as a raw material to produce Phosphate-Based Fertilisers and MCP, which is a feed phosphate mainly used in the agricultural husbandry feed industry. The Group also sells phosphate rock to third parties in the domestic and European markets. In addition, the Group produces ammonia, which it uses internally principally for the production of Phosphate-Based and Nitrogen-Based Fertilisers and sells any excess to third parties. The Group also extracts nepheline concentrate from its apatite-nepheline ore and sells it to third parties for the production of alumina, cement, soda ash, potassium carbonate and gallium.

The Group's principal product groups are (i) phosphate rock, (ii) Phosphate-Based Fertilisers and feed phosphate MCP, and (iii) Nitrogen-Based Fertilisers and ammonia. These product groups accounted for 18.0 per cent., 58.7 per cent. (of which 91.0 per cent. accounted for sales of MAP/DAP/NPK) and 9.1 per cent., respectively, of the Group's external sales revenue in 2010. The Group's remaining external sales revenue principally related to the sales of nepheline concentrate (0.8 per cent. of the Group's external sales revenue in 2010), sales of electricity and heat energy (steam and hot water), sales of consulting, transportation and other services, and other sales.

The Group sells its fertilisers outside Russia through large and well-known international traders and distributors. Export sales accounted for 81.9 per cent. of the Group's fertiliser and feed phosphate sales in 2010, with the Group's fertilisers and feed phosphate exported to more than 60 countries. The principal export markets for the Group's fertiliser products are South Asia, Latin America and West Europe. The Group sells phosphate rock outside Russia directly to end customers in Europe. In 2010, export sales of the Group's phosphate rock accounted for 42.4 per cent. of the Group's external phosphate rock sales. Overall, export sales accounted for 65.1 per cent. of the Group's total sales in 2010. Most of the sales of the Group's fertilisers in Russia are made directly to end customers through the Group's domestic distribution platform comprising seven distribution centres located in the major agricultural regions of Russia. The Group also sells third-party fertilisers domestically through its distribution network. Most of the sales of the Group's phosphate rock in Russia are made directly to end customers outside of the Group's distribution network. In 2010, domestic sales of fertilisers and feed phosphate accounted for 18.1 per cent. of the Group's fertiliser and feed phosphate sales, while domestic phosphate rock sales accounted for 57.6 per cent. of the Group's external phosphate rock sales. Overall, domestic sales accounted for 34.9 per cent. of the Group's total sales in 2010.

In 2010, the Group had a total revenue of 77.0 billion roubles, adjusted EBITDA of 20.5 billion roubles and profit for the year of 12.0 billion roubles. The Group's adjusted EBITDA margin and profit margin were 26.6 per cent. and 15.6 per cent., respectively, in that year. In the three months ended 31 March 2011, the Group had a total revenue of 24.5 billion roubles, adjusted EBITDA of 9.1 billion roubles and profit for the period of 6.2 billion roubles. The Group's adjusted EBITDA margin and profit margin were 37.2 per cent. and 25.5 per cent., respectively, in that period.

History and Development of the Business

Current Corporate Status

The Company was incorporated on 10 October 2001 in Russia as the holding company for the operations of the Group. The operations of the Group are carried out through subsidiaries of the Company. For additional information on the Group's current corporate structure and its principal subsidiaries see “—Organisational Structure of the Group”. The Company is privately-owned. See “Principal and Selling Shareholders” for information on the Company's ownership structure.

Group's Key Development Stages

The Group's principal mining and production facilities were founded and developed as state-owned enterprises during the Soviet era. In the early 1990s, most of these enterprises were privatised. The following paragraphs describe the key development stages of the Group.

- In 2001-2002, as part of its vertical integration strategy, the Company acquired initial stakes in OJSC Apatit (“**Apatit**”), which mines apatite-nepheline ore and produces phosphate rock and nepheline concentrate, OJSC Ammophos (“**Ammophos**”) and Balakovo Mineral Fertilizers LLC (“**BMF**”), which produce Phosphate-Based Fertilisers from the phosphate rock produced by Apatit, and OAO Voskresensk Mineral Fertilisers, which produces MAP and DAP and was sold in 2006 as part of the Group's strategy to focus on modernising and expanding the Group's other existing MAP/DAP production capacities. The initial stakes in Apatit and BMF were contributed to the share capital of the Company at its incorporation by its founders in exchange for the Company's shares. During 2002, the Company increased its stakes in Apatit, Ammophos and BMF to achieve controlling interests by acquiring shares in these companies from various foreign and Russian investors, including the Company's shareholders.
- In 2002, the Group commenced a modernisation programme at Ammophos (the “**2002 Ammophos Modernisation Programme**”) which envisioned replacing existing sulphuric acid production lines with more technologically advanced lines in order to increase production capacity and efficiency, modernising existing phosphoric acid production lines to increase capacity, modernising fertiliser production lines to make them capable of producing various types of fertilisers on the same production line, increasing Phosphate-Based Fertiliser production capacity from 1.9 million tonnes per year to 2.6 million tonnes per year, and constructing an electricity production plant powered by steam generated from sulphuric acid production.
- In 2002, BMF commenced the production of feed phosphate MCP.
- In 2003, the Group launched the first of the four new sulphuric acid production lines at Ammophos as part of the 2002 Ammophos Modernisation Programme.
- In 2005-2006, the Group acquired a 61.8 per cent. interest in JSC Cherepovetsky Azot (“**Cherepovetsky Azot**”), which produces ammonia, ammonium nitrate and ammonium nitrate-based fertilisers, in order to enhance the Group's vertically integrated model as ammonia is used in the production of Phosphate-Based Fertilisers and to offer Group's customers a wider fertiliser product line.
- In 2006, the Group commenced a capacity expansion and modernisation programme at BMF (the “**BMF Modernisation Programme**”) which envisioned product range expansion, modernising fertiliser production lines to make them capable of producing various types of fertilisers on the same production line, increasing phosphoric acid production capacity by approximately 27 per cent. to 760 thousand tonnes per year and fertiliser production capacity by approximately 25 per cent. to 1,100 thousand tonnes per year, and doubling the power plant capacity to 49 MW. In addition to the BMF Modernisation Programme, in 2008 the second MCP production line became operational at BMF increasing the Group's MCP production capacity from 80 thousand tonnes per year to 240 thousand tonnes per year.
- In 2008, as part of its vertical integration strategy, the Group acquired PC Agro-Cherepovets LLC (“**Agro-Cherepovets**”), which produces urea from the ammonia produced by Cherepovetsky Azot.
- In 2008, the Group commenced a new modernisation programme at Ammophos (the “**2008 Ammophos Modernisation Programme**”) aimed at increasing phosphoric acid and fertiliser production capacities by approximately 13 per cent.

- In 2009, as part of the 2002 Ammophos Modernisation Programme, the last of the four new sulphuric acid production lines at Ammophos became operational, which made Ammophos the largest sulphuric acid production facility in Europe according to the European Commission.
- In 2010, the production facilities modernisation and capacity expansion part of the 2001/2008 Ammophos Modernisation Programmes and the BMF Modernisation Programme were substantially completed. In 2011, the Group plans to complete the infrastructure upgrade programme at BMF, which includes the improvement of BMF's railway and road transportation facilities and the construction of a transportation infrastructure within BMF.
- In 2009, the Group also commenced the construction of a new urea plant at Cherepovetsky Azot, which is expected to be completed in 2012. This new plant will utilise excess ammonia produced by the Group as part of the Group's vertical integration strategy.

Competitive Strengths

The Group's management believes that the Group's principal strengths and competitive advantages include:

The Group Benefits from Strong Industry Fundamentals

The Group's management believes that the Group is well positioned to benefit from the strong fundamentals of the Russian fertiliser industry as well as the global fertiliser industry, which, to a large extent, is driven by the growth of emerging economies. According to Fertecon, the global phosphate fertiliser demand is projected to grow by 2.0 per cent. per year on average for the next five years.

- **Short-term demand is driven by higher agricultural commodity prices and increased availability of credit.** The current improved economic environment and higher agricultural commodity prices following the global economic downturn provide a favourable background for investment in fertilisers by farmers and growers. Demand and prices for fertilisers are supported by farmers' and growers' improved access to funding as a result of higher agricultural commodity prices and increased availability of credit. This has led to a rapid recovery in demand for fertilisers and is expected to drive the short-term demand for fertilisers.
- **Macroeconomic drivers support long-term fertilisers demand.** The long-term demand growth for fertilisers is expected to principally result from the need to increase production of grains, fruits and vegetables primarily due to the world's fast-growing population, which is projected to increase by 11.1 per cent. by 2020 as compared to 2010, according to the United Nations, with the majority of growth coming from the emerging market countries. In addition, an increase in income, especially in emerging markets such as China and India, is leading to changes in dietary habits. Rising prosperity results in higher consumption of meat, which in turn results in increased demand for fertilisers (due to higher demand for crops used as feed for livestock) and feed phosphates. According to the Food and Agriculture Organisation of the United Nations, world meat consumption is projected to grow by 1.9 per cent. per year on average until 2020, while emerging market countries meat consumption is projected to grow by 2.4 per cent. per year on average during the same time. In light of the limited ability to expand existing arable land (Fertecon), in order to achieve production increases it will be necessary to increase yields on the existing fields, which is also expected to increase demand for fertilisers. Furthermore, using arable land of relatively low quality would stimulate use of phosphate as a major nutrient securing crop resistance against adverse market conditions.

The Group's Vertically Integrated Business Model Provides it with Significant Advantages over its Competitors

The operations of the Group benefit from substantial vertical integration. The Group's phosphate-based fertiliser production operations are integrated with mining of apatite-nepheline ore, production of high-grade phosphate rock and production of key feedstock including phosphoric acid, sulphuric acid and ammonia. Based on the 2010 production volumes, the Group was fully self-sufficient in phosphate rock, phosphoric acid and sulphuric acid, and 94 per cent. self-sufficient in ammonia. In addition, the Group's Ammophos, Cherepovetsky Azot and Agro-Cherepovets production facilities are all located in the city of Cherepovets and are part of an integrated production complex that allows the Group to benefit from operational synergies as well as economies of scale. The relatively high level of vertical integration provides the Group with several significant advantages as compared to its principal competitors.

- **Raw materials price stability.** Phosphate-based fertiliser producers that do not have their own raw materials base tend to experience significant difficulties when the prices of raw materials they consume, in particular phosphate rock, increase faster than the prices of their products and may have to stop production altogether when prices for raw materials are particularly high relative to the prices of their products. In contrast, the existence of its own raw materials base provides the Group with a cushion from the impact of fluctuations in prices of raw materials on the Group's margins. In addition, the Group's downstream operations provide a more stable source of demand for companies located further upstream, thereby enhancing the stability of their operations.
- **Sales flexibility.** Due to the excess of the Group's phosphate rock production capacity over the demand for phosphate rock from the Group's companies, the Group has additional operational and sales flexibility (subject to the Group's obligations to sell phosphate rock to certain parties due to its dominant market position, see "*Risk Factors—Risks Related to the Group's Business and Industry—The Group company Apatit may be characterised as a natural monopoly in the future and therefore may be exposed to various regulatory risks including state regulation of prices for its products*"). The Group can either use the maximum possible amount of phosphate rock to produce fertilisers, particularly when prices of fertilisers are high relative to phosphate rock prices, or sell more phosphate rock externally and accordingly reduce the amount of fertilisers produced by the Group (subject to operational constraints) when fertiliser prices are low relative to phosphate rock prices. Such flexibility is important for the Group because the production of phosphate rock by the Group does not need to be constrained when fertilisers markets are subdued.
- **High quality own raw materials.** The presence of its own high quality phosphate rock allows the Group to limit key inputs into the production process to phosphate rock with known and desirable qualities, which helps the Group to achieve and maintain high quality of its products.

The Group Has a High-Quality Complex Own Ore Reserve Base

- **Significant apatite-nepheline ore reserves base.** The Group's reserves and resources of apatite-nepheline ore, measured as of 1 June 2011 according to the JORC Code, consisted of proved and probable reserves of 771.4 million tonnes and measured and indicated resources (inclusive of reserves) of 2,073.9 million tonnes, according to IMC. The Group's apatite-nepheline ore contains P_2O_5 , Al_2O_3 , TiO_2 (titanium oxide) and rare earth minerals. The average P_2O_5 and Al_2O_3 content of the Group's reserves is 14.01 per cent. and 13.99 per cent., respectively, and the average P_2O_5 , Al_2O_3 and rare earth oxides content of the Group's resources is 15.06 per cent., 13.54 per cent. and 0.36 per cent., respectively, according to IMC. The Group's existing resources base allows it to maintain production of high grade phosphate rock for approximately 75 years based on current extraction volumes. Rich in different minerals, the Group's apatite-nepheline ore includes over 280 million tonnes of Al_2O_3 (aluminium oxide) resources as well as approximately 41 per cent. of the Russian total rare earth resources and other useful elements such as titanium dioxide and approximately 96 per cent. of such developed Russian resources and elements, according to The Institute of Economic Problems, Kola Science Center, Russian Academy of Sciences named after G.P. Luzin. The Group's management believes that the fact that the Group's apatite-nepheline ore contains not only P_2O_5 but also Al_2O_3 , TiO_2 (titanium oxide) and rare earth minerals provides the Group with an opportunity to decrease the cost of phosphate rock production by increasing production of nepheline concentrate and products from TiO_2 and rare earth minerals and allocating mining costs to the entire product mix.
- **High quality apatite-nepheline ore.** The Group's reserves, which are of igneous origin, benefit from low content levels of hazardous metals such as cadmium, arsenic, mercury and lead, and the lowest radioactivity level compared to other major global phosphate rock producers, according to Fertecon. As a result, the Group enjoys a significant competitive advantage in markets with stringent requirements regarding hazardous metals and radioactivity content levels in Phosphate-Based Fertilisers and feed phosphates. In addition, the Group's reserves comprise rare earth compounds including rare earth oxides, strontium, rubidium, caesium and gallium, some of which are suitable for development for commercial production.
- **Full self-sufficiency in phosphate rock and scalable merchant phosphate rock business.** The Group's phosphate rock benefits from high P_2O_5 content level (in excess of 39 per cent., which is amongst the highest in the world). The Group's management believes that the high quality of the Group's phosphate rock allows the Group's phosphate rock consumers to achieve higher output and potentially lower marginal costs as compared to using phosphate rock supplied by some of the other

phosphate rock producers, which normally results in a price premium for the Group's phosphate rock. As a result, the Group benefits from a considerable international merchant phosphate rock business targeting premium clients in Europe such as YARA and BASF.

The Group Benefits from a Sustainable Low-Cost Advantage

The Group's management believes that the Group currently benefits from relatively low raw materials and logistics and transportation costs compared to some of its competitors due to access to low-cost feedstock, in particular phosphate rock, natural gas and sulphur, and cost-efficient logistics and transportation. Approximately 70 per cent. of the Group's DAP production cash costs are attributable to phosphate rock and ammonia, both of which are produced within the Group.

- **Access to low-cost feedstock.** The Group benefits from access to low-cost phosphate rock, natural gas and sulphur. The Group purchases natural gas primarily from LLC Gazprom Mezhhregiongaz Vologda (a subsidiary of Gazprom). The Russian Government sets the prices for the natural gas that Gazprom sells in Russia and despite recent price increases, natural gas prices in Russia still remain significantly below those of Western Europe and North America. The Group purchases sulphur primarily from various natural gas suppliers in Russia as sulphur is a by-product resulting from natural gas purification. As a result, the Group's cost of sulphur is relatively low compared to some of the Group's competitors. In addition, the Group has an alternative to satisfy up to 20 per cent. of its sulphuric acid requirements with purchases from Russian non-ferrous metals producers and petro-chemical producers at relatively low cost as sulphuric acid is often a by-product of non-ferrous metal production and petro-chemicals production processes and non-ferrous metals producers and petro-chemical producers dispose of it as waste. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group's production costs may increase*" and "*Risk Factors—Risks Related to the Group's Business and Industry—The Group is dependent on a limited number of suppliers, some of which are natural monopolies or have a dominant market position, and may be subject to increased costs of raw materials and supply disruptions*".
- **Cost-efficient logistics and transportation.** Transportation costs are a significant component of fertiliser prices and fertiliser selling expenses. The Group benefits from well developed rail links and integrated cost-efficient logistics and transportation. Raw materials are principally delivered to the Group's processing and production facilities by rail. The delivery of the Group's products to customers domestically in Russia is principally done by rail, while the delivery of the Group's products to customers abroad is primarily done by rail with subsequent shipment by sea. The Group seeks to reduce its transportation costs by minimising empty runs of its railcar fleet. In particular, the Group's phosphate rock production facilities are located near the Murmansk port, through which the Group exports a large portion of its fertilisers. As a result, the Group is able to reduce its transportation costs by using the same railcars to transport phosphate rock from the Group's phosphate rock production facilities to the Group's fertiliser production facilities and to transport fertilisers from the Group's fertiliser production facilities to the Murmansk port. See "*Operations—Transportation*". In addition, close proximity of the Group's fertiliser production facilities to the core agricultural regions of Russia enables the Group to optimise its domestic transportation costs. Furthermore, Ammophos owns and operates a river port on the Sheksna river, which allows it to receive certain raw materials and ship some of its products by river during navigable periods.

The Group Benefits from a Flexible MAP/DAP/NPK/NPS Production Model Combined with a Flexible Sales Strategy

The Group's management believes that the ability of some of the Group's fertiliser production lines to switch production between MAP/DAP/NPK/NPS combined with a flexible sales and marketing strategy enables it to optimise netback prices (selling prices less selling costs) and achieve high utilisation rates at its production facilities.

- **Flexible production model.** The Group's ability to switch production between various types of Phosphate-Based Fertilisers in response to changes in market demand and price trends allows the Group to pursue a flexible sales strategy focusing on markets which offer the best netback prices. In contrast to some of its competitors whose production facilities are only capable of producing a particular type of fertilisers, the Group benefits from the flexibility to switch its phosphate-based fertiliser production capacities at Ammophos between DAP, MAP, NPK and NPS and at BMF between DAP, MAP and NPS in response to market conditions. The Group's management believes

that this allows the Group to improve its profit margins while maintaining high utilisation rates. For example, during the market turmoil in 2009, many of the Group's competitors suffered from a sharp decrease in global demand for MAP, whereas the Group was able to switch production of MAP to DAP when demand for DAP was stronger, and as a result maintain high utilisation levels at its plants.

- **Flexible sales strategy.** The Group distributes its products outside Russia principally through large and well-known independent traders and distributors. As the Group does not operate own distribution platform outside Russia and is therefore not tied to any particular export market, the Group is able to sell its products based on the best netback price that the Group can obtain for its products. As a result of this flexible sales strategy supported by its flexible production model, the Group has been able to maintain a weighted average utilisation rate at its fertiliser production facilities of over 90 per cent. during 2008-2010.
- **Long-term supply agreement with India mitigates volume volatility.** India is one of the largest and fastest growing consumers of Phosphate-Based Fertilisers and is an important market for the Group. In 2010, the Group entered into a frame agreement with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited for the supply of up to 1 million tonnes of DAP per year during 2010-2013 at a formula-based price linked to FOB Tampa price. See "*Material Contracts—Frame agreement with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited*". The Group's management believes that this agreement allows the Group to mitigate volatility of its fertiliser sales by seeking to ensure relatively stable sale volumes to India.

The Group Benefits from Globally Diversified Sales and a Strong Own Domestic Distribution Network

The Group's management believes that the Group benefits from globally diversified sales and a strong own domestic distribution network.

- **Globally diversified sales and established presence in key global markets.** The Group distributes its products globally through large and well-known independent traders and distributors, through which the Group has access to major fertiliser markets. The Group has a policy of having representation through at least two trader/distributors in each country where it sells its fertilisers. The Group exports its fertilisers to key global markets such as Asia (excluding China), Europe, Africa and Latin America. In 2010, the Group's market shares in the overall imports of DAP to these regions were 10 per cent., 12 per cent., 25 per cent. and 14 per cent., respectively, according to Fertecon.
- **Strong domestic distribution network and transport and logistics platform.** On the domestic market, the Group has its own distribution network consisting of seven distribution centres located in the major agricultural regions of Russia which account for approximately 70 per cent. of the domestic demand for MAP and NPK (the most popular phosphate-based fertilisers in Russia). In addition, the Group owns and operates approximately 1,900 railcars and leases and operates approximately 1,700 additional railcars from third-party transportation companies, which facilitates uninterrupted deliveries of the Group's products to its distribution centres. A strong domestic transportation and logistics platform provides the Group with a greater degree of control over transportation and logistics, which the Group's management believes helps the Group to maintain a reputation as a reliable supplier. The Group's management believes that the Group's large domestic distribution network, strong logistics and transportation network, and regional storage facilities, which allow the Group to supply large amounts of fertilisers on the domestic market and offer custom-made fertiliser mixes tailored to various crops and soil types, provide the Group with a strong competitive advantage in the Russian fertiliser market.

The Group Is Well Positioned to Benefit from the Significant Growth Potential of the Russian Fertiliser Market

The Group is the leading Russian Phosphate-Based Fertiliser producer, according to Fertecon. In addition, the Group's management believes that the Group has the largest retail fertiliser distribution network in Russia and that, as a result of these factors, the Group is well positioned to benefit from the significant growth potential of the Russian fertiliser market.

- **Established market leader in Russia.** Russia is the largest market for the Group, accounting for 27.5 per cent. of the Group's fertiliser and feed phosphate sales in 2010. According to ChemExpert, the Group is the largest MAP producer in Russia with a market share of 52 per cent. (the second largest producer's market share is 21 per cent.) and the largest NPK producer in Russia with a market share of 44 per cent. (the second largest producer's market share is 19 per cent.). MAP and NPK are

the most popular phosphate-based fertiliser products in Russia. In addition, the Group is the only producer of feed phosphate MCP in Russia.

- **Access to end customers in Russia.** The Group's management believes that the Group has the largest retail fertiliser distribution network among all Russian fertiliser producers covering key agricultural regions and provides a full range of services to farmers including fertiliser storage, blending and transportation. In addition, the Group owns and operates approximately 1,900 railcars and leases and operates approximately 1,700 additional railcars from third-party transportation companies, which facilitates uninterrupted deliveries of the Group's products to its distribution centres. The Group's management believes that having a captive retail fertiliser distribution network helps the Group to maintain its market share in Russia.
- **Significant growth potential of the Russian fertiliser market.** Consumption of fertilisers in Russia is significantly below the world average and has been increasing at an average annual rate of over 5 per cent. during 2002-2010, according to the International Fertilizer Industry Association ("IFA"). The Russian Ministry of Agriculture has declared development of the Russian agricultural industry as one of the top priorities and announced planned state spending on the agricultural industry in excess of 4 billion dollars for 2011 and 2012.

The Group Has One of the Largest Internal Power Generation Capacities among Russian Fertiliser Producers

Since 2003, the Group has been implementing a power generation and saving programme to reduce the Group's reliance on third-party energy suppliers by constructing at Ammophos and BMF power generation facilities that produce electricity utilising steam generated from sulphuric acid production. In addition, Ammophos and BMF produce electricity and heat using steam-powered turbines. As a result, Ammophos is fully energy self-sufficient and also sells energy to third parties, while BMF produces enough energy to satisfy approximately 70 per cent. of its energy requirements. Overall, the Group is more than 32 per cent. energy self-sufficient.

The Group Has a Strong and Experienced Management Team with Proven Track Record

The Group has a strong and experienced senior management team, which has detailed knowledge of, and experience in, the fertiliser industry and provides the Group with the skills and expertise required to implement its strategy. The Group's management team combines extensive industry and marketing experience with financial and management expertise. The Group's management team has an average of 21 years of service with the Group's assets and has contributed significantly to the growth of the Group's business and its financial performance. The Group's senior management has an impressive track record of executing the Group's strategy as evidenced by the implemented expansion and modernisation of key feedstock (ammonia and sulphuric and phosphoric acid) production facilities, successful integration of higher valued-added operations such as for example the urea producer Agro-Cherepovets and successful launch of the first feed phosphate MCP production line in Russia. In addition, during the period of sharp decline in fertiliser demand during the recent global economic downturn, the Group's management was able to secure a long-term frame supply agreement with India, as described above and maintain high and stable capacity utilisation rates in comparison to its peers. For further details concerning the Group's management, see "*Directors, Management and Corporate Governance—Senior Managers*".

Strategy

The Group's short-term strategy focuses on optimising the Group's profit margins. In order to achieve this objective, the Group plans to implement the following initiatives.

The Group plans to implement the following projects at BMF:

- BMF uses a technology developed by the Group that allows it to satisfy up to 5 per cent. of its phosphate rock requirements with low-grade phosphate rock (P_2O_5 content of approximately 25 per cent.) purchased from a third party, which is less valuable than the phosphate rock produced by the Group. The Group plans to increase the share of third party phosphate rock that BMF can use to 15 per cent. by the second half of 2011, which is expected to result in the capital expenditure of approximately 106 million roubles. The project is at the preliminary stage and no capital expenditure has been incurred yet; and
- the Group plans to increase MCP production capacity from 240 thousand tonnes per year currently to 320 thousand tonnes per year by 2015, which is expected to result in the capital expenditure of

approximately 600 million roubles. The expansion of the Group's MCP production capacity may be carried out either at BMF or other production sites of the Group. The project has not been commenced and no capital expenditure has been incurred yet.

The Group plans to implement the following project at Ammophos:

- by 2012, the Group intends to modernise the fourth MAP/DAP production line to make it capable of producing MAP, DAP or NPK, which is expected to result in the capital expenditure of approximately 30 million roubles. The project is at the initial stage and no capital expenditure has been incurred yet.

The Group plans to implement the following projects at Cherepovetsky Azot:

- as part of the Group's vertical integration strategy, in 2009 the Group commenced the construction of a new urea plant at Cherepovetsky Azot in order to increase the internal Group consumption of the ammonia produced by the Group. The new plant is expected to be completed in 2012, have an urea production capacity of 500 thousand tonnes per year, and is expected to require capital expenditure in the amount of 4,988 million roubles, of which approximately 36.6 per cent. has been spent as of 31 March 2011; and
- in connection with the new urea plant, during 2009-2012 the Group also plans to build at Cherepovetsky Azot a new electricity generation facility powered by natural gas with a power generation capacity of 32 MW at an estimated cost of 2,132 million roubles, of which approximately 20.9 per cent. has been spent as of 31 March 2011.

In addition, the Group currently owns and operates approximately 1,900 railcars, and leases and operates approximately 1,700 additional railcars from third-party transportation companies. The Group also uses on a trip-by-trip basis approximately 2,600 cargo railcars. In order to mitigate reliance on third-party railcar providers, the Group plans to increase its owned railcar fleet by 500 units by the end of 2011 which is expected to result in the capital expenditure of approximately 933 million roubles, none of which has been incurred as of 31 March 2011.

The Group's key long-term strategic objectives are to reinforce its position as a global leading integrated producer of fertilisers and to enhance overall value for its shareholders. To achieve these objectives, the Group intends to pursue the following long-term strategies.

Increase Fertiliser and Feed Phosphate Production Capacities

The Group's phosphate rock production capacity exceeds its internal consumption of phosphate rock. In 2010, 54.2 per cent. of the Group's phosphate rock was consumed internally and the remainder was sold to third parties. The Group plans to increase its fertiliser and feed phosphate production capacities and the share of internal phosphate rock consumption in order to capture profit margins throughout the fertiliser production chain. As part of this strategy, the Group is considering the construction of a new integrated DAP/MAP production facility close to the Group's phosphate rock production facilities near the city of Kirovsk and close to the Murmansk port, which would significantly reduce the Group's transportation costs. The implementation of this project is subject to the development of the Shtockman gas field, which is not expected to commence until 2018, as it will be the only source of gas in the region.

Utilise the Full Potential of the Group's Apatite-Nepheline Ore Reserves Base through Increased Production of Nepheline Concentrate and Extraction of Rare Earth Minerals

The Group sells all of its nepheline concentrate to the Basel Cement Pikalevo plant. The plant was built during the Soviet era as part of the Pikalevo production complex that principally produced alumina, cement, soda ash and potassium carbonate from nepheline concentrate. However, in the early 2000s the complex was split into three entities which produce alumina (Basel Cement Pikalevo), cement (Eurocement), and soda ash and potassium carbonate (CJSC Pikalevskaya Soda). Nepheline concentrate generally needs to be processed into all major products of the former production complex (alumina, cement, and soda ash and potassium carbonate) in order for the process to be economically justifiable. In recent years, Basel Cement Pikalevo decreased its alumina production volumes as a result of changes in production policies of its main customer, Rusal. As a result, purchases of the Group's nepheline concentrate by Basel Cement Pikalevo declined, which resulted in the relatively low utilisation of the Group's nepheline concentrate production capacity in 2008 and 2009 compared to prior years.

The Group is considering a joint venture with Basel Cement Pikalevo (which produces alumina from the Group's nepheline concentrate) pursuant to which the Group's nepheline concentrate would be used to

produce alumina, cement, and soda ash and potassium carbonate at CJSC Pikalevskaya Soda's and Basel Cement Pikalevo's production facilities after they are modernised. To that effect, in June 2011, the Group company BMF acquired a 24.0 per cent. stake in CJSC Metachem and a 20.85 per cent. stake in CJSC Pikalevskaya Soda (approximately 80 per cent. of which is owned by CJSC Metachem). CJSC Metachem has two production sites in Russia, one of which is the production site that belongs to CJSC Pikalevskaya Soda. Located in Pikalevo, CJSC Pikalevskaya Soda is technologically interrelated with Basel Cement Pikalevo and produces soda ash and potash, which is mainly supplied to Metachem's other production site. Metachem produces, among other things, sulphuric acid and phosphoric acid used for the production of STPP, which is used in the production of detergents and various other products, and SOP, a fertiliser. CJSC Metachem purchases approximately 240 thousand tonnes of phosphate rock annually from the Group. In addition, on 26 April 2011, the Group signed an agreement with a Danish engineering company pursuant to which the parties intend to develop energy-efficient technology of nepheline concentrate processing, which is expected to be used when constructing new and modernising the existing CJSC Pikalevskaya Soda's and Basel Cement Pikalevo's production facilities.

According to The Institute of Economic Problems, Kola Science Center, Russian Academy of Sciences named after G.P. Luzin, the Group's ore resources account for approximately 41 per cent. of the Russia's total rare earth resources and approximately 96 per cent. of such developed resources in Russia. The Group is currently conducting research and development activities aimed at developing production processes for the extraction of rare earth minerals from the Group's apatite-nepheline ore. This project is a long-term initiative and is presently in the preliminary stage.

Continue To Improve Operational Flexibility and Efficiency

The Group intends to continue to seek areas of potential improvements in flexibility and efficiency with a view to enhance profitability. For example, by 2012 the Group plans to improve the efficiency of its ammonia plant at Cherepovetsky Azot in order to increase ammonia production capacity by approximately 15 per cent. from 1.0 million tonnes per year in 2006 to 1,150 thousand tonnes per year in 2012 and to decrease gas consumption per tonne of ammonia by approximately 11 per cent. from 1,236 cubic metres in 2006 to 1,100 cubic meters in 2012, which is expected to result in the capital expenditure of approximately 2,366 million roubles, of which approximately 43.1 per cent. has been spent as of 31 March 2011.

Diversify the Group's Product Portfolio by Adding Industrial Phosphates such as Purified Phosphoric Acids

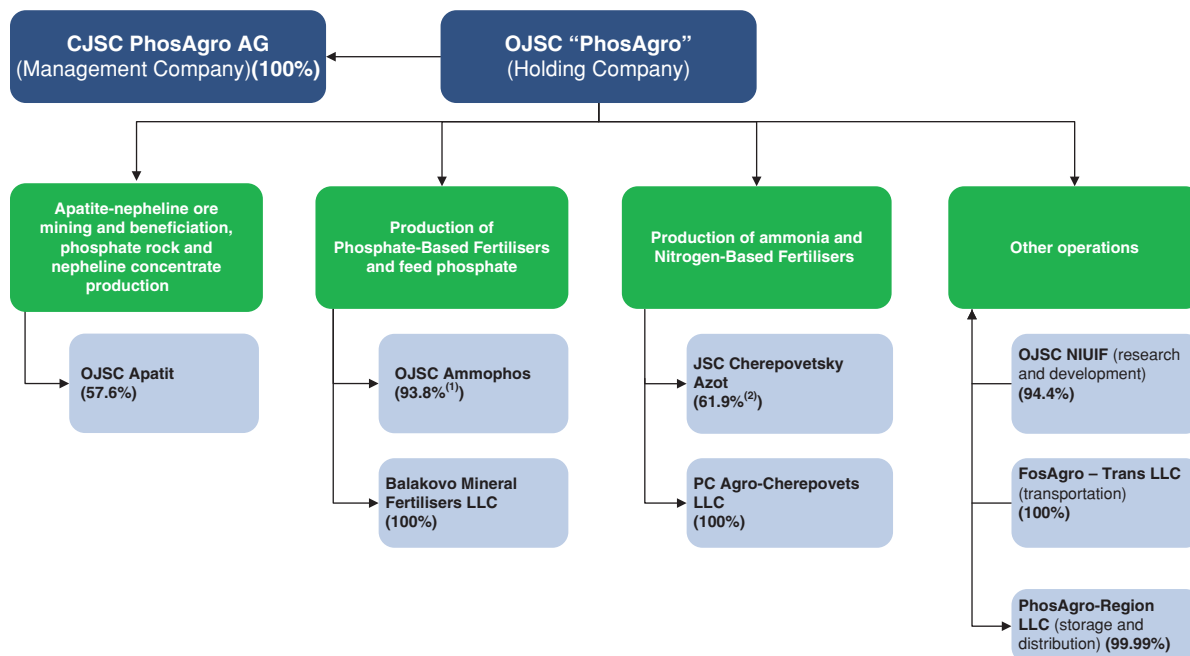
In 2012, the Group plans to construct a new purified phosphoric acid production facility with an annual capacity of approximately 20 thousand tonnes of P_2O_5 , which is expected to result in capital expenditure of approximately 900 million roubles, of which approximately 7.6 per cent. has been spent as of 31 March 2011. Purified phosphoric acids are not currently produced in Russia and have various applications including production of food products and household chemicals.

Pursue a Selective Acquisition Strategy Focused on Synergies with the Group's Existing Asset Base

The Group intends to pursue strategic acquisitions on an opportunistic basis. In identifying acquisition targets, the Group will primarily consider downstream assets that are suitable for integration with the Group's existing operations, are complementary to the Group's existing product range and flexibility of production, and provide synergies with the Group's existing operations.

Organisational Structure of the Group

The following chart sets forth the Group's organisational structure as of the date of this Prospectus. The chart provides information in respect of the Company's principal subsidiaries and sets forth the Group's ownership of the subsidiaries' share capital. The Company holds 100 per cent. of the share capital of PhosAgro AG, which is the management company for the Group.



- (1) Remaining 6.2 per cent. is owned by other minority shareholders as Ammophos is a public company in Russia.
- (2) The Group companies own 63.3 per cent. of the voting stock, or 61.9 per cent. of the share capital, of Cherepovetsky Azot. According to the information in the public domain, affiliates of CJSC Sibur Holding, a Russian petrochemicals producer, control 28.1 per cent. of the voting stock, or 26.3 per cent. of the share capital, of Cherepovetsky Azot. Approximately 7.0 per cent. of the voting stock and 9.4 per cent. of the preferred shares of Cherepovetsky Azot, which in the aggregate represents 7.3 per cent. of the share capital of Cherepovetsky Azot, is owned by PhosInt Limited (49 per cent. of PhosInt's share capital is owned by the Group), whereas the remaining 1.6 per cent. of the voting stock and 24.6 per cent. of the preferred shares of Cherepovetsky Azot, which in the aggregate represents 4.4 per cent. of the share capital of Cherepovetsky Azot, is owned by other minority shareholders as Cherepovetsky Azot is a public company in Russia. In addition, the Company entered into several put-call agreements with PhosInt Limited, pursuant to which PhosInt has the right and the obligation to sell and the Company has the right and the obligation to buy 561,000 ordinary and 106,000 preferred shares of Cherepovetsky Azot, representing 7.0 per cent. and 9.4 per cent. of the outstanding shares of the relevant class for a fixed consideration of 570 million roubles.

As of the date of this Prospectus, the Group owns 50.0 per cent. of the ordinary shares and 80.2 per cent. of the preferred shares of Apatit, which in the aggregate represents 57.6 per cent. of the share capital of Apatit, while the Russian Government owns 26.7 per cent. of the ordinary shares, or 20.0 per cent. of the share capital, of Apatit. In addition, Apatit belongs to a category of entities where the Russian Government retained special voting rights following the entity's privatisation (a so called "golden" share). These rights include the right to appoint one representative of the Russian Government to the entity's Board of Directors and the audit committee, the right to call extraordinary general shareholders' meetings and the veto voting right in respect of changes to the entity's charter, reorganisation or liquidation, change to the entity's share capital, and approval of major and interested party transactions.

In addition to the special rights that the Russian Government has in connection with the "golden" share, due to the fact that under Russian corporate law decisions in respect of certain matters, including the matters described above, require a 75 per cent. vote, the Russian Government also has a veto voting right in respect of the above listed matters as a result of its 26.7 per cent. ownership of the Apatit's voting stock. Furthermore, under Russian corporate law, 26.7 per cent. ownership of the Apatit's voting stock entitles the Russian Government to elect two members to the Apatit's seven-member Board of Directors, which, combined with its right to appoint one representative of the Russian Government to the Apatit's Board of Directors pursuant to the "golden" share, allows the Russian Government to elect three members to the Apatit's seven-member Board of Directors.

In addition, Apatit is on the list of companies covered by the Russian Government privatisation plans for 2011-2013 that was ratified in November 2010. In April 2011, the Company made a proposal to the Russian Government to perform a share swap pursuant to which the Russian Government would exchange its stake in Apatit for shares in the Company. In June 2011, the Company received a response from the Ministry of Economic Development of the Russian Federation in which the Ministry declined the Company's proposal. In its response, the Ministry noted that it generally seeks to privatise its stake in Apatit in a manner that

would not result in the Government acquiring shares in another entity. The Ministry also indicated that the Government's stake in Apatit will likely be privatised, and the proceeds from such privatisation to be received in the federal budget, in 2011. The Ministry will determine its approach to privatising its stake in Apatit through consultation with financial advisors from a government approved list. If the Russian Government privatises its stake in Apatit, it is expected that it will still retain the "golden" share and, as a result, the rights associated with the "golden" share, as described above. In the event the Russian Government conducts an auction in respect of its stake in Apatit, the Group intends to participate in such auction. See *"Risk Factors—Risks Related to the Group's Business and Industry—The Group is exposed to risks relating to the Russian Government's participation in Apatit"*.

According to the information in the public domain, 10.3 per cent. of the voting stock, or 7.7 per cent. of the share capital, of Apatit is controlled by OJSC NORDIC RUS HOLDING; 6.9 per cent. of the voting stock, or 5.2 per cent. of the share capital, of Apatit is owned by the company Lacerta; and the remaining 6.1 per cent. of the voting stock, or 9.5 per cent. of the share capital, of Apatit is owned by other minority shareholders as Apatit is a public company in Russia.

Operations

Overview

The Group's operations comprise apatite-nepheline ore mines, phosphate rock and nepheline concentrate beneficiation plants as well as Phosphate-Based Fertilisers, feed phosphate, Nitrogen-Based Fertilisers and ammonia production facilities.

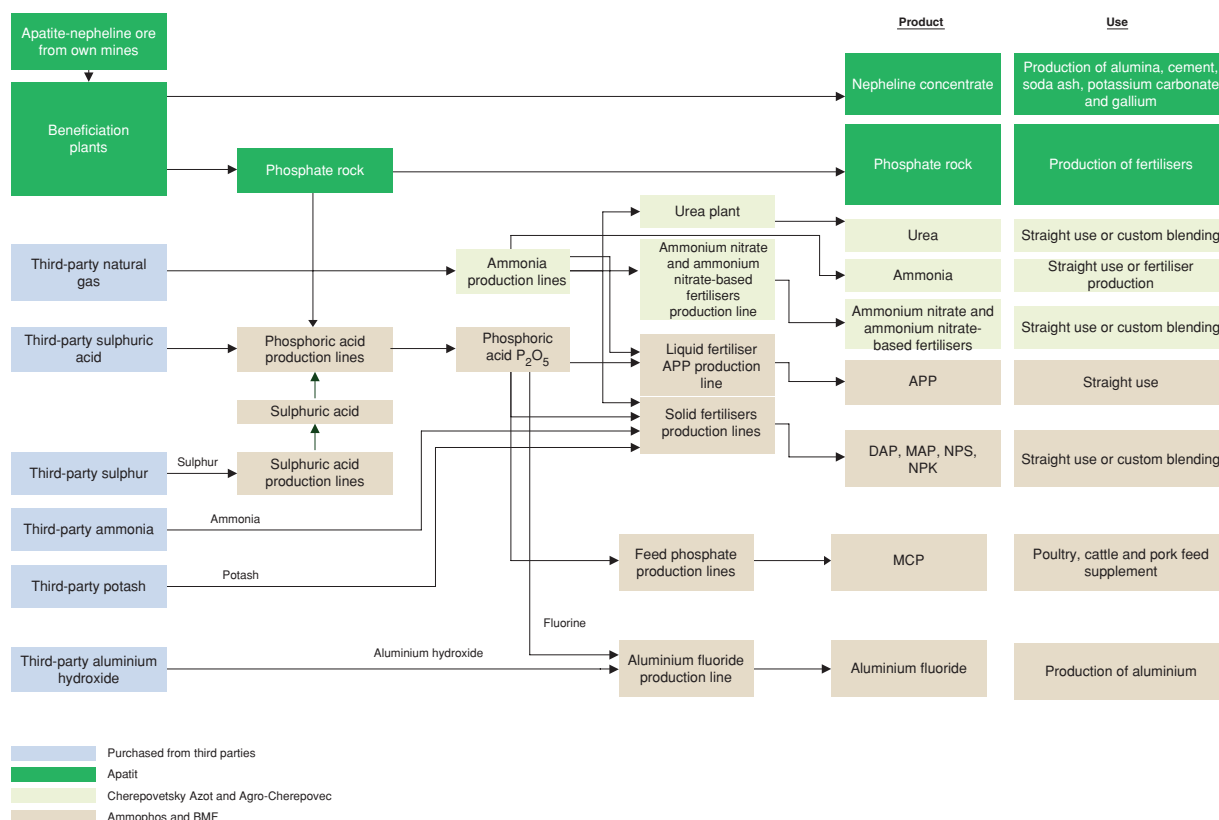
As part of its vertically integrated business model, the Group mines apatite-nepheline ore from its own mines and principally extracts high-grade phosphate rock of two grades (P_2O_5 content of 39 per cent. and 40 per cent.) from the ore at the Group's beneficiation plants. The Group then uses its phosphate rock as a raw material to produce Phosphate-Based Fertilisers and feed phosphate MCP. The Group sells any phosphate rock not consumed internally to third parties in domestic and European markets. In 2008, 2009 and 2010, 51.4 per cent., 60.3 per cent. and 54.2 per cent., respectively, of the Group's phosphate rock was consumed internally and the remainder was sold to third parties. All Group companies purchase phosphate rock solely from Apatit except for BMF, which, in addition to utilising phosphate rock purchased from Apatit, uses a technology developed by the Group that allows it to satisfy up to 5 per cent. of its phosphate rock requirements with less expensive low-grade phosphate rock (P_2O_5 content of approximately 25 per cent.) purchased from a third party. BMF meets its remaining phosphate rock requirements by purchasing phosphate rock from Apatit. The Group also extracts nepheline concentrate from its apatite-nepheline ore and sells it to a third party Basel Cement Pikalevo for the production of alumina, cement, soda ash, potassium carbonate and gallium. In addition, the Group produces small volumes of aluminium fluoride.

The Group produces Phosphate-Based Fertilisers and feed phosphate MCP. In order to produce Phosphate-Based Fertilisers or MCP, phosphate rock is mixed with sulphuric acid to produce phosphoric acid. Sulphuric acid is produced by the Group from sulphur purchased from third-parties. While the Group is self-sufficient in sulphuric acid, up to 20 per cent. of the Group's sulphuric acid requirements are satisfied with sulphuric acid purchases from third parties as the Group is currently able to purchase sulphuric acid at prices lower than its sulphuric acid production cost. However, the Group generates heat energy during sulphuric acid production, which the Group requires for its production processes. Phosphoric acid is then mixed with ammonia to produce MAP or DAP (the key difference between MAP and DAP is the concentration level of nutrients) or a liquid fertiliser APP; with ammonia and potassium chloride to produce NPK; with ammonia and ammonium sulphate to produce NPS; or with a calcium source raw material (which the Group purchases from third parties) to produce feed phosphate MCP. The Group sells externally all Phosphate-Based Fertilisers and MCP that it produces.

The Group also produces ammonia, which it uses internally principally for the production of Phosphate-Based and Nitrogen-Based Fertilisers and sells any excess to third parties. In order to reduce transportation costs, the Group also enters into swap agreements with third parties pursuant to which the Group company Cherepovetsky Azot supplies ammonia to a third party and the Group company BMF receives ammonia from such third party. In 2008, 2009 and 2010, 83.6 per cent., 85.8 per cent. and 86.4 per cent., respectively, of the Group's ammonia was consumed internally and the remainder was sold to third parties. The Group also produces Nitrogen-Based Fertilisers, almost all of which the Group sells to third parties (small volumes of Nitrogen-Based Fertilisers are used internally for the production of explosives used at the Group's mines).

Phosphate-Based and Nitrogen-Based Fertilisers are used to improve soil fertility by enhancing nutrient content in the soil and, as a result, to increase crop production and yields. Feed phosphate MCP is used in the agricultural husbandry feed industry as poultry, cattle and swine feed supplement. Nepheline concentrate is used for the production of alumina, cement, soda ash, potassium carbonate and gallium, while aluminium fluoride is used in the production of aluminium. See “*The Fertiliser Industry*” for more information.

The main elements of the Group’s production chain are set forth in the chart below.



Overview of the Operational Structure of the Group

The Group’s principal operations comprise:

- *Phosphate Rock Division* mainly comprised of Apatit, which mines apatite-nepheline ore and produces phosphate rock and nepheline concentrate. Apatit has four operating apatite-nepheline ore mines and two beneficiation plants which process ore from Apatit’s mines and produce phosphate rock and nepheline concentrate;
- *Phosphate-Based Fertilisers and Feed Phosphate Division* principally comprised of Ammophos and BMF, which produce Phosphate-Based Fertilisers and feed phosphate MCP from the phosphate rock and ammonia produced by the Group;
- *Ammonia and Nitrogen-Based Fertilisers Division* primarily comprised of Cherepovetsky Azot, which produces ammonia, ammonium nitrate and ammonium nitrate-based fertilisers, and Agro-Cherepovets, which produces urea from the ammonia produced by Cherepovetsky Azot;
- *Storage and Distribution Network* mainly comprised of seven distribution centres and 19 warehouses in Russia, as well as additional leased warehouse space in Russia;
- *Transportation Unit* which primarily handles the delivery of the Group’s products domestically in Russia, and owns and operates the Group’s railcar fleet; and
- *Research and Development Unit*, mainly comprised of NIUIF, which is the only research institute in Russia specialising in Phosphate-Based Fertilisers with a focus on environmentally friendly and resource efficient technologies in the fertiliser industry and which provides its services to the Group and to third parties.

Phosphate Rock Division

Through its subsidiary Apatit, the Group extracts apatite-nepheline ore and produces phosphate rock. In 2010, the Group was the largest producer of high-grade phosphate rock (P_2O_5 content of not less than 35.7 per cent.) worldwide according to Fertecon. The Group produced 8,127 thousand tonnes of phosphate rock in 2010, of which 54.2 per cent. was utilised internally by the Group for the production of Phosphate-Based Fertilisers, 31.1 per cent. was sold to domestic external customers and 14.7 per cent. was sold to European external customers. The Group classifies the phosphate rock that it produces as “standard” grade (P_2O_5 content of 39 per cent.) or “superior” grade (P_2O_5 content of 40 per cent.). “Superior” grade phosphate rock is principally sold to European producers of food phosphate products and technical phosphate products including salts, which require phosphate rock with high nutrient content. External sales of phosphate rock constituted 18.0 per cent. of the Group’s total external revenue in 2010. The Group’s phosphate rock division comprises four apatite-nepheline ore mines (Kirovsky mine, Rasvumchorr mine, Central mine and Vostochny mine) and two beneficiation plants located within 30 kilometres from the mines.

Apatit also produces nepheline concentrate, which is primarily used in the production of alumina, cement, soda ash, potassium carbonate and gallium. During the initial stage of beneficiation of apatite nepheline ore, the ore is separated into intermediate products that are subsequently used for the production of phosphate rock and nepheline concentrate. The Group sells nepheline concentrate externally to Basel Cement Pikalevo and produces nepheline concentrate to the extent necessary to meet Basel Cement Pikalevo’s demand for nepheline concentrate. The Group stores the remaining intermediate product that would otherwise be used to produce nepheline concentrate as deposits. The Group’s nepheline concentrate production capacity is currently 1,700 thousand tonnes per year. Apatit also produces small amounts of aegirite, grothite and titanium-magnetite concentrates from its apatite-nepheline ore.

Apatite-Nepheline Ore Reserves and Resources

As a result of its igneous origin, the apatite-nepheline ore mined by the Group has relatively low content levels of organic carbon, uranium and heavy metals including cadmium. Apatite-nepheline ore with low content levels of organic carbon, radioactivity (uranium) and heavy metals is considered of higher quality. For example, a number of European countries have restrictions on the level of cadmium content in fertilisers, which was the main reason why certain types of phosphate rock, such as the rock from Senegal and Togo, are no longer used by European fertiliser producers even though they are high in P_2O_5 content. In addition, phosphate rock produced from apatite-nepheline ore mined from igneous sources requires less sulphuric acid to produce one unit of phosphoric acid, which is used to produce Phosphate-Based Fertilisers.

The international consulting firm IMC conducted an independent review of the apatite-nepheline ore reserves and resources at the Group’s mines. This review included site visits to the mines to collect data and review the operations. Subsequent to the site visits, IMC reviewed the available information and the methodologies and data used by the Group to develop the reserve and resources estimates. Based upon its review, IMC believes that the resource estimates, on which it based its estimates of the Group’s apatite-nepheline ore reserves, are consistent with prudent engineering practices. The Group’s reserves and resources of apatite-nepheline ore, measured as of 1 June 2011 according to the JORC Code, consisted of proved and probable reserves of 771.4 million tonnes and measured and indicated resources (inclusive of reserves) of 2,073.9 million tonnes, according to IMC. The average P_2O_5 and Al_2O_3 content of the Group’s reserves is 14.01 per cent. and 13.99 per cent., respectively, and the average P_2O_5 , Al_2O_3 and rare earth oxides content of the Group’s resources is 15.06 per cent., 13.54 per cent. and 0.36 per cent., respectively, according to IMC. The Group’s ore resources account for approximately 41 per cent. of the Russian total rare earth resources and approximately 96 per cent. of such developed resources in Russia, according to The Institute of Economic Problems, Kola Science Center, Russian Academy of Sciences named after G.P. Luzin.

Currently, all of the Group’s ore reserves and resources are at the Group’s operational mines except for certain additional resources at the Njorkpahk deposit which are currently being evaluated as a prospect for either an open-pit or underground mine project. The following table sets forth information on the Group’s apatite-nepheline ore proved and probable reserves and their P_2O_5 and Al_2O_3 content levels and the

Group's measured and indicated resources (inclusive of reserves) and their P₂O₅, Al₂O₃ and rare earth oxides (REO) content levels as of 1 June 2011 as measured by IMC according to the JORC Code.

	Kirovsky mine	Rasvumchorr mine	Central mine	Vostochny mine	Total
	(in thousands of tonnes, except percentages)				
Proved reserves	378,655	73,527	19,522	142,907	614,656
Probable reserves	74,817	34,294	247	47,397	156,755
Proved and probable reserves	453,472	107,886	19,769	190,304	771,411
P ₂ O ₅ content (in percentages)	12.52	12.38	15.35	18.34	14.01
Al ₂ O ₃ content (in percentages)	14.05	14.47	15.57	13.42	13.99
Measured resources	807,979	191,434	68,490	210,603	1,278,507
Indicated resources	161,348	103,769	49,703	480,591	795,411
Measured and indicated resources	969,327	295,203	118,193	691,194	2,073,918
P ₂ O ₅ content (in percentages)	14.43	13.85	14.17	16.62	15.06
Al ₂ O ₃ content (in percentages)	14.13	14.32	14.51	12.22	13.54
REO content (in percentages)	0.32	0.37	0.37	0.41	0.36

Source: Competent Person's Report.

Apatite-Nepheline Ore Mining

The following table provides a description of apatite-nepheline ore extraction levels and certain operating characteristics of the Group's mines.

	Kirovsky mine (open pit)	Kirovsky mine (underground)	Rasvumchorr mine	Central mine	Vostochny mine (Koashva deposit)	Vostochny mine (Njorkpahk deposit)	Total
Volume of apatite-nepheline ore extraction in 2008 (in thousands tonnes)	10,888		3,297	5,418		6,565	26,168
Volume of apatite-nepheline ore extraction in 2009 (in thousands tonnes)	10,716		3,061	4,958		5,185	23,920
Volume of apatite-nepheline ore extraction in 2010 (in thousands tonnes)	11,371		3,640	6,197		5,892	27,100
Current extraction capacity (in thousands tonnes per year)	11,400		3,700	6,200		5,900	27,200
Recovery rate of P ₂ O ₅ in 2008 (in percentages)	14.02	13.22	12.83	11.61	15.20	12.16	12.93
Recovery rate of P ₂ O ₅ in 2009 (in percentages)	12.95	13.23	12.57	11.55	15.71	12.15	12.83
Recovery rate of P ₂ O ₅ in 2010 (in percentages)	12.03	13.26	12.91	12.07	15.91	12.21	13.01
Recovery rate of Al ₂ O ₃ in 2008 (in percentages)	14.81	15.30	14.64	15.76	13.97	15.41	15.16
Recovery rate of Al ₂ O ₃ in 2009 (in percentages)	15.46	15.29	14.63	15.65	13.44	14.21	14.99
Recovery rate of Al ₂ O ₃ in 2010 (in percentages)	16.02	15.27	14.53	15.48	13.41	14.29	14.95
Reserves life ⁽¹⁾ (in years)	85.2		81.1	19.1		117.3	76.5
Number of employees as of 31 December 2010	2,083		684	1,064		1,107	4,938

Source: Competent Person's Report and Company's data.

(1) Calculated by dividing the Group's resources by 2010 extraction volumes.

The Group's mines are developed in the Khibinsky intrusion, which is a circular alkaline igneous complex measuring approximately 30 kilometres in diameter. The intrusion is located approximately 200 kilometres south of Murmansk and consists of numerous varieties of nepheline syenite arranged in concentric cones around a central section of foyaite, containing xenoliths of carbonatite. The intrusion is horseshoe shaped with the opening towards the east. The ore mineralogy largely (95 per cent.) comprises phosphate, nepheline, aegirine, sphene, feldspar and titanomagnetite with the remainder consisting of up to 400 different mineralogical species many of which are very rare. The phosphate is mixed with rare earth oxides and strontium, and the nepheline with rubidium, caesium and gallium. There are two main types of apatite-nepheline ore mining methods used by the Group: underground mining (used at Kirovsky and Rasvumchorr mines) and open-pit mining (used at Kirovsky, Central and Vostochny mines). The Group's mines and beneficiation plants are supported by a 220-kilometre railway system owned and operated by the Group.

Kirovsky Mine. Kirovsky mine is both an open-pit and an underground mine located approximately six kilometres to the north-east from the city of Kirovsk. The mine has been in operation since 1926. The mine is wholly owned by Apatit which holds a licence for exploration and extraction of apatite-nepheline ores at the Kukisvumchorr and Yukspor deposits. The licence is valid until 31 December 2014. See “—Licences”. The total length of the deposit is 5.7 kilometres and the mineable thickness of the ore body varies from 20 to 300 metres averaging 140 metres.

Mining operations at the Kukisvumchorr deposit are conducted on two levels: 250 metres above the sea level and 170 metres above the sea level. The ore from the 250 metres level is delivered to the surface via an 800 metres conveyor drift. The ore from the 170 metres level is transported to the surface using the main skip shaft. The 90 metres level is currently being developed. Mining operations at the Yukspor deposit are conducted on three levels: 410 metres above the sea level, 320 metres above the sea level and 250 metres above the sea level. The ore from the 410 metres level is delivered via ore passes to the Yukspor tunnel. The ore from the 320 and 250 metres levels is transported to the surface using the main skip shaft. The 170 metres level is currently being developed along with new underground crushing facilities and No. 2 skip shaft that would allow to transport ore from this level directly to the surface.

The mine is accessed via a number of surface and inter-level drifts and shafts. The mine has one ore conveyor drift, one shaft used for the transportation of ore, men and materials, one shaft under construction (shaft No. 2) to be used for the transportation of ore, two shafts for the transportation of men and materials, three ventilation shafts, four vehicle ramps and one staple shaft.

Two mining methods are used at the Kirovsky mine: (1) block caving of the main substantive ore body and (2) sub-level caving of the main ore body periphery and the smaller ore bodies. Block caving is a progressive extraction of ore from an ore body by initial fracture with explosives blasted through deep boreholes and transporting the ore from underground through ore passes. As the ore is removed it induces a progressive fracturing of the remaining ore.

Apatite-nepheline ore extracted from the underground part of the mine is delivered for processing to the Group's beneficiation plants by rail, whereas apatite-nepheline ore extracted at the open-pit site of the mine is first delivered by trucks to the Group's apatite-nepheline ore storage facility from which it is subsequently delivered by rail to the Group's beneficiation plants as the open-pit site of the mine is not directly connected by rail to the Group's beneficiation plants.

Rasvumchorr Mine. Rasvumchorr mine is an underground mine located approximately seven kilometres to the north-east from the city of Kirovsk in the south of Khibinskiy rock mass and extracts apatite-nepheline ore from the Apatitovy Tsirk and Plateau Rasvumchorr deposits. The mine has been in operation since 1954. The mine is wholly owned by Apatit which holds a licence for exploration and extraction of apatite-nepheline ores at these deposits. The licence is valid until 31 August 2013. See “—Licences”. The total length of the Apatitovy Tsirk and Plateau Rasvumchorr deposits is 5.7 kilometres. The Plateau Rasvumchorr deposit is 3.2 kilometres long and the Apatitovy Tsirk deposit is 2.5 kilometres long with thicknesses from 40 to 150 metres.

Apatite-nepheline ore extraction at the Rasvumchorr mine is conducted using similar techniques as those used at the Kirovsky underground mine. Apatite-nepheline ore extracted at the Rasvumchorr mine is delivered for processing to the Group's beneficiation plants by rail.

Central Mine. Central mine is an open-pit mine located approximately eight kilometers to the north-east from the city of Kirovsk and operates at the Plateau Rasvumchorr deposit. The mine has been in operation

since 1964. The mine is wholly owned by Apatit which holds a licence for exploration and extraction of apatite-nepheline ores at this deposit. The licence is valid until 31 December 2014. See “—*Licences*”. The length of the deposit is 3.2 kilometres and the depth is 1.4 kilometres, and has a seam or lens shape with thickness varying from 8 to 120 metres.

Access into the mine is currently via a series of ramps constructed along the walls of the open pit. The open pit is operated by conventional drill and blast methods using excavators and trucks. Blast holes are drilled in designated areas within the pit for ore extraction and waste stripping operations. Blasted ore or waste is loaded into dump trucks using a fleet of electric and hydraulic excavators.

Apatite-nepheline ore extracted at the Central mine is first delivered by trucks to the Group’s apatite-nepheline ore storage facility from which it is subsequently delivered by rail to the Group’s beneficiation plants as the Central mine is not directly connected by rail to the Group’s beneficiation plants.

Vostochny Mine. Vostochny mine is an open-pit mine located approximately 15-20 kilometres to the north-east from the city of Kirovsk and operates at the Koashva and Njorkpahk deposits. The mine commenced its operations at Koashva and Njorkpahk deposits in 1978 and 1983, respectively. The mine is wholly owned by Apatit which holds a licence for exploration and extraction of apatite-nepheline ores at these deposits. The licence is valid until 31 December 2014. See “—*Licences*”. The Koashva deposit has a length of 3 kilometres with thickness varying from 10 to 300 metres averaging 165 metres. The Njorkpahk deposit has a length of 1.8 kilometres with thickness varying from 600 to 800 metres averaging 35-55 metres.

Access to the Koashva pit is via two systems of ramps. The southern wall ramp system connects the pit with the ore storage and rail loading station as well as waste dump No.2. The northern wall ramp system connects the pit to the operational facilities and waste dump No.3. The Njorkpahk pit is accessed with a system of benches cut into the side of the Njorkpahk mountain which connect the working levels with the waste dumps and the ore storage areas. Operations at the Koashva and Njorkpahk pits are similar to those at the Group’s other open pits. The pits are operated by conventional drill and blast methods using excavators and trucks to load. Ore and hard rocks are blasted whilst moraine sediments are directly excavated. Blasted ore or waste is loaded into dump trucks using a fleet of electric and hydraulic excavators.

Apatite-nepheline ore extracted at the Vostochny mine is first delivered by trucks to the Group’s apatite-nepheline ore storage facility from which it is subsequently delivered by rail to the Group’s beneficiation plants as the Vostochny mine is not directly connected by rail to the Group’s beneficiation plants.

For more information on the Group’s mines and mining processes, see “*Annex I: Competent Person’s Report—OAO Apatit*”.

Licences. The Group company Apatit holds five mining licences that allow it to develop its four apatite-nepheline ore mines. Three of these licences were granted on 2 November 1999 and expire on 31 December 2014, one licence was granted on 2 November 1999 and expires on 31 August 2013, and one licence was granted on 2 February 2000 and expires on 31 May 2014. The Group is in the process of extending these licences, and, although there can be no assurance that these licences will be extended prior to their expiration dates or at all, the Group’s management believes that Apatit will be able to extend its licences prior to their expiration dates. See “*Regulation of Mining and Mineral Industry in Russia—Subsoil Licensing—Extension of Licences*” for a discussion of the steps taken by the Group to extend its licences and other information. Once extended, these licences are expected to be valid for the duration of the expected operational life of the deposits covered by the licences.

Phosphate Rock and Nepheline Concentrate Production

The Group operates two beneficiation plants, Phosphate-nepheline Beneficiation Plant 2 (“**ANBP-2**”) and Phosphate-nepheline Beneficiation Plant 3 (“**ANBP-3**”), that principally produce phosphate rock from the apatite-nepheline ore extracted from the Group’s mines. ANBP-2 also produces nepheline concentrate when required. ANBP-2 is located near the city of Apatity, and ANBP-3 is located near the city of Kirovsk. Both beneficiation plants are located within 30 kilometres of the Group’s mines. ANBP-2 and ANBP-3 became operational in 1980 and 1988, respectively. Most of the key flotation equipment at ANBP-2 was replaced during 2006-2010. ANBP-2 has a current production capacity of 4.8 million tonnes of phosphate rock per year and 1.7 million tonnes of nepheline concentrate per year. Nepheline concentrate production capacity of ANBP-2 can be increased to 6.0 million tonnes per year if a modernisation programme

requiring minor capital expenditure is undertaken. At present, ANBP-3 has a production capacity of 5.1 million tonnes of phosphate rock per year. In 2010, ANBP 2 processed approximately 14.2 million tonnes of apatite-nepheline ore and produced approximately 4.2 million tonnes of phosphate rock and 1.0 million tonnes of nepheline concentrate, and ANBP-3 processed approximately 13.4 million tonnes of apatite-nepheline ore and produced approximately 4.0 million tonnes of phosphate rock.

Quality of phosphate rock is generally measured based on P_2O_5 content level, which represents the level of nutrient content. Phosphate rock grades produced by the Group have a higher level of P_2O_5 content (39 per cent. for “standard” grade and 40 per cent. for “superior” grade) than the phosphate rock sold by most of the Group’s competitors, which have P_2O_5 content levels of approximately 28 to 36 per cent. according to Fertecon. As a result, the market price of the phosphate rock produced by the Group is normally higher than the price of the phosphate rock produced by the Group’s competitors. The Group’s “superior” grade phosphate rock is principally sold to European producers of food phosphate products and technical phosphate products including salts, which require phosphate rock with high nutrient content. In addition, phosphate rock produced by the Group has relatively low content levels of organic carbon, radioactivity (uranium) and heavy metals, particularly cadmium, principally due to the igneous origin of the Group’s apatite-nepheline ore. Phosphate rock with low content levels of organic carbon, radioactivity (uranium) and heavy metals is considered of higher quality. For example, a number of European countries have restrictions on the level of cadmium content in fertilisers, which was the main reason why certain types of phosphate rock, such as the rock from Senegal and Togo, are no longer used even though they are high in P_2O_5 content. In addition, phosphate rock produced from apatite-nepheline ore mined from igneous sources, such as the phosphate rock produced by the Group, requires less sulphuric acid to produce one unit of phosphoric acid, which is used to produce Phosphate-Based Fertilisers.

The following table sets forth production volumes, production capacities and utilisation levels of the Group’s beneficiation plants in 2008, 2009 and 2010.

	Year ended 31 December								
	2008			2009			2010		
	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation
	(in thousands of tonnes, except percentages)								
Phosphate rock	7,243	8,200 ⁽¹⁾	88.3%	7,019	7,500 ⁽¹⁾	93.6%	8,127	8,127 ⁽¹⁾	100.0%
Nepheline concentrate	566	1,700	33.2%	495	1,700	29.1%	1,026	1,700	60.4%

(1) Production capacity is calculated taking into account the Group’s apatite-nepheline ore extraction volumes in the periods under review.

The Group sells all of its nepheline concentrate to the Basel Cement Pikalevo plant. The plant was built during the Soviet era as part of the Pikalevo production complex that principally produced alumina, cement, soda ash and potassium carbonate from nepheline concentrate. However, in the early 2000s the complex was split into three entities which produce alumina (Basel Cement Pikalevo), cement (Eurocement), and soda ash and potassium carbonate (CJSC Pikalevskaya Soda). Nepheline concentrate generally needs to be processed into all major products of the former production complex (alumina, cement, and soda ash and potassium carbonate) in order for the process to be economically justifiable. In recent years, Basel Cement Pikalevo decreased its alumina production volumes as a result of changes in production policies of its main customer, Rusal. As a result, purchases of the Group’s nepheline concentrate by Basel Cement Pikalevo declined, which resulted in the relatively low utilisation of the Group’s nepheline concentrate production capacity in 2008 and 2009 compared to prior years (for example, the utilisation of the Group’s nepheline concentrate production capacity was 63 per cent. in 2007) and 2010. See “—Strategy—Utilise the full potential of the Group’s apatite-nepheline ore reserves base through increased production of nepheline concentrate and extraction of rare earth minerals” for information on certain initiatives undertaken and planned by the Group aimed at increasing nepheline concentrate production by the Group and enhancing the utilisation of the Group’s nepheline concentrate.

Phosphate Rock and Nepheline Concentrate Production Process. The Group uses five sequential apatite-nepheline ore processing methods at its beneficiation plants: screening, crushing, grinding, flotation and dehydration.

Apatite-nepheline ore delivered from the Group’s mines is first fed into a crusher where it is screened. Oversize ore is then fed into the primary cone crushers. The crushed ore along with the rest of the ore is then transported to secondary crushing receiver bins, where ore is further screened. Oversize ore is then fed into the secondary cone crushers. The undersize ore and the crushed ore are then fed to the tertiary

crusher bins, where it is further screened and the oversize ore is fed to the tertiary cone crushers. The undersize ore and the crushed ore are then transported via a conveyor for grinding and flotation. The grinding and flotation plant consists of two modules. Each module has grinding mills that use 100 and 80 mm steel balls for grinding. After grinding and flotation, the ore is dehydrated. The dehydration process comprises four stages (i) concentrate thickening, (ii) hydro-cyclone overflow thickening in circular thickeners, (iii) hydro-cyclone sands and thickener product filtration, and (iv) cake drying. For more information on the phosphate rock and nepheline production processes, see “Annex I: Competent Person’s Report—OAO Apatit—Concentrators”.

Phosphate-Based Fertilisers and Feed Phosphate Division

The Phosphate-Based Fertilisers and feed phosphate division of the Group comprises Ammophos and BMF, which produce Phosphate-Based Fertilisers and feed phosphate MCP. Sales of Phosphate-Based Fertilisers and feed phosphate constituted 58.7 per cent. of the Group’s external sales revenue in 2010.

Following the extraction of phosphate rock from apatite-nepheline ore, it is mixed with sulphuric acid in order to produce phosphoric acid. Sulphuric acid is produced by the Group from sulphur purchased from third-parties, while up to 20 per cent. of the Group’s sulphuric acid requirements are satisfied with sulphuric acid purchases from third parties. A by-product of mixing sulphuric and phosphate rock is gypsum, which the Group disposes of by storing it at deposit sites. Phosphoric acid is then mixed with ammonia to produce MAP or DAP or a liquid fertiliser APP; with ammonia and potassium chloride to produce NPK; with ammonium sulphate to produce NPS; or with calcium (which the Group purchases from third parties) to produce feed phosphate MCP. Both Ammophos and BMF produce MAP, DAP and NPS, whereas only Ammophos produces NPK and APP and only BMF produces MCP.

The following table sets forth production volumes, production capacities and utilisation levels of the Group’s Phosphate-Based Fertiliser and feed phosphate production facilities in 2008, 2009 and 2010.

	Year ended 31 December								
	2008			2009			2010		
	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation
	(in thousands of tonnes, except percentages)								
MAP	915	—	—	592	—	—	770	—	—
DAP	1,381	—	—	1,930	—	—	1,737	—	—
NPK	518	—	—	821	—	—	933	—	—
NPS	106	—	—	55	—	—	134	—	—
Total⁽¹⁾	2,920	3,400	86%	3,398	3,400	100%	3,574	3,700	97%
APP	51	140	36%	35	140	25%	51	140	36%
MCP	107	180	59%	181	180	101%	246	240	103%
Total	3,079	3,720	83%	3,614	3,720	97%	3,870	4,080	95%

(1) The Group has 14 Phosphate-Based Fertiliser production lines, of which three lines are capable of producing MAP, DAP, NPK or NPS, one line is capable of producing MAP, DAP or NPS, eight lines are capable of producing MAP or DAP, and two lines are capable of producing MAP or NPS.

The Group also produces small volumes of aluminium fluoride. A by-product of mixing phosphate rock with sulphuric acid in order to produce phosphoric acid is silicofluoridehydrogen acid, which is used at Ammophos to produce aluminium fluoride. The Group’s aluminium fluoride production capacity is 24 thousand tonnes per year. In 2010, the Group produced 23 thousand tonnes of aluminium fluoride. Aluminium fluoride is used as an additive during the production of aluminium from alumina.

Production Facilities

Ammophos is the largest stand-alone phosphate-based fertiliser producer in Europe, according to IFA. Ammophos commenced operations in 1974 and is located in the city of Cherepovets in the Vologda region. Ammophos has four sulphuric acid production lines built in 2003, 2004, 2007 and 2009, respectively. Ammophos also operates three phosphoric acid production lines, which have been in operation since 1976, 1980 and 1982, respectively. One of the phosphoric acid production lines was modernised in 1986 and 2002 in order to increase production capacity. All of the sulphuric and phosphoric acids produced at Ammophos are used internally for the production of Phosphate-Based Fertilisers. Ammophos has four MAP production lines built in 1983 and four MAP production lines built in 1980. All production lines were

modernised in 1986, 1995 and 2007-2010 in order to increase production capacity and make three lines capable of producing MAP, DAP, NPK or NPS on the same production line (switch time between one and two days) and five lines capable of producing MAP or DAP on the same production line (switch time between one and two days), which allows the Group to respond to changes in market demand in order to maintain utilisation rates of its production lines. Ammophos also has one APP production line. In 2010, the Group completed a modernisation programme at Ammophos that increased Phosphate-Based Fertiliser production capacity from 1.9 million tonnes per year in 2001 to 2.6 million tonnes per year in 2010 and phosphate rock processing capacity from 2.2 million tonnes per year in 2001 to 3.0 million tonnes per year in 2010.

BMF is also one of the largest phosphate-based fertiliser producers in Russia. BMF commenced operations in 1973 and is located in the city of Balakovo in the Saratov region. BMF operates three sulphuric acid production lines, which became operational in 1976, 1979 and 2010, respectively. BMF also has two phosphoric acid production lines built in 1975-1978. Both phosphoric acid lines were modernised in 2005-2009 in order to increase the P_2O_5 concentration of the phosphoric acid produced at one of the lines and increase both lines' production capacities. Most of the phosphoric acid produced at BMF is used internally for the production of Phosphate-Based Fertilisers. BMF has four phosphate-based fertiliser production lines that are capable of producing MAP, DAP or NPS and that have been in operation since 1975 and two phosphate-based fertiliser production lines that are capable of producing MAP and NPS and that have been in operation since 1985. In 2002, BMF commenced the production of feed phosphate MCP. The Group's management believes that BMF was the first plant in Russia to produce MCP and, as of the date of this Prospectus, remains the only MCP producer in Russia. In 2008, a second MCP production line became operational, which increased BMF's (and the Group's) MCP production capacity from 80 thousand tonnes per year to 240 thousand tonnes per year. In 2008, BMF also became capable of switching production from MAP to DAP (switch time between one and two days) on four phosphate-based fertiliser production lines in response to market demand, and Phosphate-Based Fertiliser production capacity increased from 600 thousand tonnes per year in 2002 to 760 thousand tonnes per year in 2008 as measured by the content of P_2O_5 while phosphate rock processing increased from 1.0 million tonnes per year in 2002 to 2.0 million tonnes per year in 2008. BMF also produces and sells domestically and abroad sulphuric acid of various grades, oleum, merchant grade phosphoric acid, feed grade monobasic calcium phosphate and sodium fluorosilicate.

Sulphuric Acid Production. The principal raw material used for the production of sulphuric acid is sulphur. The Group purchases sulphur in liquid or solid (granulated) form. Sulphur received in solid form is melted before use. Sulphur is burned using dry air that has a temperature of 950-1100C so that sulphur bonds with oxygen. Approximately 11.0 to 11.5 per cent. of the resulting combustion gas is sulphur dioxide. The combustion gas is then cooled in a steam boiler and supplied to a converter, where sulphur dioxide is converted into sulphur trioxide using catalytic conversion. The combustion gas (containing sulphur dioxide), after passing through three catalyst beds in the converter, then passes to the first absorption tower where sulphur trioxide is removed. The combustion gas then flows back to the converter, where it passes through the residual two catalyst beds, is cooled and gets transmitted to the second absorption tower. In an absorption tower, sulphur trioxide is absorbed in a recirculated stream of concentrated sulphuric acid. The process of sulphuric acid production generates significant amounts of heat, which is used to produce electricity.

The following table sets forth production volumes, production capacities and utilisation levels of the Group's sulphuric acid production lines in 2008, 2009 and 2010.

	Year ended 31 December								
	2008			2009			2010		
	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation
	(in thousands of tonnes, except percentages)								
Ammophos	2,309	2,640	87%	2,140	2,455	87%	2,521	2,720	93%
BMF	1,141	1,240	92%	1,366	1,240	110%	1,478	1,403	105%
Total	3,450	3,880	89%	3,506	3,695	95%	3,999	4,123	97%

Phosphoric Acid Production. The main raw material for the production of Phosphate-Based Fertilisers is phosphoric acid. The two principal raw materials for the production of phosphoric acid are phosphate rock and sulphuric acid. The Group produces phosphoric acid at its plants from phosphate rock supplied by the Group company Apatit and sulphuric acid either produced at the Group's plants from sulphur purchased

from third-party suppliers or purchased from third parties. The Group's plants use the wet process of phosphoric acid production, which involves decomposition of phosphate rock by sulphuric acid. Decomposition is carried out in multi-compartment attack tank equipped with agitators and lined with rubber and carbon brick. Specially designed openings in the attack tank's inner walls allow the reaction slurry to flow from one compartment to the next. In the attack tank, phosphate rock reacts with sulphuric acid to form phosphoric acid and calcium sulphate in different hydrate forms. Commercial wet processes are classified according to the hydrate form in which calcium sulphate is crystallised, which can be (i) hemihydrate ($\text{CaSO}_4 \cdot 1/2 \text{H}_2\text{O}$), or (ii) dehydrate ($\text{CaSO}_4 \cdot 2 \text{H}_2\text{O}$). The Group's plants use both types of wet processes. After the reaction, the slurry is pumped to tilting-pan rotary or belt filters. The primary function of this filtration step is to separate calcium sulphate from phosphoric acid. Wet processes allow the production of phosphoric acid with a P_2O_5 concentration of approximately 27 per cent. for dehydrate process and 36 per cent. for hemihydrate process. P_2O_5 concentration level of the phosphoric acid is then increased to 52 per cent. using tubular evaporators with forced circulation.

The following table sets forth production volumes, production capacities and utilisation levels of the Group's phosphoric acid production lines in 2008, 2009 and 2010.

	Year ended 31 December								
	2008			2009			2010		
	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation
	(in thousands of tonnes of P_2O_5 , except percentages)								
Ammophos	889	973	91%	930	990	94%	984	1,010	97%
BMF	493	600	82%	599	600	100%	646	760	85%
Total	1,382	1,573	88%	1,529	1,590	96%	1,630	1,770	92%

MAP/DAP/NPK/NPS Production Process. Production of MAP/DAP/NPK/NPS is based on neutralisation of phosphoric acid by ammonia. In a pipe reactor, liquid ammonia and phosphoric acid react to produce slurry, which is discharged from the end of the pipe directly into a granulator. The heat of the reaction raises the slurry temperature to the boiling point and evaporates existing moisture. Further ammonisation and addition of potassium chloride and/or ammonium sulphate (if NPK or NPS is produced) take place in a drum granulator.

APP Production Process. The APP production process is substantially similar to MAP/DAP/NPK/NPS production process except that more concentrated phosphoric acid is used and the resulting product is neither dried nor granulated to preserve its liquid state.

MCP Production Process. MCP is produced by mixing a calcium source (normally chalk or limestone purchased from third parties) with defluorinated phosphoric acid produced by the Group. MCP produced by the Group complies with the applicable Russian and European standards.

Supply of Phosphate Rock, Sulphur, Sulphuric Acid, Ammonia and Potassium Chloride. The Group's phosphate-based fertiliser producers Ammophos and BMF purchase phosphate rock from the Group company Apatit and sulphur from third-party suppliers, principally Gazprom Sulphur, Astrakhangasprom, Orenburggasprom and TengizChevroil. Sulphur is a by-product of de-sulphurisation of natural gas and as a result is generally supplied by natural gas producers. Prices with third-party sulphur suppliers are normally negotiated on a monthly, quarterly or annual basis depending on a supplier. In addition, the Group satisfies up to 20 per cent. of its sulphuric acid requirements with purchases from Russian non-ferrous metals producers at relatively low cost as sulphuric acid is often a by-product of non-ferrous metal production process and non-ferrous metals producers often dispose of it as waste. In order to satisfy the Group's requirements for ammonia, the Group produces ammonia internally at Cherepovetsky Azot and purchases ammonia from third-party suppliers, primarily Togliattiazot, SalavatNOS, NAK Azot (a subsidiary of EuroChem) and Perm-Minudobreniya. Cherepovetsky Azot produces ammonia for its own use and sells ammonia to Ammophos, Agro-Cherepovets and BMF (in small volumes) as well as to third parties abroad, while BMF satisfies most of its ammonia requirements with purchases from third-party suppliers as it is located significantly further away from Cherepovetsky Azot than Ammophos and Agro-Cherepovets. The Group normally purchases ammonia from third-party suppliers on a monthly basis at prevailing spot market prices. The Group also purchases potassium chloride, which is a raw material used for the production of NPK, from a third-party producer Uralkali. Prices with Uralkali are set quarterly based on a formula, and differ for potassium chloride used in the production of fertilisers sold domestically from prices for potassium chloride used in the production of fertilisers sold abroad.

The following table sets forth information on the volumes of phosphate rock purchased from the Group company Apatit, sulphur purchased from third-party suppliers, the Group's production of ammonia and purchases of ammonia from third-party suppliers, and purchases of potassium chloride from third-party suppliers in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in thousands of tonnes)		
Phosphate rock purchased from Apatit	3,720.8	3,646.6	3,805.8
Sulphur purchased from third parties	945.2	1,111.2	1,312.6
Gazprom Sulphur	231.4	556.5	547.3
KazRosGaz Service	374.5	353.7	319.1
TengizChevroil	155.0	156.9	206.4
Other	184.2	44.2	239.7
Ammonia produced by Cherepovetsky Azot	1,041.3	1,097.3	1,043.1
Ammonia consumed by Cherepovetsky Azot	193.4	212.4	196.4
Ammonia sold to Ammophos	396.8	445.3	438.5
Ammonia sold to Agro-Cherepovets	265.2	274.5	265.8
Ammonia sold to BMF	12.9	11.0	1.0
Ammonia sold to third parties	171.1	155.3	142.1
Changes in inventory	1.9	(1.1)	(0.8)
Ammonia purchased from third parties	124.8	183.5	202.7
Lokoengineering	—	107.4	137.2
Neftekom	4.3	22.2	33.1
NAK "Azot" (subsidiary of EuroChem)	—	16.6	19.2
Gazprom Neftekhim Salavat	11.9	28.3	13.2
TRANSAMMIK	83.0	9.0	—
Other	25.5	—	—
Potassium chloride purchased from Uralkali	209.0	287.6	370.3

Investment Programme

The Group plans to implement the following projects at BMF:

- BMF uses a technology developed by the Group that allows it to satisfy up to 5 per cent. of its phosphate rock requirements with less expensive low-grade phosphate rock (P_2O_5 content of approximately 25 per cent.) purchased from a third party. The Group plans to increase the share of third party phosphate rock that BMF can use to 15 per cent. by the second half of 2011, which is expected to result in the capital expenditure of approximately 67 million roubles. The project is at the preliminary stage and no capital expenditure has been spent yet; and
- the Group plans to increase MCP production capacity from 240 thousand tonnes per year currently to 320 thousand tonnes per year by 2015, which is expected to result in the capital expenditure of approximately 600 million roubles. The expansion of the Group's MCP production capacity may be carried out either at BMF or other production sites of the Group. The project has not been commenced and no capital expenditure has been spent yet.

The Group plans to implement the following projects at Ammophos:

- in 2012, the Group plans to construct a new purified phosphoric acids production facility with an annual capacity of approximately 20 thousand tonnes P_2O_5 , which is expected to result in the capital expenditure of approximately 900 million roubles, of which approximately 7.6 per cent. has been spent as of 31 March 2011. Purified phosphoric acids are not currently produced in Russia and are used in a variety of applications including production of food products and household chemicals; and
- by 2012, the Group intends to modernise the fourth MAP/DAP production line to make it capable of producing MAP, DAP or NPK, which is expected to result in the capital expenditure of approximately 30 million roubles. The project is at the initial stage and no capital expenditure has been spent yet.

Ammonia and Nitrogen-Based Fertilisers Division

The Group produces ammonia, which it uses internally principally for the production of Phosphate-Based and Nitrogen-Based Fertilisers and sells any excess to third parties. In 2008, 2009 and 2010, 83.6 per cent., 85.8 per cent. and 86.4 per cent., respectively, of the Group's ammonia was consumed internally and the remainder was sold to third parties. The Group also produces Nitrogen-Based Fertilisers (ammonium nitrate, ammonium nitrate-based fertilisers and urea), all of which the Group sells to third parties. Sales of Nitrogen-Based Fertilisers (which mainly comprised sales of urea) and external sales of ammonia accounted for 9.1 per cent. of the Group's external sales revenue in 2010. The ammonia and Nitrogen-Based Fertilisers division of the Group comprises Cherepovetsky Azot, which produces ammonia, ammonium nitrate and ammonium nitrate-based fertilisers, and Agro-Cherepovets, which produces urea from the ammonia produced by Cherepovetsky Azot.

The following table sets forth production volumes, production capacities and utilisation levels of the Group's ammonia and Nitrogen-Based Fertiliser production facilities in 2008, 2009 and 2010.

	Year ended 31 December								
	2008			2009			2010		
	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation	Production volume	Production capacity	Utilisation
	(in thousands of tonnes, except percentages)								
Ammonia	1,041	1,100	95%	1,097	1,100	100%	1,043	1,100	95%
Ammonium nitrate	387	450 ⁽¹⁾	93% ⁽¹⁾	455	450 ⁽¹⁾	101% ⁽¹⁾	391	450 ⁽¹⁾	94% ⁽¹⁾
Ammonium nitrate-based fertilisers	30	—	—	0	—	—	30	—	—
Urea	467	480	97%	479	480	100%	466	480	97%

(1) The Group produces ammonium nitrate and ammonium nitrate-based fertilisers on the same production line, therefore, production capacity and utilisation values reflect the production capacity and utilisation of this production line.

Production Facilities

The Group produces ammonia, ammonium nitrate and ammonium nitrate-based fertilisers through its subsidiary Cherepovetsky Azot, which is one of the largest producers of ammonia, ammonium nitrate and ammonium nitrate-based fertilisers in Russia. Cherepovetsky Azot fully satisfies its own internal ammonia requirements and those of the Group companies Ammophos and Agro-Cherepovets, sells small volumes of ammonia to the Group company BMF, and sells any excess ammonia externally abroad. Cherepovetsky Azot commenced operations in 1970 and is located in the city Cherepovets in the Vologda region. Cherepovetsky Azot owns and operates two ammonia production lines and one ammonium nitrate/ammonium nitrate-based fertilisers production line. The ammonia production lines have been in operation since 1979 and 1985, respectively, while the ammonium nitrate/ammonium nitrate-based fertilisers production line became operational in 1970. The Group is currently in the final stage of the capacity expansion and modernisation programme at Cherepovetsky Azot, which commenced in 2007 and envisions increasing ammonia production capacity from 1.0 million tonnes per year in 2006 to 1,150 thousand tonnes per year in 2012. The Group's management believes that the modernisation programme will also reduce the amount of natural gas required to produce one tonne of ammonia from 1,236 cubic metres in 2006 to 1,100 cubic metres in 2012. The ammonia production lines remain operational during the implementation of the programme.

Urea is produced by the Group company Agro-Cherepovets. The principal raw material for the production of urea is ammonia. Agro-Cherepovets's production facilities are located near those of the Group company Cherepovetsky Azot. Ammonia is transported from Cherepovetsky Azot to Agro-Cherepovets using a pipe network constructed, owned and operated by the Group, thus eliminating dependence on rail transportation, which results in lower transportation costs. Agro-Cherepovets operates one urea production plant, which has been in operation since 1998. The plant was modernised during 2008-2009 in order to increase urea production capacity from 400 thousand tonnes per year to 480 thousand tonnes per year. In 2010, the Group commenced the construction of a new urea plant at Cherepovetsky Azot, which is expected to become operational in 2012 and have a production capacity of 500 thousand tonnes of urea per year. The new plant is expected to utilise the excess ammonia produced by the Group, which is currently sold externally, and increase the Group's production and sales volumes of urea, which is a higher valued-added product.

Ammonia Production Process. The principal raw material used for the production of ammonia is natural gas, which the Group purchases from LLC Gazprom Mezhhregiongaz Vologda (a subsidiary of Gazprom). Production of ammonia consists of two main steps: (i) preparation of synthesis gas composed of nitrogen and hydrogen and (ii) synthesis and separation of ammonia. During the first step, natural gas is heated and, as a result, is converted into hydrogen and carbon dioxide. Hydrogen is used for the production of ammonia and carbon dioxide is used by the Group company Agro-Cherepovets for the production of urea. Air, which consists approximately 78 per cent. of nitrogen and approximately 21 per cent. of oxygen, is then added to hydrogen. Oxygen reacts with some of the hydrogen to form water, whereas nitrogen and the remaining hydrogen form synthesis gas. During the second step, synthesis gas is supplied into an ammonia synthesis converter where it is converted into ammonia at 390-520°C temperature and under 22.4-31.6 MPa pressure. Ammonia is then separated from the processing loop.

Ammonium Nitrate and Ammonium Nitrate-Based Fertilisers Production Process. The main raw materials used for the production of ammonium nitrate are ammonia and nitric acid, which is also produced internally from ammonia. Production of ammonium nitrate is based on neutralisation of nitric acid by ammonia in a reactor, where liquid ammonia and nitric acid react to produce slurry, which is discharged from the reactor directly into a granulator. The heat of the reaction raises the slurry temperature to the boiling point and evaporates existing moisture. Ammonium nitrate-based fertilisers are produced by adding a phosphorus source (normally phosphoric acid or APP produced by the Group) to ammonium nitrate prior to granulation. The ammonium nitrate/ammonium nitrate-based fertilisers production line is capable of producing either ammonium nitrate or ammonium nitrate-based fertilisers at the same time.

Urea Production Process. Urea is obtained by mixing ammonia with carbon dioxide at a high pressure and temperature. Purchases of ammonia from the Group company Cherepovetsky Azot fully meet the ammonia requirements of Agro-Cherepovets. In 2008, 2009 and 2010, Agro-Cherepovets purchased 270 thousand tonnes, 280 thousand tonnes and 270 thousand tonnes, respectively, of ammonia from Cherepovetsky Azot. Carbon dioxide is a by-product of ammonia production and is supplied to Agro-Cherepovets by Cherepovetsky Azot.

Supply of Natural Gas. The principal raw material used for the production of ammonia is natural gas, which the Group purchases from LLC Gazprom Mezhhregiongaz Vologda (a subsidiary of Gazprom) at spot prices pursuant to (normally one-year) frame supply contracts. Prices for natural gas in Russia are set by the Russian Government. The Group uses natural gas not only for the production of ammonia but also for heating and other production related purposes. In 2008, 2009 and 2010, Cherepovetsky Azot consumed 1,225 million cubic metres, 1,268 million cubic metres and 1,235 million cubic metres of natural gas, respectively, for ammonia production.

Investment Programme

The Group plans to implement the following projects at Cherepovetsky Azot:

- as part of the Group's vertical integration strategy, in 2009 the Group commenced the construction of a new urea plant at Cherepovetsky Azot in order to increase the internal Group consumption of the ammonia produced by the Group. The new plant is expected to be completed in 2012, have an urea production capacity of 500 thousand tonnes per year, and is expected to require capital expenditure in the amount of 4,988 million roubles, of which approximately 36.6 per cent. has been spent as of 31 March 2011; and
- in connection with the new urea plant, during 2009-2012 the Group also plans to build at Cherepovetsky Azot a new electricity generation facility powered by natural gas with a power generation capacity of 32 MW at an estimated cost of 2,132 million roubles, of which approximately 20.9 per cent. has been spent as of 31 March 2011.

Energy

Mining of apatite-nepheline ore and production of phosphate rock and fertilisers require significant amounts of energy, including electricity for the operation of various mining and production equipment and heat energy (steam and hot water) for generating high temperature dry air used for drying certain products. The Group produces energy internally and purchases energy from various local third-party energy providers. The Group's fertiliser production operations are to certain extent energy self-sufficient, whereas the Group's mining and phosphate rock production facilities meet their energy requirements with energy purchases from third parties.

Since 2003, the Group has been implementing a power generation and saving programme to reduce the Group's reliance on third-party energy suppliers by constructing at Ammophos and BMF power generation facilities that produce electricity utilising steam generated from sulphuric acid production. In addition, Ammophos and BMF produce heat energy using steam-powered turbines. As a result, Ammophos is fully energy self-sufficient and also sells energy to third parties, while BMF produces enough energy to satisfy approximately 70 per cent. of its energy requirements. The Group is currently in the process of constructing at Cherepovetsky Azot a new electricity generation facility powered by natural gas with a power generation capacity of 32 MW, which is expected to be completed in 2012. The new power plant is expected to almost fully cover Cherepovetsky Azot's electricity requirements.

The Group both purchases and sells electricity and heat energy. Purchases of energy are made by the Group companies which do not produce energy internally or whose internal energy production is not sufficient to fully meet their internal energy requirements, whereas sales of energy are made by the Group companies that have energy surplus due to internal energy production.

The following table sets forth information on the Group's electricity production and purchases from third-party suppliers as well as the Group's electricity consumption and sales to third parties in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in million kWh)		
Electricity production	891	911	982
Electricity purchases from third parties	2,098	2,047	2,145
Total	2,989	2,959	3,128
Electricity consumption	2,944	2,890	3,043
Electricity sales to third parties	46	69	84
Total	2,989	2,959	3,128

The following table sets forth information on the Group's heat energy production as well as the Group's heat energy consumption and sales to third parties in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in trillion calories)		
Heat energy production	7288	7544	7924
Heat energy purchases from third parties	671	702	705
Total	7,959	8,246	8,629
Heat energy consumption	7223	7509	7885
Heat energy sales to third parties	735	737	743
Total	7,959	8,246	8,629

The following table sets forth information on the Group's consumption of natural gas used for ammonia production and for heating and other purposes in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in million cubic metres)		
Natural gas used for ammonia production	1,225	1,268	1,235
Natural gas used for heating and other purposes	462	501	459
Total	1,687	1,769	1,694

In addition, due to the absence of natural gas distribution infrastructure near the Group's mines, the Group's company Apatit uses residual fuel oil to satisfy its heat energy requirements, which Apatit purchases from various suppliers based on short-term supply contracts. In 2008, 2009 and 2010, Apatit purchased 229.1, 225.1 and 244.2 thousand tonnes of residual fuel oil.

Products and Sales

The Group sells its fertilisers outside Russia through large and well-known international traders and distributors based on the best netback price (selling price less selling costs) that the Group can obtain for

its products. In addition, in 2010, the Group entered into a frame agreement (the “**IFFCO Agreement**”) with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited for the supply of up to 1 million tonnes of DAP per year during 2010-2013 at a formula-based price linked to FOB Tampa price. See “*Material Contracts—Frame agreement with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited*”. Export sales accounted for 81.9 per cent. of the Group’s fertiliser and feed phosphate sales in 2010, with the Group’s fertilisers and feed phosphate exported to more than 60 countries. The principal export markets for the Group’s fertiliser products are South Asia, Latin America and West Europe. The Group sells phosphate rock outside Russia directly to end customers in Europe. In 2010, export sales of the Group’s phosphate rock accounted for 42.4 per cent. of the Group’s external phosphate rock sales. Overall, export sales accounted for 65.1 per cent. of the Group’s total sales in 2010.

Most of the sales of the Group’s fertilisers in Russia are made directly to end customers through the Group’s domestic distribution platform comprising seven distribution centres located in the major agricultural regions of Russia. The Group also sells domestically third-party fertilisers through its distribution network. In addition, the Group sells approximately 10-20 per cent. of its domestically sold fertilisers on the Moscow Stock Exchange (the “**MSE**”). The Group commenced selling its fertilisers on the MSE in 2006 in order to establish benchmark domestic fertiliser prices and expand the customer base for the Group’s fertiliser products as the Group’s fertilisers are sold in Russia through the Group’s domestic distribution platform only in the seven agricultural regions of Russia in which the Group’s seven distribution centres are located. The Group management believes that the Group was the first fertiliser producer in Russia to sell fertilisers on the MSE. Most of the sales of the Group’s phosphate rock in Russia are made directly to end customers outside of the Group’s distribution network. In 2010, domestic sales of fertilisers and feed phosphate accounted for 18.1 per cent. of the Group’s fertiliser and feed phosphate sales, while domestic phosphate rock sales accounted for 57.6 per cent. of the Group’s external phosphate rock sales. Overall, domestic sales accounted for 34.9 per cent. of the Group’s total sales in 2010.

The Group normally sells its fertilisers one to two months in advance of production and organises its production processes, including production volumes for each type of fertilisers, based on the concluded sales contracts.

Phosphate-Based Fertilisers and Feed Phosphate

The Group produces Phosphate-Based Fertilisers and feed phosphate MCP and sells these products both on domestic and export markets. The following table sets forth information on the sales volumes of the Group’s Phosphate-Based Fertilisers and feed phosphate in 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	Volume	Share of total sales	Volume	Share of total sales	Volume	Share of total sales
	(in thousands of tonnes, except percentages)					
Export sales:						
DAP	1,375.8	44.3%	1,909.2	52.5%	1,763.7	45.9%
MAP	623.5	20.1%	367.6	10.1%	552.8	14.4%
NPK	95.3	3.1%	331.8	9.1%	495.8	12.9%
NPS	128.9	4.2%	52.5	1.4%	131.0	3.4%
APP	36.2	1.2%	26.6	0.7%	35.3	0.9%
MCP	54.6	1.8%	112.9	3.1%	165.5	4.3%
Total export sales	2,314.3	74.6%	2,800.6	77.0%	3,144.1	81.8%
Domestic sales:						
DAP	13.5	0.4%	13.5	0.4%	12.3	0.3%
MAP	274.3	8.8%	253.2	7.0%	168.9	4.4%
NPK	421.9	13.6%	487.6	13.4%	417.9	10.9%
NPS	0.3	—	0.1	—	1.1	—
APP	25.7	0.8%	15.5	0.4%	14.9	0.4%
Fertiliser mixtures	—	—	—	—	1.8	—
MCP	52.6	1.7%	64.5	1.8%	80.4	2.1%
Total domestic sales	788.2	25.4%	834.4	23.0%	697.4	18.2%
Total sales	3,102.5	100.0%	3,635.0	100.0%	3,841.5	100.0%

The following table sets forth information on the Group's export sales of Phosphate-Based Fertilisers and feed phosphate by region in 2008, 2009 and 2010. As the vast majority of the Group's export sales of Phosphate-Based Fertilisers and feed phosphate are made through traders, the Group normally does not know the end customer of its products. The information set forth below is prepared based on customs declarations.

	Year ended 31 December					
	2008		2009		2010	
	Volume	Share of total export sales	Volume	Share of total export sales	Volume	Share of total export sales
	(in thousands of tonnes, except percentages)					
Asia ⁽¹⁾	852.4	36.8	1,533.6	54.8	1,189.0	37.8
Europe	336.6	14.5	478.7	17.1	669.9	21.3
South America	785.4	33.9	267.0	9.5	629.3	20.0
Africa	211.8	9.2	360.1	12.9	251.9	8.0
CIS (except Russia)	128.1	5.5	121.2	4.3	220.0	7.0
North America	—	—	13.2	0.5	184.0	5.9
Australia	—	—	26.9	1.0	—	—
Total export sales	2,314.3	100.0%	2,800.6	100.0%	3,144.1	100.0%

(1) Includes sales pursuant to the IFFCO Agreement.

The Group sells MAP, DAP, NPK and NPS on export markets through traders, primarily Ameropa and Mekatrade, and distributors. Export sales of the Group's APP are made through traders as well as directly to end customers. Principal export market for the Group's APP is Europe. The principal purchasers of the Group's APP are Agrium Europe (Belgium), Yara UK (UK) and Magrisa Soluciones Agrícolas (Spain). More than 90 per cent. of the Group's APP sales are made based on short-term (average term one year) contracts. Contract terms normally provide for fixed sales volumes and either fixed prices for each shipment or a pricing formula. The Group has a policy of having representation through at least two traders/distributors in each country where it sells its fertilisers.

In 2008, 2009 and 2010, sales through Ameropa and Mekatrade accounted for 95.6 per cent., 85.5 per cent. and 81.1 per cent., respectively, of the Group's Phosphate-Based Fertilisers export sales, and 61.0 per cent., 62.1 per cent. and 55.9 per cent., respectively, of the Group's Phosphate-Based Fertilisers total sales, based on sales volume. No other trader or customer accounted for more than 5 per cent. of the Group's Phosphate-Based Fertilisers total sales in 2010. See *"Risk Factors—Risks Related to the Group's Business and Industry—The Group is reliant on two international traders for a large portion of its export sales of fertilisers and a deterioration of the Group's relationship with one or both of these traders could materially adversely affect the Group's business, results of operations, financial condition and prospects"*.

Phosphate Rock and Nepheline Concentrate

The Group company Apatit produces and supplies phosphate rock to the Group companies Ammophos and BMF, which use it as a raw material to produce Phosphate-Based Fertilisers and feed phosphate. Apatit also sells phosphate rock externally both on domestic and export markets. The following table sets

forth information on volumes of phosphate rock supplied by Apatit to Ammophos and BMF and sold to the Group's external customers in 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	Volume	Share of total	Volume	Share of total	Volume	Share of total
	(in thousands of tonnes, except percentages)					
Russia:						
Group companies:						
Ammophos ⁽¹⁾	2,421.8	33.5%	2,648.4	37.5%	2,661.4	32.9%
BMF ⁽²⁾	1,299.0	17.9%	1,607.3	22.8%	1,728.4	21.3%
Total consumed by Group companies	3,720.8	51.4%	4,255.7	60.3%	4,389.8	54.2%
External customers:						
URALCHEM	604.9	8.4%	393.2	5.6%	974.3	12.0%
Acron	557.4	7.7%	699.8	9.9%	700.4	8.6%
Minudobrenia (Rossosh) . . .	415.3	5.7%	436.6	6.2%	459.8	5.7%
Other	1,015.8 ⁽³⁾	14.0%	224.9	3.2%	387.1	4.8%
Total sold to external companies	2,593.3	35.8%	1,754.6	24.8%	2,521.7	31.1%
Total in Russia	6,314.1	87.2%	6,010.3	85.1%	6,911.5	85.3%
Export sales:						
Yara Norge (Norway)	465.1	6.4%	306.3	4.3%	391.0	4.8%
Prayon (Belgium)	333.5	4.6%	211.2	3.0%	291.8	3.6%
Thermphos Trading (Netherlands)	—	—	105.7	1.5%	88.6	1.1%
Other	124.7	1.7%	428.9	6.1%	418.7	5.2%
Total export sales	923.2	12.8%	1,052.1	14.9%	1,190.0	14.7%
Total	7,237.3	100.0%	7,062.4	100.0%	8,101.5	100.0%

(1) Includes phosphate rock (2008: nil, 2009: 217.1 thousand tonnes, 2010: 86.5 thousand tonnes) supplied by Apatit to Ammophos under tolling agreements, pursuant to which Ammophos for a fee processed phosphate rock into fertilisers and returned the fertilisers to Apatit, which subsequently sold them, principally in order to optimise cash flows within the Group.

(2) Includes phosphate rock (2008: nil, 2009: 392.0 thousand tonnes, 2010: 497.5 thousand tonnes) supplied by Apatit to BMF under tolling agreements, pursuant to which BMF for a fee processed phosphate rock into fertilisers and returned the fertilisers to Apatit, which subsequently sold them, principally in order to optimise cash flows within the Group.

(3) Primarily comprises sales to the broker OOO Trust-Broker (1,005.9 million tonnes), which sold the Group's phosphate rock mainly through the MSE both to domestic and export customers.

The Group principally sells phosphate rock directly to end customers. The Group's principal phosphate rock export market is Europe. The Group also sells small amounts of phosphate rock to customers in Israel and Japan. More than 95 per cent. of the Group's phosphate rock sales are made based on long-term (average term three years) contracts. Contract terms normally provide for fixed sales volumes and either fixed prices or a pricing formula which takes into account market price dynamics.

Apatit sells phosphate rock to the Group companies Ammophos and BMF at the same prices as to most of its other domestic customers. At present, Apatit is contractually obligated to sell phosphate rock to OJSC "Acron", OAO Dorogobuzh, OAO Voskresensk Mineral Fertilisers and ZAO ZMU KChKhK at prices that are indexed annually based on a formula that takes into account the Russian PPI. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group company Apatit may be regarded as natural monopoly and therefore may be exposed to various regulatory risks including state regulation of prices for its products*".

The Group sold 522.0 thousand tonnes, 469.8 thousand tonnes and 995.5 thousand tonnes of nepheline concentrate externally in 2008, 2009 and 2010, respectively.

Ammonia and Nitrogen-Based Fertilisers

Ammonia. The Group company Cherepovetsky Azot produces ammonia for its own use and sells ammonia to Ammophos, Agro-Cherepovets and BMF (in small volumes) as well as to third parties abroad, while BMF satisfies most of its ammonia requirements with purchases from third-party suppliers as it is located significantly further away from Cherepovetsky Azot than Ammophos and Agro-Cherepovets. The following table sets forth internal consumption and sales volumes of the Group's ammonia in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in thousands of tonnes)		
Ammonia produced by Cherepovetsky Azot	1041.3	1097.3	1043.1
Ammonia consumed by Cherepovetsky Azot	193.4	212.4	196.4
Ammonia sold to Ammophos	396.8	445.3	438.5
Ammonia sold to Agro-Cherepovets	265.2	274.5	265.8
Ammonia sold to BMF	12.9	11.0	1.0
Ammonia sold to third parties ⁽¹⁾	171.1	155.3	142.1
Changes in inventory	1.9	(1.1)	(0.8)

(1) Includes sales made pursuant to swap arrangements with other ammonia producers pursuant to which they supplied ammonia to BMF in exchange for Cherepovetsky Azot supplying ammonia to their customers.

Export sales of ammonia are primarily made to customers in Europe through international traders. The principal purchasers of the Group's ammonia are SIA VK Ekspedīcija (Latvia), Balderton Fertilisers (Switzerland) and Achema (Lithuania). More than 95 per cent. of the Group's ammonia sales are made based on short-term (average term one year) contracts. Contract terms normally provide for fixed sales volumes and either fixed prices for each shipment or a pricing formula.

The Group expects that its ammonia sales to third parties will decrease or stop once the new urea plant currently being constructed at Cherepovetsky Azot and expected to be completed in 2012 becomes operational, as the main raw material for the production of urea is ammonia.

Nitrogen-Based Fertilisers. The Group sells urea primarily on export markets. The following table sets forth sales volumes of the Group's urea in 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	Volume	Share of total sales	Volume	Share of total sales	Volume	Share of total sales
	(in thousands of tonnes, except percentages)					
Export sales	465.3	95.7%	468.1	99.8%	448.8	99.9%
Sales in Russia	20.7	4.3%	1.1	0.2%	0.3	0.1%
Total sales	486.0	100.0%	469.2	100.0%	449.1	100.0%

Export sales of the Group's urea are primarily made through international traders, mainly Transammonia AG (Switzerland), Ameropa AG (Switzerland) and Mekatrade Pte Ltd (Singapore). The principal export markets for the Group's urea are Western Europe, Africa, and Central and Latin America. All of the Group's sales of urea are made based on short-term contracts. Contract terms normally provide for fixed sales volumes and fixed prices.

The Group sells ammonium nitrate and ammonium nitrate-based fertilisers both on domestic and export markets. The following table sets forth sales volumes of the Group's ammonium nitrate and ammonium nitrate-based fertilisers in 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	Volume	Share of total sales	Volume	Share of total sales	Volume	Share of total sales
	(in thousands of tonnes, except percentages)					
Export sales:						
Ammonium nitrate	97.2	23.5%	186.3	41.1%	237.1	59.1%
Ammonium nitrate-based fertilisers	30.0	7.2%	—	—	29.9	7.5%
Total export sales	127.2	30.7%	186.3	41.1%	267.0	66.6%
Sales in Russia:						
Ammonium nitrate	287.2	69.3%	266.5	58.8%	134.0	33.4%
Ammonium nitrate-based fertilisers	—	—	0.1	—	0.3	0.1%
Total sales in Russia	287.2	69.3%	266.6	58.8%	134.3	33.5%
Total sales	414.4	100.0%	452.9	100.0%	401.3	100.0%

Export sales of the Group's ammonium nitrate and ammonium nitrate-based fertilisers are primarily made through international traders, mainly Transammonia AG (Switzerland), Ameropa AG (Switzerland) and Mekatrade Pte Ltd (Singapore). The principal export markets for the Group's ammonium nitrate and ammonium nitrate-based fertilisers are Western Europe, Africa, and Central and Latin America. All of the Group's sales of ammonium nitrate and ammonium nitrate-based fertilisers are made based on short-term contracts. Contract terms normally provide for fixed sales volumes and fixed prices.

Storage and Domestic Distribution Network

Storage

In order to maintain a stable production cycle and to accumulate sufficiently large product volumes for export shipments via large carriers, the Group's production facilities have fertiliser storage facilities with a total storage capacity of 187 thousand tonnes and phosphate rock storage facilities with a total storage capacity of 164 thousand tonnes. These storage facilities allow the Group to store up to approximately one half of the Group's phosphate rock and fertilisers monthly production volume (based on 2010 production levels). In addition, the Group leases a total of approximately 130 thousand tonnes of storage space at the ports through which the Group exports its products.

In addition, as part of the Group's distribution network, the Group company PhosAgro-Region LLC ("PhosAgro-Region") owns and operates 19 storage facilities in Russia with a total storage capacity of 270 thousand tonnes of fertilisers, and leases and operates additional storage space in Russia with a total storage capacity of 180 thousand tonnes of fertilisers. Each of the Group's storage facilities is connected to one or more rail freight terminals.

During the global economic downturn, the Group's storage facilities allowed the Group to avoid suspending its production processes, which are costly and time consuming to restart.

The Group's products may deteriorate if stored inadequately or for a period that is longer than the prescribed maximum storage period, which is normally six months. At present, the Group's products are stored at storage facilities on average for not more than five days.

Domestic Distribution Network

The Group company PhosAgro-Region owns and operates seven distribution centres in Russia located in the major agricultural regions of Russia which account for approximately 70 per cent. of the demand in Russia for MAP and NPK fertilisers, which are the most popular fertilisers in Russia. Four of the Group's seven distribution centres in Russia provide additional services such as blending various fertilisers produced by the Group to produce fertiliser with nutrients content levels according to the customer's specifications as well as delivery of the Group's products to the customer.

Transportation

Raw materials are principally delivered to the Group's processing and production facilities by rail. The delivery of the Group's products to customers domestically in Russia is principally done by rail, while the delivery of the Group's products to customers abroad is primarily done by rail with subsequent shipment by sea. Rail transportation of the Group's raw materials and products, storage of the Group's products at ports' storage facilities and loading the Group's products onto ships are arranged by the Group company FosAgro-Trans LLC ("**FosAgro-Trans**"), while sea/river transportation is arranged by the ports department of CJSC "PhosAgro AG" (the management company of the Group). FosAgro-Trans also provides transportation services to third parties.

Rail is used for nearly all deliveries of (i) phosphate rock produced by the Group to the Group's fertiliser production facilities, customers in Russia and customers outside Russia where subsequent transportation by sea is not required, (ii) nepheline concentrate produced by the Group to the Basel Cement Pikalevo, (iii) sulphur purchased from third-party suppliers to the Group's fertiliser production facilities, (iv) ammonia produced by the Group to the Group company Ammophos and ammonia purchased from third-party suppliers to the Group company BMF, (v) potassium chloride purchased from third-party suppliers to the Group's fertiliser production facilities, and (vi) the Group's fertiliser products to domestic customers and customers outside Russia where subsequent transportation by sea is not required.

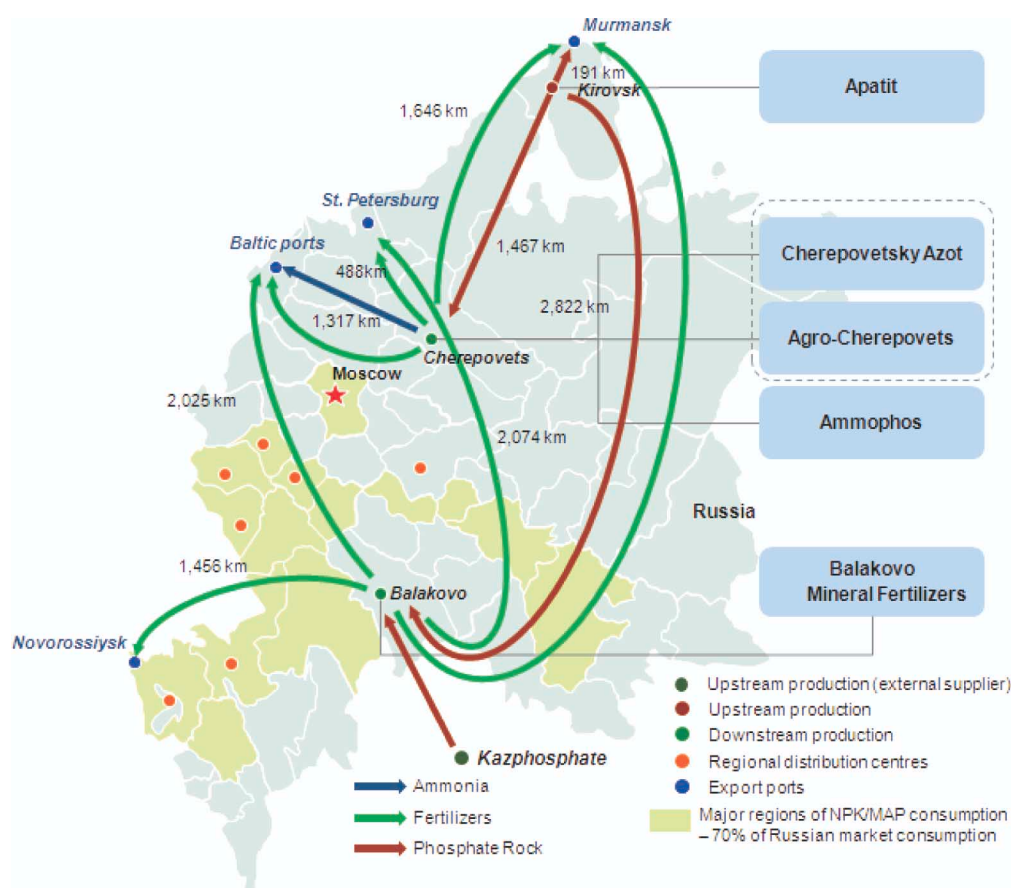
Apatite-nepheline ore extracted at the Group's underground mines is delivered to the Group's beneficiation plants by rail, whereas apatite-nepheline ore extracted at the Group's open-pit mines is first delivered by trucks to the Group's apatite-nepheline ore storage facility from which it is subsequently delivered by rail to the Group's beneficiation plants as the Group's open-pit mines are not directly connected by rail to the Group's beneficiation plants. Ammonia is transported from Cherepovetsky Azot to Agro-Cherepovets using a pipe network constructed, owned and operated by the Group.

The Group's phosphate rock is transported to customers outside Russia either by rail only or by rail to the port of Murmansk with the subsequent shipment by sea, while the Group's fertiliser products are shipped to customers outside Russia either by rail only or by rail with the subsequent shipment by sea through the ports of St. Petersburg, Murmansk, Novorossiysk and the Baltic ports (Kaliningrad port (Russia) and Tallinn port (Estonia)). The Group's ammonia is shipped to customers in markets outside Russia by rail to the Baltic ports with the subsequent shipment by sea.

Railway Transportation. Each of the Group's principal plants that produce end-products is connected to a train terminal. FosAgro-Trans arranges rail transportation for all of the Group's companies directly with Russian Railways. The Group normally enters into one-year contracts with Russian Railways. The Group pays Russian Railways in accordance with transportation tariffs set by Russian Railways. The Group owns and operates approximately 1,900 railcars, and leases and operates approximately 1,700 additional railcars from third-party transportation companies. The Group also uses on a trip-by-trip basis approximately 2,600 cargo railcars. In order to mitigate reliance on third-party railcar providers, the Group plans to increase its owned railcar fleet by 500 units by the end of 2011. The Group also owns approximately 930 cisterns used for transporting ammonia, acids and liquid fertilisers. A large fleet of owned and leased rail transport makes the Group less dependent on the availability of rail transport from First Cargo Company. As demand for cargo railcars in Russia exceeds supply, especially for deliveries to and from remote locations such as those where some of the Group's production facilities are located, having a large owned or leased rail transport fleet is important to the Group as it allows the Group to transport its products more effectively and minimise transportation delays.

The Group seeks to reduce its transportation costs by minimising empty runs of its railcar fleet. The Group's phosphate rock production facilities are located near the Murmansk port, through which the Group exports a large portion of its fertilisers. As a result, the Group is able to reduce its transportation costs by using the same railcars to transport phosphate rock from the Group's phosphate rock production facilities to the Group's fertiliser production facilities and to transport fertilisers from the Group's fertiliser production facilities to the Murmansk port. The Group monitors movements and locations of its railcars on a daily basis.

The following map sets out the location of the Group's principal mining and production facilities and the main transportation routes for the Group's raw materials and products, and illustrates how the Group is able to minimise its transportation costs by minimising empty runs of its railcar fleet.



Sea/River Transportation. Most of the Group's export sales are arranged through international traders and are made on an FOB basis, therefore transportation by sea of the Group's products after their delivery to sea ports is normally arranged by traders. The Group however arranges for the storage of its products at the ports' storage facilities and loading the Group's products onto carriers as well as generally coordinates the shipping process among the Group companies, Russian Railways, sea ports and ship owners. The Group normally enters into one-year contracts with ports.

The following table sets forth information on exports sales of the Group's fertiliser products by ports in which such products were loaded on ships.

	Year ended 31 December		
	2008	2009	2010
	(in thousands of tonnes)		
St. Petersburg (Russia)	1,490	2,049	1,810
Murmansk (Russia)	1,060	760	983
Novorosiysk (Russia)	42	260	570
Baltic ports ⁽¹⁾	28	24	122
Total	2,620	3,093	3,485

(1) Comprises Kaliningrad port (Russia) and Tallinn port (Estonia).

In addition, Ammophos owns and operates a river port on the Sheksna river, which allows it to receive certain raw materials and ship some of its products by river during navigable periods. In 2010, Ammophos shipped 130 thousand tonnes of fertilisers through its river port for delivery to the St. Petersburg international port, where these fertilisers were transferred to sea ships for subsequent delivery to export customers. Under the existing Russian legislation, only ships bearing Russian flag are allowed to enter Russian internal waterways. If this restriction is lifted so that ships bearing non-Russian flags are allowed

to enter Russian internal waterways, the Group's transportation costs are expected to decrease as it will no longer be necessary to transfer the Group's fertilisers to foreign ships in the St. Petersburg international port for subsequent delivery to export customers.

Research and Development

The Group company NIUIF is the only research institute in Russia specialising in research and development in the phosphate-based fertiliser industry with the focus on environmentally friendly and resource efficient technologies. Since the foundation of NIUIF in 1921, more than 80 plants producing sulphuric acid, phosphoric acid, fertilisers and/or industrial salts have been constructed and commissioned based on NIUIF developments. NIUIF employs approximately 80 people, many of whom hold advanced degrees.

The Group's research and development activities focus on developing new products and technologies, and on modernising the Group's production facilities in order to enhance their production capacities, efficiency and reliability. Most of these efforts result in the construction of new production lines at the Group's existing production facilities or in incremental improvements to the Group's current operations which are implemented in connection with operational maintenance of the Group's mining and extraction facilities. To the extent possible, the Group seeks to register any intellectual property rights that may result from these activities. NIUIF holds approximately 70 active patents covering most aspects of phosphoric and sulphuric acids production, refining and subsequent fertilisers production.

Examples of the Group's projects developed and implemented in cooperation with NIUIF include:

- launch of feed phosphate MCP production lines at BMF;
- construction of new sulphuric acid production lines and phosphoric acid production lines at Ammophos and BMF;
- expansion and modernisation of fertiliser production facilities at Ammophos and BMF;
- modernisation of production facilities at Ammophos and BMF so that both plants produce energy internally using steam generated during sulphuric acid production. See “—Energy”; and
- construction of a pipe network which allows to transport ammonia produced at Cherepovetsky Azot to Agro-Cherepovets instead of using rail transportation, which reduced transportation costs.

The Group spent a total of 546, 910 and 645 million roubles, or 0.6, 1.5 and 0.8 per cent. of its total revenue during 2008, 2009 and 2010, respectively, on research and development. Expenditure on research and development is expected to be approximately 1,107 million roubles in 2011.

Competition

The main products sold by the Group are fertilisers and phosphate rock.

Competition in Sales of Fertilisers

The fertiliser market is well-established and competitive.

There are two categories of competitors in the global fertiliser market: global market participants and local market participants. Global competitors, such as Mosaic (USA), usually have sophisticated distribution and logistics platforms and, as a result, typically sell their products in most key markets. Local companies are usually present only in one geographic market, or sometimes in neighbouring markets, and often benefit from the protective measures adopted by the governments of the states where they operate.

The Group's management believes that its key global competitors in the export fertiliser markets are Mosaic (USA), OCP (Morocco) and Yara (Norway). The Group's management believes that its key local competitors in the export fertiliser markets are EuroChem (Russia) and URALCHEM (Russia). The Group's management believes that its key competitors in the Russian fertiliser market are EuroChem (Russia), Acron (Russia), Minudobrenia (Rossosh) (Russia) and URALCHEM (Russia).

Competition in Sales of Phosphate Rock

The Group's management believes that its key global competitors in the export phosphate rock markets are OCP (Morocco) and GCT (Tunisia). The Group's management believes that it has no competitors in the Russian phosphate rock market as the only other Russian producer of phosphate rock is EuroChem,

which currently consumes internally most of the phosphate rock that it produces and currently does not sell phosphate rock to third parties in Russia. Nevertheless, the Group's management believes that EuroChem will become the Group's competitor in the Russian phosphate rock market once EuroChem starts selling its phosphate rock in Russia.

Environmental Protection

Similarly to other companies operating in the industries in which the Group operates, the Group's activities may have an adverse impact on the environment, including due to discharge of pollutants and hazardous materials into the atmosphere, discharge of polluted waste water into the environment and generation of waste, in particular gypsum, and hazardous materials that need to be disposed of or reused without material damage to the environment.

Apatit has an environmental protection department established and operating pursuant to the applicable Russian legislation. This department, among other things, monitors air emissions and air quality as well as water discharge and river and ground water quality. When necessary, dust suppression measures, such as water spraying and dust containment, are undertaken during mining and material handling operations. In order to improve the efficiency of air emissions control, Apatit carries out regular maintenance and replacement of ventilation systems. Ore crushing facilities are equipped with gas handling and dust capture systems. Emissions from the concentrate drying kilns are treated in a multi-stage cleaning system for abatement of dust and sulphur dioxide. According to the Competent Person's Report, Apatit's operations are in compliance in all material respects with the requirements of the applicable Russian environmental legislation. With the exception of a permit for water discharge which expired at the end of 2010, IMC concluded that Apatit has the necessary environmental permits, agreements and licences. The Group has applied for the new water discharge permit and expects to receive the permit in the near future. While Apatit's operations exceed some of the limits on water discharge, according to the Competent Person's Report, the impact does not appear to be material and is localised. In addition, Apatit's 2011 management plan includes measures to improve the efficiency of water treatment systems. For a more detailed description of the environmental issues facing the Group's apatite-nepheline ore mines and processing facilities, see "*Annex I: Competent Person's Report—Overview—Environmental Issues and Environmental Permitting*" and "*Annex I: Competent Person's Report—OAO Apatit—Environmental*".

The international consulting firms AMEC Overseas (Cyprus) Limited and AMEC Eurasia Limited (collectively, "AMEC") conducted an independent environmental and key occupational health and safety assessment of the Group's operations at Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets. This review included site visits to collect data and review operations, review of the available information and interviewing the Group's personnel. Based on its assessment, AMEC has concluded that (i) the reviewed companies possess all legally required licences and authorisations, including those relating to norms/limits on air emissions, wastewater discharge and solid waste disposal ("**permits**"); and (ii) the reviewed companies' operations are generally compliant with the permits' conditions and the applicable Russian legislation.

The Group's management believes that the Group is in compliance in all material respects with all applicable environmental legislation and safety laws and regulations, and is not aware of any past, current, pending or threatened material environmental claims against it. As of 31 March 2011, the Group did not establish any environmental liability provisions. The Group does not carry third-party liability insurance in respect of environmental claims. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group is subject to mining risks*" and "*Risk Factors—Risks Related to the Group's Business and Industry—Accidents involving the Group's products could cause severe damage or injury to property, the environment and human health, which could materially adversely affect the Group's business, results of operations, financial condition and prospects*".

Health and Safety

Mining of apatite-nepheline ore and production of phosphate rock, nepheline concentrate, ammonia and fertilisers can be dangerous activities. Similar to other companies operating in these industries, there is a general risk of accidents involving heavy equipment, machines, structures, explosives and hazardous materials used in these industries.

The Group considers the health and safety of its employees to be its most significant responsibility in connection with its operations. The Group follows Russian industry safety standards applicable to each of its operations. The Group strives to create a healthy and safe working environment at each of its mining

and production sites or facilities by assessing the potential risks faced by its employees and implementing appropriate safety measures. The Group also educates its personnel as to these risks through annual occupational safety workshops and seeks to ensure that they have a sufficient knowledge of workplace safety procedures before they are permitted to work on a site or in a facility. Areas of improvements exist and include stricter adherence by the employees to the existing health and safety policies.

However, accidents involving the Group's employees have occurred in the past. A total of 27, 29 and 29 workplace-related accidents occurred at the Group's apatite-nepheline ore mines in 2008, 2009 and 2010, respectively, of which 13, 3 and 5, respectively, resulted in deaths. In October 2008, one employee was killed as a result of a fall of a balmstone (an overhanging ledge) during preparatory works for blasting activities. In December 2008, premature detonations during apatite-nepheline ore extraction resulted in the death of 12 employees, while in September 2009, during blasting activities inside a mine, one employee was killed and two employees were injured. In May 2010, an operator of load-haul-dump machine was killed as a result of a malfunction of the machine's loading mechanism. In October 2010, gases and dust caused by blasting activities resulted in the low visibility and, as a result, one employee was killed after he fell in a mill hole. Finally, in November 2010, a breach of safety rules by a group of employees during apatite-nepheline ore extraction resulted in a death of one employee and injuries to other.

As part of its environmental and key occupational health and safety assessment of the Group's operations at Ammophos, BMF, Cherepovetsky Azot and Agro-Cherepovets, AMEC has concluded that (i) the industrial safety and emergency response systems at these companies are organised in accordance with the applicable legal requirements, and (ii) occupational health and safety systems at these companies are organised in accordance with the applicable Russian legal and regulatory requirements.

Although the Group's management believes that the Group's operations have sufficient safety measures in place, the nature of the Group's business is such that accidents may occur. Moreover, while the Group strives to reduce its injury rates by implementing safety standards at its mining and production sites and facilities, there can be no assurance that accidents in the future will not occur. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group is subject to mining risks*" and "*Risk Factors—Risks Related to the Group's Business and Industry—Accidents involving the Group's products could cause severe damage or injury to property, the environment and human health, which could materially adversely affect the Group's business, results of operations, financial condition and prospects*".

Employees

The following table sets forth information on the average number of employees of the Group in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
Phosphate rock division	12,895	13,116	13,296
Phosphate-Based Fertilisers and feed phosphate division	7,933	7,726	7,880
Ammonia and Nitrogen-Based Fertilisers division	3,015	3,012	2,920
Storage and distribution network	399	390	389
Transportation unit	71	72	76
Research and development unit	98	90	108
Other ⁽¹⁾	388	445	505
Total for the Group	24,799	24,851	25,174

(1) Includes employees at the Company, management company OJSC PhosAgro AG and certain other companies within the Group.

The Group did not conduct any significant redundancies during 2008-2010.

There are five trade unions (at Apatit, Ammophos, BMF, Cherepovetsky Azot and NIUIF) of which the Group employees are members. The following table sets forth information on the Group employees' trade

union membership as of 1 January 2011 as well as effective and expiry dates of the Group's collective bargaining agreements.

Group Company	Union Membership	Collective Bargaining Agreement Signed	Collective Bargaining Agreement Expires
Apatit	94.5%	27 March 2007	27 March 2013
Ammophos	70.0%	30 March 2011	30 March 2014
BMF	88.0% ⁽¹⁾	14 April 2010	14 April 2013
Cherepovetsky Azot	63.0%	11 March 2011	11 March 2014
NIUIF	62.0%	27 February 2009	27 February 2012

(1) All BMF employees are beneficiaries under the BMF collective bargaining agreement regardless of their membership in the BMF trade union.

All of the Group's trade unions are part of regional chemical industry trade unions as well as part of the Association of Mineral Fertiliser Producers Trade Unions.

The Group's collective bargaining agreements establish basic principles of labour relations between the Group and its employees, employees' labour rights and obligations, and rights and obligations of the Group's trade union.

The Group's management considers its relations with these trade unions and with employees to be satisfactory. The Group has not experienced any industrial action by its employees in recent years.

The Group participates in a number of community relations, educational, charity and other social responsibility projects. The Group spent approximately a total of 760.5 million roubles, 841.3 million roubles and 1,607.6 million roubles on such projects in 2008, 2009 and 2010, respectively, and plans to spend 1,513.6 million roubles on such projects in 2011.

Insurance

The Group has obtained insurance for its mining and production facilities that it believes covers property and business interruption risks at Russian industry standard levels. For instance, the Group has insurance covering some of the Group's specialised transportation equipment (Caterpillar) used at the Group's open-pit mines as well as the Group's truck fleet and various other transportation machinery used at the Group's mines. Coverage levels vary depending on insurance policy, and the value of insured property exceeds \$52 million. The main insurers are Rosgosstrakh and Progress-Garant. The Group also has insurance coverage in respect of some of its railcars. The value of insured railcars is approximately \$10.8 million dollars. The main insurer is ROSNO. The Group's civil liability as an operator of dangerous industrial facilities (including mines) and of water development facilities is insured by Sogaz, Progress-Garant, Uralsib and AlfaStrakhovanie pursuant to a policy for the aggregate coverage of \$13.6 million. The Group holds certain other insurance policies including compulsory insurance policies required by Russian law. Insurance against certain risks (including liabilities for environmental pollution or interruption of certain business activities) may not be available in Russia at a reasonable cost or at all or may be excluded as being force majeure (e.g. flooding). As a result, the Group does not carry such insurance. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group does not carry all of the types of insurance coverage customary in other countries for a business of the Group's size and nature, and the Group may be unable to obtain adequate insurance cover*".

Litigation

From time to time, the Group is involved in litigation in the ordinary course of its business activities such as disputes with contractors, suppliers and tax authorities.

Neither the Company, nor any member of the Group, is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Group's management is aware) during the 12 months preceding the date of this Prospectus that may have, or have had, a significant effect on the Group's financial position or profitability.

In April 2011, a claim was filed by the Belarussian fertiliser producer OJSC Gomel' Chemical Plant with the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation that demands that the Group supply 500 thousand tonnes of phosphate rock to the claimant in 2011 at a price of 6,500 roubles per tonne on FCA station Titan or Apatity basis or

7,720 roubles per tonne on CPT station Centrolit (Belarus) basis. In the three months ended 31 March 2011, the Group's revenue per tonne from export sales of phosphate rock was 8,043 roubles. In addition, the Group has no spare phosphate rock production capacity to satisfy the claim, as most of the phosphate rock expected to be produced by the Group in 2011 is subject to existing sale contracts. If the claim is successful, the Group's revenue may be adversely affected if the phosphate rock prices at which the Group can sell its phosphate rock elsewhere are higher than those offered by the claimant. It is difficult to calculate such potential decrease in revenue at present as phosphate rock prices are subject to fluctuation. In addition, if the claim is successful, the Group may not be able to perform its obligations under the existing phosphate rock sale agreements and may be liable for damages and/or penalties as a result of such non-performance.

In March 2011, the Russian tax authority performed a tax audit of the Group company BMF for 2008 and 2009 fiscal years. Following the audit, the tax authority made a claim against the Group for unpaid taxes in the aggregate amount of approximately 700 million roubles. The Group contested this claim and appealed to the regional tax authority, in accordance with the tax appeal and review process. In May 2011, the appeal was denied. The Company is currently in the process of submitting an appeal to the appeal court. In the past, decisions of the regional appeal court which will review this claim were generally in taxpayer's favour in similar cases in the past with respect to some of the issues raised by the tax authority. The appeal court's decision is expected to be rendered by the end of 2011. The Group's management believes that the claim has no merit and intends to defend its position vigorously.

DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

Overview

The Company's management is performed by the General Shareholders' Meeting, the Board of Directors and the Chief Executive Body.

The ultimate decision making body is the General Shareholders' Meeting. The Board of Directors, which is responsible for the general management of the Company and decides on any issues that do not belong to the exclusive competence of the General Shareholders' Meeting. The Chief Executive Body (or General Director) is responsible for the day-to-day operations of the Company. A brief description of each of the General Shareholders' Meeting, the Board of Directors and the General Director is set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is the Company's supreme governing body. General Shareholders' Meetings are convened by the Board of Directors at least once a year. For more details, see "*Description of Share Capital and Certain Requirements of Legislation—General Shareholders' Meetings*".

Board of Directors

The number and particular members of the Board of Directors of the Company are determined by the General Shareholders' Meeting. Currently the Board of Directors consists of the seven members listed below. All members were elected or re-elected by the General Shareholders' Meeting on 12 May 2011. Members are elected annually for a term of one year. The business address of each of the members of the Board of Directors is Leninsky prospekt 55/1, building 1, Moscow, 119333, Russian Federation.

Name	Year of Birth	Position	Year Appointed
Sven Ombudstvedt	1966	Chairman of the Board of Directors, Independent Director	2011
Igor Antoshin	1963	Deputy Chairman of the Board of Directors	2006
Vladimir Litvinenko	1955	Member of the Board of Directors	2010
Vasiliy Loginov	1962	Member of the Board of Directors	2011
Ivan Rodionov	1953	Member of the Board of Directors, Independent Director	2003
Maxim Volkov	1972	Member of the Board of Directors, CEO	2007
Marcus Rhodes	1961	Member of the Board of Directors, Independent Director	2011

Sven Ombudstvedt is an independent non-executive director of the Board of Directors. He holds a Bachelor of Science degree in Business Administration from Pacific Lutheran University and a Master of Science degree in International Management from the Thunderbird School of Global Management, both in the United States. Mr. Ombudstvedt has served as a Chief Executive Officer of Norske Skogindustrier ASA since 1 January 2010. Prior to that he was at SAS, where he was Senior Vice President from 2008 to 2009. From 2006 to 2008 he served as a Chief Financial Officer and Head of Strategy at Yara International ASA. From 2003 to 2006, he served as a Senior Vice President of Upstream Operations at Yara International ASA. Mr. Ombudstvedt has been the Chairman of the current Board of Directors since May 2011.

Igor Antoshin graduated from Saint Petersburg State Mining Institute in 2007. Mr. Antoshin has been the CEO of the limited liability company "Engineering center of PhosAgro" since 2009. From 2002 to 2005 and from 2006 to 2009 he was the CEO of the Company. From 2005 to 2006, Mr. Antoshin acted as the CEO of CJSC "PhosAgro AG". Mr. Antoshin acted as the member of the board of directors of the Company between 2002 and 2003. Mr. Antoshin has been a member of the current Board of Directors of the Company since June 2006.

Vladimir Litvinenko graduated from Leningrad Mining Institute named after G.V. Plekhanov in 1982. From 2006 until present, Mr. Litvinenko has been the President of St.-Petersburg State Mining Institute named after Plekhanov. Mr. Litvinenko was the Chairman of the Board of Directors of the Company from June 2010 until May 2011.

Vasiliy Loginov graduated from the Riga Highest Military Aviation and Engineering Institute (Latvia) in 1984. He continued his studies at the Highest School of the State Security Department (1984-1986) and then at the School of External Intelligence Service of the Russian Federation (1990-1992). In 2006 and 2007, he acted as the member of the board of directors of OJSC Scientific and Research Institute on Fertilizers and Insecto-Fungicide named after Professor Y. Samoilov. From 2005 to 2006, Mr. Loginov worked as first deputy CEO of sales and logistics at PhosAgro AG, and from 2006 to 2008 he acted as first deputy CEO of CJSC “PhosAgro AG”. Since 2006 he has also worked as the member of the board of directors of CJSC “PhosAgro AG”. Mr. Loginov had the following positions at PhosAgro AG since 2008 until now: executive director, first deputy CEO, first deputy CEO of sales and foreign affairs, and director for sales and foreign affairs. Mr. Loginov has been a member of the board of directors of the Company since 2011.

Ivan Rodionov was born in 1953 in Moscow. He graduated from Moscow State University (Lomonosov) in 1979. Mr. Rodionov is an independent non-executive director of the Board of Directors. Since 2003 he has also worked as a professor in the National Research University Higher School of Economics and since 2006 in Russian State University for the Humanities. From 2004 to 2006 he was the managing director of AIG-Interros RCF Advisor, the managing company of AIG-Interros Russia Century Fund. From 2005 to 2007 he acted as a member of the board of directors of Public Joint Stock Company Moscow City Telephone Network. Mr. Rodionov serves as a member of the board of directors for PJSC EnergoMashinostroitelny Alliance, OJSC IBS Group Holding, OJSC North-West Telecom, OJSC AgroGard-Finance, SVYAZINVEST Telecommunication Investment Joint-Stock Company, OJSC Rostelecom and OJSC IC Rusinvest. Previously he acted as the managing director of AIG Brunswick Capital Management, the managing company of AIG Brunswick Millenium Fund, Moscow. Mr. Rodionov has been a member of the current Board of Directors of the Company since 2004.

Maxim Volkov graduated from Baltic State Technical University in 1997. Mr. Volkov has been the CEO of the Company since 2009. From 2006 to 2009 he was the CEO of CJSC “PhosAgro AG”. He also acted as the CEO of the Company from 2005 to 2006. From 2003 to 2005, Mr. Volkov worked both as the economic and finance director with CJSC “PhosAgro AG” and the deputy CEO of the Company. Mr. Volkov acted as the member of the board of directors of the Company between 2002 and 2003 and has been a member of the current Board of Directors of the Company since 2007.

Marcus Rhodes is an independent non-executive director of the Board of Directors. He graduated from the University of Loughborough in 1982 with a degree in economics. Mr. Rhodes qualified as a Chartered Accountant in 1986 and is a member of the Institute of Accountants in England & Wales (“ICAEW”) and is a member of the non-executive director group of the ICAEW. He was an audit partner for Arthur Andersen from 1998 to 2002 and subsequently for Ernst & Young for 6 years from 2002 until he retired from the profession in 2008. He has spent the last 20 years working in Russia, Ukraine and Central Asia. He is currently an independent director and Chairman of the audit committee for Wimm Bill Dann Foods, Rosinter Group, Cherkizovo Group, Tethys Petroleum and the Russian Sea Group. Mr. Rhodes has been a member of the current Board of Directors since May 2011.

The Board of Directors is responsible for the general management of the Company and it organises and manages the operations of the Company.

The Board of Directors is normally elected at the annual General Shareholders’ Meeting by cumulative voting, unless the appointment of the previous Board of Directors was terminated and a new Board of Directors was appointed at an extraordinary General Shareholders’ Meeting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by that shareholder, multiplied by the number of members of the Board of Directors, and the shareholder may cast all their votes in favour of one or more candidates. Before the expiration of their term, the members of the Board of Directors may be removed at any time by a majority vote at the General Shareholders’ Meetings.

The Board of Directors has the authority to decide, among other things, on the following:

- determination of the Company’s development strategy and business priorities;
- convening annual and extraordinary General Shareholders’ Meetings, except in certain circumstances set out in the Joint Stock Companies Law and the Company’s charter;
- issuances of the Company’s bonds and other securities, in accordance with the Charter and the Joint Stock Companies Law; and

- other issues, in accordance with the Joint Stock Companies Law and the Company's charter.

For more details, see “*Description of Share Capital and Certain Requirements of Russian Legislation—Board of Directors*”.

Senior Managers

The following table sets forth the name, year of birth and position of each of the Company's senior managers (“**Senior Managers**”). Unless indicated otherwise, all Senior Managers are employed by CJSC “PhosAgro AG”, the management company of the Group.

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Year Appointed</u>
Boris Levin	1963	Head of Strategy	2010
Roman Osipov	1971	Chief Financial Officer	2009
Aleksey Sirotenko	1969	Head of Legal, OJSC “PhosAgro”	2010
Aleksey Grigoriev	1962	Executive Director	2011
Vasily Loginov	1962	Head of Sales and Foreign Affairs	2008
Mikhail Rybnikov	1975	Head of Operations	2011

Boris Levin was born in 1963. He graduated from Mendeleev Moscow University of Chemical Technology. Mr. Levin has been the Head of Strategy at CJSC “PhosAgro AG” since 2010. From 2005 to 2006 he worked as the deputy CEO of OJSC “PhosAgro” for strategic development, then as the deputy and first deputy CEO of CJSC PhosAgro AG for strategic development. Previously he held the position of CEO at OJSC NIUIF. Mr. Levin joined PhosAgro in 1999.

Roman Osipov was born in 1971. He was appointed the CFO of CJSC “PhosAgro AG” in 2009. He had previously worked as the company's deputy CFO since 2008. Before joining the Group, Mr. Osipov worked for GAZ Group in various financial management positions including the CFO of LCV Division. He also worked for Ernst & Young and Arthur Andersen as an auditor and a senior consultant. Mr. Osipov graduated from the Baltic State Technical University named after Ustinov and has a master's degree from the LETI-Lovanium International School of Management.

Aleksey Sirotenko was born in 1969 in Sumy, Ukraine. He graduated from the law faculty of Moscow State University named after Lomonosov in 1995. He has been the Head of Legal at CJSC “PhosAgro AG” since 2011 and the deputy CEO for corporate and legal matters of OJSC “PhosAgro” since 2010.

Aleksey Grigoriev was born in 1962. He graduated from Saint-Petersburg Mining University named after Plekhanov in 1984. Mr. Grigoriev has been the Executive Director of CJSC “PhosAgro AG” since 2011. From 2010 to 2011 he was the General Director of CJSC “Phosagro AG”. From 2007 to 2010, Mr. Grigoriev acted as the director of the Saint-Petersburg branch of CJSC “PhosAgro AG” and managed LLC PhosAgro-Trans. In 2007 he was elected to the Murmansk Regional Duma, a regional parliament. He previously held a position of the General Director and the member of the board of directors of Apatit. From 2007 to 2010, he also was a member of the board of directors of OJSC Khibinskaya Teplovaya Kompaniya. Mr. Grigoriev serves as a member of the board of directors for OJSC Giproruda.

Mikhail Rybnikov was born in 1975 in Moscow. He graduated from Moscow State University named after Lomonosov with a degree in economics. Mr. Rybnikov has been the deputy Executive Director of CJSC PhosAgro AG since 2011. He has been at CJSC “PhosAgro AG” since 2006, having served as a director for economics and finance and Executive Director. In 2004-2006 he held the position of director for economics and finance at Apatit. Previously, he was CFO at Ammophos and worked as deputy CEO for economics and finance of OJSC Voskresensk Mineral Fertilizers.

The business address of each of the Senior Managers is Leninsky prospekt 55/1, building 1, Moscow, 119333, Russian Federation.

Other Directorships

In addition to their directorships of the Company and certain subsidiaries, the Directors and Senior Managers have held the following directorships within the past five years.

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
Vladimir Litvinenko	President of St.-Petersburg State Mining Institute named after Plekhanov	—
Igor Antoshin	LLC “Engineering center of PhosAgro”	—
Ivan Rodionov	Svyazinvest IK Rusinvest North-West Telecom IBS Group Energomashinostroitelnny Alliance Rostelecom AgroGard-Finance	AIG-Interros RSF Adviser LTD AIG Brunswick Capital Management MGTS
Sven Ombudstvedt	Norske Skoginsustrier ASA Western Bulk Saferoad AS	Eastern Farms Energize AS SCD ASA E-star Property TMGI Rossosh Trafalgar House Pension Fund Qatar Fertiliser Company Trinidad Nitrogen Company Yara
Marcus Rhodes	Wimm Bill Dann Foods Rosinter Group Cherkizovo Group Tethys Petroleum Russian Sea Group Spartacus Private Equity Group Rusagro	Ernst & Young
Roman Osipov	Apsis Globe	LDV Holdings Limited LDV Group Birmingham Pressing Limited
Evgeny Ivanov	CJSC “Rin-Brok” LLC Russian-Irish Company Storsack Technology	—
Aleksey Grigoriev	OJSC Giproruda	OJSC Khibinskaya Teplovaya Kompaniya

Interests of the Members of the Company’s Board of Directors and the Senior Managers

The following table sets out the members of the Board of Directors who directly own ordinary shares in the Company as of the date of this Prospectus, and after completion of the Offering. See “*Principal and Selling Shareholders*”:

No.	Name	Position	Number of Ordinary Shares before the Offering		Number of Ordinary Shares after the Offering	
			Number of Ordinary Shares	Shareholding in the total charter capital of the Company (per cent.)	Number of Ordinary Shares	Shareholding in the total charter capital of the Company (per cent.)
1.	Igor Antoshin	Director	248,954	2.01	248,954	2.01
2.	Vladimir Litvinenko	Director	622,386	5.02	622,386	5.02
3.	Maxim Volkov	Director	124,477	1.00	131,619 ⁽¹⁾	1.06

- (1) Maxim Volkov intends to purchase Shares worth approximately \$2 million immediately following completion of the Offering in the after-market.

None of the members of the Company's Board of Directors or Senior Managers hold options in respect of the Company's shares.

None of the members of the Company's Board of Directors or Senior Managers are related to one another for the purposes of the Prospectus Rules.

There are no potential conflicts of interest between any duties owed by members of the Company's Board of Directors or Senior Managers to the Company and their private interests and/or other duties.

General Director

Executive Body

Pursuant to Russian legislation, the Company's charter the Company's day-to-day activities are managed by the General Director of the Company (hereinafter also the "**Chief Executive Officer**" or the "**CEO**"), which is the Company's sole and chief executive body. According to the Company's charter, the sole executive body or the management company is appointed for one year but may be dismissed by the decision of the Board of Directors at any time. Since 2009, Maxim Volkov has acted as the Chief Executive Officer of the Company.

All matters of the Company's day-to-day activities are within the authority of the CEO of the Company, except for the matters which are subject to the approval at a General Shareholder's Meeting or by the Company's Board of Directors. The CEO is also responsible for carrying out the decisions of the General Shareholder's Meeting and the Board of Directors. Among other things, the CEO is responsible for the following:

- deciding on all matters which do not fall under the competence of the General Shareholders' Meeting or the Board of Directors;
- hiring and removing of the Company's personnel;
- disposing of the Company's property pursuant to the Charter and the relevant legislation.

For more details please see "*Description of share capital and certain requirements of Russian legislation—Chief Executive Officer*".

Review Committee

The Company's Review Committee supervises the Company's financial and operational activities and assesses the accuracy of its financial reporting and accounting under Russian law. The Review Committee consists of three members who are nominated and elected by the General Shareholders' Meeting for a one-year term. The Review Committee currently consists of its Anna Petrova, Alexander Popov and Vladimir Yezov.

For more details please see "*Description of share capital and certain requirements of Russian legislation—Review Committee*".

Corporate Governance

The Company is in compliance with the corporate governance requirements applicable to it as a Russian public company listed on the Russian stock exchanges. As a result of the Company's admission to quotation list "V" on MICEX and admission to trading on RTS, the Company must comply with a number of corporate governance requirements from the date of listing, including (i) the obligation to have at least one independent director on the Board of Directors, (ii) the existence of an audit committee, (iii) the adoption of insider trading rules, and (iv) the implementation of internal regulations. The Company is in full compliance with these requirements. In addition, the Company observes the code of corporate conduct, as recommended by the FSFM.

In addition, the Company's internal regulations provide for the creation of certain committees of the Board of Directors. These committees are not separate management bodies but are advisory bodies, which

consider the principal issues on the agenda of the Board of Directors meetings in advance. The Company's internal regulations provide for the following committees:

Audit Committee

The Audit Committee supervises the Group's financial and accounting activities and reviews and evaluates the Group's financial statements prepared by the Group and audited by the Group's external auditor, as well as evaluates internal control procedures. The Audit Committee consists of not less than three members. It normally consists of the members of the Board of Directors and is chaired by an independent director. The Audit Committee currently consists of its Chairman (Marcus Rhodes), Sven Ombudstvedt and Ivan Rodionov. All three Committee members are independent directors.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee is accountable to the Board of Directors. Its main objectives are: (a) developing the Company's policy in relation to organising the activity and motivation of the Board of Directors and (b) developing and supervising the implementation of the staff policy in relation to the Company's senior management. The Remuneration and Human Resources Committee advises the Board of Directors on various issues in relation to the above mentioned matters. The composition of the Committee is determined by the Board of Directors by a majority vote for a period up to the next annual General Shareholders' Meeting. However, the Board of Directors may at any time remove the Committee members. The Chairman of the Committee is designated by the Board of Directors and must be independent or non-executive member of the Board of Directors. The Committee currently consists of its Chairman (Ivan Rodionov), Sven Ombudstvedt and Igor Antoshin. Two of the three Committee members are independent directors.

Strategy Committee

The Strategy Committee assists the Board of Directors, among other things, in the supervision of the development of the Group's mid-term and long-term strategy and related processes including reviewing major innovative and investment programs and projects. It also prepares suggestions in relation to corporate governance, reviews the compliance with the applicable legislation in relation to corporate governance, and provides opinion on draft decisions of the Board of Directors that affect material interests of the shareholders and investors. The composition and Chairman of the Committee are designated by the Board of Directors for a period up to the next annual General Shareholders' Meeting. However, the Board of Directors may remove any member of the Committee at any time. At present, the Strategy Committee consists of its Chairman (Vladimir Litvinenko), Igor Antoshin, Maxim Volkov and Sven Ombudstvedt. One of the four Committee members is an independent director.

Environmental, Health and Safety Committee

The purpose of the Committee is to provide oversight of the Group's performance regarding protection of the environment and occupational health and safety, including: (i) the Group's compliance with environmental, health and safety legal and regulatory requirements; (ii) the Group's promulgation and enforcement of policies, procedures and practices relative to protection of the environment and health and safety of employees, contractors, customers and the public; (iii) the plans, programs and processes established by the Group to evaluate and manage such risks to its business, operations, and products; (iv) such other duties as assigned to it from time to time by the Board. At present, the Environmental, Health and Safety Committee consists of its Chairman (Igor Antoshin), Maxim Volkov, Vladimir Litvinenko and Vasiliy Loginov.

Environmental, Health and Safety Committee advises the Board of Directors on matters relating to environmental protection as well as health and safety of the Group's employees. The composition and Chairman of the Committee are designated by the Board of Directors for a period up to the next annual General Shareholders' Meeting. However, the Board of Directors may remove any member of the Committee at any time. At present, the Environmental, Health and Safety Committee consists of its Chairman (Igor Antoshin), Vladimir Litvinenko, Maxim Volkov and Vasiliy Loginov.

Compensation

The aggregate amount of remuneration paid by the Company to members of its board of directors and Senior Managers for services in all capacities provided to the Group during the year ended 31 December 2010 was 121.4 million roubles in salary and bonuses.

There are no amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or other benefits to such persons.

Employment Contracts with Senior Managers

Each Senior Manager is entitled to the statutory termination benefits in accordance with Russian law, which may include, among other things, the payment of two weeks' to three months' salary upon termination. However, if the person has been dismissed on any of the grounds listed below, no termination benefits are payable.

Each Senior Manager may resign by giving the Company two weeks' written notice, except for the CEO who must give one month's notice. The Company may terminate the employment of any of these persons, including the CEO, if the person:

- (a) commits a serious or persistent breach of his or her duties;
- (b) is guilty of any gross misconduct in connection with the handling of money or valuables;
- (c) takes a decision without obtaining proper authorisation in accordance with internal procedures that causes damage to property;
- (d) is subject to any criminal sanction or restriction as a result of which he or she can no longer perform his or her duties;
- (e) becomes disqualified or prohibited by a regulatory authority on administrative grounds from performing his or her duties;
- (f) becomes unable to perform his or her duties for medical reasons as evidenced by a valid medical certificate;
- (g) performs his or her duties on the basis of a special authorisation from a governmental authority which is terminated, suspended or revoked; or
- (h) becomes incapable of performing his or her duties due to other circumstances as provided for under Russian law.

In addition to the grounds for dismissal listed above, the Company may also terminate the employment of the CEO in circumstances where he:

- (a) fails to comply with a decision of a General Shareholders' Meeting;
- (b) executes transaction involving the Company's property in violation of Russian law requirements; or
- (c) fails to perform the duties stipulated in his contract of employment, or performs those duties inadequately.

The Company does not provide pension, retirement or similar benefits to the members of its Board of Directors or Senior Managers other than as stipulated by Russian law.

Financial obligations of the directors and senior management in relation to the Company

As of the date of the Prospectus there are no outstanding loans provided by the Company to the members of its Board of Directors and Senior Managers.

Litigation Statement about Directors and Officers

As of the date of this Prospectus, none of the members of the Company's Board of Directors or Senior Managers during at least the previous five years:

- have had any convictions in relation to fraudulent offenses;

- have held an executive function in the form of a senior manager or a member of the administrative, management or supervisory body of any company at the time of, or preceding, a bankruptcy, receivership or liquidation of such company; or
- have been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has been disqualified by a court from acting as a member of an administrative, management or supervisory body of a company or from performing a management role at any company.

RELATED PARTY TRANSACTIONS

The following is a summary of the Company's transactions with related parties from 1 January 2008 to the date of this Prospectus. For details of these transactions, please refer to Note 32 of the Audited Consolidated Financial Statements and Note 22 of the 2011 Interim Financial Statements.

General Matters

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions or these parties are under common ownership or control, as defined in IAS 24 *“Related Party Disclosures”*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company is, and has been, a party to various agreements and other arrangements with certain related parties, which are shown and described in more detail below.

Transactions with Related Parties

Transactions and balances with associates

Transactions with associates

The following table sets forth transactions with associates in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)				
Sales of goods and services	157	187	345	86	476
Sales of equity investments ⁽¹⁾	—	—	—	—	6,123
Purchases of goods and services	(1,204)	(1,564)	(2,076)	(522)	(719)

(1) Relates to a sale of shares in one of the Group's subsidiaries to PhosInt Limited, an associate.

Sales of goods and services primarily comprise sales of fertilisers to LLC “FOSAGRO-UKRAINE” which, prior to 2011, was a subsidiary of the Group and is currently an associate of the Group in which the Group owns a 40 per cent. interest. (see Note 13 to the Audited Consolidated Financial Statements) as well as miscellaneous services rendered by Apatit to UEDC.

Purchases of goods and services principally include purchases by Apatit of electricity from OJSC Unified Energy Distribution Company—CENTER (“UEDC”), an associate of the Group in which the Group owns a 50 per cent. interest. The energy department of Apatit was spun off to become a separate new legal entity, UEDC, in order to gain access to the wholesale electricity market. In addition to sales to Apatit, UEDC supplies electricity to third parties.

Balances with associates

The following table sets forth balances with associates as of 31 December 2008, 2009 and 2010 and 31 March 2011.

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			
Current loans issued	—	—	—	2,758 ⁽¹⁾
Receivables	44	53	131	589
Payables	—	(26)	(26)	(83)
Dividends receivable	—	—	—	1,840 ⁽²⁾

(1) Represents a loan in the amount of 2,758 million roubles issued to PhosInt Limited, a Group's associate, in March 2011 and repaid subsequent to 31 March 2011.

(2) Represents a dividend receivable from PhosInt Limited in the amount of 1,840 million roubles, which has been paid subsequent to 31 March 2011.

Transactions and balances with other related parties

Transactions with other related parties

The following table sets forth transactions with other related parties in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(RUB million)				
Assignment of receivables to a related party	—	—	1,561	—	—
Sales to related parties	2,236	563	563	284	231
Purchases of goods and services	(122)	(164)	(163)	(41)	(51)
Interest income from related parties	177	266	131	52	36

Assignment of receivables to a related party represents the amount due assigned by Apatit to LLC “PhosAgro-Invest”, a related party to the Group as some members of the Group’s Board of Directors are also members of the board of directors of LLC “PhosAgro-Invest”. These receivables were redeemed in full in March and April 2011.

Sales to related parties in the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011 mainly comprise sales of fertilisers to various entities of AgroGard group, which comprises three subsidiaries of OJSC “Agro-Gard Finance”. In 2008, the Group also sold fertilisers in the aggregate amount of 647 million roubles to various Region-Agro companies that were related parties to the Group. The remaining sales to related parties relate to sales of fuel and rent of premises to certain related parties located in Kirovsk.

Balances with other related parties

The following table sets forth balances with other related parties as of 31 December 2008, 2009 and 2010 and 31 March 2011.

	As of 31 December			As of 31 March
	2008	2009	2010	2011
	(RUB million)			
Long-term loans issued to related parties	1,047	1,280	—	—
Short-term loans issued to related parties	2,329	292	2,466	1,226
Short-term loans from related parties	—	(250)	—	—
Receivable for shares of OJSC “AgroGard-Finance”	—	4,222	4,222	1,521
Other receivables from related parties	1,666	1,080	2,546	2,197
Payables to related parties	(209)	(58)	(24)	(62)
Dividends payable to shareholders of the Parent	—	(2)	(2,094)	—

The balances due from related parties at 31 December 2010 include RUB 3,662 million of receivables from and loans issued to LLC “PhosAgro-Invest”, a related party. These loans and receivables were redeemed in full in March and April 2011. The remaining balance is represented by trade receivables from and loans issued to various entities of AgroGard Group, and receivables for shares of OJSC “AgroGard-Finance”. Receivables for shares of OJSC “AgroGard-Finance” were redeemed in full in March and April 2011.

Financial guarantees provided to related parties amounted to 2,287 million roubles as of 31 March 2011. See “Operating and Financial Review—Contractual Obligations and Commercial Commitments” for more information.

Acquisition and Disposal of AgroGard-Finance

In November 2009 OJSC “AgroGard-Finance”, a Russian agricultural producer, which is a related party to the Group as some of the members of the Group’s Board of Directors are also members of the board of directors of OJSC “AgroGard-Finance”, issued ordinary shares which have been purchased by the Group subsidiaries, resulting in the Group obtaining 79 per cent. of the charter capital of OJSC “AgroGard-Finance”, for a cash consideration of 4,801 million roubles (U.S.\$159 million). In December 2009, the Group sold 69 per cent. of the charter capital of OJSC “AgroGard-Finance” to a related party for

4,222 million roubles (U.S.\$140 million). Receivables for shares of OJSC “AgroGard-Finance” were redeemed in full in March and April 2011.

Decrease of stakes in Foreign Subsidiaries in 2010

In October 2010, two Group subsidiaries, PhosAsset GmbH and PhosInt Limited, increased their share capital resulting in the reduction of the Group’s shareholding in these entities to 49 per cent. As a result, these companies and NW Northwest AG, a subsidiary of PhosAsset GmbH, have been de-consolidated from the Group. At the same time, the Group retained its preference right for the dividends from PhosAsset GmbH and PhosInt Limited in the amount of their retained earnings as of 31 December 2010 as determined by the executive management of these companies. Once the total dividend distributed reaches the amount of retained earnings of PhosAsset GmbH and PhosInt Limited as of 31 December 2010, any subsequent dividend will be made proportionate to the shareholding in these companies.

Acquisition of Treasury Shares in 2010

In 2010, the management company PhosAgro AG purchased preferred shares of the Company principally from various individuals including some of the Senior Managers for the aggregate amount of 75.3 million roubles. The purchased shares became treasury shares of the Company.

Related Party Transactions Subsequent to the Balance Sheet Date (31 March 2011)

The following related party receivables and debt outstanding as of 31 March 2011 were repaid or received subsequent to 31 March 2011:

- receivable for the shares of OJSC “AgroGard-Finance” in the amount of 1,521 million roubles (see Note 16 of the 2011 Interim Financial Statements);
- receivable from LLC “PhosAgro-Invest” in the amount of 1,739 million roubles (see Note 16 of the 2011 Interim Financial Statements);
- dividend receivable from PhosInt Limited in the amount of 1,840 million roubles (see Note 16 of the 2011 Interim Financial Statements);
- a receivable from associate in the amount of 433 million roubles and a receivables from third parties in the amount of 784 million roubles resulting from a restructuring of the Group’s shareholding in one of its subsidiaries (see Note 16 of the 2011 Interim Financial Statements); and
- a loan in the amount of 2,758 million roubles issued to PhosInt Limited in March 2011 (see Note 14 of the 2011 Interim Financial Statements).

MATERIAL CONTRACTS

The Company has entered into the following selected contracts within the two years immediately preceding the date of this Prospectus. These contracts are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as of the date of this Prospectus. The following selected contracts are not intended to represent all of its material contracts.

Agreements for the Offering

Underwriting Agreement

The underwriting agreement dated 13 July 2011 between the Selling Shareholders, certain other existing shareholders of the Company and the Joint Bookrunners, on behalf of the Managers, entered into in connection with the Offering (the “**Underwriting Agreement**”) providing for, among other things, the underwriting of the Offering as described in “*Subscription and Sale and Selling Restrictions*”.

Listing Agreement

The listing agreement dated 13 July 2011 between the Company and the Joint Bookrunners, on behalf of the Managers, entered into in connection with the Offering (the “**Listing Agreement**”) providing for, among other things, the listing of the GDRs and the giving of representations, warranties, agreements, undertakings and indemnities in connection with the Offering.

Deposit Agreements

The Deposit Agreements dated 25 April 2011, each as amended and restated on 1 July 2011, among the Company, the Depositary and DR Servicer as described in “*Terms and Conditions of the Global Depositary Receipts*”.

Supply Agreements

Frame agreement with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited

In March 2010, the Company entered into a frame agreement with Indian Farmers Fertiliser Cooperative Ltd. and India Potash Limited for the supply of DAP for the period from 2010 to 2013. The total amount of DAP to be supplied amounted to 1,000 thousand tonnes annually (with an option for the buyer to request larger amounts) and the approximate value of the contract amounted to U.S.\$1,500,000 thousand. The goods shall be supplied from April of each year to March of the following year evenly spread.

Supply agreement with Yara Norge AS

In December 2009, Apatit entered into a supply agreement with Yara Norge AS, Norway, for the supply of phosphate rock for the period until 31 December 2010. The total amount of phosphate rock to be supplied under this contract amounted to 425 thousand tonnes (plus or minus 2 per cent.) and the approximate value of the contract amounted to U.S.\$58,523 thousand. The phosphate rock supplied under this contract is intended for use only in Norway and Finland. The goods were supplied on the conditions of FOB Murmansk and were required to comply with set quality specifications.

Supply agreement with Thermphos Trading GmbH

In December 2009, Apatit entered into a supply agreement with Thermphos Trading GmbH, Switzerland, for the supply of phosphate rock for the period from 2010 until 2012. The total amount of phosphate rock to be supplied under this contract amounted to 650 thousand tonnes—250 thousand tonnes in 2010 and 200 thousand tonnes in each of 2011 and 2012 (plus or minus 2 per cent.) with the option for the buyer to increase the amounts to be supplied in 2011 and 2012. The approximate value of the contract amounted to U.S.\$102,306 thousand. The phosphate rock supplied under this contract is intended for use only in the Netherlands. The goods are to be supplied on the conditions of FOB Murmansk and must comply with set quality specifications.

Supply agreement with Prayon S.A.

In December 2009, Apatit entered into a supply agreement with Prayon S.A., Belgium, for the supply of phosphate rock for the period from 2010 to 2013. The total amount of phosphate rock to be supplied under this contract amounted to 360 thousand tonnes annually (plus or minus 2 per cent.) and the approximate value of the contract amounted to EUR 125,000 thousand. The phosphate rock supplied under this contract is intended for use only in Belgium. The goods are to be supplied on the conditions of FOB Murmansk and must comply with set quality specifications.

Supply agreements with Witt Agrar GmbH

In September 2009, BMF entered into a supply agreement with Witt Agrar GmbH, Germany, for the supply of feed phosphate for the period from 2010 to 2012. The total amount of the feed phosphate to be supplied under this contract amounted to 48 thousand tonnes annually (plus or minus 10 per cent.) and the approximate value of the contract amounted to EUR 55,440 thousand. The feed phosphate supplied under this contract is intended for use in Germany, France, the Netherlands, Belgium, Lithuania, Norway, Sweden and Denmark. The goods are to be supplied on the conditions of FOB Saint-Petersburg, Vyborg and Klaipeda and must comply with set quality specifications.

Supply agreement with MITSUI & Co. Europe PLC

In April 2009, Apatit entered into a supply agreement with MITSUI & Co. Europe PLC, United Kingdom, for the supply of phosphate rock for the period from 2009 to May 2010. The total amount of phosphate rock to be supplied under this contract amounted to 100 thousand tonnes annually (plus or minus 10 per cent.) and the approximate value of the contract amounted to U.S.\$30,800 thousand. The phosphate rock supplied under this contract is intended for use in Japan and Apatit was not permitted to supply similar goods to Japan through other traders. The goods were supplied on the conditions of FOB Murmansk and were required to comply with set quality specifications.

Supply agreements with Russian and FSU producers

In December 2010, Apatit entered into a supply agreement with OJSC “Voskresenskiye mineralnye udobreniya” for the supply of phosphate rock for the period from 1 January 2009 until 31 December 2011. The total amount of phosphate rock to be supplied under this contract amounted to 920,238 tonnes annually. A price per tonne of phosphate rock is specified as RUB 3,050 (approximately U.S.\$100) for 2009 and shall be revised annually based on the inflation rate. The goods are to be supplied on the conditions of FCA station Apatit or FCA station Titan and must comply with set quality specifications.

In July 2009, Apatit entered into a supply agreement with JSC “Minudobreniya” for the supply of phosphate rock for the period ended 31 December 2012. The total amount of phosphate rock to be supplied under this contract shall not be less than 432 thousand tonnes and not more than 480 thousand tonnes annually. The parties agreed to set the price per tonne of phosphate rock in separate addenda to the supply contract based on the formula set out in the agreement. The goods are to be supplied on the conditions of FCA station Apatit or FCA station Titan and must comply with set quality specifications.

In July 2009, Apatit entered into a supply agreement with JSC “Gomel Chemical Plant”, Republic of Belarus, for the supply of phosphate rock for the period ended 31 December 2011. The total amount of phosphate rock to be supplied under this contract amounted to 500 thousand tonnes (plus or minus 10 per cent.) for each of 2010 and 2011. The parties agreed to set the price per tonne of phosphate rock in separate addenda to the supply contract. The goods are to be supplied on the conditions of CPT Centrolite and must comply with set quality specifications.

In December 2006, Apatit entered into a supply agreement with OJSC Akron for the supply of phosphate rock for a five year period. The total amount of phosphate rock to be supplied under this contract amounted to 480 thousand tonnes (plus or minus 20 per cent.) annually. In 2009, under an addendum to the supply contract the amount of the goods to be supplied in 2010 was reduced to 470 thousand tonnes. The parties agreed to set the price for one tonne of phosphate rock in separate addenda to the supply contract. For 2011, the price was determined at the amount of RUB 3,278 (approximately U.S.\$120) per tonne of phosphate rock. The goods are to be supplied on the conditions of FCA station Apatit-2 and must comply with set quality specifications.

In December 2006, Apatit entered into supply agreement with LLC “Trust-broker” (former LLC “Oil Corporation”) for the supply of phosphate rock for the period ended 31 December 2012. The total amount

of phosphate rock to be supplied under this contract amounted to 17,046 thousand tonnes. The parties agreed to set the price per tonne of phosphate rock in separate addenda to the supply contract based on the formula set out in the agreement. The goods are to be supplied on the conditions of FCA station Apatit or FCA station Titan and must comply with set quality specifications.

Loan Agreements

Loan Agreements with Sberbank

In May 2011, Ammophos entered into three credit agreements with Sberbank pursuant to which Ammophos was provided with three non-revolving credit line facilities in the amounts of up to US\$250 million, US\$200 million and US\$200 million, respectively, bearing interest at one-month LIBOR plus 2.10 per cent., one-month LIBOR plus 2.55 per cent. and one-month LIBOR plus 2.9 per cent., respectively, and maturing in May 2012, May 2013 and May 2014, respectively. As of the date of this Prospectus, all three credit facilities were fully drawn. BMF and Agro-Cherepovets are the guarantors under these agreements. As security for these credit facilities, Ammophos and guarantors granted direct debit rights in respect of some of their accounts to the lender. The credit agreements contain early repayment provisions with regard to the borrower and guarantors, which may be triggered by the claim from any creditor of the borrower and/or guarantors exceeding the amount of RUB 900 million. The Company is also required to maintain certain level of ownership in the charter capital of Ammophos. Pursuant to the credit agreements, Ammophos must notify Sberbank on incurrence of any additional indebtedness and providing suretyships and guarantees. Furthermore, the Group is required to maintain a net debt to EBITDA ratio calculated in accordance with IFRS of not more than 3 as of 1 January and 1 July in each financial year during the term of the agreements. The guarantors are required to maintain a net debt to EBITDA ratio calculated in accordance with the Russian statutory accounts of not more than 3.5 as of 1 January and 1 July in each financial year during the term of the agreements. In addition, pursuant to the credit agreements, the borrower and the guarantors are not permitted to enter into a transaction (or a series of transactions) which may result in a change of ownership of their property valued at RUB 1,500 million or more or provide intra-group loans exceeding in total RUB 2,500 million without prior written consent of Sberbank. The credit agreements also contain provisions restricting the payment of dividends by the borrower and guarantors to their respective shareholders. The share of quarterly revenue deposits from export and domestic sales into the Ammophos' Sberbank's accounts of all quarterly revenue deposits into Ammophos' bank accounts must not be less than 55 per cent. In addition, proceeds under certain export contracts of the Company cannot be pledged or otherwise used as a security under any financing.

Credit agreement with Citibank

In May 2011, Ammophos entered into a framework agreement on short-term financing with Citibank pursuant to which Ammophos was provided with a credit facility in the amount of U.S.\$75 million. As of the date of this Prospectus, the facility was fully drawn. The agreement matures in May 2012. Pursuant to the agreement, Ammophos may not enter into any reorganisation except for proposed accession of Agro-Cherepovets, dispose all or material part of its assets or create any material security without prior written consent of the lender. The facility agreement contains a cross-default provision and may be accelerated if Ammophos starts negotiation with regard to the restructuring of any indebtedness. The Company is required to maintain a certain level of ownership in the charter capital of Ammophos and Apatit and is not allowed to change its own shareholders/ownership structure by more than 30 per cent. In addition, Ammophos is not allowed to change its ordinary course of business. BMF, Agro-Cherepovets and PhosAgro-Trans act as guarantors under this agreement.

Credit agreements with Cherepovets branch of Sberbank

In May 2010, Cherepovetsky Azot entered into a non-revolving special purpose credit line agreement with the Cherepovets branch of Sberbank allowing it to borrow EUR 11,518 thousand for the sole purpose to finance equipment supply agreement with VAPOR FINLAND OY, Finland. As of the date of this Prospectus, the total amount outstanding under this facility was EUR 11,518 thousand. Pursuant to the credit agreement, Cherepovetsky Azot granted direct debit rights in respect of its certain accounts opened in Sberbank and other banks. The credit line agreement contains a cross-default provision, which is limited to the loans provided by Sberbank to Cherepovetsky Azot. Pursuant to the credit line agreement, Cherepovetsky Azot may not take a decision on liquidation, reorganisation and reduction of its charter capital without prior consent of Sberbank and is required to maintain positive net assets. Moreover,

Cherepovetsky Azot is required to notify Sberbank on acquisition of 5 or more per cent. stake in the charter capital of Sberbank. In connection with the credit agreement, Cherepovetsky Azot granted a pledge over certain equipment. This credit line agreement facility matures in May 2017.

In April 2010, Cherepovetsky Azot entered into a non-revolving special purpose credit line agreement with the Cherepovets branch of Sberbank allowing it to borrow EUR 9,850 thousand for the sole purpose of financing the equipment supply agreement with Chemoprojekt, a.s., Czech Republic. As of the date of this Prospectus, the total amount outstanding under this facility was EUR 9,090 thousand. Pursuant to the credit agreement, Cherepovetsky Azot granted direct debit rights in respect of its certain accounts opened in Sberbank and other banks. The credit line agreement contains a cross-default provision, which is limited to the loans provided by Sberbank to Cherepovetsky Azot. Pursuant to the credit line agreement, Cherepovetsky Azot may not take a decision on liquidation, reorganisation or reduction of its charter capital without prior consent of Sberbank and is required to maintain positive net assets. Moreover, Cherepovetsky Azot is required to notify Sberbank on acquisition of 5 or more per cent. stake in the charter capital of Sberbank. In connection with the credit agreement, Cherepovetsky Azot granted a pledge over certain equipment. This credit line agreement facility matures in April 2017.

In March 2010, Cherepovetsky Azot entered into a non-revolving special purpose credit line agreement with the Cherepovets branch of Sberbank allowing it to borrow EUR 24,625 thousand for the sole purpose to finance equipment supply agreement with Chemoprojekt, a.s., Czech Republic. As of the date of this Prospectus, the total amount outstanding under this facility was EUR 23,625 thousand. Pursuant to the credit agreement, Cherepovetsky Azot granted direct debit rights in respect of its certain accounts opened in Sberbank and other banks. The credit line agreement contains a cross-default provision, which is limited to the loans provided by Sberbank to Cherepovetsky Azot. Pursuant to the credit line agreement, Cherepovetsky Azot is not allowed to take a decision on liquidation, reorganisation and reduction of its charter capital without prior consent of Sberbank and is required to maintain positive net assets. Moreover, Cherepovetsky Azot is required to notify Sberbank on acquisition of 5 or more per cent. stake in the charter capital of Sberbank. In connection with the credit agreement, Cherepovetsky Azot granted a pledge over certain production assets and real estate. This credit line agreement facility matures in March 2017.

In March 2010, Cherepovetsky Azot entered into a non-revolving special purpose credit line agreement with the Cherepovets branch of Sberbank allowing it to borrow EUR 14,775 thousand for the sole purpose to finance equipment supply agreement with Chemoprojekt, a.s., Czech Republic. As of the date of this Prospectus, the total amount outstanding under this facility was EUR 13,720 thousand. Pursuant to the credit agreement, Cherepovetsky Azot granted direct debit rights in respect of its certain accounts opened in Sberbank and other banks. The credit line agreement contains a cross-default provision. Pursuant to the credit line agreement, Cherepovetsky Azot may not take a decision on liquidation, reorganisation and reduction of its charter capital without prior consent of Sberbank and is required to maintain positive net assets. Moreover, Cherepovetsky Azot is required to notify Sberbank on acquisition of 5 or more per cent. stake in the charter capital of Sberbank. In connection with the credit agreement, Cherepovetsky Azot granted a pledge over certain production assets and real estate. This credit line agreement facility matures in October 2017.

In June 2008, Cherepovetsky Azot entered into a non-revolving special purpose credit line agreement with the Cherepovets branch of Sberbank allowing it to borrow U.S.\$11.5 million for the sole purpose to finance equipment supply agreement with Chemoprojekt, a.s., Czech Republic. As of the date of this Prospectus, the total amount outstanding under this facility was U.S.\$11,054 thousand. Pursuant to the credit agreement, Cherepovetsky Azot granted direct debit rights in respect of its certain accounts opened in Sberbank and other banks. The credit line agreement contains a cross-default provision, which is limited to the loans provided by Sberbank to Cherepovetsky Azot. Pursuant to the credit line agreement, Cherepovetsky Azot is not allowed to take a decision on liquidation, reorganisation and reduction of its charter capital without prior consent of Sberbank and is required to maintain positive net assets. In connection with the credit agreement, Ammophos granted a pledge over certain equipment and Cherepovetsky Azot created a floating charge over certain produced goods. This credit line agreement facility matures in June 2015.

Credit line agreement with Apatit branch of Sberbank

In December 2008, Apatit entered into a revolving special purpose framework credit line agreement with the Apatit branch of Sberbank allowing it borrowings of up to 1,500 million roubles. As of the date of this

Prospectus, the total amount outstanding under this facility was 441.4 million roubles. The credit line agreement contains a cross-default provision, which is limited to the loans provided by Sberbank to Apatit. Pursuant to the credit line agreement, Apatit may not take a decision on liquidation, reorganisation and reduction of its charter capital without prior consent of Sberbank. In connection with the credit agreement, Apatit granted a pledge over certain production assets. This credit line agreement facility matures in December 2011.

Credit agreements with VTB North-West Bank

In September 2010, Agro-Cherepovets entered into a non-revolving credit line agreement with VTB North-West Bank pursuant to which Agro-Cherepovets was provided with a credit facility in the amount of up to U.S.\$13 million. As of the date of this Prospectus, the total amount outstanding under this credit facility was fully repaid. As a security for this credit facility, Agro-Cherepovets granted to VTB Bank direct debit rights in respect of its accounts opened in VTB North-West Bank. In addition, VTB North-West Bank may claim for an early repayment in case of reorganisation of Agro-Cherepovets. Pursuant to the credit agreement, Agro-Cherepovets must maintain credit turnover through its VTB North-West Bank's accounts in the amount of not less than 20 per cent. of its indebtedness to VTB North-West Bank for the previous month. This credit line agreement matured in February 2011.

Credit agreements with UniCredit Bank

In July 2010, Ammophos entered into a credit facility agreement with Unicredit Bank allowing it to borrow U.S.\$70 million under this facility. As of the date of this Prospectus, the total amount outstanding under this facility has repaid. As a security for Ammophos's obligations under this credit agreement, Ammophos granted in favour of Unicredit Bank a pledge over certain of its equipment and direct debit rights in respect of certain accounts. Pursuant to the credit agreement, Ammophos may not enter into a transaction connected with disposal/acquisition of property in the amount exceeding 25 per cent. of its RAS balance sheet assets. The facility contained a cross-default and no change of control provision. In addition, Ammophos was not allowed to reduce the amount of its charter capital and change its ordinary course of business. Moreover, the Group was required to maintain a total debt to EBITDA ratio calculated based on IFRS accounts of not more than 3 and EBITDA to interest expenses ratio of no less than 3. BMF acted as a guarantor in respect of the loan extended under this credit agreement. This credit facility matured in July 2011.

In April 2010, BMF entered into a credit facility agreement with Unicredit Bank allowing it to borrow U.S.\$40 million under this facility. As of the date of this Prospectus, the total amount outstanding under this facility has been repaid. As a security for BMF's obligations under this credit agreement, BMF granted in favour of Unicredit Bank a pledge over certain of its equipment and direct debit rights in respect of certain accounts. The facility contained a cross-default and no change of control provision. In addition, Ammophos was not allowed to reduce the amount of its charter capital and change its ordinary course of business. Moreover, the Group was required to maintain a total debt to EBITDA ratio calculated based on IFRS accounts of not more than 3 and EBITDA to interest expenses ratio of no less than 3. BMF and the Company acted as guarantors in respect of the loan provided under this credit agreement. This credit facility matured in April 2011.

PRINCIPAL AND SELLING SHAREHOLDERS

Immediately prior to this Offering, Mr. Andrey Guriev and members of his family are economic beneficiaries of 81.23 per cent. of the ordinary shares, Mr. Vladimir Litvinenko holds 10.03 per cent. of the ordinary shares either as an economic beneficiary or directly, Mr. Igor Antoshin holds 7.03 per cent. of the ordinary shares either as an economic beneficiary or directly and Mr. Maxim Volkov is a shareholder of 1.0 per cent. of the ordinary shares. Several employees and former employees of the Group are economic beneficiaries of 0.7 per cent. of the ordinary shares. Mrs. Evgeniya Gurieva directly holds 100 per cent. of the A2 Convertible Preferred Shares (as defined below).

As of 31 March 2011, the Company's charter capital consisted of (i) 10,647,708 ordinary shares, (ii) 1,764,001 A1 Type preferred shares convertible into ordinary shares (the "**A1 Convertible Preferred Shares**"), and (iii) 35,999 A2 Type preferred shares convertible into ordinary shares (the "**A2 Convertible Preferred Shares**") and together with A1 Convertible Preferred Shares, the "**Convertible Preferred Shares**"), all of which are fully paid, issued and outstanding and have a nominal value of 25 roubles per share.

In May 2011, the Company's Board of Directors approved the decision on the conversion of A1 Convertible Preferred Shares into ordinary shares on a one-to-one basis (the "**A1 Conversion**"), which was subsequently filed with the FSFM for registration on 12 May 2011. The FSFM registered this decision on 10 June 2011. The conversion of A1 Convertible Preferred Shares into ordinary shares took place on 22 June 2011. Such ordinary shares are in issue at the time of the approval of the Prospectus. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—A1 Conversion*" for more information regarding the A1 Conversion.

Immediately prior to this Offering, the Company's charter capital consisted of (i) 12,411,709 ordinary shares, and (ii) 35,999 A2 Convertible Preferred Shares, all of which are fully paid, issued and outstanding and have a nominal value of 25 roubles per share. Convertible Preferred Shares were issued as a result of the conversion of the Company's old preferred shares (the "**Preferred Shares**") into Convertible Preferred Shares. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—General*" for more information regarding the conversion. As of 31 March 2011 and currently, the Company's charter authorises the issuance of an additional 100,000,000 ordinary shares and an additional 30,000,000 A1 Convertible Preferred Shares.

In addition, following the offering the Company plans to convert its A2 Convertible Preferred Shares into ordinary shares on a one-to-one basis (the "**A2 Conversion**"). See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—A2 Conversion*" for more information.

The following table sets forth information regarding the shareholders of the Company's ordinary shares (i) immediately prior to the Offering, and (ii) immediately after the Offering, assuming that 1,282,000 Shares are sold in the Offering by the Selling Shareholders, which assumes no exercise of the Over-Allotment Option. The ordinary shares held by Dubberson Holdings Limited, Fornido Holding Limited, Carranita Holdings Limited, Dubhe Holdings Limited, Chlodwig Enterprises Limited, Adorabella Limited, Miles Ahead Management Limited and Owl Nebula Enterprises Limited are ultimately held on trust where the economic beneficiaries are Mr. Andrey Guriev and members of his family. The ordinary shares held by Feivel Limited are ultimately held on trust where the economic beneficiary is Mr. Vladimir Litvinenko. The ordinary shares held by Vindematrix Trading Limited are ultimately held on trust where the economic beneficiary is Mr. Igor Antoshin. The ordinary shares held by Maderatcha Consulting Limited are held on trust where the economic beneficiaries are several employees and former employees of the Group.

Shareholder Name and Principal Address	Number of Ordinary Shares Offered Hereby ⁽¹⁾	Ownership of Ordinary Shares Prior to the Offering		Ownership of Ordinary Shares After the Offering ⁽¹⁾	
		Number	Percent	Number	Percent
Dubberson Holdings Limited Kefallinias, Anthial Court No 3, 1 st floor, Flat/Office 11, Limassol, Cyprus	—	1,144,752	9.22	1,144,752	9.22
Maderatcha Consulting Limited Souliou, 7A 3016, Limassol, Cyprus	—	87,119	0.70	87,119	0.70
Fornido Holding Limited. Vasili Michailidi, 21, P.C. 3026, Limassol, Cyprus	—	1,278,001	10.30	1,278,001	10.30
Carranita Holdings Limited Stratigou Papagou, 4, Chalkouts, P.C. 3091, Limassol, Cyprus	—	1,277,450	10.29	1,277,450	10.29
Dubhe Holdings Limited Ellados 104, Limassol, Cyprus	—	1,231,737	9.92	1,231,737	9.92
Chlodwig Enterprises Limited Stratigou Papagou, 12, Olga Court, Flat/Office 22, Limassol, Cyprus	—	1,230,590	9.91	1,230,590	9.91
Adorabella Limited Michalakakis Makrides, 2, P.C. 3075, Limassol, Cyprus	47,429	1,232,642	9.93	1,185,213	9.55
Miles Ahead Management Limited Kythnou, 14, P.C. 4044, Limassol, Cyprus	1,234,571	1,234,571	9.95	0	0.00
Owl Nebula Enterprises Limited Katinas Paxinou, 4, Kato Polemidia, P.C. 4154 Limassol, Cyprus	—	864,901	6.97	864,901	6.97
Feivel Limited 21 Alexi Minoti, 4103 Limassol, Cyprus	—	622,385	5.01	622,385	5.01
Vindematrix Trading Limited Lazarou Kountourioti, 7, P.C. 3106 Limassol, Cyprus	—	624,147	5.03	624,147	5.03
Mr. Maxim Volkov	—	124,477	1.00	131,619 ⁽²⁾	1.06
Mr. Igor Antoshin	—	248,954	2.01	248,954	2.01
Mrs. Evgeniya Gurieva ⁽³⁾	—	587,597	4.73	587,597	4.73
Mr. Vladimir Litvinenko	—	622,386	5.01	622,386	5.01
Total		12,411,709	100%	11,136,851	89.73

(1) Assuming no exercise of the Over-Allotment Option.

(2) Maxim Volkov intends to purchase Shares worth approximately \$2 million immediately following completion of the Offering in the after-market.

(3) Mrs. Evgeniya Gurieva also directly holds 35,999 A2 Convertible Preferred Shares representing 100 per cent. of the A2 Convertible Preferred Shares. The Company intends to convert the A2 Convertible Preferred Shares into ordinary shares in September 2011. Following such conversion, Mrs. Evgeniya Gurieva will directly hold 623,596 ordinary shares representing 5.02 per cent. of the ordinary shares. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—A2 Conversion” for more information regarding the A2 Conversion (as defined below).

Other than as disclosed in “Description of Share Capital and Certain Requirements of Russian Legislation—Rights of Shareholders”, none of the Company's shareholders have voting rights different from any other holders of its shares. The Company is not aware of any arrangements that may result in a change of control.

Russian laws, such as the Joint Stock Companies Law and corporate governance requirements applicable to companies listed on Russian stock exchanges, provide certain protections to minority shareholders. For instance, there are supermajority shareholder approval requirements for certain corporate actions,

pursuant to which a shareholder is able to demand that the company purchase the shares held by that shareholder if the shareholder voted against or did not participate in voting on certain types of actions. In addition, companies are required to obtain the approval of disinterested shareholders for certain transactions with interested parties and the shareholders owning not less than 1 per cent. of the company's stock may bring an action for damages caused by the company's managers or directors. Furthermore, since the Company's ordinary shares will be listed on MICEX and are admitted to trading on RTS, the Company is and will be required to comply with a number of corporate governance standards, which provide additional protection to its shareholders, including minority shareholders. See "*Directors, Management and Corporate Governance—Corporate Governance*". However, no assurance can be given that the applicable Russian laws and the corporate governance standards with which the Company has to comply will be able to fully protect the interests of its minority shareholders if such interests are in conflict with the interests of its other shareholders. See also "*Risk Factors—Russian Legal Risks and Uncertainties—Because there is little minority shareholder protection in the Russian Federation, investors' ability to bring, or recover in, an action against the Company will be limited*".

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Below is the description of the Company's registered ordinary and preferred shares, the material provisions of its charter in effect as of the date of this Prospectus and certain requirements of Russian legislation. This description, however, is not intended to be complete and is qualified in its entirety by reference to the Company's charter and any applicable Russian legislation. Prospective investors may obtain a copy of the Company's charter upon request.

GDR holders will be able to exercise their rights with respect to the Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements, the terms and conditions of the GDRs and the relevant requirements of Russian law. See “*Terms and Conditions of the Global Depositary Receipts*”.

The Company's Objective

Article 4 of the Company's charter provides that the Company's objective is to make profit. The Company is allowed to conduct various activities permissible under Russian law, including attraction of physical, financial and intellectual resources for performance of investments, advertisement activity, performance of transactions with securities, rendering consultancy and information-computer services as well as other activities permitted under the applicable Russian legislation. The Company may engage in certain types of activities, as prescribed by law, only if it holds the necessary permits and licences.

Description of Share Capital

General

The Company was incorporated as an open joint stock company in 2001 in the Russian Federation. The Company's share capital is divided into ordinary and preferred shares, each with a nominal value of 25 roubles per share. The amount of the aggregate nominal value of all such shares constitutes the Company's share capital. Absent specific contractual undertakings by shareholders, the Company's shares may be sold by their holders to any third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders or the Company.

Pursuant to the Joint Stock Companies Law, the Company has the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation governing securities. The Joint Stock Companies Law provides for a right to issue preferred shares subject to the nominal value of all outstanding preferred shares not exceeding 25 per cent. of the share capital.

The following table sets forth changes in the Company's charter capital from the date of the Company's incorporation up to the date of this Prospectus.

Year of issue	Type of shares issued	Number of shares issued	Nominal value of each share issued (RUB)	Total number of ordinary shares issued	Total number of preferred shares issued/ (converted to ordinary shares)	Total share capital (RUB)
2001	ordinary	10,647,708	25	10,647,708		266,192,700
2006	A1 Preferred Shares ⁽¹⁾	1,764,001	25		1,764,001	44,100,025
	A2 Preferred Shares ⁽²⁾	35,999	25		35,999	899,975
2011	ordinary ⁽³⁾	1,764,001	25	1,764,001	(1,764,001)	
Total				12,411,709	35,999	311,192,700⁽⁴⁾

(1) Converted to A1 Convertible Preferred Shares in March 2011.

(2) Converted to A2 Convertible Preferred Shares in March 2011.

(3) Ordinary shares issued in June 2011 following conversion of the A1 Convertible Preferred Shares.

(4) The Company's total charter capital as of 1 January 2010 comprised 10,647,708 ordinary shares and 1,800,000 preferred shares and was unchanged as of 31 December 2010 and as of 31 March 2011.

In order to simplify its charter capital structure, the Company decided to convert Preferred Shares into ordinary shares. Due to the requirements of the Russian corporate law, the Company decided to perform the conversion in three steps: (i) conversion of Preferred Shares into Convertible Preferred Shares, (ii) conversion of A1 Convertible Preferred Shares into ordinary shares, and (iii) conversion of A2 Convertible Preferred Shares into ordinary shares. In order to convert Preferred Shares into Convertible

Preferred Shares, on 21 February 2011 the Company filed with the FSFM the decision on changing the dividend policy in respect of Preferred Shares and conversion of Preferred Shares into Convertible Preferred Shares. Within one month, the FSFM registered this decision and, on 30 March 2011, the Company converted Preferred Shares into Convertible Preferred Shares. Following this conversion, the Company filed a report on the results of such conversion with the FSFM, which was registered on 13 April 2011. Amendments to the Company's charter reflecting this conversion and changes in the dividend policy were subsequently approved and registered with the tax authorities.

A1 Conversion

As of the date of this Prospectus, the A1 Convertible Preferred Shares have been converted into ordinary shares in proportion one to one and the A1 Convertible Preferred Shares have been cancelled in their entirety. On 10 May 2011, the Company's Board of Directors made a decision to convert the A1 Convertible Preferred Shares into ordinary shares and approved a decision on issue of new ordinary shares by way of conversion (the "**A1 Conversion Decision**"). Such ordinary shares are in issue at the time of the approval of the Prospectus. The A1 Conversion Decision must be registered with the FSFM. The Company submitted the A1 Conversion Decision for registration to the FSFM on 12 May 2011. The A1 Conversion Decision was registered on 10 June 2011. The A1 Conversion took place on 22 June 2011. The Company approved a report on the A1 Conversion results and filed it for registration with the FSFM on 24 June 2011. A1 Conversion was finalised after the registration of the report on the A1 Conversion results with the FSFM. The report on the A1 Conversion results was registered by the FSFM on 7 July 2011. The resulting ordinary shares became freely tradable upon registration of the report on the A1 Conversion results by the FSFM. As a result of the A1 Conversion the total number of the Company's ordinary shares is 12,411,709 and a total amount of the preferred shares is 35,999.

A2 Conversion

Upon completion of the A1 Conversion, the Company also plans to convert all of the A2 Convertible Preferred Shares into ordinary shares. It is planned that at the beginning of August 2011, the Company's Board of Directors will make a decision to convert the A2 Convertible Preferred Shares into ordinary shares in proportion one-to-one and will approve a decision on the issue of new ordinary shares by way of conversion (the "**A2 Conversion Decision**"). The A2 Conversion Decision is expected to be filed with the FSFM for registration in the middle of August 2011. As a general rule, the registration process takes approximately 30 calendar days. Unless the FSFM denies the registration, suspends the registration process in order to request additional information, or requires the Company to correct any errors contained in the A2 Conversion Decision, it is expected that registration of the A2 Conversion Decision will be obtained in the middle of September 2011. According to the terms of the A2 Conversion Decision, the A2 Conversion will take place on the seventh business day falling after the date of registration of the A2 Conversion Decision. The A2 Conversion will be made by way of replacing each of the A2 Convertible Preferred Shares with the Ordinary Shares issued as a result of the A2 Conversion Decision by a ratio of one to one and subsequent cancellation of the A2 Convertible Preferred Shares. After the A2 Conversion, the Company will have to approve a report on the A2 Conversion results and file it for registration with the FSFM, which takes approximately two weeks. The Ordinary Shares will become freely tradable only upon registration of the report on the A2 Conversion results by the FSFM.

As a result of the A2 Conversion, the total number of the Company's ordinary shares will be increased to 12,447,708. The A2 Convertible Preferred Shares will be cancelled in their entirety and the Company will not have any preferred shares.

Share Split

After completion of the A2 Conversion the Company plans to split all of its ordinary shares in proportion one to ten (the "**Share Split**"). If the A2 Conversion is completed within the expected timeframe, the Company's Board of Directors will convene in the first half of October 2011 and call for the general shareholders' meeting of the Company to approve the Share Split. It is expected that the general shareholders' meeting will take place in the middle of November 2011. Should the general shareholders' meeting approve the Share Split, the Company's Board of Directors will approve a decision on the issue of new shares with a smaller nominal value of 2.5 roubles per share by way of the Share Split (the "**Share Split Decision**") within a few days of the general shareholders' meeting's decision and such Share Split Decision will be filed with the FSFM for registration within a few days. As a general rule, the registration process takes approximately 30 calendar days. Unless the FSFM denies the registration, suspends the

registration process in order to request additional information, or requires the Company to correct any errors contained in the Share Split Decision, it is expected that such registration of the Share Split Decision will be obtained in the second half of December 2011 and the Share Split will take place a few days after such registration. As a result of the Share Split, each shareholder of the Company, including the Depositary, will receive a number of new ordinary shares with a smaller nominal value proportional to their shareholdings as of the date immediately preceding the Share Split date. The old ordinary shares with a higher nominal value will be cancelled in their entirety. As a result of the Share Split, each GDR will represent 3 ordinary shares in the Company.

After the Share Split the Company will have to approve a report on the Share Split results and file it for registration with the FSFM which takes approximately two weeks. The new ordinary shares resulting from the Share Split will become freely tradable only upon registration of the report on the Share Split results by the FSFM. For the period starting on or about the date of the Share Split and until the registration of the report on the Share Split results, trading of the Shares on MICEX and RTS will be suspended. Trading of the GDRs will not be suspended. However, for the period starting on or about the date of the Share Split and until the registration of the report on the Share Split results, the GDR holder will not be able to withdraw underlying Shares from the GDR programme and additional shares will not be allowed to be deposited with the GDR programme.

As a result of the Share Split, a total number of the Company's ordinary shares will be 124,477,080. The total amount of the Company's share capital will remain RUB 311,192,700.

Rights of Shareholders

Holders of the Company's ordinary shares have the right to vote at all General Shareholders' Meetings of the Company. As required by the Joint Stock Companies Law and the Company's charter, all the Company's ordinary shares have the same nominal value and provide identical rights to their holders. Absent specific contractual undertakings by shareholders, each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- participate in the management of the Company as provided for by the Joint Stock Companies Law and the Company's charter;
- freely transfer the shares without the consent of other shareholders;
- receive dividends in accordance with the Joint Stock Companies Law and the Company's charter if the Company announces the payment of such dividends;
- acquire the Company's newly issued shares by exercising pre-emptive rights on a *pro rata* basis in respect of such shareholder's existing holdings of the Company's shares, as provided for by the Joint Stock Companies Law and the Company's charter;
- delegate voting rights to a representative on the basis of a power of attorney;
- if holding, alone or with other shareholders, 2 per cent. or more of the voting shares, within 30 days after the end of the Company's fiscal year, make proposals to add items to the agenda of the annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Review Committee;
- if holding, alone or with other shareholders, 10 per cent. or more of the voting shares, demand that the Board of Directors convene an extraordinary General Shareholders' Meeting or an unscheduled audit by the Review Committee;
- demand repurchase by the Company of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving the following:
 - any reorganisation;
 - conclusion of a major transaction, as defined by the Joint Stock Companies Law; or
 - an amendment to the Company's charter or adoption of a new version of the Company's charter that reduces shareholder's rights.
- upon the Company's liquidation, receive a proportionate amount of its property after the Company's obligations are fulfilled;

- have access to certain of the Company's documents, receive copies thereof for a reasonable fee and, if holding alone or with other shareholders 25 per cent. or more of the voting shares, have free access to accounting documents;
- if holding, alone or with other shareholders, 1 per cent. or more of the voting shares:
- access the list of persons entitled to participate in the General Shareholders' Meeting;
- sue in court members of the Board of Directors or the chief executive officer for damages incurred by the Company as a result of their faulty actions or omissions to act;
- obtain information on the Company's shareholders' register from the registrar; and
- exercise other rights of a shareholder provided by the Company's charter, Russian legislation and decisions of General Shareholders' Meetings approved in accordance with its competence.

As required by the Joint Stock Companies Law and the Company's charter, all the Company's preferred shares of the same type have the same nominal value and provide identical rights to their holders. Each fully paid preferred share, except for treasury shares, gives its holder the right to:

- participate in the General Shareholders' Meeting with the voting rights in respect of:
 - deciding on the reorganisation and liquidation of the Company; and
 - deciding on amendments and additions to the Company's charter, in cases where such amendments or additions limit rights of holders of preferred shares.
- receive profit in the form of dividends in the amount provided in the Company's Charter;
- exercise other rights of a shareholder provided by Russian law.

In addition, holders of preferred shares acquire a right to take part with voting rights in the General Shareholders' Meetings on all issues starting from the General Shareholders' Meeting following the one where was adopted a decision to pay partially or not to pay out the dividends on preferred shares. However this right terminates since the first payment of dividends in the full amount.

Holders of the Company's ordinary and preferred shares are subject to certain obligations, including compliance with the Company's charter, decisions adopted by the General Shareholders' Meeting and certain other obligations prescribed by the Russian legislation.

Pre-emptive Rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such closed subscription. The pre-emptive right does not arise in the case of a closed subscription for shares conducted only between existing shareholders, provided that such shareholders are able each to acquire a whole number of shares or securities convertible into shares being placed in proportion to their existing shareholdings. The Company must provide shareholders with written notice at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after the expiration of the pre-emptive right exercise period, the Company must provide shareholders with written notice at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law and the Company's charter set forth the procedure for determining the dividends that the Company distributes to the holders of ordinary and preferred shares. According to its charter, the Company may declare dividends based on its three-month, six-month, nine-month and/or annual results. Dividends are recommended to the General Shareholders' Meeting by a majority vote of the Board of Directors, and approved by the majority vote of the General Shareholders' Meeting. A decision on three-month, six month and nine-month dividends must be made at the General Shareholders' Meeting within three-months after the end of the respective period, and a decision on annual dividends

must be taken at the annual General Shareholders' Meeting. The amount of dividends in relation to ordinary shares approved at the General Shareholders' Meeting may not be more than the amount recommended by the Board of Directors. However the charter of the Company prescribes a different procedure in relation to the determination of the dividends on preferred shares: prior to the A1 Conversion, in relation to A1 Convertible Preferred Shares the overall payment was RUB49 per A1 Convertible Preferred Share and in relation to A2 Convertible Preferred Shares the overall payment equals RUB50 per A2 Convertible Preferred Share. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital General*". Dividends payable on shares are distributed to shareholders as of the record date for the General Shareholders' Meeting approving the dividends. See "*—General Shareholders' Meetings—Notice and Participation*". Dividends are not paid on treasury shares.

The paid dividends are subject to tax. See "*Taxation—Russian Tax Considerations—Taxation of Dividends*".

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions, among others, have been met:

- the share capital of the company has been paid up in full;
- the value of the company's net assets on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders that have the right to demand repurchase; and
- the company is not, and would not become, insolvent as a result of the proposed dividend payment.

In addition the Company may not adopt a decision on payment of the dividends in relation to ordinary shares if it has not adopted a decision on the payment of dividends in the full amount on preferred shares.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; or
- dividend payment is otherwise prohibited by the Russian legislation.

According to the Joint Stock Companies Law, dividends shall be paid within 60 days following the day on which the decision on dividend payment was adopted.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in the company ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and its charter allow the Company to be liquidated:

- voluntary, by a three-quarters majority vote at a General Shareholders' Meeting (subject to the recommendation of the Board of Directors); or
- involuntary, by a court order.

Following a decision on the Company's liquidation, the right to manage its affairs would pass to a liquidation committee which, in the case of voluntary liquidation, is appointed by the General Shareholders' Meeting and, in an involuntary liquidation, is appointed by the court. The Company's creditors may file claims within a period to be determined by the liquidation committee, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation committee.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- first priority—individuals owed compensation for personal injury or deaths, or moral damages;

- second priority—employees’ and copyright claims;
- third priority—federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- fourth priority—other creditors, in accordance with Russian legislation.

The claims of each order of priority are satisfied only after the satisfaction of the claims of the previous order of priority.

Subject to certain limitations, claims of creditors in respect of obligations secured by a pledge over the company’s property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

According to the Joint Stock Companies Law, the remaining assets of the company shall be distributed among shareholders in the following order:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the company’s assets among holders of ordinary and preferred shares of all types.
- In case of bankruptcy, the following order of priority for creditors’ claims, established by the Federal Law on Insolvency (Bankruptcy) (the “**Insolvency Law**”), shall apply:
 - first priority—claims for harm caused to health or life of individuals, and claims for moral harm;
 - second priority—employment claims (wages and severance payments), and royalty claims under copyright agreements;
 - third priority—all other claims except for those described in the next paragraph; and
 - fourth priority—claims of creditors transactions with whom were held invalid on the basis of their detrimental nature to other creditors’ rights or entailing preferential satisfaction.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of the company and bear only the risk of losing their investments. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is called an “effective parent”. The entity whose decisions are capable of being so determined is called an “effective subsidiary”. The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons or entities; and
- the effective parent gives binding instructions to the effective subsidiary.

Therefore, shareholders will not be personally liable for the Company’s debts or those of its effective subsidiaries unless the shareholders control its business. See “*Risk Factors—Russian Legal Risks and Uncertainties—Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its subsidiaries*”.

In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt as a result of the fault of the effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case regardless of how the effective parent’s capability to determine decisions of the effective subsidiary arises, for example, whether through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action

would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary's insolvency is caused by the wilful misconduct or negligence of such effective parent and if the effective subsidiary's assets are insufficient to cover its obligations. To be relieved from the liability, the effective parent would need to prove before the court that it acted in good faith and in the interests of the effective subsidiary.

Shareholders of an effective subsidiary that is a joint stock company may also claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Members of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its wilful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Alteration of Share Capital

Share Capital Increase

The Company may increase its share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

According to the Joint Stock Companies Law and the Company's charter a decision to increase the share capital by increasing the nominal value of previously issued shares requires the majority vote of a General Shareholders' Meeting upon a presentation of the Board of Directors. However a decision to increase the share capital by way of issuing additional shares or other securities convertible into shares through closed subscription or by way of issuing ordinary shares or securities convertible into ordinary shares through open subscription if the amount of issued through open subscription shares/securities is in excess of 25 per cent. of previously distributed ordinary shares requires the three-quarter majority vote of a General Shareholders' Meeting of the Company in each case. A decision on the issuance of shares by way of open subscription if the amount of additionally issued shares is not more than 25 per. cent of the outstanding ordinary shares requires majority vote of the Board of Directors. The Board of Directors approves the issuance of securities convertible into shares when such an approval does not belong to the authority of the General Shareholders' Meeting. In addition, the issuance of shares above the number of authorised and non-issued shares provided in its charter requires a charter amendment, approved by a three-quarters majority vote at a General Shareholders' Meeting.

According to the Joint Stock Companies Law and the Company's charter the newly issued shares may be paid by money, securities, other property or property rights with the monetary value. In the case of the closed subscription newly issued shares may be paid by way of set-off. However the increase of the charter capital of the company by way of increasing the nominal value of shares may be performed only at the cost of the Company's property.

The law requires that newly issued shares be sold at the price determined by the Board of Directors based on their market value subject to certain requirements of the Joint Stock Companies Law. The Board of Directors may provide for a discount for existing shareholders exercising their pre-emptive right to purchase shares at a price that shall not be less than 90 per cent. of the price set for third parties. Fees of an intermediary participating in the offering of shares cannot exceed 10 per cent. of the share price. The price may not be set at less than the nominal value of the shares. The Board of Directors shall evaluate any in-kind contributions made in consideration for new shares based on the appraisal report of an independent appraiser.

Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Law on the Securities Market**") and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a Russian joint stock company, including:

- adoption of a decision on an increase of the share capital by way of offering additional shares;
- adoption of a decision on a share issuance;
- registration of the decision on the share issuance with the FSFM;
- offering of the shares;
- registration of the offering report or filing the offering notification with the FSFM; and
- public disclosures at the required stages of the issuance.

Share Capital Decrease

According to the Joint Stock Companies Law and the Company's Charter the decrease of the Company's share capital may be performed through the reduction of the nominal value of shares or its overall number, repurchase or cancellation. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is 100,000 roubles for a Russian open joint stock company. The Company's charter requires that any decision to reduce its share capital through the repurchase and cancellation of shares should be made by a majority vote of a General Shareholders' Meeting. The Joint Stock Companies Law provides that a decision to reduce a share capital through a reduction in the nominal value of the respective shares should be made by a three-quarters majority at a General Shareholder's Meeting upon a presentation of the Board of Directors. Any decision to reduce the share capital by way of reducing the nominal value of the shares may provide for payments to all the shareholders or transfer of securities of other companies owned by the Company.

The Joint Stock Companies Law allows a company to reduce its share capital only if, at the time of such reduction:

- its share capital is paid up in full;
- the company is not, and would not, as a result of such a reduction, become insolvent;
- the value of its net assets is not less (and would not become less, as a result of such a reduction) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares;
- the company has repurchased all shares from shareholders that have the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below;
- the company has fully paid all declared dividends; and
- the company complies with other requirements of Russian legislation.

Additionally, within 3 business days of a decision to reduce its share capital, the company must notify the tax authorities of such decision following which the Company must publish two notices (with the second notice published 30 days after the publication of the first notice) that the decision to reduce its share capital had been taken. The notices must be published on the webpage of the Federal Tax Service of the Russian Federation and in the periodical publication designated by applicable Russian regulations. Its creditors would then have the right to demand, within 30 days of the latest publication, prepayment of all amounts due to them or, if repayment is not feasible, termination of the relevant obligation, as well as compensation for damages.

Share Buy-Back

The Joint Stock Companies Law allows shareholders to authorise the repurchase of its shares in exchange for monetary consideration or property designated in the decision on repurchase. Generally the shares repurchased pursuant to a decision of the General Shareholders' Meeting or the Board of Directors must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease its share capital. However if the shares are repurchased subject to a decision on repurchase with the purpose to decrease the overall number of issued and outstanding shares than they shall be cancelled at their repurchase. The Company shall notify on the repurchase the holders of the relevant types of shares in relation to which the repurchase decision was adopted 30 days prior to the buy-back period.

The Joint Stock Companies Law allows the Company to repurchase its shares only if, at the time of repurchase:

- its share capital is paid up in full;
- the Company is not, and would not become as a result of the repurchase, insolvent;
- the Company has repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below.

in addition in relation to ordinary shares:

- the value of its net assets is not less (and would not become less as a result of the proposed repurchase) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares;

and in relation to preferred shares:

- the value of its net assets is not less (and would not become less as a result of the proposed repurchase) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares with the priority in relation to repayment of liquidation value.

Moreover the Company may not adopt a decision on a decrease of its charter capital with the purpose of reducing its overall number if as a result of such a decrease the nominal value of issued and outstanding shares will be less than the required minimum. The Company may not also adopt a decision on repurchase of its issued and outstanding shares if as a result of such a repurchase the nominal value of its issued and outstanding shares will be less than 90 per cent. of its share capital.

Russian legislation provides that the Company's shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganisation;
- conclusion of a major transaction with a value in excess of 50 per cent. of the balance sheet value of the Company's assets, as determined under RAS as of the most recent reporting date, which requires three-quarters approval by the General Shareholders' Meeting, subject to the provisions of the Joint Stock Companies Law; or
- an amendment of the Company's charter or adoption of a restated version of the Company's charter in a manner which results in restrictions of that shareholder's rights.

The list of the shareholders who are entitled to claim repurchase of shares is prepared on the basis of the shareholders register at of the date of preparing of the list of participants of the General Shareholders' Meeting when the abovementioned decisions were adopted. The Company must repurchase the shares at the price stated by the Board of Directors, which shall not be less than the market value determined by an independent appraiser. The Company may spend up to 10 per cent. of its net assets, calculated under RAS, for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 per cent. of its net assets, the Company will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

The Company's shares are ordinary and preferred shares in registered form. Russian legislation requires that a joint stock company procure the maintenance of a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a registrar. Ownership of the Company's registered ordinary shares is evidenced solely by entries made on the register maintained by a registrar. Any of the Company's shareholders may obtain an extract from the register certifying the number of shares that such shareholder holds. Since May 2011, the shareholder register of the Company is maintained by Open Joint Stock Company "Uchetnaya sistema" located at Moscow, 34, venue 8, Bolshaya Pochtovaya Street. The purchase, sale or other transfer or any encumbrance of the Company's shares is accomplished through the registration of the transfer or any encumbrance in the register of shareholders, or in a depositary account if the shares are held by a depositary. In the latter case, the depositary must act as a nominal holder of shares in its register of shareholders. According to the applicable Russian laws, the registrar or depositary are not permitted to demand any additional documents other than those required by Russian legislation in order to transfer or register any encumbrance of shares in the register or to refuse to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder. Provided that the transfer or encumbrance documents comply with Russian law requirements, such demand for additional documents or a refusal to register may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and/or repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilised only for the abovementioned purposes. The Company's charter provides for the reserve fund of 15 per cent. of its share capital, funded through mandatory annual transfers of at least 5 per cent. of its net profits until the reserve fund has reached the 15 per cent. requirement.

Disclosure of Information

Russian securities regulations require the joint stock company which registered with the FSFM its share issuance prospectus to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about the Company, its shareholders, management bodies, members of its Board of Directors, branches and representative offices, the Company's shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about the Company's financial and business activity and disclosing the same information on its website on the same time basis as required by applicable securities regulations;
- publishing in a newswire (Interfax) and on the Company's website, and in certain cases publishing in a periodical publication, any information concerning material facts and changes in its financial and business activity, including, among other things, its reorganisation, certain changes in the amount of its assets, decisions on, and stages of, share issuances, certain changes in ownership and shareholding as well as certain resolutions of the General Shareholders' Meeting and Board of Directors' meetings and other information which may substantially affect the value of the Company's shares;
- publishing the Company's charter and internal regulations;
- disclosing the documents that the Company has received in connection with any of the following:
 - a voluntary offer (including any competing offer) to acquire the Company;
 - a mandatory offer (including any competing offer) to acquire the Company;
 - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95 per cent. of the Company's ordinary shares; and
 - a request that minority shareholders sell their shares to the person that has acquired more than 95 per cent. of the Company's ordinary shares;
- disclosing information on various stages of an issue, registration and placement of securities by publishing certain data in accordance with applicable securities regulations;
- publishing the Company's annual report and annual financial statements prepared in accordance with RAS together with an audit opinion as well as the Company's annual and interim IFRS financial statements together with an audit opinion when required by applicable securities regulations;
- disclosing on a quarterly basis a list of the Company's affiliated persons on its website and publishing in a newswire a notice about the disclosure of the list of affiliated persons on its website within one day after disclosure of the list on the website; and
- disclosing information in relation to material facts (including the meetings of the Board of Directors and its agenda, new controlling persons in relation to the Company, issuance of Eurobonds or CLNs and other facts that the Company considers as material);
- disclosing other information as required by applicable Russian securities legislation.

General Shareholders' Meeting

Procedure

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in the Company's charter. The scope of authority of the General Shareholders' Meeting is limited to the

powers contemplated by the Joint Stock Companies Law and the Company's charter. The issues that the shareholders have the power to decide on include:

- amendments and additions to the Company's charter, or adoption of the new version of the charter;
- the Company's reorganisation;
- the Company's liquidation, appointment of the liquidation committee and approval of preliminary and final liquidation balances;
- election and removal of the members of the Board of Directors;
- determining the number, nominal value and class/type of authorised shares and the rights attached to such shares;
- increases in the Company's share capital by means of:
 - increasing the nominal value of the Company's shares;
 - issuing of shares or securities convertible into ordinary shares constituting more than 25 per cent. of the number of issued and outstanding ordinary shares via open subscription;
 - issuing shares and other securities convertible into shares via closed subscription;
- reduction of the Company's share capital either by reducing the nominal value of its shares, or by buying-back the Company's outstanding shares for the purposes of such reduction, and their further cancellation;
- appointment and removal of the members of the Review Committee;
- approval of the Company's external auditor;
- approval of the Company's annual reports and financial statements;
- distribution of profits, including payment of dividends;
- establishing a procedure for holding the General Shareholders' Meeting;
- splitting and consolidating the Company's shares;
- approval of certain interested party transactions and major transactions;
- acquisition of the issued shares subject to the provisions of the Joint Stock Companies law;
- approval of the Company's participation in financial and industrial groups, associations and other unions or commercial organisations;
- approval of certain internal regulations;
- remuneration of the entities and bodies who convened an Extraordinary General Shareholders' Meeting;
- payment of remuneration and/or compensation to the members of the Board of Directors;
- payment of remuneration and/or compensation to the members of the Review Committee; and
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

Voting at a General Shareholders' Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a General Shareholders' Meeting is required for a decision of the General Shareholders' Meeting to be taken. However, the Company's charter requires a three-quarters majority vote of the voting shares present at a General Shareholders' Meeting to approve the following:

- amendments to, and restatements of, the Company's charter;
- the Company's reorganisation or liquidation, appointment of the liquidation committee and approval of preliminary and final liquidation balances;

- major transactions involving assets in excess of 50 per cent. of the balance sheet value of the Company's assets;
- determination of the number, nominal value and type of authorised shares and the rights attached to such shares;
- increases in the Company's share capital by means of the issuing of shares or securities convertible into ordinary shares via closed subscription;
- acquisition of the issued shares subject to the provisions of the Joint Stock Companies Law;
- increases in the Company's share capital by way of issuing additional shares if such shares are placed via open subscription and the amount of such shares exceeds 25 per cent. of the number of issued and outstanding ordinary shares; and
- issuing securities convertible into ordinary shares if such securities are either placed via closed subscription or placed via open subscription and the amount of ordinary shares in which such securities may be converted exceeds 25 per cent. of the number of issued and outstanding ordinary shares.

Under the Joint Stock Companies Law, the quorum requirement for a General Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50 per cent. of the issued voting shares are present. If more than 50 per cent. quorum requirement is not met, another General Shareholders' Meeting with the same agenda may (and, in case of an annual General Shareholders' Meeting, must) be convened and the quorum requirement is met if shareholders (or their representatives) accounting for at least 30 per cent. of the issued voting shares are present at that meeting.

Under the Joint Stock Companies Law, certain shareholders' resolutions (such as those in respect of a company's reorganisation or spin-off, an increase or decrease in the share capital, or a shares split or consolidation) may provide for the term during which the decision on one of these matters may be executed. Upon the termination of the specified term, the relevant decision loses its legal effect.

An annual General Shareholders' Meeting must be convened by the Board of Directors between March 1 and June 30 of each year, and the agenda must include, among other items, the following:

- determination of the number and election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor;
- appointment of the members of the Review Committee; and
- other issues pursuant to the Company's charter and the Joint Stock Companies Law.

A shareholder or shareholders owning in the aggregate at least 2 per cent. of the issued voting shares may introduce proposals for the agenda of an annual General Shareholders' Meeting and may nominate candidates for the Board of Directors and the Review Committee. Any agenda proposals or nominations must be provided to the Company no later than 45 calendar days after the end of the preceding financial year.

Extraordinary General Shareholders' Meetings may be convened by the Board of Directors on its own initiative, or at the request of the Review Committee, the external auditor or a shareholder owning individually or collectively with other shareholders in the aggregate at least 10 per cent. of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A General Shareholders' Meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a General Shareholders' Meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the members of the Review Committee;
- approval of the external auditor; and
- approval of the annual report, annual financial statements (including the balance sheet) profit and loss statement, and any distribution of profits (including approval of annual dividends, if any).

If the number of shareholders exceeds 1,000 persons, the voting at the General Shareholders' Meeting held in the form of a meeting must be conducted using voting ballots which should be sent to the shareholders entitled to participate in the General Shareholders' Meeting at least 20 days in advance of the General Shareholders' Meeting.

The Joint Stock Companies Law provides shareholders satisfying certain criteria with a three-month limitation period to challenge resolutions adopted at the General Shareholders' Meeting. This period cannot be extended, except when the claim was not made due to duress or threats.

Notice and Participation

All shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in a direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary General Shareholders' Meeting convened to elect the Board of Directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda sent to shareholders may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is to be compiled on the basis of data in the Company's register of shareholders as of the date established by the Board of Directors, which date may neither be earlier than the date of the adoption of the resolution of the Board of Directors to hold a General Shareholders' Meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary General Shareholders' Meeting to elect the Board of Directors, more than 85 days before the date of such General Shareholders' Meeting).

Generally, the right to participate in a General Shareholders' Meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

Board of Directors

Pursuant to the Joint Stock Companies Law and the Company's charter, the Board of Directors performs general management of the Company, except for the adoption of decisions that fall within the exclusive competence of the General Shareholders' Meeting.

The Joint Stock Companies Law requires at least a 5 member board of directors for all joint stock companies (unless the number of shareholders is 50 or less in which case the board of directors is optional), at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the board of directors. Members of the board of directors are not required to be the company's shareholders.

The Company's charter provides for the election of its entire Board of Directors at each annual General Shareholders' Meeting. The particular number of the Board of Directors is determined by the decision of the General Shareholders' Meeting. The Board of Directors is elected by way of cumulative voting. Cumulative voting means that each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and the shareholder may cast all his votes in favour of one candidate or spread them between two or more

candidates. Before the expiration of their term, the entire Board of Directors may be dismissed at any time at shareholders' discretion by a majority vote of a General Shareholders' Meeting.

The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of a General Shareholders' Meeting. The Board of Directors has the power to perform the general management, and to decide, among others, on the following issues:

- determination of the Company's development strategy, business priorities;
- convening of annual and extraordinary General Shareholders' Meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda for a General Shareholders' Meeting;
- adoption of a decision to increase the Company's share capital in cases specified in the Joint Stock Companies Law and the Company's charter;
- issuance of bonds and other securities including those convertible into shares, except for those decision in respect of which shall be taken by the General Shareholders' Meeting;
- determination of the price of the Company's property and its securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- recommendations on the amount of remuneration and compensation to be paid to the members of the Review Committee and on the fees payable for the services of an external auditor;
- recommendations on the amount of the dividend to be paid on shares and the payment procedure thereof;
- use of the Company's reserve fund and other funds;
- approval of the Company's internal documents, except for those documents whose approval falls within the exclusive competence of the General Shareholders' Meeting;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- appointment and removal of the chairman of the Board of Directors;
- repurchase of the issued and outstanding shares in accordance with the Joint Stock Companies Law;
- appointment and removal of the Chief Executive Officer of the Company;
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

Meetings of the Board of Directors are called by the chairman on his or her own initiative or at the request of:

- a member of the Board of Directors;
- the Review Committee;
- the chief executive officer; or
- the external auditor.

A meeting of the Board of Directors has a quorum if not less than a half of its members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions (such as increases of the share capital and approvals of major transactions) require the unanimous vote of all members of the Board of Directors or a majority vote of the disinterested and independent directors (for example, in the case of approval of interested party transactions). In case of a tied vote, the chairman of the Board of Directors has the determining vote.

The Joint Stock Companies Law provides shareholders and members of the Board of Directors satisfying certain criteria with a three-month and one-month limitation period, respectively, to challenge resolutions of the Board of Directors. The three-month limitation period for a challenge of resolutions of the Board of Directors by shareholders can be extended when the claim was not made due to duress or threats.

Chief Executive Officer

The Board of Directors elects the Chief Executive Officer (the General Director) of the Company for the one year period and may dismiss him at any time.

The Chief Executive Officer is authorised, without a power of attorney, to act on behalf of the Company.

The Chief Executive Officer exercises day-to-day control over the Company's activities. Powers of the Chief Executive Officer include the following:

- deciding on all matters which do not fall under the competence of the General Shareholders' Meeting or the Board of Directors;
- hiring and removing of the Company's personnel;
- adopt decisions on taking part of the Company in other entities (except for those case when such decisions are adopted by the General Shareholders' Meeting) according to the applicable legislation;
- opening of and performing transactions in relation to current and other banking accounts and signing of the payment documents;
- representing the Company's interests in all state and municipal entities, entities and organisations both in Russia and abroad;
- performs certain other functions and legal actions on behalf of the Company pursuant to the Company's Charter, decisions of the General Shareholders' Meeting and the Board of Directors and the applicable legislation.

The chief executive officer is accountable to the Board of Directors and the General Shareholders' Meeting.

Review Committee

The Review Committee, whose activities are governed by the Joint Stock Companies Law, Company's charter and its internal regulations, oversees and coordinates audits of the Company's financial and economic activity. The principal duties of the Review Committee are to conduct internal audit and to report results and findings to the management, to ensure that the Company's operations comply with the applicable laws and that the Company's accounting procedures comply with RAS, and to identify any violations of laws, provisions of the Company's charter and internal regulations. Moreover, before the annual General Shareholder's Meeting, the Review Committee prepares a report on the results of operations of the Company for the prior year and opines whether financial statements of the Company are true and accurate.

The Review Committee may commence internal audit procedures either on its own initiative or pursuant to the decision of the General Shareholder's Meeting or the Board of Directors or the request from the shareholders owning at least 10 per cent. of the shares of the Company.

The General Shareholders' Meeting elects the Review Committee members for the period until the next annual General Shareholders' Meeting. The Review Committee comprises three members and is led by the chairman of the Review Committee.

Interested Party Transactions

The Joint Stock Companies Law contains requirements in respect of interested party transactions. An interested party transaction is a transaction with an "interested party", which is (1) a member of the board of directors of a company, (2) a person performing the functions of the sole executive body of the company (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), (3) a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20 per cent. of the company's voting shares, (4) or any person able to issue mandatory instructions to the company, if any of the abovementioned persons, or any of these persons' spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

- owns, individually or collectively, at least 20 per cent. of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds office in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

According to the Joint Stock Companies Law interested parties shall inform the Company's Board of Directors, the Review Committee and external auditor about their shareholdings/participatory interests in other entities of 20 or more per cent. of voting shares (which they own separately or together with their affiliates); their holdings of management positions; proposed transactions or transactions under way in relation to which they may be regarded as interested.

The Joint Stock Companies Law requires that a transaction with an interested party be approved by a majority vote of the company's disinterested members of the board of directors or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares, a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an "independent director", i.e. a member of the board of directors who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (including being a manager) or the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the board of directors of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2 per cent. or more of the balance sheet value of the company's assets as of the last reporting date;
- the transaction, or series of transactions, involves the issuance by subscription of ordinary shares, or securities convertible into such shares, in the amount exceeding 2 per cent. of the company's existing ordinary shares or securities convertible into such shares;
- the transaction, or series of transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2 per cent. of the company's existing ordinary shares or ordinary shares into which the abovementioned convertible securities may be converted;
- all members of the Board of Directors of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director;
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

The General Shareholders' Meeting of the Company may approve an interested party transaction to be concluded in future in the ordinary course of the Company's business. Such approval shall specify the maximum amount of the approved transaction. This approval remains valid until the next annual shareholders' meeting.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;

- the company merges with another company; or
- entering into a transaction is obligatory for the company according to Russian legislation and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorised regulatory authorities.

An interested party transaction entered into in violation of the abovementioned rules may be invalidated by court pursuant to an action of the company or any of its shareholders, subject to a limitation period. However, the invalidation of the corporate decision approving an interested party transaction does not automatically lead to invalidation of the transaction itself.

A court may dismiss an action brought in connection with an interested party transaction entered into in violation of the applicable law in the following cases:

- voting of the shareholder who brought an action for the invalidation of such interested party transaction could not affect the results of the voting even though the shareholder would take part in the voting on this subject;
- there is no proof that the conclusion of such transaction may cause a loss or had other adverse effect on the company or claiming shareholder;
- at the time of the court hearing clear evidence of valid subsequent approval of such transaction was presented; and
- during the court hearing it was proven that the other party of the challenged transaction did not know and could not have known that such transaction, if not approved in accordance with the applicable law, is in violation of the law.

The interested party to an interested party transaction not approved in accordance with the applicable law is liable to the company for any loss incurred by such company.

Major Transactions

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a series of transactions, involving an acquisition or disposal, or a potential disposal, of property with the value of 25 per cent. or more of the balance sheet value of the assets of a company as determined under RAS as of the latest reporting date, with the exception of transactions conducted in the ordinary course of business or transactions involving the issuance of ordinary shares or securities convertible into ordinary shares as well as transactions conclusion of which is obligatory to the company pursuant to the applicable legislation when the payments under such transactions are performed in accordance with the tariffs established by the relevant authority. Major transactions involving assets ranging from 25 per cent. to 50 per cent. of the balance sheet value of the company’s assets, as determined according to its financial statement for the latest reporting date, require unanimous approval by all members of the Board of Directors or, failing to receive such approval, require a majority vote of a General Shareholders’ Meeting. Major transactions involving assets in excess of 50 per cent. of the balance sheet value of the assets of the company require a three-quarter majority vote of a General Shareholders’ Meeting.

Any major transaction entered into in violation of the above requirements may be invalidated by court pursuant to an action of the company or any of its shareholders, subject to a limitation period. However, the invalidation of the corporate decision approving a major transaction does not automatically lead to invalidation of the transaction itself.

A court may dismiss an action brought in connection with a major transaction entered into in violation of the applicable law in the following cases:

- voting of the shareholder who brought an action for the invalidation of such major transaction could not affect the results of the voting even though the shareholder would take part in the voting on this subject;
- there is no proof that the conclusion of such transaction may cause a loss or had other adverse effect on the company or claiming shareholder;
- at the time of the court hearing clear evidence of valid subsequent approval of such transaction was presented; and

- during the court hearing it was proven that the other party of the challenged transaction did not know and could not have known that such transaction, if not approved in accordance with the applicable law, violates the law.

If the transaction is simultaneously qualifies as a major and an interested party transaction then it should be approved in accordance with the procedures set for approval of interested party transactions.

Shareholders' Agreements

In June 2009, the Joint Stock Companies Law was amended to expressly permit shareholders' agreements in respect of Russian joint stock companies. In particular, the Joint Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including, *inter alia*:

- (a) to vote in a certain manner at a General Shareholders' Meeting;
- (b) to coordinate voting with other shareholders;
- (c) to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;
- (d) to refrain from disposing of shares until the occurrence of certain circumstances; and
- (e) to perform jointly other actions relating to the company's management, activities, reorganisation or liquidation.

The shareholders' agreement shall be concluded in written form by way of executing the single document signed by the parties. The Joint Stock Companies Law directly specifies that the shareholders' agreement may not contain obligations of the shareholders to vote in accordance with the instructions of the management bodies of the company if it is concluded in respect of the shares of this company.

The shareholders' agreement shall be concluded in respect of all the shares owned by the party and it shall be binding only for the parties thereto. The contract entered into by the party to the shareholders' agreement in breach of the shareholders' agreement may be declared invalid by court on the basis of the action brought by the interested party however only when it is proved that the other party to the contract knew or should have known about the limitations contemplated by the shareholders' agreement. However the breach of the shareholder agreement may not be a ground for declaring the decisions of the management bodies of the company invalid.

There are certain disclosure requirements with respect to shareholders' agreements. The law envisages that a person who pursuant to the shareholders' agreement acquired a right to determine the voting order at the General Shareholders' Meeting with respect to more than 5, 10, 15, 20, 25, 30, 50 and 75 per cent. of the issued ordinary shares provided that the issuance of the shares was accompanied by the registration of the prospectus shall notify the company about such an acquisition. Such notification shall be provided within 5 days since the occurrence of such an event and it shall contain certain details specified in the Joint Stock Companies Law. In case such notification is not provided the person who crossed the abovementioned threshold may vote only in respect of shares that he held prior to the occurrence of such an obligation.

The shareholder agreement may contain certain methods of securing obligations such as damages, penalty, compensation and etc. that are enforceable.

Provisions of the Joint Stock Companies Law in respect of shareholders' agreements are to a large extent vague and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

As far as the Company or the Selling Shareholders are aware, Company's shareholders have not entered into any shareholders' agreements.

Change of Control

Anti-takeover Protection

A person intending to acquire more than 30 per cent. of an open joint stock company's voting shares (including, for such purposes, the shares already owned by such person and its affiliates), has the right to make a public tender offer to purchase the remaining shares from other shareholders or holders of securities convertible into company's shares (voluntary offer).

Within 35 days after the acquisition by any means of more than 30 per cent. of voting shares or 35 days from the date when the acquirer learned or should have learnt that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer).

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95 per cent. of the voting shares, including shares owned by its affiliates, it is required to (i) notify all the other shareholders (within 35 days after the acquisition of shares in excess of such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95 per cent. threshold by acquiring at least 10 per cent. of the voting shares in a voluntary or mandatory offer.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, respectively) to purchase shares in the quantity, and at the price, that are greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been made and until the expiration of a 20-day period after the expiration of the period for the acceptance of the voluntary or mandatory offer, only the company's shareholders' meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

Foreign Ownership

The Foreign Investments in Strategic Sectors Law regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance for State defence and security ("**Strategic Companies**"), *inter alia*, requires foreign investors to receive a prior consent of the special government commission before acquiring certain percentages of voting shares or certain management rights in respect of Strategic Companies. Currently, the Company itself is not considered to be a Strategic Company for the purposes of the Foreign Investments in Strategic Sectors Law.

In addition foreign investors shall inform the Federal Antimonopoly Service on acquisition of 5 or more per cent. of shares/participatory interests of Strategic Companies within 45 days after the transaction.

Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated July 9, 1999, as amended ("**Foreign Investments Law**") provides that any acquisition (whether direct or indirect) by a foreign State or international organisation or entities controlled by them of (i) more than 25 per cent. of voting shares of a Russian company (such as the Company); or (ii) any powers to block decisions of the management bodies of a Russian company (such as the Company), requires a prior approval of the special government commission in accordance with the procedures set forth in the Strategic Investments Law.

Offering Outside the Russian Federation

Russian law requires a permit from the FSFM to be obtained prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depositary receipt programs offering depositary receipts (e.g. GDRs) representing interests in the Russian issuer's shares. The FSFM regulations provide that no more than 25 per cent. of any class of a Russian issuer's issued shares may be circulated abroad through depositary receipt programs or otherwise. Upon the completion of the Offering and assuming all Shares offered thereunder are deposited into the GDR programme, the program will account for 1,414,675 Ordinary Shares (11.4 per cent. of the Company's issued ordinary share capital). However, prior to offering its Ordinary Shares for sale outside

of Russia, including in the form of GDRs, according to the FSFM regulations the Selling Shareholders are required to offer the Ordinary Shares, which are contemplated to be offered outside of Russia, for sale in the Russian Federation, and furthermore no more than 50 per cent. of the shares offered in Russia may be offered outside Russia, including in the form of GDRs.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, who acquire shares in a Russian joint stock company, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement and the restriction on foreign sovereign ownership described under “*Foreign Ownership*” above, there are no requirements or restrictions with respect to foreign ownership of the Company’s shares.

Notification of Acquisition of Significant Interest

Pursuant to Russian securities legislation, each holder of ordinary shares of a joint stock company, which has issued securities in respect of which a prospectus has been registered with the Russian securities market regulator, must notify the company and the FSFM of an acquisition of 5 per cent. or more of the company’s ordinary shares or of an acquisition of the right to cast votes attached to 5 per cent. or more of the ordinary shares by virtue of an agreement or otherwise, and of any subsequent change in the number of the ordinary shares above or below a 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent., 75 per cent. or 95 per cent. threshold. Each notification should contain the name of the acquirer, the name of the company, the State registration number of the ordinary shares issuance and the number of the ordinary shares acquired (or votes that can be cast).

Anti-Monopoly Regulation

Under Federal Law No. 135-FZ “On Protection of Competition” dated July 26, 2006 (the “**Competition Law**”) a person (or a group of affiliated persons) may be considered as having a dominant position in a particular market when (a) the person (or a group of affiliated persons) has a market share in a particular market in excess of 50 per cent., unless it is specifically established that the person (or a group of affiliated persons) does not have a dominant position; (b) the person has a market share in a particular market in excess of 35 per cent. (but less than 50 per cent.), and it is specifically established by the Federal Antimonopoly Service (the “FAS”) that the person (or a group of affiliated persons) has a dominant position based on the following factors: (i) the share of the person in the relevant market is permanent or is subject to insignificant changes as compared to competitors’ shares in the same market, (ii) the likelihood of a successful entry into the relevant market by a new competitor is low, or (iii) other criteria characterising the market that the FAS deems relevant; or (c) the person has a market share in a particular market less than 35 per cent. but exceeding the shares of all the competitors in the same market, which may have a significant impact on general conditions of commodity circulation in the market, if (i) the person can unilaterally determine a price level and have a significant impact on general conditions of sales in the relevant market, (ii) access to the relevant market by new competitors is difficult due to economic, technological, administrative or other limitations, (iii) the commodity being sold or purchased cannot be replaced by other commodities in the course of consumption, and (iv) a change in the commodity price would not result in a proportionate decrease in demand for such commodity.

Under the Competition Law, a person with a dominant position in a particular market shall not engage in the following activities: (a) fixing and/or maintaining an excessively high or excessively low prices; (b) withdrawing goods or services from circulation resulting in price increases; (c) imposing terms unreasonably unfavourable to a counterparty or irrelevant to the subject-matter of the agreement; (d) reducing or terminating the production of goods or provision of services for reasons that are not economical or technological in nature, where demand for the goods or services exists so long as the goods or services can be produced/provided at a profit; (e) refusing to enter into an agreement with particular buyers or customers for reasons that are not economic or technological in nature, where the goods or services can be produced or supplied; (f) setting different prices (tariffs) for the same goods or services for reasons that are not economical or technological in nature; (g) creating discriminatory conditions; (h) creating barriers to enter or exit a particular market; (i) violating legal requirements relating to pricing;

or (j) carrying out any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other persons.

The FAS is authorised to issue binding orders to persons to cease exploiting a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has the power to demand through a court order a spin-off or a split of the business operations of a legal entity that holds a dominant position and repeatedly (i.e., more than two times within three years) abuses its dominant position.

In addition to the above requirements with regards to a dominant position, the Competition Law provides for a merger control regime, i.e., the requirement to obtain an approval from the FAS prior to closing of the following:

- (a) an acquisition by a person (or its group) of more than 25 per cent. of the voting shares of a joint stock company 1/3 participation interest in a limited liability company) and the subsequent increase of the shareholding to more than 50 per cent. and to more than 75 per cent. of the voting shares of a joint stock company (1/2 and 2/3 participation interest in a limited liability company) or an acquisition by a person (or its group) of the core production assets (other than land plots of non-industrial use, buildings, structures, constructions, premises and parts thereof, and objects of unfinished construction) and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20 per cent. of the total balance sheet value of the core production and intangible assets of such entity; or obtaining rights to determine the conditions of a business activity of an entity or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (and its group) together with a target (and its group) exceeds 7 billion roubles and the total asset value of the target (and its group) exceeds 250 million roubles, if the total annual revenues of such acquirer (and its group) and the target (and its group) for the preceding calendar year exceed 10 billion roubles and the total asset value of the target (and its group) exceeds 250 million roubles, or if an acquirer and/or a target, or any entity within the acquirer's group or a target's group are included in the Register of Entities Having a Market Share in Excess of 35 per cent. on a Particular Commodity Market or Having Dominant Position on a Particular Commodity Market (the “**FAS Register**”);
- (b) mergers and consolidations of companies, if their aggregate asset value (or the aggregate asset value of the groups of persons to which they belong) exceeds 3 billion roubles, or if total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 6 billion roubles, or if one of these entities is included into the FAS Register; or
- (c) incorporation of or forming a company, if its share capital is paid by the shares (participation interests) and/or the assets (except for cash) of another company, or if the newly formed entity acquires the shares (participation interests) and/or assets of another company on the basis of a transfer or separation and acquires the rights with respect to such shares (participatory interests) and/or assets (except for cash) as specified in item (a) above provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) whose shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly formed entity exceeds 7 billion roubles, or total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) whose shares (participation interest) and/or assets are contributed to the share capital of the newly formed entity for the preceding calendar year exceed 10 billion roubles, or if an entity whose shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly formed entity is included in the FAS Register.

The Competition Law provides for a 30-day review period for the pre-closing approval of transactions. The review period may be extended by an additional two months if the FAS believes that the prospective transaction might restrict competition with respect to a particular market.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the FAS in connection with actions specified in item (a) above if the aggregate asset value or total annual revenues of an acquirer (and its group) and a target (and its group) for the preceding calendar year exceed 400 million roubles and (i) the total asset value of the target (its group) exceeds 60 million roubles, or (ii) an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the FAS Register; and item (b) above if their aggregate asset value or total annual revenues of the relevant companies for the preceding calendar year exceed 400 million roubles.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution issued pursuant to the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening a dominant position of the acquirer in the relevant market.

More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

Negative Net Assets

Under Russian corporate law, if the net assets of a Russian limited liability company calculated on the basis of RAS as of the end of its second or any subsequent financial year are lower than its charter capital, the company must make a decision on the decrease of its charter capital to the amount of its net assets. If the net assets of a Russian joint stock company calculated on the basis of RAS as of the end of its second financial year are lower than its charter capital, the joint-stock company's board of directors shall disclose it in the annual report. Furthermore, if the net assets of a Russian joint stock company calculated on the basis of RAS as of the end of the financial year that follows its second or any subsequent financial year, at the end of which the net assets of such company were lower than its charter capital, remain lower than its charter capital, the company must make a decision on the decrease of its charter capital to the amount of its net assets or on its liquidation. In addition, if a Russian company's (both a limited liability company and a joint stock company) net assets calculated on the basis of RAS as of the end of its second or any subsequent financial year are lower than the minimum amount of the charter capital required by law, the company must make a decision on its liquidation.

Moreover, if a Russian company (both a limited liability company and a joint stock company) fails to comply with any of the requirements stated above within the required period of time (within a reasonable period of time for a limited liability company and within six months from the end of the relevant financial year for a joint stock company), governmental or local authorities will be able to seek involuntary liquidation of such company in court. In addition, if a Russian company (both a limited liability company and a joint stock company) fails to comply with any of the requirements stated above within the required period of time (within a reasonable period of time for a limited liability company and within six months from the end of the relevant financial year for a joint stock company) or decreases its charter capital, the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations owed to them and demand compensation of damages.

In addition, if a Russian joint stock company's net assets calculated on the basis of RAS are lower than its charter capital by more than 25 per cent. as of the end of three, six, nine or twelve months of the financial year that follows its second or any subsequent financial year, at the end of which the net assets of such company were lower than its charter capital, a joint stock company is obliged to make a public disclosure of this fact and certain of the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations owed to them and demand compensation of damages.

However, if a Russian joint stock company is able to demonstrate that the creditors' rights were not violated as a result of a decrease of its charter capital or a decrease of the amount of its net assets, as the case may be, and that the security provided for due performance of the company's obligations is sufficient, a court may dismiss the creditors' claims that are brought in the following cases: (i) in the event of a decrease of the charter capital of the company, including when the charter capital of the company must be decreased to the amount of its net assets in compliance with the requirements of Russian law; and (ii) in the event the company's net assets calculated on the basis of RAS are lower than its charter capital by more than 25 per cent. at the end of three, six, nine or twelve months of the financial year that followed its second or any subsequent financial year, at the end of which the net assets of such company became lower than its charter capital. Moreover, the existence of negative assets, generally, may not accurately reflect the actual ability to pay debts as they come due. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfil its obligations and had net assets in excess of the minimum charter capital required by law at the time of liquidation.

REGULATION OF MINING AND MINERAL INDUSTRY IN RUSSIA

Applicable Laws, Rules and Regulations

Russia has not enacted any specific legislation governing the fertiliser industry or the activities of mineral fertiliser producers. The production, sale and distribution of mineral fertilisers in the Russian Federation are regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, the environment and other issues.

The legislation regulating mining, processing and the use of minerals in Russia is based on the Russian constitution and Law No. 2395-1 “On Subsoil” dated 21 February 1992, as amended (the “**Subsoil Law**”). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of subsoil licences. There are also a number of regulations issued by the Russian federal government through its ministries and agencies that regulate certain aspects of mineral mining.

On 14 March 2008, the Ministry of Industry and Trade of the Russian Federation (“**Minpromtorg**”) enacted the “Strategy for Development of the Chemical and Petrochemical Industry until 2015”. This document, among other things, determines key ways to develop the chemical industry and sets out ways to implement them. It also proposes measures aimed at satisfying the imbalance between the marketing of chemical products and the development of Russian chemical production, promoting and implementing innovative approaches in the chemical and petrochemical industry, achieving effective management of chemical and petrochemical enterprises and reducing harm to the environment.

The Federal Law No. 184-FZ “On Technical Regulation” dated 27 December 2002, as amended (the “**Technical Regulation Law**”) sets forth rules and requirements relating to the development, enactment, application and enforcement of mandatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

Federal, Regional and Local Regulatory Authorities

At the federal level, regulatory supervision over the Group’s business is divided primarily among the Government of the Russian Federation, the Ministry of Economic Development, the Ministry of Natural Resources and Minpromtorg. The Government of the Russian Federation ensures the implementation of a common state policy in the area of geological study, exploration and extraction of apatite-nepheline ore and production, use and trade of phosphate rock and fertilisers; it also determines licensing procedures for the use of subsoil in connection with the exploration and extraction of natural resources. The Ministry of Economic Development is responsible for encouraging investment, foreign trade and support of scientific research. The Ministry of Natural Resources is responsible for the development of government policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and environment. Minpromtorg is responsible for the development of government policy in the areas of industrial development, defence industry, energy consumption effectiveness, aviation, standardisation and metrology.

The federal ministries in Russia are not, however, responsible for compliance control or management of state property and provision of state services, which is within the jurisdiction of federal services and federal agencies, respectively. The federal services and agencies that regulate the Group’s business include: the Federal Agency for Subsoil Use (“**Rosnedra**”), the Federal Supervisory Natural Resources Management Service, the Federal Service for Environmental, Technological and Nuclear Supervision (“**Rostekhnadzor**”), the Federal Labour and Employment Service, and the Federal Agency for Technical Regulation and Metrology.

Rosnedra mainly organises tenders and auctions, issues licences for the use of natural resources and approves design documentation for subsoil use.

The Federal Supervisory Natural Resources Management Service oversees compliance with the terms and conditions of subsoil licences, certain matters of environmental legislation, controls geological exploration, use and protection of subsoil, and provides official ecological examination of project papers.

The Rostekhnadzor oversees compliance with certain mandatory industrial safety rules and environmental legislation, which include safety procedures relating to the installation, deployment and operation of technical devices and machinery used in the Company’s business, and the production and technological processes. It also (i) issues licences for certain industrial activities and activities relating to safety and

environmental protection, such as licences for exploitation of inflammable facilities and conduct of operations involving the use of explosives, surveyors' works and use of dangerous wastes; (ii) maintains a register of dangerous facilities; and (iii) establishes limits for waste disposal.

The Federal Labour and Employment Service controls and supervises the Company's compliance with labour legislation.

The Federal Agency for Technical Regulation and Metrology determines and oversees levels of compliance with mandatory general technical and industrial standards.

The FAS implements the state policy relating to promoting the development of the commodity markets and competition, enforcing antimonopoly legislation, and preventing and stopping anti-competitive behaviour, unfair competition practices and other actions restricting competition. The FAS, among other things, oversees acquisitions of controlling stakes in companies meeting certain criteria and the achievement of dominant market position by business enterprises.

In addition to the above-listed federal executive bodies, which are directly involved in the supervision and regulation of the Group's business, there are a number of other governmental bodies and agencies with authority over general issues relating to the Group's business, including Ministry of Justice of the Russian Federation, and transportation and tax collection agencies.

Under the Subsoil Law, the jurisdiction of the regional authorities in the exploration industry includes, among other things, participation in federal programmes relating to the apatite-nepheline ore mining industry, establishment and execution of local programmes aimed at the development of subsoil plots in the region, creating a local database of geological information, the creation of state funds of mineral resources (including apatite-nepheline ore) for the constituent entities of the Russian Federation, and regulation, along with federal authorities, of the activities of organisations in the apatite-nepheline ore mining industry within the territory of the constituent entity of the Russian Federation.

In addition, regional and local authorities control land-use allocations and exercise certain taxation powers.

Licensing

The Group is required to obtain licences, permits and authorisations from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities dated 8 August 2001, as amended (the "**Licensing Law**"), as well as other laws and regulations, lists activities which can only be performed with a licence issued by the relevant Russian authorities and establishes procedures for issuing such licences. In particular, to conduct its operations, the Group requires licences and permits for, among other things:

- the use of subsoil, as described in more detail in "*—Subsoil Licensing*";
- water consumption (the use of water resources);
- discharge of pollutants into the environment;
- geographical surveying operations;
- handling of hazardous waste;
- the storage and use of explosive materials;
- the operation of explosive and flammable production facilities (explosives, chemicals and fire);
- exploitation of chemically hazardous substances; and
- transportation activities.

Licences are usually issued for a minimum period of five years. Licences for the use of natural resources may be issued for shorter or longer periods. Upon expiry, a licence may be extended upon the application by the licensee but is usually subject to prior compliance with regulations. Certain types of licences may be issued for the expected operational life of the relevant field, and certain licences may have unlimited terms.

A licence may be suspended if the licensee repeatedly breaches the terms and conditions of the licence in a material way. If a licensee fails to mitigate any breach of the licence granted to it within the period established by the licensing authority, the authority may apply to a court for the cancellation of the licence. A court may also cancel the licence in certain other cases (for example, if the breach of the terms and

conditions of a licence by the licensee involves infringement of or harm to the rights, legal interests or health of individuals). Licensing regulations and the terms of its licences and permits require the Company to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

On 4 May 2011, a new Federal Law On Licensing of Certain Types of Activities was adopted (the “**New Licensing Law**”) which is expected to come into effect in November 2011 (with certain provisions coming into effect in 2012). The New Licensing Law (i) significantly shortens the list of activities which are subject to licensing requirements; (ii) establishes new unified procedures for application for licences, licence control and suspension and revocation of licences; and (iii) clarifies powers and responsibilities of governmental authorities which supervise licensed activities and their representatives. An important feature of the New Licensing Law is that the new licences will be issued for an unlimited period of time (or until they are revoked).

The New Licensing Law seeks to simplify licensing procedures and licence compliance supervision and to make Licensing Law more consistent and transparent. In addition, some operations of the Group conducted under special licences and permits do not fall within the scope of the New Licensing Law and, therefore, may be conducted without extension of such licences and permits after the New Licensing Law comes into force. However, as the New Licensing Law is a new legislation which needs to be harmonised with other federal laws (e.g. the Subsoil Law) it is uncertain how it will be applied and enforced in practice.

Subsoil Licensing

Overview

In the Russian Federation, mineral resources mining requires a subsoil licence issued by Rosnedra with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

The licensing regime for the use of subsoil for geological research, exploration and extraction of mineral resources is established primarily by the Subsoil Law. The exploration and extraction of mineral resources are also governed by various rules, procedures and regulations including the Procedure for Subsoil Use Licensing adopted by Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended.

There are two major types of licences: (i) exploration licences, which are non-exclusive licences granting a right of geological exploration and assessment within the area covered by the licence, and (ii) extraction licences, which grant the licensee an exclusive right to extract minerals from the licensed area. In practice, many of the licences are issued as combined (exploration and extraction) licences, which grant the right to explore, assess and extract minerals from the licensed area, which is defined by its latitude, longitude and depth.

Currently, extraction licences and combined exploration and extraction licences are awarded by tender or auction conducted by special auction commissions of Rosnedra. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is generally not required in order to issue subsoil licences. The winning bidder in a tender is selected in particular on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, production licences may also be issued without holding an auction or tender, for instance to holders of exploration licences who discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licences for “common” mineral resources, such as clay, sand or limestone. The Government of the Russian Federation may establish certain limits for companies with foreign ownership on participation in the auctions and tenders at which licences for exploration of subsoil plots of federal significance are awarded.

Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a “mining allotment”, i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the licence is issued. Exact mining allotment boundaries are established upon the approval of a development plan by state mining supervision authorities and an environmental examination committee. These exact

boundaries are certified in a mining allotment plan issued to the licence holder thereafter. The exact mining allotment boundaries are incorporated into the licence as an integral part. Pursuant to Resolution No. 118 of the Government of the Russian Federation dated 3 March 2010, a special commission comprised of representatives from the Ministry of Natural Resources of the Russian Federation, Rosnedra, The Federal Supervisory Natural Resources Management Service, Rostekhnadzor, and in certain cases local authorities has the authority to approve development plans.

The term of each licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, extraction licences a maximum term of 20 years, and combined exploration, assessment and extraction licences a maximum term of 25 years. After the amendment of the Subsoil Law in January 2000, exploration licences now have a maximum term of five years; extraction licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the licence may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. In addition the licence for the extraction of the subsoil waters is granted for a period of 25 years. These amendments do not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field, provided the licensee complies with the licence terms. The term of a subsoil licence runs from the date the licence is registered with Rosnedra.

A licence holder has the right to develop and sell extracted mineral resources from the area indicated in the licence. The Russian Federation, however, retains ownership of all subsoil resources at all times, and the licence holder only has rights to the minerals or other relevant types of mineral resources when extracted.

A subsoil exploration and production licence gives its holder exclusive subsoil use rights with respect to an identified licence area (including subsurface zones) for the term of the licence.

Issuance of Licences

Most of the currently existing extraction licences held by companies derive from (i) pre-existing rights granted during the Soviet era and prior to the enactment of the Subsoil Law, largely to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations, or (ii) tenders or auctions held during post-Soviet period. The Subsoil Law and related regulations contain the principal requirements relating to tenders and auctions.

Extension of Licences

The Subsoil Law permits a subsoil licensee to request an extension of an extraction licence in order to complete the exploration or evaluation of the minefield, extraction from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the licensee complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence. The Resolution of the Ministry of Natural Resources No. 439-R dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (a) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (b) compliance of the licensee with the conditions of the licence; and (c) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include (1) its compliance with the licence terms and conditions; and (2) its management's experience and expertise relating to subsoil issues, including experience in amending licences. The Group is periodically checked for compliance by government authorities and has historically been in material compliance with its licences.

The Group company Apatit holds five mining licences that allow Apatit to develop its four mines. Three of these licences were granted in 1999 and are valid until 31 December 2014, one mining licence was granted in 1999 and expires on 31 August 2013, and one mining licence was granted in 2000 and expires on 31 May 2014. The Group is in the process of extending these licences and plans to do so prior to their expiration dates. Once extended, the licences are expected to be valid for the duration of the expected operational life of the underlying fields.

Russian subsoil licences are issued in respect of areas with cartographically defined boundaries and for specific periods of time. Under the Subsoil Law, licences are to be extended by the relevant authorities on or prior to their prescribed expiration dates upon the request of the licence holder or the subsoil user if the extension is necessary to complete extraction works at the underlying field, provided that the licensee has not violated the conditions of the licence. According to the existing applicable Russian legislation, an application to extend an existing licence must be submitted not later than six months prior to the licence's expiration date. In order for a licence extension application to be considered, the applicant must prepare technical documentation describing exploration and extraction activities to be conducted at the underlying deposits. Such documentation must be prepared pursuant to the Russian Government Regulations No. 87 dated 16 February 2008 and No. 118 dated 3 March 2010 and the Russian Ministry of Natural Resources Order No. 218 dated 25 June 2010, and approved by the State Expert Committee and the Central Committee on the Development of Solid Natural Resources of the Federal Agency for Subsoil Use. In January 2011, the Group, in collaboration with third parties, commenced preparing the report restating the reserves at the Group's Kukisvumchorr, Yukspor, Apatitovy Tsirk, Plateau Rasvumchorr, Koashva and Njorkpahk deposits in accordance with the new reserves conditions and expects such report to be completed by June 2012. Reserves conditions set the technical parameters of the reserves, for example P_2O_5 content levels, taken into account when assessing reserves' quality and quantity in order to evaluate reserves' economic value. New reserves conditions that will be used to assess the Group's reserves reflect the revised technical parameters as compared to those used by the prior reserves conditions applied in 1981 to assess the reserves' economic value. The Group is also in the process of preparing, in cooperation with third parties, the technical documentation describing exploration and extraction activities at the Group's deposits for the review of the State Expert Committee and expects to obtain its approval by August 2012. The Group expects that the technical documentation will be approved by the Central Committee on the Development of Solid Natural Resources of the Federal Agency for Subsoil Use by November 2012 and that the Group's licences will be extended prior to their expiration dates.

Transfer of Licences

Licences may be transferred only under certain limited circumstances that are set forth in the Subsoil Law, including the reorganisation or merger of the licence holder or in the event that an initial licence holder transfers its licence to a newly established legal entity in which it has at least a 50 per cent. ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or extraction activity covered by the transferred licence. Licences may not be transferred to a company or group owned by foreign entities which (i) directly or indirectly control 10 per cent. of voting shares comprising the share capital of such company; (ii) determine the decisions taken by such company including terms and conditions of its business; and (iii) appoint the chief executive officer and/or more than 10 per cent. of members of the board of directors (supervisory board) or other collective management board of such company. However, the Government of the Russian Federation in some exceptional cases may approve the transfer of the licences to a company owned by foreign entities.

Maintenance and Termination of Licences

A licence sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments. Rosnedra and the licensee may also enter into a licensing agreement where they may set out the expressly agreed additional terms, such as target extraction rates; conducting certain mining and other exploratory and development activities; protecting the environment in the licensed areas from damage; providing geological information and data to the local authorities and fulfilling specified commitments with respect to the social and economic development of the region. When the licence expires, the licensee must return the land to the condition required for its future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

If the subsoil licensee fails to fulfil the licence conditions, upon notice the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain terms, deadlines or achieve certain volumes of exploration or production output as set forth in the licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, as discussed above, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions with respect to limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited,

suspended or terminated for repeated breaches of the law, as a consequence of a direct threat to the lives or health of people working or residing in the local area or in the event of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes or failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction or failure to meet obligations to finance a project (pursuant to the licensing agreement) are also likely to constitute violations of material licence terms. In addition, certain licences provide that a failure to fulfil by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

The Group must comply with the Subsoil Law, including the provisions governing the use of subsoil, geological research, and exploration and extraction of mineral resources. Pursuant to the terms of the Group's licences, tailings and waste produced during the extraction of apatite-nepheline ore must be adequately stored and re-processed if possible and commercially justified. The Group must also ensure deep processing of the extracted ore and provide geological information in respect of the deposits underlying the Group's licences to the regional department of the Russian Ministry of Natural Resources on a quarterly basis.

Payments

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and currently is set at 4.0 per cent. for apatite-nepheline ore.

Land Use Rights

Russian legislation prohibits carrying out any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Land use rights are generally obtained for only those parts of the licence area which are actually in use, including the plot being mined, access areas, and areas where other mining-related activity is being carried out.

Pursuant to the Land Code, companies generally have one of the following land rights in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

The majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other land use rights to third parties.

Companies having a right of perpetual use of land obtained prior to the enactment of the Land Code are required, by 1 January 2012, either to purchase the land from, or to enter into a lease agreement with, the relevant federal, regional or municipal authority owning the land.

The Company generally has the right of ownership, perpetual use rights or has entered into long-term lease agreements in respect of its plots. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Subsoil Plots of Federal Importance

In order for the Russian Federation to control subsoil resources necessary to safeguard national security, certain subsoil plots, including subsoil plots where the Group mines apatite-nepheline ore, have been classified as subsoil plots of federal importance and are subject to a special regulatory regime with regards to their exploration and development. Although the concept of a subsoil plot of federal importance is not new for the Russian subsoil legislation, the definition of a subsoil plot of federal importance was introduced only by amendments to the Subsoil Law which came into force in May 2008.

Subsoil plots of federal importance are plots containing deposits of (i) valuable minerals (e.g., uranium, diamonds, nickel and platinum group elements); (ii) more than 70 million metric tonnes of extractable oil; (iii) more than 50 billion cubic metres of gas; (iv) more than 50 tonnes of gold; or (v) more than 500,000 metric tonnes of copper. Subsoil plots under inland seas, territorial seas and the continental shelf of the Russian Federation, as well as under land related to national defence and security, also falls within this definition. The Subsoil Law and Resolution No. 823 dated 7 November 2008 of the Government of the Russian Federation provide that a list of subsoil plots of federal importance will be officially published by Rosnedra. The current edition of the list of subsoil plots of federal importance is as of 13 August 2010.

The use of subsoil plots of federal importance and the allocation of the newly discovered subsoil plots of federal importance for exploration and development are regulated at the level of the Russian government which organises auctions and tenders for exploration and development of such subsoil plots, determines the successful bidder and takes a decision to grant rights to a newly discovered subsoil plot of federal importance. The main idea behind the concept of a subsoil plot of federal importance is to give the Russian government an ability to restrict foreign investors and Russian companies owned by foreign investors from developing subsoil plots of federal importance in cases where this may pose a threat to the national security of the Russian Federation.

The general rule set forth in the Subsoil Law is that subsoil plots of federal importance other than subsoil plots under inland seas, territorial seas and the continental shelf of the Russian Federation may be allocated for exploration and development only to Russian companies. However, the Russian government may restrict participation of Russian companies with foreign investments in auctions and tenders for exploration or development of a particular subsoil plot of federal importance. In addition, allocation for exploration and development of subsoil plots of federal importance which were discovered in the course of a geological survey by a foreign investor or a Russian company with foreign investments may be denied by the Russian government on a case-by-case basis.

Environmental Matters

The Company is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, and protection of flora, fauna and other wildlife. Issues of environmental protection in Russia are regulated primarily by Federal Law No. 7-FZ “On Environmental Protection” dated 10 January 2002, as amended (the “**Environmental Protection Law**”), as well as by a number of other federal and local laws.

Ecological Approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with Federal Law No. 174-FZ “On Ecological Expert Review” dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the adverse consequences described under “—*Environmental Liability*” below.

Enforcement Authorities

The Federal Service for the Supervision of the Use of Natural Resources, Rostekhnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, Rosnedra, the Federal Agency on Forestry, and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental regulation, and implementation and enforcement of relevant laws and regulations. The Government of the Russian Federation and the Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits claiming compensation for damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment or to any individual or legal entity, environmental authorities may suspend such operations or a lawsuit may be brought to limit or ban such operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to

administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to fines. Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply are generally low and the clean-up requirements not very onerous, but failure to comply may lead to a suspension of mining works.

Reclamation

The Group conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal and Preservation, and on Rational Use of the Fertile Soil Layer approved by Order No. 525/67 dated 22 December 1995 of the Ministry of Natural Resources. The Group has not prepared closure and post-closure plans for its mining and production facilities in accordance with acceptable international standards. However, most of the Group's licences require the Group to conduct reclamation following exhaustion of the respective mines. The Group believes that it has complied in all material respects with the environmental standards of the appropriate regulatory authorities in the Russian Federation. The Group has not received any specific requests from such regulatory authorities to develop a closure plan or to establish a liquidation fund.

Technical Regulations

The Company is subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Technical Regulation Law introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules, or technical regulations, would replace the previously adopted state standards (the so-called "GOSTs"). However, most technical regulations have not yet been implemented, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardisation authority has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. Currently, a number of Group's products must be certified. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

Industrial Safety

Due to the nature of the Company's business, a substantial portion of its activities is conducted at industrial sites by large numbers of workers, and labour protection is of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law No. 116-FZ "On Industrial Safety of Dangerous Industrial Facilities" dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where toxic, flammable, oxidizable and other hazardous substances are produced, used, processed, stored or transported.

There are also certain additional safety regulations applicable to the chemical industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to an industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code (as defined below). In particular, they must limit access to such sites to specialists complying with the relevant qualifications and medical requirements, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking

companies or create their own wrecking services in certain cases, conduct personnel training, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks, and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as an industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility. Dangerous industrial facilities must be registered in the state register of dangerous industrial facilities maintained by Rostekhnadzor. The registration is temporary and must be renewed every five years.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate the individual for lost earnings, as well as health-related damages.

Labour Relations

Labour relations in Russia are generally governed by the Labour Code of the Russian Federation, as amended (the “**Labour Code**”), which came into force on 1 February 2002. However, there are certain additional regulations, such as the Sectoral Tariff Agreement of the Entities of Chemical, Petrochemical, Biotechnological and Chemical and Pharmaceutical industries of the Russian Federation for 2007-2009 which is currently extended till 31 December 2011. It was concluded between the Russian Union of Chemists on behalf of the employers (the “**Union**”) and the Russian Trade Union of Employees of Chemical Industry Sectors (the “**Trade Union**”) on behalf of the employees. This agreement is compulsory for the members of the Union and certain other entities that acceded to it or if there are primary trade union organisations of the Trade Union in relation to them. The agreement sets out the minimum legal guarantees for the employees and governs certain labour relations. In addition, all of the Group’s trade unions are part of regional chemical industry trade unions as well as part of the Association of Mineral Fertiliser Producers Trade Unions.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (the “**Conditions**”) (subject to completion and amendment and excepting sentences in italics) will apply to the global depositary receipts (the “**GDRs**”) and will be endorsed on each global depositary receipt certificate (the “**GDR Certificates**”):

The GDRs are issued in respect of the uncertificated registered ordinary shares, each with a nominal value of 25 RUB (the “**Shares**”), of OJSC “PhosAgro” (the “**Company**”) pursuant to and subject to (i) in the case of the Regulation S GDRs, the Regulation S Deposit Agreement, dated 25 April 2011, as amended and restated on 1 July 2011 (the “**Regulation S Deposit Agreement**”), by and between the Company, Citigroup Global Markets Deutschland AG, as depositary (the “**Depositary**”), and Citibank, N.A., as GDR registrar, GDR transfer agent, GDR paying agent and GDR servicing agent (the “**DR Servicer**”) and (ii) in the case of the Rule 144A GDRs (as hereinafter defined), the Rule 144A Deposit Agreement, dated 25 April 2011, as amended and restated on 1 July 2011 (the “**Rule 144A Deposit Agreement**”) and together with the Regulation S Deposit Agreement, the “**Deposit Agreements**”), by and between the Company, the Depositary and the DR Servicer. 30 GDRs represent the right to receive, subject to the terms of the Deposit Agreements and the Conditions, 1 Share on deposit under the terms of the Deposit Agreements.

Pursuant to the provisions of the Deposit Agreements, the Depositary has appointed ZAO Citibank as custodian (the “**Custodian**”) to receive and hold on its behalf the Shares from time to time deposited under the Deposit Agreements (the “**Deposited Shares**”), and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (such rights, securities, property and cash together with the Deposited Shares, the “**Deposited Property**”).

In these Conditions references to (i) the “**Depositary**” are to Citigroup Global Markets Deutschland AG and/or any other Depositary which may from time to time be appointed under the Deposit Agreements, (ii) the “**DR Servicer**” are to Citibank, N.A. and/or any other DR Servicer which may from time to time be appointed under the Deposit Agreements, and (iii) the “**Custodian**” are to ZAO Citibank or any other Custodian from time to time appointed under the Deposit Agreements.

References in the Conditions to the GDRs shall include the GDRs issued pursuant to the terms of the Regulation S Deposit Agreement (the “**Regulation S GDRs**”) and the GDRs issued pursuant to the terms of the Rule 144A Deposit Agreement (the “**Rule 144A GDRs**”). References in the Conditions to Deposit Agreements shall mean, in the case of Regulation S GDRs, the Regulation S Deposit Agreement and, in the case of Rule 144A GDRs, the Rule 144A Deposit Agreement.

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as holder on the books of the DR Servicer maintained for such purpose. References in these Conditions to “**Beneficial Owner**” of any GDR shall mean any person or entity having a beneficial interest deriving from the ownership of the GDRs. The Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreements, which includes the forms of the applicable GDR Certificate in respect of the GDRs. Copies of the Deposit Agreements are available for inspection at the principal office of the DR Servicer. Terms used in the Conditions and not defined herein but which are defined in the Deposit Agreements have the meanings ascribed to them in the Deposit Agreements.

The Depositary shall hold Deposited Property for the benefit of the Holders as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued. For the avoidance of doubt, in acting hereunder the DR Servicer and the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreements and these Conditions and, other than holding the Deposited Property as bare trustee as aforesaid, do not assume any other relationship of trust for or with the Holders or any other person. Any right or power of the Depositary or the DR Servicer in respect of Deposited Property is reserved by the Depositary under the declaration of trust contained in this paragraph and is not given by way of grant by any Holder.

Holders and Beneficial Owners of GDRs are not parties to the Deposit Agreements which specifically disallow the application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company, the Depositary or the DR Servicer. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreements, any Holder may enforce the relevant provisions of the Deposit Agreements as if it were a party to the Deposit Agreements and was the “Depositary” or the “DR Servicer” in respect of that number of Deposited Shares to which the GDRs of which it is the Holder relate. Neither the Depositary nor the DR Servicer is under any

duty to enforce any of the provisions of the Deposit Agreements or the Conditions on behalf of any Holder or Beneficial Owner of a GDR or any other person.

Holders are deemed, by virtue of being a Holder and owning, acquiring or holding, as the case may be, a GDR, to have notice of and be bound by all applicable provisions of the Deposit Agreements and the Conditions.

GDRs will initially take the form of global GDRs evidenced by one or more Master GDR Certificates (each a “Master GDR Certificate”) registered (i) in the case of Regulation S GDRs, in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as Common Depositary (the “Common Depositary”), and will initially be held by the Common Depositary for Clearstream Banking, Société Anonyme (“Clearstream”) and Euroclear Bank, S.A./N.V. (“Euroclear”), for the account of accountholders in Euroclear or Clearstream (“Euroclear Participants” and “Clearstream Participants”, respectively), as the case may be, and (ii) in the case of Rule 144A GDRs, in the name of “Cede & Co.”, as nominee for The Depository Trust Company (DTC) for the account of accountholders in DTC (“DTC Participants”). The Master GDR Certificates will be exchangeable for a GDR Certificate in definitive registered form in the limited circumstances as described below.

If at any time DTC, Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the GDRs, the Company and the DR Servicer will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the DR Servicer will make available GDR Certificates in definitive registered form.

Under the terms of the GDRs, each purchaser of GDRs is deemed to have represented and agreed, among other things, that the GDRs have not been and will not be registered under the Securities Act and may be offered, sold, pledged or otherwise transferred only in a transaction exempt from the registration requirements of the Securities Act. Each GDR will contain a legend to the foregoing effect.

1. Deposit of Shares

- A. The DR Servicer may, in accordance with the terms of the Deposit Agreements but subject to the Conditions, and upon delivery of (x) a duly executed order (in a form approved by the DR Servicer) and (y) a duly executed or electronic deposit certificate substantially in the form attached to the Deposit Agreements by or on behalf of any investor (other than in the case of a deposit of Shares by the Company or an Affiliate of the Company which shall be subject to Clause 7.1.5 of the Deposit Agreements) from time to time process the issuance and delivery of further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects and, subject to the terms of the Deposit Agreements, the Conditions and applicable law, the Depositary and the DR Servicer shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the then outstanding GDRs.

The deposit certificate to be provided pursuant to the Regulation S Deposit Agreement certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company is located outside the United States and will comply with the restrictions on transfer applicable to the Regulation S GDRs set forth under “Selling and Transfer Restrictions”.

The deposit certificate to be provided pursuant to the Rule 144A Deposit Agreement certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is a “Qualified Institutional Buyer” (as defined in Rule 144A under the Securities Act), and will comply with the restrictions on transfer applicable to the Rule 144A GDRs set forth under “Selling and Transfer Restrictions”.

- B. Subject to the terms and conditions of the Deposit Agreements and applicable law, upon (i) physical delivery to the Custodian of Shares, or book-entry transfer of Shares, to an account of the Custodian, (ii) delivery to the DR Servicer of the applicable deposit certificate, unless the deposit of Shares is made by the Company or an Affiliate of the Company in which case such deposit will be subject to Clause 7.1.5 of the Deposit Agreements, and (iii) payment of necessary taxes, governmental charges (including stamp duty or other transfer taxes) and other charges as set forth in the Deposit Agreements and the fees set forth in Clause 10.1 of the Deposit Agreements and Condition 19, the Depositary will issue GDRs, and the DR Servicer will (i) adjust its records for the number of GDRs issued in respect of the Shares so deposited, (ii) notify DTC or the Common Depositary, as the case may be, to increase the number of GDRs evidenced by the corresponding Master GDR Certificate,

and (iii) make delivery of the GDRs so issued to the applicable DTC Participant, Euroclear Participant or Clearstream Participant specified in applicable order received for such purpose.

- C. Subject to the limitations set forth in the applicable Deposit Agreements and applicable law, the Depositary may (but is not required to) issue GDRs, and the DR Servicer may (but is not required to) process the issuance and delivery of GDRs, prior to the delivery to it of Shares in respect of which such GDRs are to be issued against evidence to receive rights from the Company (or any agent of the Company involved on behalf of the Company in the maintenance of ownership or transactions records for the Shares) in the form of a written blanket or specific guarantee of ownership furnished by the Company (or any agent of the Company involved on behalf of the Company in the maintenance of ownership or transactions records for the Shares). No such issue will be deemed a “**Pre-Release Transaction**” as defined in Condition 1E.
- D. Any further GDRs issued pursuant to Condition 1(A) which (i) represent Shares which have rights (whether dividend rights or otherwise) or restrictions which are different from the rights or restrictions attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will, subject to Clause 3 of the Deposit Agreements be represented by a separate Master Partial Entitlement GDR Certificate (a “**Master Partial Entitlement GDR Certificate**”) and the Depositary will take all steps reasonably necessary to ensure (through the use of distinct ISIN/CUSIP numbers, the issuance of a distinct class of temporary GDRs, the use of legends or deposit and withdrawal certificates, or otherwise as it sees fit) that the GDRs issued for the newly-deposited Shares are not fungible with the GDRs issued for the previously-deposited Shares, until such time as the newly-deposited Shares become fungible with the previously-deposited Shares. Upon becoming fungible with outstanding GDRs, the Master Partial Entitlement GDR shall be cancelled and such further GDRs shall be evidenced by a Master GDR Certificate (by increasing the total number of GDRs evidenced by the relevant Master GDR Certificate or by the number of such further GDRs, as applicable).
- E. Subject to the further terms and provisions of the Deposit Agreements, the Depositary, the DR Servicer and their agents and affiliates, on their own behalf, may own and deal in any class of securities of the Company and its affiliates and in GDRs. In its capacity as DR Servicer, the DR Servicer shall not lend Shares or GDRs; however, the DR Servicer may, on behalf of the Depositary, unless requested in writing by the Company to stop doing so, process the issuance of GDRs prior to the receipt of Shares pursuant to Condition 1 and Clause 3 of the Deposit Agreements, each such transaction, a “**Pre-Release Transaction**”. The Depositary may only process the delivery of Shares upon the receipt and cancellation of GDRs pursuant to Condition 2 and Clause 3 of the Deposit Agreements, including GDRs which were issued pursuant to a Pre-Release Transaction but for which Shares may not have been received. The DR Servicer may accept the receipt of GDRs in lieu of Shares in satisfaction of a Pre-Release Transaction. Each such Pre-Release Transaction will be (a) subject to a written agreement whereby the person or entity (the “**Applicant**”) to whom GDRs are to be delivered (v) represents that at the time of the Pre-Release Transaction the Applicant or its customer owns the Shares that are to be delivered by the Applicant under such Pre-Release Transaction, (w) agrees to indicate the Depositary (on behalf of Holders) as beneficial owner of such Shares in its records and to hold such Shares in trust for the Depositary until such Shares are delivered to the DR Servicer or the Custodian for the benefit of the Depositary, (x) unconditionally guarantees to deliver to the DR Servicer or the Custodian (in each case, on behalf of the Depositary), as applicable, such Shares, (y) agrees not to take any action with respect to such Shares that is inconsistent with the transfer of beneficial ownership and (z) agrees to any additional restrictions or requirements that the DR Servicer deems appropriate, (b) at all times fully collateralised with cash, U.S. government securities or such other collateral as the DR Servicer deems appropriate, (c) terminable by the DR Servicer on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the DR Servicer deems appropriate. The DR Servicer will normally limit the number of GDRs and Shares involved in such Pre-Release Transactions at any one time to thirty percent (30%) of the GDRs outstanding (without giving effect to GDRs outstanding under (i) above), **provided, however, that** the DR Servicer reserves the right to change or disregard such limit from time to time as it deems appropriate. The DR Servicer may also set limits with respect to the number of GDRs and Shares involved in Pre Release Transactions with any one person on a case by case basis as it deems appropriate.

The DR Servicer may retain any compensation received by it in connection with the foregoing. Collateral provided pursuant to (b) above, but not the earnings thereon, shall be held for the benefit

of the Holders (other than the Applicant). The DR Servicer may require that the person to whom any Pre-Release Transaction is to be made pursuant to this Condition 1(E) deliver to the Depositary a duly completed certification and agreement in substantially the form set forth as Schedule 3 Part A to the Deposit Agreements.

- F. Any person delivering Shares for deposit under the Deposit Agreements and Condition 1 and any Holder or Beneficial Owner may be required and will be deemed to accept, by virtue of being a Holder or a Beneficial Owner, that, from time to time, it will be required to furnish the DR Servicer or the Custodian with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, taxpayer status, payment of all applicable taxes or governmental charges, exchange control approvals, legal or beneficial ownership of GDRs and Deposited Property, compliance with all applicable laws, the terms of the Deposit Agreements, the Conditions and the provisions of, or governing, the Deposited Property and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the DR Servicer may deem necessary or appropriate for the administration or implementation of the Deposit Agreements and the Conditions. The DR Servicer or the Custodian may withhold acceptance of Shares for deposit, withhold delivery or registration of issuance or transfer of all or part of any GDR Certificate, withhold adjustment of the Master GDR Certificate to reflect increases in Shares represented thereby or withhold the distribution or sale of any dividend or distribution of rights or of the net proceeds of the sale thereof or the delivery of any Deposited Property, until such proof or other information is filed or such certifications are executed, or such representations are made or such other documentation or information is provided in each case to the satisfaction of the DR Servicer or the Custodian. No Share shall be accepted for deposit unless accompanied by evidence, if any is required by the DR Servicer or the Custodian, that is reasonably satisfactory to the DR Servicer or the Custodian that all conditions for such deposit have been satisfied by the person depositing such Shares under the laws and regulations of Russia and any necessary approval has been granted by any applicable governmental body in Russia (if any), including, without limitation, if applicable, any regulator of currency exchange and any other evidence as required by the DR Servicer pursuant to the Deposit Agreements.
- G. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, the Depositary and the DR Servicer shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of GDRs to Shares or Deposited Property, as the case may be, would give rise to fractional GDRs.
- H. Each person depositing Shares under the Deposit Agreements and the Conditions shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorised, validly issued, fully paid, non-assessable and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorised so to do, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and (v) the Shares presented for deposit have not been stripped of any rights or entitlements, in the case of Regulation S GDRs and are not, and the Regulation S GDRs will not be, “Restricted Securities” (under the Securities Act). Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company, the Depositary and the DR Servicer shall be authorised, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreements and the Conditions shall be deemed thereby to acknowledge that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the applicable Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, transfer or surrender and withdrawal of the Shares or the GDRs or any beneficial interest therein.

2. Withdrawal of Deposited Property

- A. Subject to the terms and provisions of the Deposit Agreements, the Conditions and applicable law, any Holder may request withdrawal of the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the DR Servicer may reasonably require at the principal office of the DR Servicer accompanied by:
- (i) a duly executed order (in a form approved by the DR Servicer) requesting the DR Servicer to cause the Deposited Property being withdrawn or evidence of the electronic transfer thereof to be delivered to, or upon the order in writing of, the person or persons designated in such order; or
 - (ii) the payment to the DR Servicer of such fees, taxes, duties, charges and expenses as may be required under the Conditions or the Deposit Agreements including, but not limited to the fees set forth in Clause 10.1 of the Deposit Agreements and Condition 19;
 - (iii) (x) the surrender of a GDR Certificate at the Principal New York Office or Principal London Office of the DR Servicer, if DTC, Euroclear or Clearstream book-entry settlement system is not then available for GDRs, or (y) receipt by the DR Servicer at the Principal New York Office of instructions from DTC, Euroclear or Clearstream, or a DTC, Euroclear or Clearstream Participant, or their respective nominees, on behalf of any Beneficial Owner together with a corresponding credit to the DR Servicer's account at DTC, Euroclear or Clearstream for the GDRs so surrendered, if the book-entry settlement system is then available for GDRs, in either case for the purpose of withdrawal of the Deposited Property represented thereby; and
 - (iv) the delivery to the DR Servicer, in the case of Rule 144A GDRs, of a duly executed and completed withdrawal certificate pursuant to the Rule 144A Deposit Agreement.
- B. Withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company, the Depositary or the DR Servicer may from time to time determine to be necessary for compliance with applicable laws.
- C. Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition 2, the DR Servicer will direct the Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its office in Moscow to, or to the order in writing of, the person(s) designated in the accompanying order:
- (i) a certificate for, or other appropriate instrument of title to, or evidence of book-entry transfer of, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid or evidence of the electronic transfer of such other Deposited Property;
- provided that the DR Servicer:
- (a) may make delivery of (a) any cash dividends or cash distributions or (b) any proceeds from the sale of any distributions of Shares or rights which are held by the DR Servicer in respect of the Deposited Property represented by the GDRs surrendered for cancellation and withdrawal; and
 - (b) at the request, risk and expense of any Holder surrendering a GDR for cancellation and withdrawal, will direct the Custodian to forward any cash or other property (other than securities) held by the Custodian in respect of the Deposited Property represented by such GDRs to the Depositary,
- in each case at the principal office from time to time of the DR Servicer located in New York or London (if permitted by applicable law as in effect at such time).
- D. Delivery by the Depositary, the DR Servicer and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto. In the event the Deposited Property

includes Shares that have not been dematerialised and listed for trading on the Russian Stock Exchanges (i.e., on account of a delay in such listing in connection with a deposit of Shares newly issued by the Company), the Shares withdrawn hereunder will be selected first from the Shares that have been dematerialised and listed for trading on the Russian Stock Exchanges and thereafter from the Shares that have not been so dematerialised and listed. Neither the Custodian, the DR Servicer, the Depositary nor the Company will have any liability to any Holder or Beneficial Owner who receives, upon cancellation of GDRs, any Shares that have not been dematerialised and listed for trading on the Russian Stock Exchanges.

- E. If any GDR surrendered and cancelled represent fractional entitlements in Deposited Property, the DR Servicer shall cause the appropriate whole number of Deposited Property to be withdrawn and delivered in accordance with the terms of the Deposit Agreements and this Condition 2 and shall, at the discretion of the Depositary and upon notice to the Depositary, either (i) process the issuance and delivery to the person surrendering such GDR a new GDR representing any remaining fractional Share, or (ii) sell or cause to be sold the fractional Share represented by the GDR surrendered and remit proceeds of such sale (net of (a) fees and charges payable to, and expenses incurred by, the DR Servicer, and (b) taxes withheld) to the person surrendering the GDR.
- F. Notwithstanding anything to the contrary in the Deposit Agreements or the Conditions, the DR Servicer shall not knowingly accept any Rule 144A GDRs for cancellation and withdrawal of the Deposited Property represented thereby if the recipient thereof has instructed the deposit of such Deposited Property into any unrestricted depositary receipts facility the depositary receipts of which are not “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, unless the DR Servicer shall have received an opinion of counsel reasonably satisfactory to it stating that the Deposited Property so withdrawn are not at such time “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

3. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The issuance and delivery of GDRs against deposits of Shares generally or deposits of particular Shares may be suspended or withheld, or the registration of transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended or refused during any period when the transfer books of the DR Servicer, the Company, a registrar of GDRs or any registrar of Shares are closed, or if any such action is deemed necessary or advisable by the Company or the DR Servicer in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, or under any provision of the Deposit Agreements, the Conditions, or the provisions of or governing the Deposited Property, or any meeting of shareholders of the Company or for any other reason. The DR Servicer may restrict the transfer of Deposited Shares where the Company notifies the DR Servicer and the Depositary in writing that such transfer would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Charter or would otherwise violate any applicable laws.

The DR Servicer will refuse to accept Shares for deposit under the Rule 144A Deposit Agreement, if it has been notified by the Company in writing that the Deposited Shares or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A.

Notwithstanding any provision of the Deposit Agreements, the Conditions or any GDR Certificate to the contrary, Holders are entitled to surrender outstanding GDRs to withdraw the Deposited Shares at any time subject only to (i) temporary delays caused by closing the transfer books of the DR Servicer or the Company or the deposit of Shares in connection with voting at a shareholders’ meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges, (iii) compliance with any laws or governmental regulations relating to the GDRs or to the withdrawal of the Deposited Shares.

4. Transfer and Ownership

- A. The GDRs are to be issued in registered form with 30 GDRs issued in respect of one Share. Title to the GDRs passes by registration in the records of the DR Servicer maintained for such purpose and, accordingly, transfer of title to a GDR is effective only upon such registration. The DR Servicer will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be

treated by the DR Servicer, the Depositary and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

The DR Servicer will maintain GDR Holder records, including a register of GDR Holders, at its principal office in New York.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144A under the Securities Act, interests in the Rule 144A GDRs may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR Certificate only upon receipt by the DR Servicer of written certifications and agreements from the transferor and transferee in the forms provided in the Regulation S Deposit Agreement. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Rule 144A GDR Certificate only upon receipt by the DR Servicer of written certifications and agreements from the transferor and transferee in the forms provided in the Rule 144A Deposit Agreement. Any interest in GDRs represented by one of the Master GDR Certificates that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR Certificate, will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR Certificate and, accordingly, will be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR Certificate for so long as it remains such an interest.

- B. Notwithstanding any other provision of the Deposit Agreements or the Conditions, each Holder and Beneficial Owner, by virtue of their ownership of any GDR or any Deposited Property, shall be deemed thereby to agree to comply with requests from the Company, the Depositary, and the DR Servicer pursuant to Russian law, the rules and requirements of the Russian Stock Exchanges and any other stock exchange on which the Shares are, or may be registered, traded or listed, or the Charter, which are made to provide information, *inter alia*, as to the capacity in which such Holder or former Holder, Beneficial Owner or former Beneficial Owner holds or held, owns or owned a beneficial ownership interest in GDRs (and Deposited Property, as the case may be) and regarding the identity of any other person interested in such GDRs (and Deposited Property), the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request.
- C. Applicable laws and regulations may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements or obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. By virtue of their ownership of any GDR or any Deposited Property, each Holder and Beneficial Owner shall be deemed thereby to agree to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the DR Servicer, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

5. Cash Distributions

Whenever the Company intends to distribute cash to holders of Shares the Company shall, if practicable, in the reasonable opinion of the Company, give timely notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.1 of the Deposit Agreements. Upon receipt of such notice, the DR Servicer shall establish a GDR Record Date upon the terms described in Condition 10. Whenever the Depositary and the DR Servicer receive confirmation from the Custodian of the receipt from the Company of any cash dividend or other cash distribution on or in respect of the Deposited Shares or receipt of proceeds from the sale of any Shares, rights, securities or other entitlements under the terms of the Deposit Agreements or the Conditions, the Depositary and the DR Servicer shall, if at the time of receipt thereof any amounts received in Foreign Currency can in the judgment of the DR Servicer (pursuant to Condition 11) be converted on a practicable basis into Dollars transferable to the U.S., promptly convert, or cause to be converted, such dividends, distribution or proceeds into Dollars in the terms described in Condition 11 and will promptly distribute the amount thus received (net of (a) applicable fees and charges payable to, and expenses incurred by, the DR Servicer and (b) taxes withheld) to the Holders as of the

applicable GDR Record Date entitled thereto. The DR Servicer shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent, and any balance not so distributable shall be held by the DR Servicer (without liability for interest thereon) and shall be added to and become part of the next sum received by the DR Servicer for distribution to Holders of GDRs then outstanding at the time of the next distribution. If the Company, the Custodian or the DR Servicer is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Property an amount on account of taxes, duties or other governmental charges, the amount distributed to Holders in respect of the GDRs representing such Deposited Property shall be reduced accordingly. Such withheld amounts shall be forwarded by the Company, the Custodian or the DR Servicer to the relevant governmental authority. Evidence of payment thereof by the Company shall be forwarded by the Company to the DR Servicer upon request.

6. Distributions of Shares

Whenever the Company intends to distribute shares to holders of Shares the Company shall, if practicable, in the reasonable opinion of the Company, give timely notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.1 of the Deposit Agreements. Upon receipt of such notice, the DR Servicer shall establish a GDR Record Date upon the terms described in Condition 10. If any distribution upon any Deposited Property consists of a dividend in, or free distribution of, Shares, the Company shall cause such Shares to be deposited with the Custodian and, if applicable, registered in the name of the Depositary, the Custodian or any of their nominees, as the case may be. Upon receipt of confirmation of such deposit from the Custodian, the Depositary and the DR Servicer shall, subject to the terms of the Deposit Agreements and the Conditions, either (i) distribute to the Holders as of the GDR Record Date in proportion to the number of GDRs held as of the GDR Record Date, additional GDRs, which represent the aggregate number of Shares received as such dividend or free distribution, subject to the other terms of the Deposit Agreements and Conditions and net of (a) the applicable fees and charges payable to, and expenses incurred by, the DR Servicer and (b) taxes, by either (x) if GDRs are not available in book-entry form, issuing additional GDR Certificates for an aggregate number of GDRs representing the number of Shares received as such dividend or free distribution, or (y) if GDRs are available in book-entry form, reflecting on the records of the DR Servicer such increase in the aggregate number of GDRs representing such Shares and give notice to the Common Depositary for Euroclear and Clearstream or DTC of the related increase in the number of GDRs evidenced by the Master GDR Certificate, or (ii) if additional GDRs are not so distributed, each GDR issued and outstanding after the GDR Record Date shall, to the extent permissible by law, thenceforth also represent rights and interests in the additional Shares distributed upon the Deposited Property represented thereby, net of (a) the applicable fees and charges payable to, and expenses incurred by, the DR Servicer and (b) taxes. In lieu of delivering fractional GDRs, the DR Servicer shall sell the number of Shares represented by the aggregate of such fractions and distribute the net proceeds of such sale upon the terms described in Condition 5. In the event that the DR Servicer determines that any distribution in Shares would violate applicable law, is not operationally practicable, is subject to any tax or other governmental charges which the DR Servicer is obligated to withhold, or if the Company, in the fulfillment of its obligations under Clause 7.1.5 of the Deposit Agreements, has furnished an opinion of U.S. counsel determining that the distribution to Holders of the Shares and the GDRs representing such Shares must be registered under the Securities Act or other laws in order to be distributed to Holders (and no such registration statement has been declared effective), the DR Servicer shall give notice thereof to the Depositary and may dispose of all or a portion of such Shares in such amounts and in such manner, including by public or private sale, as the DR Servicer deems necessary and practicable, and the DR Servicer shall distribute the net proceeds of any such sale, after deduction of (a) taxes and (b) fees and charges payable to, and expenses incurred by, the DR Servicer, to Holders entitled thereto upon the terms described in Condition 5. The DR Servicer shall hold and/or distribute any unsold balance of such property in accordance with the provisions of the Deposit Agreements and the Conditions.

7. Distributions Other than Cash or Shares

Whenever the Company intends to distribute to the holders of Deposited Property, property other than cash, Shares or rights to purchase additional Shares, the Company shall, if practicable, in the reasonable opinion of the Company, give timely notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.1 of the Deposit Agreements and shall indicate whether or not it wishes such distribution to be made available to Holders of GDRs. Upon receipt of a notice indicating that the Company wishes such distribution to be made available to Holders of GDRs, the Depositary and the DR Servicer shall consult

with the Company, and the Company shall assist the Depositary and the DR Servicer, to determine whether such distribution is lawful and reasonably practicable. The DR Servicer shall not make such distribution unless (i) the Company shall have requested the DR Servicer to make such distribution to Holders, (ii) the DR Servicer shall have received satisfactory documentation within the terms of Clause 7.1.5 of the Deposit Agreements, and (iii) the DR Servicer shall have determined that such distribution is reasonably practicable. Upon receipt of satisfactory documentation and the request of the Company to distribute property to Holders of GDRs and after making the requisite determinations set forth above, the DR Servicer shall distribute the property so received to the Holders of record as of the GDR Record Date set in accordance with Condition 10, in proportion to the number of GDRs held by them respectively and in such manner as the DR Servicer may deem practicable for accomplishing such distribution (i) upon receipt of payment or net of the applicable fees and charges payable to, and expenses incurred by, the DR Servicer, and (ii) net of any taxes withheld. The DR Servicer may dispose of all or a portion of the property so distributed and deposited, in such amounts and in such manner (including public or private sale) as the DR servicer may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) or other governmental charges applicable to the distribution. If (i) the Company does not request the DR Servicer to make such distribution to Holders or requests not to make such distribution to Holders, (ii) the DR Servicer does not receive satisfactory documentation within the terms of Clause 7.1.5 of the Deposit Agreements, or (iii) the DR Servicer determines that all or a portion of such distribution is not reasonably practicable, the DR Servicer shall give notice thereof to the Depositary and shall sell or cause such property to be sold in a public or private sale, at such place or places and upon such terms as it may deem practicable and shall (x) cause the proceeds of such sale, if any, to be converted into Dollars in accordance with Condition 11, and (y) distribute the proceeds of such conversion received by the Depositary (net of (a) applicable fees and charges payable to, and expenses incurred by, the DR Servicer and (b) taxes) to the Holders as of the GDR Record Date upon the terms of Condition 5. If the DR Servicer is unable to sell such property, the DR Servicer may dispose of such property in any way it deems reasonably practicable under the circumstances.

8. Rights Issues

- A. Whenever the Company intends to distribute to the holders of the Deposited Property rights to subscribe for additional Shares, the Company shall, if practicable, in the reasonable opinion of the Company, give timely notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.1 of the Deposit Agreements stating whether or not it wishes such rights to be made available to Holders of GDRs. Upon timely receipt of a notice indicating that the Company wishes such rights to be made available to Holders of GDRs, the Depositary and the DR Servicer shall consult with the Company, and the Company shall assist the Depositary and the DR Servicer, to determine whether it is lawful and reasonably practicable to make such rights available to the Holders. The DR Servicer shall make such rights available to Holders only if (i) the Company shall have requested that such rights be made available to Holders in a timely manner, (ii) the Depositary shall have received satisfactory documentation within the terms of Clause 7.1.5 of the Deposit Agreements, and (iii) the Depositary shall have determined that such distribution of rights is reasonably practicable. In the event any of the conditions set forth above are not satisfied or if the Company requests that the rights not be made available to Holders of GDRs, the DR Servicer shall proceed with the sale of the rights as contemplated hereinafter. In the event all conditions set forth above are satisfied, the DR Servicer shall (x) establish a GDR Record Date (upon the terms described in Condition 10), (y) establish procedures to distribute such rights (by means of warrants or otherwise) and to enable the Holders to exercise the rights (upon payment of (a) the applicable fees and charges payable to, and expenses incurred by, the Depositary and (b) taxes), and (z) issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the DR Servicer to the extent necessary in establishing such procedures.

Nothing herein shall obligate the DR Servicer to make available to the Holders a method to exercise such rights to subscribe for Shares (rather than for GDRs).

- B. If (i) the Company does not timely request the DR Servicer to make the rights available to Holders or requests that the rights not be made available to Holders, (ii) the DR Servicer fails to receive satisfactory documentation within the terms of Clause 7.1.5 of the Deposit Agreements or determines it is not reasonably practicable to make the rights available to Holders, or (iii) any rights made available are not exercised and appear to be about to lapse, the DR Servicer shall determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place

and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the DR Servicer to the extent necessary to determine such legality and practicability. The DR Servicer shall, upon such sale, (x) cause the proceeds of such sale, if any, to be converted into Dollars upon the terms described in Condition 11, and (y) distribute the proceeds of such sale (net of (a) applicable fees and charges payable to, and expenses incurred by, the DR Servicer and (b) taxes) upon the terms set forth in Condition 5.

If the DR Servicer is unable to make any rights available to Holders upon the terms described in the Deposit Agreements or to arrange for the sale of the rights upon the terms described above, the DR Servicer shall allow such rights to lapse.

The DR Servicer shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make such rights available to Holders in general or any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the Holders on behalf of the Company in connection with the rights distribution.

- C. Notwithstanding anything to the contrary in the Deposit Agreements or this Condition 8, if registration (under the Securities Act or any other applicable law) of the rights or the securities to which any rights relate may be required in order for the Company to offer such rights or such securities to Holders and to sell the securities represented by such rights, the Depositary and the DR Servicer will not distribute such rights to the Holders unless and until a registration statement under the Securities Act (or other applicable law) covering such offering is in effect. In the event that the Company, the DR Servicer or the Custodian shall be required to withhold and does withhold from any distribution of rights an amount on account of taxes or other governmental charges, the amount distributed to the Holders of Rule GDRs representing such Deposited Property shall be reduced accordingly. In the event that the DR Servicer determines that any distribution of Deposited Property or rights to subscribe therefor is subject to any tax or other governmental charges which the DR Servicer is obligated to withhold, the DR Servicer may dispose of all or a portion of such Deposited Property or rights to subscribe therefor in such amounts and in such manner, including by public or private sale, as the DR Servicer deems necessary and practicable to pay any such taxes or charges. There can be no assurance that Holders generally, or any Holder in particular, will be given the opportunity to exercise such rights on the same terms and conditions as the holders of Deposited Property or to exercise such rights. Nothing in the Deposit Agreements or this Condition 8 shall obligate the Company to file any registration statement in respect of any rights or Deposited Property or other securities to be acquired upon the exercise of such rights.

9. Redemption

If the Company intends to exercise any right of redemption in respect of any of the Deposited Property, the Company shall, if practicable, in the reasonable opinion of the Company, give timely notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.2 of the Deposit Agreements which notice shall set forth the particulars of the proposed redemption. Upon receipt of such (i) notice and (ii) satisfactory documentation given by the Company to the DR Servicer within the terms of Clause 7.1.5 of the Deposit Agreements, and only if the Depositary and the DR Servicer shall have determined that such proposed redemption is practicable, the DR Servicer shall give notice thereof to the Depositary and shall send to each Holder a notice in accordance with Condition 25 setting forth the intended exercise by the Company of the redemption rights and any other particulars set forth in the Company's notice to the DR Servicer. The DR Servicer shall instruct the Custodian to present to the Company the Deposited Property in respect of which redemption rights are being exercised against payment of the applicable redemption price. Upon receipt of confirmation from the Custodian that the redemption has taken place and that funds representing the redemption price have been received, the DR Servicer shall convert, transfer, and distribute the proceeds (net of applicable (a) fees and charges payable to, and the expenses incurred by, the DR Servicer, and (b) taxes), retire GDRs and cancel GDRs upon delivery of such GDRs by Holders thereof and on the terms set forth in the applicable Conditions. If less than all outstanding Deposited Property is redeemed, the GDRs to be retired will be selected by lot or on a *pro rata* basis, as may be determined by the DR Servicer. The redemption price per GDR shall be the per share amount received by the DR Servicer upon the redemption of the Deposited Property represented by GDRs (subject to the terms of the Deposit Agreements and the applicable fees and charges payable to, and expenses incurred by, the DR Servicer, and taxes) multiplied by the number of Deposited Property represented by each GDR redeemed.

10. GDR Record Dates

Whenever the DR Servicer shall receive notice of the fixing of a record date by the Company for the determination of holders of Deposited Property entitled to receive any distribution (whether in cash, Shares, rights or other distribution), or whenever, for any reason, the DR Servicer causes a change in the number of Deposited Property that are represented by each GDR, or whenever the DR Servicer shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of Shares or other Deposited Property, or whenever the DR Servicer finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the DR Servicer shall fix a record date (the “**GDR Record Date**”) for the determination of the Holders of GDRs who shall be entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of Holders with respect to such changed number of Deposited Property represented by each GDR. The DR Servicer shall make reasonable efforts to establish the GDR Record Date as closely as possible to the applicable record date for the Deposited Property (if any) set by the Company in Russia. Subject to applicable law and the provisions of the Deposit Agreements and Conditions, only the Holders of GDRs at the close of business in New York on such GDR Record Date shall be entitled to receive such distribution, to give such voting instructions, to receive such notice or solicitation, or otherwise take action.

11. Conversion of Foreign Currency

Whenever the DR Servicer or the Custodian shall receive any Foreign Currency by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the Foreign Currency so received can in the judgement of the Depositary and the DR Servicer be converted on a practicable basis into Dollars transferable to the U.S. and distributed to the Holders entitled thereto, the Depositary and the DR Servicer shall convert or cause to be converted, by sale or in any other manner that it may determine, the Foreign Currency so received into Dollars and shall distribute such Dollars (net of applicable fees, any reasonable and customary expenses incurred on behalf of Holders in complying with currency exchange control or other governmental requirements) in accordance with the terms of the applicable Conditions. If the DR Servicer shall have distributed warrants or other instruments that entitle the holders thereof to such Dollars, the DR Servicer shall distribute such Dollars to the holders of such warrants and/or instruments upon surrender thereof for cancellation, in either case without liability for interest thereon. Such distribution shall be made upon an averaged or other practicable basis without regard to any distinctions among Holders on account of any application of exchange restrictions or otherwise. If such conversion or distribution generally or with regard to a particular Holder can be effected only with the approval or licence of any government or agency thereof, the DR Servicer shall have the authority, with the assistance of the Company, to file such application, for such approval or licence, if any, as it may consider desirable. In no event, however, shall the DR Servicer be obligated to make such a filing. If at any time the DR Servicer shall determine that in its judgement the conversion of any currency other than Dollars and the transfer and distribution of proceeds of such conversion received by the DR Servicer is not practicable or lawful, or if any approval or licence of any government or agency thereof which is required for such conversion, transfer or distribution is denied or, in the opinion of the DR Servicer, is not obtainable at a reasonable cost, or if any such approval or licence is not obtained within a reasonable period as determined by the DR Servicer, the DR Servicer may in its discretion (i) make such conversion and distribution in Dollars to the Holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the Foreign Currency (or an appropriate document evidencing the right to receive such Foreign Currency) to Holders for whom this is lawful and practicable, and (iii) hold (or cause the Custodian to hold) such Foreign Currency (without liability for interest thereon) for the respective accounts of, the Holders entitled to receive the same.

12. Distribution of any Payments

Any distribution of cash under Condition 5, 6, 7, 8, 9, 13 or 14 will be made by the DR Servicer to those Holders who are Holders of record on the GDR Record Date established by the DR Servicer in accordance with Condition 10 for that purpose and, distributions will be made in Dollars subject to Condition 11 by cheque drawn upon a bank in New York City or, in the case of the relevant Master GDR Certificate, according to usual practice between the Depositary and DTC, Clearstream and Euroclear, as the case may be. The DR Servicer may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreements all fees, taxes, duties, charges, costs and expenses which may

become or have become payable under the Deposit Agreements or under applicable law in respect of such GDR or the relative Deposited Property.

13. Capital Reorganisation

Upon any change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of Deposited Property, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Deposited Property shall, to the extent permitted by law, be treated as new Deposited Property under the Deposit Agreements and the Conditions, and the GDRs shall, subject to the terms of the Deposit Agreements, the Conditions and applicable law, evidence GDRs representing the right to receive such replacement securities. The Depositary and the DR Servicer may, with the Company's approval, and shall, if the Company shall so request, subject to the terms of the Deposit Agreements, the Conditions and receipt of an opinion of counsel satisfactory to the DR Servicer that such distributions are not in violation of any applicable laws or regulations, execute and deliver additional GDRs or make appropriate adjustments in its records, as in the case of a stock dividend on the Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs, in either case, as well as in the event of newly deposited Shares, with necessary modifications to the form of GDR attached to the Deposit Agreements specifically describing such new Deposited Property or corporate change. Notwithstanding the foregoing, in the event that any security so received may not be lawfully distributed to some or all Holders, the DR Servicer may, with the Company's approval, and shall if the Company requests, subject to receipt of an opinion of Company's counsel satisfactory to the DR Servicer that such action is not in violation of any applicable laws or regulations, sell such securities at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales (net of (a) applicable fees and charges payable to, and expenses incurred by, the DR Servicer, and (b) taxes) for the account of the Holders otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash pursuant to Condition 5. The DR Servicer shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to Holders in general or to any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

14. Elective Distributions

Wherever the Company intends to distribute a dividend payable at the election of the holders of Shares in cash or in additional Shares, the Company shall give notice thereof to the Depositary and the DR Servicer in accordance with Clause 5.1 of the Deposit Agreements stating whether or not it wishes such elective distribution to be made available to Holders of GDRs. Upon timely receipt of a notice indicating that the Company wishes such elective distribution to be made available to Holders of GDRs, the Depositary and the DR Servicer shall consult with the Company to determine, and the Company shall assist the Depositary and the DR Servicer in its determination, whether it is lawful and reasonably practicable to make such elective distribution available to the Holders of GDRs. The DR Servicer shall make such elective distribution available to Holders *only* if the DR Servicer shall have (i) determined that such distribution is lawful and reasonably practicable and (ii) received satisfactory documentation within the terms of Clause 7.1.5 of the Deposit Agreements. If the above conditions are not satisfied or if the Company requests that such elective distribution not be made available to Holders of GDRs, the DR Servicer shall give notice thereof to the Depositary and shall, to the extent permitted by law, distribute to the Holders, on the basis of the same determination as is made in Russia in respect of the Shares for which no election is made, either (X) cash upon the terms described in Condition 5, or (Y) additional GDRs representing such additional Shares upon the terms described in Condition 6. If the above conditions are satisfied, the DR Servicer shall give notice to the Depositary and shall establish a GDR Record Date in accordance with Condition 10 and establish procedures to enable Holders to elect the receipt of the proposed dividend in cash or in additional GDRs. The Company shall assist the DR Servicer in establishing such procedures to the extent necessary. If a Holder elects to receive the proposed dividend (X) in cash, the dividend shall be distributed upon the terms described in Condition 5, or (Y) in GDRs, the dividend shall be distributed upon the terms described in Condition 6. Nothing in the Deposit Agreements or this Condition 14 shall obligate the DR Servicer to make available to Holders a method to receive the elective dividend in Shares (rather than GDRs). There can be no assurance that Holders generally, or any Holder in particular, will be

given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Property.

15. Taxation and Applicable Laws

- A. Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Property will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates, and notwithstanding any other provision of the Deposit Agreements or the Conditions, the DR Servicer and the Custodian will be entitled, subject to applicable law, to deduct from any cash dividend or other cash distribution which either of them receives from the Company such amount as is necessary in order to provide for any tax, charge, fee or other amount that is, or could become, payable by or on behalf of the DR Servicer to fiscal or other governmental authority on account of receiving such cash dividend or other cash distribution.

The Holder or Beneficial Owner of any GDR or any Deposited Property shall be deemed thereby to accept (by virtue of his ownership or deposit, as the case may be) that, in the event that any tax or other governmental charge shall become payable with respect to any GDR, Deposited Property or GDR Certificate, such tax or other governmental charge shall be payable by the Holder and Beneficial Owner to the DR Servicer. The Custodian may refuse the deposit of Shares and the Depositary and the DR Servicer may refuse to process the issuance or deliver GDRs, to register the transfer, split-up or combination of GDR Certificates and the withdrawal of Deposited Property until payment in full of such tax, charge, penalty or interest is received. The DR Servicer may, for the account of the Holder or Beneficial Owner, discharge the same out of the proceeds of sale, subject to Russian law and regulations, of an appropriate number of Deposited Shares or other Deposited Property with the Holder and Beneficial Owner remaining liable for any deficiency and being entitled to distribution of any surplus. Any such request shall be made by giving notice pursuant to Condition 25.

By virtue of its ownership of any GDR or Deposited Property, each Holder and Beneficial Owner shall be deemed to agree to indemnify the Depositary, the DR Servicer, the Company, the Custodian, and any of their agents, officers, employees and Affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for such Holder or Beneficial Owner.

- B. If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for Shares to be deposited by the Company under the Conditions or in order for Shares, other securities or other property to be distributed under Condition 5, 6, 7, 13 or 14 or to be subscribed under Condition 8, the DR Servicer shall request that the Company apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreements, to take such action as may be required in obtaining or filing the same. The DR Servicer shall not distribute GDRs, Shares, other securities or other property with respect to which such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report.

16. Voting Rights

- A. Holders of GDRs will have the right to instruct the Depositary via the DR Servicer with respect to the exercise of the voting rights with respect to the Deposited Shares. The Company has agreed to notify the DR Servicer of any meeting of holders of Shares of the Company at which holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 16.

As soon as practicable after receipt from the Company of any such notice, the DR Servicer will fix the GDR Record Date in respect of such meeting or solicitation of consent or proxy in accordance with Condition 10. The DR Servicer shall, if requested by the Company in writing in a timely manner in accordance with Clause 5.3 of the Deposit Agreements and at the Company's expense and provided no U.S., English, German or Russian legal prohibitions exist, distribute to Holders as of the GDR Record Date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the GDR Record Date will be entitled, subject to any applicable law, the provisions of the Deposit Agreements, the Conditions, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in

pertinent part by the Company), to instruct the DR Servicer as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given.

- B. Voting instructions may be given to the DR Servicer (and the DR Servicer will deliver such instructions as soon as practicable to the Depositary) only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreements, the Conditions, the Charter and the provisions of the Deposited Property, if the DR Servicer has received voting instructions from GDR Holders as of the GDR Record Date to vote the Deposited Property on or before the date specified by the DR Servicer, the Depositary shall endeavour, in so far as is practicable and permitted under applicable law, the provisions of the Depositary Agreements, the Charter and the terms of the Deposited Property, to vote the Deposited Property represented by GDRs for which timely and valid voting instructions have been received from GDR Holders in the manner so instructed by such Holders.
- C. Neither the Depositary, the DR Servicer, nor the Custodian shall, under any circumstances exercise any discretion as to voting and neither the Depositary, the DR Servicer, nor the Custodian shall vote, attempt to exercise the right to vote, or in any way make use of the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with such instructions from Holders. If the DR Servicer timely receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the DR Servicer will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to items for which the Holder has failed to specify the manner in which the Depositary is to vote. Notwithstanding anything else contained herein, the Depositary shall, if so requested in writing by the Company, represent all Deposited Property (whether or not voting instructions have been received in respect of such Deposited Property from Holders as of the GDR Record Date) for the sole purpose of establishing quorum at a meeting of shareholders. Neither the Depositary, the DR Servicer nor the Custodian shall, on the behalf of, or at the initiative of, a Holder of a GDR, introduce proposals for the agenda of the Company's shareholders meeting or nominate candidates for the Company's board of directors without first receiving express written consent from the Company to do so.
- D. There can be no assurance that Holders generally or any Holder in particular will receive the notice described above with sufficient time to enable the Holder to return voting instructions to the DR Servicer in a timely manner.

By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 16 as it may be amended from time to time in order to comply with applicable Russian law.

- E. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, neither the DR Servicer nor the Depositary shall have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S., German, English or Russian laws. The Company agrees to take any and all actions reasonably necessary to enable Holders and Beneficial Owners to exercise the voting rights accruing to the Deposited Property and to deliver to the DR Servicer an opinion of U.S., German, English or Russian counsel, as applicable, addressing any actions requested to be taken if so requested by the DR Servicer.

17. Liability

- A. Neither the Depositary, the DR Servicer, the Company nor any of their respective Affiliates nor any of their agents, officers, directors or employees shall be obligated to do or perform any act which is inconsistent with the provisions of the Deposit Agreements or the Conditions or shall incur any liability (i) if the Depositary, the DR Servicer, or the Company shall be prevented or forbidden from, or delayed in, doing any act or thing required by the terms of the Deposit Agreements or the Conditions, by reason of any provision of any present or future law or regulation of the U.S., Germany, England, Russia or any other country, or of any relevant governmental or regulatory authority or stock exchange, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of the Charter or any provision of or governing any Deposited Property or by reason of any other circumstances beyond their control (including, without limitation, acts of God or war, nationalisation, expropriation, currency restrictions,

work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure), (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements, the Conditions or in the Charter or provisions of or governing Deposited Property, (iii) for any action or inaction in reliance upon the advice or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, any Beneficial Owner or authorised representative thereof, or any other person believed by it in good faith to be competent to give such advice or information, but only insofar as the terms of this subsection (iii) are not prohibited by applicable law, (iv) for the inability by a Holder or Beneficial Owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreements or the Conditions, made available to Holders of GDRs or (v) for any consequential or punitive damages for any breach of the terms of the Deposit Agreements or the Conditions. The Depositary shall not have any liability for any action or inaction of the DR Servicer, and vice versa.

- B. The Company, the Depositary, and the DR Servicer assume no obligation and shall not be subject to any liability under the Deposit Agreements, the Conditions, or any GDR Certificates to any Holder(s) or Beneficial Owner(s), except that the Company, the Depositary and the DR Servicer agree to perform their respective obligations specifically set forth in the Deposit Agreements, the Conditions or the applicable GDR Certificates without negligence or bad faith.
- C. The Depositary, the DR Servicer, any Custodian and the Company, and their respective controlling persons and agents may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented by the proper party or parties (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- D. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreements or the Conditions.
- E. Without limitation of the foregoing, neither the Depositary, the DR Servicer, nor the Company, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of the GDRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary and the DR Servicer).
- F. The Depositary and the DR Servicer have no obligation under the Deposit Agreements to take steps to monitor, supervise or enforce the observance and performance by the Company of its obligations under the Deposit Agreements or the Conditions.
- G. Neither the Depositary, the DR Servicer, the Custodian nor any of their agents, officers, directors or employees shall be liable (except by reason of its own wilful misconduct, negligence or bad faith or that of its agent, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- H. The Depositary, the DR Servicer and each of their agents (and any holding, subsidiary or associated company of the Depositary or the DR Servicer) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary or DR Servicer, in relation to matters arising under the Deposit Agreements (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- I. The DR Servicer shall endeavour to effect any such sale as is referred to or contemplated in Conditions 6, 7, 8, 13, 14, 15 or 23 any such conversion as is referred to in Condition 11 in accordance with the DR Servicer's normal practices and procedures, but shall have no liability (in the absence of

its own negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible.

- J. The Depositary and the DR Servicer shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder, Beneficial Owner or person with an interest in a GDR as regards any deficiency which might arise because the Depositary or the DR Servicer is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- K. In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreements or the Conditions, the Depositary and the DR Servicer shall not, except as otherwise expressly provided in Condition 24, be obliged to have regard to the consequence thereof for the Holders, Beneficial Owners, a person with an interest in a GDR or any other person.
- L. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, the Depositary and the DR Servicer may refrain from doing anything which could or might, in its reasonable opinion, render it liable to any person and the Depositary and the DR Servicer may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.
- M. The Depositary and the DR Servicer shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the DR Servicer shall refuse to register any transfer of GDRs or any deposit of Shares against issue of GDRs if notified by the Company, or if the DR Servicer becomes aware of the fact, that such transfer or issue would be in violation of the limitations set forth above or any other applicable laws.
- N. The Depositary and the DR Servicer may call for, and shall be at liberty to accept as sufficient, evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company, by the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company, or such other certificate from persons which the Depositary considers appropriate and the Depositary and the DR Servicer shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary or the DR Servicer acting on such certificate.
- O. The Depositary, the DR Servicer and their agents shall not be liable for any failure to carry out any instructions to vote any of the Deposited Property, or for the manner in which any vote is cast or the effect of any vote, provided that any such action or omission is in good faith and in accordance with the terms of the Deposit Agreements and the Conditions. The Depositary and the DR Servicer shall not incur any liability for any failure to determine that any distribution or action may be lawful or reasonably practicable, for the content of any information submitted to it by the Company for distribution to the Holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Property, for the validity or worth of the Deposited Property, for the credit-worthiness of any third party, for any tax consequences that may result from the ownership of GDRs, Shares or Deposited Property, for allowing any rights to lapse upon the terms of the Deposit Agreements and the Conditions, for the failure or timeliness of any notice from the Company.
- P. No provision of the Deposit Agreements or the Conditions shall require the Depositary or the DR Servicer to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- Q. The Depositary and the DR Servicer may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance reasonably satisfactory to it, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Save for the failure on the part of the Depositary or the DR Servicer to exercise reasonable care in the selection or retention of any such agent, the Depositary and the DR Servicer will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

- R. None of the Depositary, the DR Servicer, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy reporting requirements or obtain regulatory approvals under applicable laws and regulations which shall be the sole responsibility of the Holders and Beneficial Owners as described in Condition 4C.
- S. Neither the Depositary nor the DR Servicer shall be liable for any acts or omissions made by a predecessor depositary in connection with any matter arising wholly prior to the appointment of the Depositary or the DR Servicer or after the removal or resignation of the Depositary or DR Servicer, provided that in connection with the issue out of which such potential liability arises the Depositary and the DR Servicer performed its obligations without negligence or bad faith while it acted as Depositary or DR Servicer, as applicable.
- T. Neither the Depositary nor the DR servicer shall under no circumstances have any liability arising from the Deposit Agreements or from the Conditions or from any obligations which relate to the Deposit Agreements or the Conditions, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought. For the purposes of this Condition 17T, “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary or the DR Servicer either at the time these Conditions were entered into or later.
- U. The DR Servicer, the Depositary and the Custodian disclaim any liability with respect to Russia’s system of share registration and custody, including in respect of the unavailability of Regulation S Deposited Securities (or any distribution in respect thereof).

18. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the DR Servicer may require, replacement GDRs will be issued and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the Principal New York Office of the DR Servicer.

19. DR Servicer’s Fees, Costs and Expenses

- A. The DR Servicer shall charge the following fees:
 - (i) **Issuance Fee:** to any person depositing Shares or to whom GDRs are issued upon the deposit of Shares (excluding issuances pursuant to paragraph (iv) below), a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) so issued under the terms of the Deposit Agreements and the Conditions;
 - (ii) **Cancellation Fee:** to any person surrendering GDRs for cancellation and withdrawal of Deposited Property, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) so surrendered;
 - (iii) **Cash Distribution Fee:** to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (i.e., upon the sale of rights and other entitlements);
 - (iv) **Stock Distribution/Rights Exercise Fees:** to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of GDRs pursuant to stock dividends or other free stock distributions or upon the exercise of rights to purchase additional GDRs;
 - (v) **Other Distribution Fee:** to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of securities other than GDRs or rights to purchase additional GDRs;
 - (vi) **Depositary Services Fee:** to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held on the applicable record date(s) established by the Depositary; and
 - (vii) **GDR Transfer Fee:** to any person presenting a GDR Certificate for transfer, a fee not in excess of U.S. \$1.50 per GDR Certificate so presented for transfer.

In addition, Holders, persons depositing Shares for deposit and persons surrendering GDRs for cancellation and withdrawal of Deposited Property will be required to pay the following charges:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
 - (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the share register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
 - (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreements to be at the expense of the person depositing or withdrawing Shares or Holders of GDRs;
 - (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;
 - (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, Deposited Property, GDRs and GDR Certificates; and
 - (vi) the fees and expenses incurred by the Depositary, the Custodian or any nominee in connection with the servicing or delivery of Deposited Property.
- B. Any other charges and expenses of the DR Servicer or the Depositary under the Deposit Agreements and the Conditions will be paid by the Company upon written agreement between the Depositary, the DR Servicer and the Company. All fees and charges may, at any time and from time to time, be changed by agreement between the Depositary, the DR Servicer and the Company but, in the case of fees and charges payable by Holders, only in the manner contemplated by Condition 24. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request.
- C. Fees payable upon (i) deposit of Shares against issuance of GDRs and (ii) surrender of GDRs for cancellation and withdrawal of Deposited Property will be charged by the DR Servicer to the person to whom the GDRs so issued are delivered (in the case of GDR issuance) and to the person who delivers the GDRs for cancellation to the Depositary (in the case of GDR cancellations). In the case of GDRs issued into Euroclear, Clearstream or DTC, the GDR issuance and cancellation fees will be payable to the Depositary by the Euroclear, Clearstream or DTC Participant(s) receiving the GDRs or the Euroclear, Clearstream or DTC Participant(s) surrendering the GDRs to the DR Servicer for cancellation, as the case may be, on behalf of the Beneficial Owner(s) and will be charged by the Euroclear, Clearstream or DTC Participant(s) to the account(s) of the applicable Beneficial Owner(s) in accordance with the procedures and practices of the Euroclear, Clearstream or DTC Participant(s) as in effect at the time. Fees in respect of distributions and the Depositary services fee are payable to the DR Servicer by Holders as of the applicable record date established by the DR Servicer. In the case of distributions of cash, the amount of the applicable fee may be deducted by the DR Servicer from the funds being distributed. In the case of distributions other than cash and the Depositary service fee, the DR servicer will invoice the applicable Holders as of the record date established by the DR Servicer. For GDRs held through Euroclear, Clearstream or DTC, the Depositary fees for distributions other than cash and the Depositary service fee are charged by the DR Servicer to the Euroclear, Clearstream or DTC Participants in accordance with the procedures and practices prescribed by Euroclear, Clearstream or DTC from time to time and the Euroclear, Clearstream and DTC Participants in turn charge the amount of such fees to the Beneficial Owners for whom they hold GDRs.
- D. The DR Servicer shall remit to the Depositary a portion of the fees charged in respect of the Regulation S GDR programme established pursuant to the Regulation S Deposit Agreement upon such terms and conditions as the Depositary and the DR Servicer may agree from time to time. The DR Servicer may reimburse the Company for certain expenses incurred by the Company in respect of the Global Depositary Receipts programmes established pursuant to the Deposit Agreements, by making available a portion of the Depositary fees charged in respect of the Global Depositary Receipts programme or otherwise, upon such terms and conditions as the Company and the DR Servicer may agree from time to time. The Company agrees to promptly pay the Depositary and the DR Servicer such fees and charges and reimburse the Depositary and the DR Servicer for such out of pocket expenses as the DR Servicer and the Company may agree to in writing from time to time. Responsibility for payment of such charges may at any time and from time to time be changed by

agreement between the Depositary, the Company and the DR Servicer. Unless otherwise agreed, the Depositary and the DR Servicer shall present their statement for such expenses and fees or charges to the Company once every three (3) months. The charges and expenses of the Custodian are for the sole account of the DR Servicer.

20. Listing

The Company has undertaken in the Deposit Agreements to use its reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing of the GDRs on the Official List of the UK Listing Authority and admission to trading of the GDRs on the London Stock Exchange's main market for listed securities and a listing of the Shares on the Russian Stock Exchanges. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the London Stock Exchange and the Russian Stock Exchanges in connection therewith. In the event that such listings are not maintained, the Company has undertaken in the Deposit Agreements to use its best endeavours to obtain and maintain a listing of the GDRs on another internationally recognised investment exchange in Europe designated as a "recognised investment exchange" for the purposes of the United Kingdom Financial Services and Markets Act 2000 and a listing of the Shares on one or more stock exchanges in Russia.

21. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreements. The Custodian shall be responsible solely to the Depositary and the DR Servicer. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreements. Whenever the Depositary determines that it is appropriate to do so, it may terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (in each case with the prior consent of the DR Servicer and subject to the direction of the DR Servicer), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreements. The DR Servicer shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 25.

22. Resignation and Termination of Appointment of the Depositary and DR Servicer

- A. The Depositary may at any time resign hereunder by written notice of resignation delivered to the Company and the DR Servicer, such resignation to take effect upon the earlier to occur of (i) the 90th day after delivery thereof to the Company and the DR Servicer (whereupon the DR Servicer shall be entitled to take the actions contemplated in Clause 12 of the Deposit Agreements), or (ii) the appointment by the Company of a successor depositary (reasonably acceptable to the DR Servicer, if the DR Servicer is not also resigning) and its acceptance of such appointment as hereinafter provided.

The DR Servicer may at any time resign hereunder by written notice of resignation delivered to the Company and the Depositary, such resignation to take effect upon the earlier to occur of (i) the 90th day after delivery thereof to the Company and the Depositary (whereupon the DR Servicer shall be entitled to take the actions contemplated in Clause 12 of the Deposit Agreements), or (ii) the appointment by the Company of a successor depositary receipts servicer (reasonably acceptable to the Depositary, if the Depositary is not also resigning) and its acceptance of such appointment as hereinafter provided.

The Depositary and/or the DR Servicer may at any time be removed by the Company by written notice of removal delivered to the Depositary and the DR Servicer, which notice of removal shall be effective upon the later of (i) the 90th day after delivery thereof to the Depositary and the DR Servicer (whereupon the DR Servicer shall be entitled to take the actions contemplated in Clause 12 of the Deposit Agreements), or (ii) the appointment by the Company of (x) a successor depositary (reasonably acceptable to the DR Servicer, if the DR Servicer is not being removed) and its acceptance of such appointment as hereinafter provided, or (y) a successor depositary receipts servicer (reasonably acceptable to the Depositary, if the Depositary is not being removed) and its acceptance of such appointment as hereinafter provided, or (z) the appointment by the Company of a successor depositary and successor depositary receipt servicer (if both the Depositary and the DR Servicer are being removed) and their acceptance of such appointment as hereinafter provided.

- B. The Company has undertaken in the Deposit Agreements to use its reasonable efforts to procure the appointment of a successor depositary and of a successor depositary receipts servicer, as the case may be, in the event of resignation by, or removal of, the Depositary and/or the DR Servicer. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary receipts servicer to the Holders in accordance with Condition 25.
- C. Any corporation into or with which the Depositary or the DR Servicer may be merged or consolidated shall be the successor of the Depositary or DR Servicer, as the case may be, without the execution or filing of any document or any further act.

23. Termination of Deposit Agreements

- A. The DR Servicer shall at any time, at the written direction of the Company, terminate the Deposit Agreements by providing notice of such termination to the Depositary and to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination. If ninety (90) days shall have expired after (i) the Depositary shall have delivered to the Company and to the DR Servicer a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreements and Condition 22, or (ii) the DR Servicer shall have delivered to the Company and to the Depositary a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreements and Condition 22, or (iii) the Company shall have delivered to the Depositary and to DR Servicer a written notice of the removal of the Depositary or the DR Servicer pursuant to Clause 11.1 of the Deposit Agreements and Condition 22 and, in and such case, a successor depositary and/or depositary receipts servicer, as the case may be, shall not have been appointed and accepted its appointment as provided in Clause 11.1 of the Deposit Agreements and Condition 22, the DR Servicer may terminate the Deposit Agreements by providing notice of such termination to the Company, the Depositary, and the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination. The date so fixed for termination of the Deposit Agreements in any termination notice so distributed by the DR Servicer to the Holders of GDRs is referred to as the “**Termination Date**”. Until the Termination Date, each of the Depositary and the DR Servicer shall continue to perform all of its obligations under the Deposit Agreements and the Conditions, and the Holders and Beneficial Owners will be entitled to all of their rights under the Deposit Agreements and the Conditions.
- B. If any GDRs shall remain outstanding after the Termination Date, the Depositary and the DR Servicer shall not, after the Termination Date, have any obligation to perform any further acts under the Deposit Agreements or the Conditions, except that the DR Servicer shall, subject, in each case, to the terms and conditions of the Deposit Agreements and the Conditions, continue to (i) collect dividends and other distributions pertaining to Deposited Property, (ii) sell securities and other property received in respect of Deposited Property, (iii) deliver Deposited Property, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any securities or other property, in exchange for GDRs surrendered to the DR Servicer (after deducting or charging, as the case may be, in each case, the fees and charges payable to, and expenses incurred by, the DR Servicer, and all applicable taxes or governmental charges for the account of the Holders, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreements and Condition 19), and (iv) take such actions as may be required under applicable law in connection with its role as DR Servicer under the Deposit Agreements.

At any time after the Termination Date, the DR Servicer may sell the Deposited Property then held under the Deposit Agreements and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the Deposit Agreements, in an un-segregated account and without liability for interest, for the pro-rata benefit of the Holders whose GDRs have not theretofore been surrendered. After making such sale, the DR Servicer shall be discharged from all obligations under the Deposit Agreements and the Conditions except (i) to account for such net proceeds and other cash (after deducting or charging, as the case may be, in each case, the fees and charges payable to, and expenses incurred by, the DR Servicer, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreements and Condition 19), and (ii) as may be required at law in connection with the termination of the Deposit Agreements. After the Termination Date, the Company shall be discharged from all obligations under the Deposit Agreements and the Conditions, except for its obligations to the Depositary and the DR Servicer under Clause 10 of the Deposit Agreements and Condition 19. After the Termination Date, the Depositary shall be

discharged from all obligations under the Deposit Agreements except for its obligations to the Company and the DR Servicer under Clause 10 of the Deposit Agreements and Condition 19. The obligations under the terms of the Deposit Agreements and the Conditions of Holders of GDRs outstanding as of the Termination Date shall survive the Termination Date and shall be discharged only when the applicable GDRs are presented by their Holders to the DR Servicer for cancellation under the terms of the Deposit Agreements and the Conditions.

24. Amendment of Deposit Agreements and Conditions

All and any of the provisions of the Deposit Agreements and these Conditions may at any time and from time to time be amended by written agreement between the Company, the DR Servicer and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of the Deposit Agreements and these Conditions (except to correct a manifest error) shall be duly given to the Holders by the DR Servicer and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the DR Servicer, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty (30) days after such notice shall have been given. Every Holder or Beneficial Owner at the time any amendment or supplement so becomes effective shall be deemed, by continuing to hold GDRs or any beneficial interest therein, to consent to and approve such amendment or supplement and to be bound by the terms of the Deposit Agreements and the Conditions as amended and supplemented thereby.

In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Clause 3 of the Deposit Agreements and Condition 2, the Deposited Property attributable to the relevant GDR except in order to comply with mandatory provisions of applicable law.

The parties hereto agree that substantial rights of Holders shall not be deemed materially prejudiced by any amendments or supplements which (i) are reasonably necessary (as agreed by the Company, the Depositary and the DR Servicer) in order for the GDRs or Shares to be settled in electronic-book entry form and (ii) do not impose or increase any fees or charges to be borne by Holders.

Notwithstanding anything in the Deposit Agreements or the Conditions to the contrary, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreements or the Conditions to ensure compliance therewith, the Company, the Depositary and the DR Servicer may amend or supplement the Deposit Agreements, and the Conditions at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreements and the Conditions in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

25. Notices

Any and all notices to be given to any Holder shall be deemed to have been duly given if (a) personally delivered or sent by mail (registered first class if inland, first class airmail if overseas), air courier or facsimile transmission, in the case of facsimile transmission confirmed by letter personally delivered or sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the books of the DR Servicer or, if such Holder shall have filed with the DR Servicer a request that notices intended for such Holder be mailed to some other address, at the address specified in such request, or (b) if a Holder shall have designated such means of notification as an acceptable means of notification under the terms of the Deposit Agreements, by means of electronic messaging addressed for delivery to the e-mail address designated by the Holder for such purpose.

Delivery of a notice sent by mail, air courier, cable, telex or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post office letter box or delivered to an air courier service, without regard for the actual receipt or time of actual receipt thereof by a Holder. The Depositary, the DR Servicer or the Company may, however, act upon any cable, telex or facsimile transmission received by it from any Holder, the Custodian, the DR Servicer, the Depositary or the Company, notwithstanding that such cable, telex or facsimile transmission shall not be subsequently confirmed by letter.

Delivery of a notice by means of electronic messaging shall be deemed to be effective at the time of the initiation of the transmission by the sender (as shown on the sender's records), notwithstanding that the intended recipient retrieves the message at a later date, fails to retrieve such message, or fails to receive such notice on account of its failure to maintain the designated e-mail address, its failure to designate a substitute e-mail address or for any other reason.

26. Reports and Information on the Company

- A. The Company has undertaken in the Deposit Agreements (so long as any GDR is outstanding) to send the Depositary and the DR Servicer a copy in the English language by electronic transmission of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading of the GDRs on the main market for listed securities of the London Stock Exchange, or other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- B. The DR Servicer shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- C. The Company publishes the information contemplated in Rule 12g3-2(b) under the Exchange Act on its internet website or through an electronic information delivery system generally available to the public in the Company's primary trading market. The information so published by the Company may not be in English, except that the Company is required, in order to maintain its exemption from the Exchange Act reporting obligations pursuant to Rule 12g3-2(b), to translate such information into English to the extent contemplated in the instructions to Rule 12g3-2(b). The information so published by the Company cannot be retrieved from the Commission's internet website, and cannot be inspected or copied at the public reference facilities maintained by the Commission located (as of the date of hereof) at 100 F Street, N.E., Washington, D.C. 20549.

27. Copies of Company Notices

On or before the day when the Company first gives notice, by publication, or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreements to transmit to the Custodian, the Depositary and the DR Servicer a copy of such notice and any other material in English but otherwise in the form given or to be given to holders of Shares or other Deposited Property.

In addition, the Company will transmit to the Depositary and the DR Servicer English-language versions of the other notices, reports and communications which are generally made available by the Company to holders of Shares or other Deposited Property. The DR Servicer will, at the expense of the Company, make available a copy of any such notices, reports or communications issued by the Company and delivered to the DR Servicer for inspection by the Holders at the DR Servicer's Principal New York Office or Principal London Office, at the office of the Custodian and at any other designated transfer office. The DR Servicer shall arrange, at the request of the Company and at the Company's expense, for the distribution of copies thereof to all Holders on a basis similar to that for holders of Shares or other Deposited Property or on such other basis as the Company may advise the DR Servicer.

28. Moneys Held by the Depositary

The DR Servicer shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreements in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any holder or any other person for any interest thereon, except as otherwise agreed.

29. Severability

If any one or more of the provisions contained in the Deposit Agreements or in the Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the

remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Governing Law/Arbitration

- A. The Deposit Agreements, the Conditions and the GDRs, and any non-contractual obligations arising out of or in connection with the Deposit Agreements, the Conditions and the GDRs, will be governed by and construed in accordance with English law, except that (i) the separate relationship created between the Depositary, the DR Servicer and the persons making deposits or withdrawals of Shares pursuant to the Deposit Agreements and the Conditions, as it specifically relates to such deposits or withdrawals and the delivery of the required certifications is governed by and shall be construed in accordance with the laws of the State of New York and (ii) the transferability of the GDRs and GDR Certificates shall be governed by the laws of the State of New York. The Company has submitted in respect of the Deed Poll to the jurisdiction of the English courts and has appointed an agent for service of process in London. Notwithstanding anything contained in the Deposit Agreements, the Conditions, any GDR Certificate or any present or future provisions of the laws of Germany, England or the State of New York, the rights of holders of Shares and of any other Deposited Property and the obligations and duties of the Company in respect of the holders of Shares and other Deposited Property, as such, shall be governed by the laws of Russia (or, if applicable, such other laws as may govern the Deposited Property).
- B. Any dispute, controversy or cause of action brought against the Company, the Depositary, and/or the DR Servicer arising out of or relating to the Shares or other Deposited Securities, the GDRs or the Deposit Agreements, or the breach hereof or thereof, including any question regarding existence, validity or termination, and any counterclaims that may be related thereto, shall be referred to, and finally resolved by, binding arbitration in accordance with the rules of the London Court of International Arbitration, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction, **provided, that**, as contemplated by Clause 19 of the Deposit Agreements, in the event of any third party litigation to which (a) the Depositary and/or the DR Servicer is a party and to which the Company may be properly joined, the Company may be so joined by the Depositary and/or the DR Servicer in any court in which such litigation is pending, and (b) to which the Company is a party and to which the Depositary and/or the DR Servicer may be properly joined, the Depositary and/or the DR Servicer may be so joined by the Company in any court in which such litigation is pending. Notwithstanding anything contained in the Deposit Agreements or the conditions to the contrary, the parties hereto agree that the High Court of Justice in England shall have jurisdiction to hear and determine proceedings related to the enforcement of this arbitration provision and any arbitration award by the arbitrators contemplated in this Condition 30(B), and, for such purposes, each of the Company, the Depositary and the DR Servicer irrevocably submits to the non exclusive jurisdiction of such court.

Each of the Company, the Depositary and the DR Servicer agrees not to challenge the terms and enforceability of this arbitration clause, including, but not limited to, any challenge based on lack of mutuality, and each such party hereby irrevocably waives any such challenge.

The arbitration may be commenced by service of a written request for arbitration in accordance with the rules of the London Court of International Arbitration together with a Statement of Case (as defined therein) setting out in detail the facts and any contentions of law on which the party relies, and the relief claimed against the respondent (with copies of such documents delivered to the Company, the Depositary and the DR Servicer, as provided for in Clause 19 of the Deposit Agreements, and the London Court of International Arbitration and all the parties to such arbitration). Any response served by the Company, the Depositary or the DR Servicer under the London Court of International Arbitration Rules shall set out in detail the facts and any contentions of law on which the Company, the Depositary or the DR Servicer relies.

The place of the arbitration shall be London, England and the language of the arbitration shall be English.

The number of arbitrators shall be three, each of whom shall be neutral and disinterested in such dispute, controversy or cause of action, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. Any provision of the rules of the London Court of International Arbitration relating to the nationality of an arbitrator shall to that extent not apply.

In the absence of prior agreement between the parties, the arbitrators shall be appointed by the London Court of International Arbitration from a list prepared by the London Court of International Arbitration containing not less than seven (7) potential arbitrators, the individuals in such list having been ranked by the parties in order of their preference with each party having the right to reject on a peremptory basis two proposed selections in the list. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant and respondent), each of which sides shall have the right to rank lists of arbitrators and exercise peremptory rejections as if there were only two parties to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within thirty (30) calendar days after the initiating party serves the arbitration request, the London Court of International Arbitration shall determine the alignment of the parties for purposes of appointment of the arbitrators. The parties may nominate, and the London Court of International Arbitration may appoint, from among the nationals of any country, whether or not a party is a national of that country.

The arbitrators shall decide the dispute by applying the applicable law as would a United States District Judge sitting in the case, whether under either its diversity or federal question jurisdiction. The arbitrators shall have no power or authority to award damages not measured by the prevailing party's actual damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of the Deposit Agreements.

The arbitrators' award shall be final and binding upon the parties and their respective successors, heirs, executors and assigns.

31. Rights of Third Parties

A person who is not a party to the Deposit Agreements has no right under the Contracts (Rights of Third Parties) Act 1999 (the “Act”) to enforce any term of the Deposit Agreements but this does not affect any right or remedy granted under the Deed Poll or which otherwise exists or is available apart from the Act.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR Certificate in registered form and (ii) a single Master Rule 144A GDR Certificate in registered form. The Master Rule 144A GDR will be registered in the name of Cede & Co as nominee for DTC. The Master Regulation S GDR will be registered in the nominee name of Citibank Europe plc as common depositary for Euroclear and Clearstream on the date the GDRs are issued.

The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

Exchange

The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will undertake in the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate to deliver certificates in definitive registered form representing GDRs in exchange for the Master Regulation S GDR Certificate or the Master Rule 144A GDR Certificate, as the case may be, to the Holders within 60 calendar days in the event that:

- (i) DTC, in the case of the Master Rule 144A GDR Certificate, or Euroclear or Clearstream, in the case of the Master Regulation S GDR Certificate, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- (ii) either DTC in the case of the Master Rule 144A GDR Certificate, or Euroclear or Clearstream in the case of the Master Regulation S GDR Certificate, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the DR Servicer is available within 45 calendar days;
- (iii) in respect of the Master Rule 144A GDR Certificate, DTC or any successor ceases to be a “clearing agency” registered under the United States Securities Exchange Act of 1934, as amended; or
- (iv) the DR Servicer has determined that, on the occasion of the next payment in respect of the Master GDRs, the DR Servicer or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the DR Servicer shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR Certificate and the Master Regulation S GDR Certificate pursuant to Clause 4 of the Deposit Agreements, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the DR Servicer on the register maintained by the DR Servicer whereupon the number of GDRs represented by the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate is reduced to zero such Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate shall continue in existence until the obligations of the Company under the Deposit Agreements and the obligations of the Depositary and the DR Servicer pursuant to the Deposit Agreements and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR Certificate be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR Certificate, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the DR Servicer being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary or the DR Servicer shall be satisfied by the production by Euroclear or Clearstream (in the case of GDRs represented or the DR Servicer by the Master Regulation S GDR Certificate), or by DTC (in the case of GDRs represented by the Master Rule 144A GDR Certificate), on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary or the DR Servicer may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, the DR Servicer and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR Certificate is registered in the name of a nominee for a common depository holding on behalf of Euroclear and Clearstream, and the Master Rule 144A GDR Certificate is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary or the DR Servicer by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 25.

Governing Law

The Master GDRs and any non-contractual obligations arising out of, or in connection with, them shall be governed by English law.

TAXATION

The following summary of the principal US federal income, United Kingdom and Russian tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Certain US Federal Income Tax Considerations

The discussion of US tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under US federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain US federal income tax considerations relevant to a US Holder (as defined below) acquiring, holding and disposing of the Shares or GDRs. This summary is based upon existing US federal income tax law, which is subject to change, possibly with retroactive effect as well as certain representations of the Depositary and the assumption that each obligation in the Deposit Agreements, and any related agreements, will be performed in accordance with its terms. This summary does not discuss all aspects of US federal income taxation which may be important to particular investors in light of their individual investment circumstance, including investors subject to special tax rules, such as residents of the Russian Federation, investors that conduct a business or have a permanent establishment in the Russian Federation, financial institutions, insurance companies, broker-dealers, traders in securities who mark their positions to market, tax-exempt organisations, partnerships, holders who are not US Holders, holders who own (directly, indirectly or constructively) 10 per cent. or more of the Company's voting stock, investors that will hold the Shares or GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for US federal income tax purposes, or investors that have a functional currency other than the US dollar. In addition, this summary does not discuss any other US federal, state, local or non-US tax considerations. This summary assumes that investors will hold their Shares or GDRs as "capital assets" (generally, property held for investment) for US federal income tax purposes. You are urged to consult your tax advisor regarding the US federal, state, local and non-US income and other tax considerations relevant to an investment in the Shares or GDRs.

For purposes of this summary, a "US Holder" is a beneficial owner of the Shares or GDRs that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the law of, the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a US court and which has one or more US persons who have the authority to control all substantial decisions of the trust.

If an entity classified as a partnership for US federal income tax purposes holds the Shares or GDRs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Shares or GDRs, you should consult your tax advisors.

Ownership of GDRs in General

For US federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Shares represented by such GDRs. However, the US Treasury has expressed concerns that parties to whom interests such as the GDRs are delivered in transactions similar to pre-release transactions may be taking actions that are inconsistent with the claiming of foreign tax credits for US holders of GDRs. Accordingly, the analysis of the creditability of Russian Federation taxes could be affected by actions taken by parties to whom the GDRs are pre-released. No gain or loss will be recognised if you exchange GDRs for the Share represented by those GDRs. Your tax basis in such Share will be the same as your tax basis in such GDRs,

and the holding period in such Shares will include the holding period in such GDRs. You should consult your own tax advisor about how to calculate your tax basis and holding period if you acquire GDRs at different times or with different purchase prices.

The discussion below is based, in part, on representations by the Depositary and assumes that each obligation under the Deposit Agreements and any related agreement will be performed in accordance with its terms.

Dividends

Subject to the application of the passive foreign investment company rules discussed below, the US dollar value of distributions paid by the Company (including the amount of any taxes withheld) out of its earnings and profits, as determined under US federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon receipt. However, the Company does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to Shares or GDRs will constitute ordinary dividend income. Subject to applicable limitations and assuming that the Company qualifies for benefits under the double tax treaty between the United States and the Russian Federation (the “**Treaty**”), dividends paid to non-corporate US Holders in taxable years beginning before 1 January 2013 may be subject to US federal income tax at lower rates (generally 15 per cent.) than other types of ordinary income. Provided that the Shares are substantially and regularly traded on an officially recognised securities exchange (such as MICEX or RTS), the Company expects that it will qualify for benefits under the Treaty. Dividends received on the Shares or GDRs will not be eligible for the dividends received deduction allowed to corporations. You should consult your own tax advisor about how to account for payments that are not made in US dollars.

Subject to certain limitations, Russian Federation withholding tax, if any, paid in connection with any distribution with respect to Shares or GDRs may be claimed as a credit against the US federal income tax liability of a US Holder if such US Holder elects for that year to credit all foreign income taxes; otherwise, such Russian Federation withholding tax may be taken as a deduction. If you are eligible for benefits under the Treaty or are otherwise entitled to a refund for the taxes withheld, you will not be entitled to a foreign tax credit or deduction for the amount of any Russian Federation taxes withheld in excess of the maximum rate under the Treaty or for the taxes with respect to which you can obtain a refund from the Russian Federation taxing authorities. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. As the relevant rules are very complex, you should consult your own tax advisor concerning the availability and utilisation of the foreign tax credit in your particular circumstances.

Sale or Other Disposition of Shares or GDRs

Subject to the application of the passive foreign investment company rules discussed below, you will recognise US source capital gain or loss upon the sale or other disposition of Shares or GDRs in an amount equal to the difference between the U.S. dollar value of the amount realised upon the disposition and your adjusted tax basis in such Shares or GDRs (generally their cost in US dollars). Any capital gain or loss will be long-term if the Shares or GDRs have been held for more than one year. However, regardless of a US Holder’s actual holding period, any loss may be long-term capital loss to the extent the US Holder receives a dividend that qualifies for the reduced rate described above under “Dividends”, and exceeds 10 per cent. of the US Holder’s basis in its Shares or GDRs. Certain non-corporate US Holders are eligible for reduced rates of tax on long term capital gains. The deductibility of capital losses may be subject to limitations. You should consult your own advisor about how to account for sale or other disposition proceeds that are not paid in US dollars.

Any gain or loss will generally be US source. Therefore, a US Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any Russian withholding tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisers as to the availability of and limitations on any foreign tax credit attributable to this Russian withholding tax.

Passive Foreign Investment Company Rules

The Company does not believe it was a “passive foreign investment company” (“**PFIC**”) for US federal income tax purposes for its most recent taxable year and does not expect to be a PFIC. However, whether the Company is a PFIC for any taxable year is based on the composition of its assets and income on certain

dates. Therefore, it is possible that the Company could be a PFIC due to its asset or income composition, as well as the assets and income of certain entities in which it owns an interest on the relevant testing dates. In general, a non-US corporation will be classified as a PFIC for any taxable year if at least (i) 75 per cent. of its gross income is classified as “passive income” or (ii) 50 per cent. of the average quarterly value of its assets produce or are held for the production of passive income.

If the Company is classified as a PFIC at any time that you hold its Shares or GDRs, you may be subject to materially adverse US federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of US tax and being subject to additional US tax form filing requirements. Additionally, dividends paid by the Company would not be eligible for the special reduced rate of tax described above under “Dividends”. You should consult your own tax advisor about the application of the PFIC rules to you.

Information Reporting and Backup Withholding

You may be subject to information reporting on amounts received by you from a distribution on, or disposition of, Shares or GDRs, unless you establish that you are exempt from these rules. If you do not establish that you are exempt from these rules, you may be subject to backup withholding on the amounts received unless you provide your taxpayer identification number and otherwise comply with the requirements of the backup withholding rules. The amount of any backup withholding from a payment that you receive will be allowed as a credit against your US federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the US Internal Revenue Service.

In addition, you should consult your tax advisors about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Shares or GDRs. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

UK Tax Considerations

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of Shares and GDRs and does not address all possible tax consequences relating to an investment in the Shares or GDRs. The comments below are of a general nature and are based on current UK law as applied in England and Wales (except where otherwise indicated) and published H.M. Revenue & Customs practice as of the date of this Prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the “**UK Treaty**”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for tax purposes (except where otherwise indicated);
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base outside the UK with which the holding of the Shares or GDRs (and the payment of dividends in respect of the GDRs) is connected.

Such absolute beneficial owners of the GDRs are referred to in this discussion as “UK holders”.

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets or investments. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies, banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons holding the Shares or GDRs as part of hedging or conversion transactions or persons connected with the Company or Group or who have been officers or employees of the Company or a company forming part of the Group, each of which may be subject to special rules.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the UK holder did not acquire and will not be deemed to have acquired his/her Shares or GDRs by virtue of an office or employment; and

- the UK holder does not control or hold, either alone or together with one or more connected persons, directly or indirectly, 10 per cent. or more of the shares and/or voting power or rights to income or capital of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. You should satisfy yourself as to the overall tax consequences, including, the consequences under UK law and H.M. Revenue & Customs practice and, if you are subject to taxation in a jurisdiction other than the UK, under the laws of such jurisdiction, of acquisition, ownership and disposition of the Shares or GDRs in your own particular circumstances, by consulting your own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax (subject to ‘Tax liabilities for Corporate Shareholders’ below), as applicable, on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia.

Russian Withholding Tax and Tax Credits

Any Russian withholding tax is generally allowed as a credit against the UK income or corporation tax liability, as applicable, of a UK holder in respect of the dividend depending on the circumstances but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not refundable by H.M. Revenue & Customs. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the UK Treaty to minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available allowance or relief. See also “—*Russian Tax Considerations*”.

The Company need not make any deduction from payments of dividends under the Shares or payments of income under the GDRs for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends, UK income tax will be chargeable on the gross dividend (as defined below) with potential credit (as described above) for Russian tax deducted at source.

An individual UK holder who receives a dividend will generally be entitled to a tax credit which may be set off against the holder’s total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend (before deduction of any Russian withholding tax) and the tax credit (the “**gross dividend**”) and there is no entitlement to claim repayment of this tax credit. Such an individual UK holder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such holder’s liability to income tax on the dividend. In the case of such an individual UK holder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the UK holder’s tax liability on the gross dividend and such UK holder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend (before deduction of any Russian withholding tax)) to the extent that the gross dividend when treated as the top slice of the UK holder’s income falls above the threshold for higher rate income tax. In the case of such an individual UK holder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the UK holder’s liability on the gross dividend and such UK holder will have to account for additional income tax equal to 32.5 per cent. of the gross dividend (which is also equal to approximately 36 per cent. of the cash dividend received (before deduction of any Russian withholding tax)) to the extent that the gross dividend when treated as the top slice of the shareholder’s income falls above the threshold for additional rate income tax.

An individual holder of Shares or GDRs in the Company who is not resident in the UK for tax purposes will not be liable to UK income tax on dividends paid by the Company unless such a holder carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Shares or GDRs in the Company for the purposes of such trade, profession or vocation.

A UK resident individual holder who is not liable to income tax in respect of the gross dividend and other UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Tax Liability for Corporate Shareholders

For a UK holder within the charge to UK corporation tax, UK corporation tax will be chargeable on the gross amount of any dividends, subject to any applicable credit for Russian tax deducted at source (as described above), unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class (and the holder does not elect for an otherwise exempt dividend to be taxable) and certain other conditions are met. However, no such tax credit for Russian tax deducted at source will be available where, for a UK holder within the charge to corporation tax, the dividends are exempt.

Provision of Information

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or GDRs may constitute “foreign dividends” for this purpose. However, in accordance with guidance published by HMRC applicable for the 2011/2012 tax year, dividend payments in respect of the Shares or GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Shares or GDRs held by (a) a UK holder; (b) an individual who carries on a trade, profession or vocation in the UK through a branch or agency to which the Shares or GDRs are attributable; or (c) a company which carries on a trade in the UK through a permanent establishment to which the Shares or GDRs are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) or UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in the tax year in which the disposal takes place, the extent to which they have incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “**annual exemption**”).

The annual exemption for individuals is £10,600 for the 2011-2012 tax year.

If, after all allowable deductions, an individual UK holder’s taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of Shares or GDRs will be taxed at 28 per cent. In other cases, a taxable capital gain accruing on a disposal of Shares or GDRs may be taxed at 18 per cent. or 28 per cent. or at a combination of both rates.

An individual UK holder who ceases to be resident or ordinarily resident in the United Kingdom or falls to be regarded as resident in a territory outside the UK for the purposes of double taxation relief arrangements (as appropriate) for a period of less than five years and who disposes of his or her Shares or GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the UK or upon ceasing to be regarded as resident outside the UK for the purposes of double taxation relief arrangements (as applicable) (subject to available exemptions or reliefs).

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce chargeable gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

Any gains or losses in respect of currency fluctuations relating to the Shares or GDRs would be brought into account on the disposal.

As discussed in “—*Russian Tax Considerations—Taxation of Capital Gains*”, certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty will be payable in the UK in connection with a transfer of Shares or an agreement to transfer an equitable interest only in Shares, provided that any instrument of transfer or agreement to transfer an equitable interest only in the Shares is executed outside the UK and does not relate to any property situate, or to any matter or thing done or to be done in the UK. Even if a document effecting a transfer of, or being an agreement to transfer an equitable interest only in, Shares is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.

No stamp duty reserve tax (“**SDRT**”) will be payable in the UK with respect to any agreement to transfer the Shares.

No stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of the GDRs into a clearance service, such as DTC, Euroclear or Clearstream;
- any dealings in the GDRs once they are issued into a clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer; or
- any agreement to transfer full legal and beneficial ownership of the GDRs.

No stamp duty will be payable in the UK in connection with the transfer of the GDRs or an agreement to transfer an equitable interest only in GDRs provided that any instrument of transfer or agreement to transfer is executed outside the UK and does not relate to any property situate, or any matter or thing done or to be done, in the UK. Even if a document effecting a transfer of, or being an agreement to transfer an equitable interest only in, GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident investors holding the Shares and the GDRs and to the purchase, ownership and disposition of the Shares and the GDRs by Russian resident and non-resident investors. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on Company’s understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. The summary does not seek to address the availability of double tax treaty relief and, in any case, it should be noted that there might be practical difficulties involved in claiming relief under any applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular investor are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties and by very limited and insufficient regulations. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “Russian resident investor” means: (i) an individual investor holding Shares and/or GDRs actually present in the Russian Federation for 183 days (including days of arrival in Russia and days of departure from Russia) or more in 12 consecutive months (presence in Russia is not deemed interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education.); or (ii) an investor, which is a Russian legal entity; or (iii) a legal entity or an organisation, in each case organised under a foreign law, that holds and disposes of the Shares and GDRs through its permanent establishment in Russia.

For the purposes of this summary, a “non-resident investor” is a holder of the Shares or GDRs which is not qualified to be a Russian resident investor defined in the previous paragraph.

Taxation of Acquisition of the Shares and GDRs

No Russian tax implications should arise for any Russian resident investor or non-resident investor of the Shares and GDRs, upon purchase of the Shares and GDRs. However, under certain conditions a taxable material gain may arise for individuals if the Shares and GDRs are purchased at a price below the market value determined by Russian tax legislation. Also, in certain circumstances, Russian resident investors which are not individuals acquiring the Shares and the GDRs must fulfil tax agent responsibilities with respect to withholding tax from the sales proceeds for the Shares or the GDRs to be transferred to a non-resident investor disposing of such Shares or GDRs (see “—Risks—Risks Relating to the Shares and GDRs—Investors who are not Russian residents may be subject to Russian withholding tax on disposal of the Shares or GDRs through or to certain Russian payers”). Investors should consult their own tax advisers with respect to the tax consequences of acquisition of the GDRs.

Taxation of Dividends

A Russian company that pays dividends is generally obliged to act as a tax agent and to withhold tax on those dividends and remit the amount of tax due to the Russian budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian Resident Investors

- **Shares.** Dividends paid to a Russian resident investor holding the Shares that is a Russian legal entity or organisation or an individual will be generally subject to Russian withholding tax at the rate of 9 per cent. The effective rate of this tax may be lower than 9 per cent. owing to the fact that generally Russian issuers should calculate this tax based on the formula that takes into consideration the difference between (i) the dividends to be distributed by the issuer to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the issuer in the current and preceding tax (reporting) periods (except for dividends taxable at the rate of 0 per cent. under the current Russian tax law) provided that these amounts have not previously been taken into consideration when calculating tax on dividends.

Dividends received by Russian legal entities from the qualified Russian and foreign subsidiaries are taxable at the rate of 0 per cent. This participation exemption is available with respect to subsidiaries in which (1) the participation of the parent company is not less than 50 per cent., and (2) the participation has been held for more than 365 days, and (3) the subsidiary is not a resident of one of the jurisdictions included into the list of tax havens by the Russian Ministry of Finance.

According to clarifications issued by the Russian tax authorities, it is possible to apply the 9 per cent. withholding tax rate also to dividends paid to a Russian permanent establishment of a foreign organisation based on the non-discrimination provisions of the double tax treaty between Russia and the country of tax residency of the respective foreign organisation. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that claims for the application of the 9 per cent. tax rate would not be challenged by the Russian tax authorities, hence it is likely that a 15 per cent. withholding tax rate would be applied by the Company.

- **GDRs.** There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the taxation of dividends payable under GDRs is poorly addressed in Russian tax law. Although in 2005 there was a single clarification of the Russian Ministry of Finance having a private nature (not having legislative nature) stating that Russian residents if their income in

the form of dividends was taxed at the rate of 15 per cent. may claim a refund or credit of the tax relating to the difference between the 15 per cent. and 9 per cent. tax rates, the Company cannot assure that the above clarification would apply to Russian holders of GDRs or whether the Russian tax authorities would follow the above approach. Based on the above and as the Depositary (and not the holders of the GDRs) is the legal holder of ordinary shares under Russian law, the Company will likely withhold tax at a domestic rate of 15 per cent. applicable to dividends payable to non-resident investors (as described below). Upon receiving dividends, Russian holders, which are legal entities, may be required to pay additional Russian corporate income tax at the rate of 9 per cent. or 20 per cent. (the higher rate applies if the income received is not recognised as dividends) while for Russian resident investors, who are individuals—personal income tax at the rate of 9 per cent. or 13 per cent. (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes). There is also no established procedure providing for the refund or credit of tax withheld from dividends payable through the Depositary to Russian resident investors of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Non-Resident Investors

- **Shares.** Dividends paid to a non-resident investor holding Shares will generally be subject to Russian withholding tax, which the Company will withhold. Under Russian domestic law dividends paid to a non-resident investor will be subject to Russian withholding tax at a rate of 15 per cent. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident investor holding the shares.
- **GDRs.** Comments provided in the previous section (see “—*Taxation of Dividends—Non Resident Investors—Shares*”) are also applicable to GDRs. Notwithstanding the foregoing, treaty relief for dividends received may not be available to non-resident investors holding GDRs. In 2005, 2006 and 2007, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that depositary receipt holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the depositary receipt holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the taxation of dividends attributable to investors holding GDRs, it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all investors holding GDRs and submit such information to the Company and, in addition, the Company may be not aware of the exact amount of income payable to each particular investor. Although non-resident investors holding GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities would grant such a refund. See “—*Tax Treaty Procedures*” below. With respect to individuals who are non-resident investors holding GDRs, the Company may also be obligated to withhold income tax at the rate of 15 per cent. from dividend payments made to the Depositary. The Company will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favour of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident investors holding GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in “—*Tax Treaty Procedures*” are complied with. Obtaining the approvals from the relevant tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15 per cent. tax withheld from payment of dividends to the Depositary as the tax authorities are unlikely to treat the 15 per cent. withholding tax as the tax liability of individual investors. Therefore, it is possible that non-resident investors may be subject to up to a 45 per cent. effective tax on dividends paid on shares held on deposit, i.e. 15 per cent. income tax withheld by the Company plus a 15 per cent. or 30 per cent. (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes) Russian personal income tax payable on the self-assessed basis (See “—*Risks—Risks Relating to the Shares and GDRs—GDR holders who are not Russian residents and who are individuals may suffer a higher effective tax rate on dividends*”).

Taxation of Capital Gains

The following sections summarize the taxation of capital gains in respect of the disposal of the Shares and GDRs. As the Russian legislation related to the taxation of capital gains derived by Russian resident investors (including legal entities, organisations and individuals) in connection with GDRs is not entirely clear, the Company urges Russian residents to consult their own tax advisors regarding the tax treatment of any purchase, ownership and disposal of GDRs.

Taxation of Legal Entities and Organisations

- **Russian Resident Investors.** Capital gains arising from the sale of the Shares and GDRs by a Russian resident investor which is an organisation will be taxable at the regular Russian corporate profits tax rate of 20 per cent. Russian tax legislation contains a requirement that in general a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted separately from a profit earned from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident investors may be able to apply losses arising in respect of the listed Shares and the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposal of securities quoted on a stock exchange and, in respect of the non-listed GDRs, from the sale, exchange or other disposal of securities not quoted on a stock exchange. Special tax rules apply to Russian organisations that hold a broker and/or dealer licence. The Russian Tax Code also establishes special rules for the calculation of the tax base for the purposes of transactions with securities.
- **Non-Resident Investors.** Capital gains arising from the sale, exchange or other disposal of the Shares and GDRs by legal entities and organisations that are non-resident investors should not be subject to tax in Russia if the immovable property located in Russia constitutes 50 per cent. or less of the Company's assets and/or the Shares qualify as "listed" on a registered stock exchange (recognised as such according to the applicable legislation) based on the requirements set in the Russian tax legislation. A security will be deemed "listed" security if the market quote (determined in accordance with the applicable rules) for such security is available on the date that is at least three months prior to the date of the transaction for such security and if either such market quotes are publicly available through media or such registered stock exchange is able to provide information in respect of quotes during the three years following the transaction. If more than 50 per cent. of its assets were to consist of immovable property located in Russia and the Shares were not recognised as listed, legal entities and organisations that are non-resident investors holding the Shares and GDRs should be subject (except as described below) to a 20 per cent. withholding tax on the gross proceeds from sale, exchange or other disposal of the Shares and GDRs or 20 per cent. withholding tax on the difference between the sales, exchange or other disposal price and the acquisition costs of the Shares and GDRs. However, it should be noted that the determination of whether more than 50 per cent. of its assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by the Company and located in Russia will not constitute more than 50 per cent. of the Company's assets as of the date of the sale of Shares and GDRs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question. Where the Shares and GDRs are sold by legal entities or organisations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian Federal Treasury.

Gains arising from a sale of the foregoing types of securities on non-Russian stock exchanges (where these securities are listed) by non-resident investors that are organisations are not treated as income from a Russian source, and are not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a non-Russian stock exchange, gains arising from a sale of the GDRs on that non-Russian stock exchange by non-resident organisations should not be subject to taxation in Russia.

Taxation of Individuals

- **Russian Resident Investors.** Capital gains arising from the sale, exchange or other disposal of the Shares and GDRs by individuals who are Russian resident investors must be declared on the holder's tax return and are subject to personal income tax at a rate of 13 per cent. The income in respect of

sale of the Shares or the GDRs by an individual is calculated as the sale proceeds less expenses proved by documentary evidence related to the purchase of these securities (including the cost of the securities and the expenses associated with the purchase, keeping and sale of these securities). Similarly for legal entities or organisations, Russian tax legislation contains a requirement that a financial result in respect of activities connected with securities quoted on a stock exchange must be calculated separately from a financial result in respect of trading in non-quoted securities. Russian resident investors may carry forward losses arising from dealing with the quoted securities or derivatives having the quoted securities as underlying assets to offset future capital gains from the sale, exchange or other disposal of other quoted securities or derivatives having the quoted securities as underlying assets. No loss carry-forward is available for non-quoted securities and derivatives.

- **Non-Resident Investors.** The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident investors should not be considered Russian source income and, therefore, should not be taxable in Russia. However, the Russian tax law gives no clear indication as to how the place of sale of the Shares and GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in, or outside, Russia. The sale, exchange or other disposal of the Shares and the GDRs by non-resident investors in Russia will be considered Russian source income and will be subject to tax at the rate of 30 per cent. on the difference between the sales price and the acquisition value of such Shares and GDRs as well as other documented expenses, such as depositary expenses and broker fees.
- **Withholding of tax on capital gains (Resident and Non-Resident Investors).** Under Russian law if the sale was made by a holder through a professional trust manager, dealer, broker, commissioner or agent that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia, such professional trust manager, dealer, broker, commissioner or agent should also act as a tax agent and calculate (including apply deduction of acquisition value or other expenses at the source of payment), withhold the applicable tax from payments due to taxpayers and remit it to the Federal Treasury. Such a tax agent will be required to pay the respective amounts withheld within a month after the end of the reporting year or the date of the payment of income. In case of impossibility to withhold tax, tax agents have an obligation to notify the tax authorities.

Application of Double Tax Treaties to Capital Gains Received by Non-Residents that are individuals

- In some circumstances, a non-resident investor may be exempt from Russian personal income tax on the sale, exchange or other disposal of the Shares and GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident investor. Under the United States—Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by US holders should be exempt from taxation in Russia unless 50 per cent. or more of the Company’s assets (as the term “fixed assets” is used in the Russian version of the United States—Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50 per cent. threshold is not met, individuals who are US holders may seek to obtain the benefit of the United States—Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposal of the Shares and/or GDRs. The UK—Russia Treaty provides for an exemption from personal income tax on capital gains received by UK holders unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia and (b) are not quoted on an approved stock exchange. Therefore, individuals who are UK holders, may also apply the provisions of the UK—Russia Tax Treaty as it exempts from Russian taxation any gain on the disposal of the Shares and GDRs quoted on an approved stock exchange.
- In order to apply the provisions of the relevant double tax treaties, the individual investors should receive clearance from the Russian tax authorities as described below. See “—Tax Treaty Procedures” below.

Tax Treaty Procedures

The Tax Code does not require a non-resident investor, which is a legal entity, to obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide, to a tax agent (i.e. the entity paying income to a

non-resident), a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In accordance with the Russian Tax Code, a non-resident investor, who is an individual, must present to the tax authorities a document confirming his or her residency in his or her home country (a tax residency certificate issued by the competent authorities in their country of residence for tax purposes) and also other supporting documentation, including a statement confirming the income received and the tax paid offshore issued or approved by the tax authorities in the country in which he or she is a resident for tax purposes. The Russian tax authorities may require a Russian translation of certain documents. Technically, the above requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the tax authorities obtained before the year end. A non-resident investor, which is an individual, may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received. Procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

If a non-resident investor, which is a legal entity or an organisation, does not obtain tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian tax agent, the non-resident investor may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require: (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid; (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities; and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to connect the requirements specified in (i) and (ii) above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the required documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs because Russian tax law does not comprehensively address taxation and tax treaty procedures for dividends payable under GDRs. Thus, no assurance can be given that the Company will be able to apply the respective double tax treaties when paying dividends to non-resident investors in relation to GDRs.

Stamp Duties

No Russian stamp duty will be payable by investors holding Shares and GDRs upon the carrying out of transactions with the Shares and GDRs as discussed in the Taxation section of this prospectus (i.e. on a purchase of the Shares and GDRs, sale of the Shares and GDRs, etc.), except with respect to transactions involving the receipt of inheritance.

SUBSCRIPTION AND SALE AND SELLING RESTRICTIONS

The Offering consists of (i) an offering of the Shares and GDRs in the United States to certain QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; (ii) an offering of Shares and GDRs to institutional and certain other eligible investors outside the United States and Russia under Regulation S; and (iii) an offering of Shares in the Russian Federation in reliance on Regulation S.

The Selling Shareholders, certain other existing shareholders of the Company and the Joint Bookrunners, on behalf of the Managers, have entered into an underwriting agreement dated 13 July 2011 (the “**Underwriting Agreement**”) and the Company and the Joint Bookrunners, on behalf of the Managers have entered into a listing agreement dated 13 July 2011 (the “**Listing Agreement**”) with respect to the Shares and the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Listing Agreement (described below), each of the Joint Bookrunners has agreed, severally but not jointly, to purchase such number of Shares (represented by Shares and GDRs) as are set forth opposite its name in the following table.

Joint Bookrunners	Number of Shares (in the form of Shares and GDRs)
Citigroup Global Markets Limited	358,960
Renaissance Securities (Cyprus) Limited	358,960
CJSC “Investment Company ‘Troika Dialog’ ” and TD Investments Limited	224,350
Credit Suisse Securities (Europe) Limited	224,350
BMO Capital Markets Limited	115,380
Total	1,282,000

The GDRs will be represented by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate and will be subject to certain restrictions as further discussed in “*Terms and Conditions of the Global Depositary Receipts*”.

Application has been made (i) to the Financial Services Authority for a block listing of up to 79,857,810 GDRs, consisting of 26,535,120 GDRs to be issued on or about the Closing Date, up to 3,980,250 additional GDRs to be issued in connection with the Over-allotment Option, and additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities and in particular on the regulated market segment of the IOB. Prior to the Closing Date there has not been any public market for the GDRs. The Company expects that conditional trading through the IOB will commence on a “if and when issued” basis on or about 13 July 2011 and unconditional trading through the IOB will commence on or about 18 July 2011. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Investors wishing to enter into transactions in the GDRs prior to the Closing Date of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on or about 18 July 2011 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional. However, there can be no assurance that an active public or other market will develop for the Shares or GDRs or that a liquid trading market will exist for the Shares or GDRs. The Company does not intend to list the GDRs on any US national securities exchange or to seek the admission thereof to trading on the Nasdaq National Market System.

The Managers will be soliciting non-binding indications of interest in acquiring the Shares or GDRs under the Offering from prospective institutional and certain other eligible investors. Prospective investors will be required to specify the number of Shares and/or Shares in the form of GDRs which they would be prepared to acquire and at what price (subject to the Offer Price being determined). This process is known as book-building.

Shares and GDRs allocated under the Offering will, following determination of the Offer Price, be underwritten by the Joint Bookrunners as described in this section, “*Subscription and Sale and Selling*”

Restrictions". Allocations will be determined by the Joint Bookrunners (with final approval by the Company) after non-binding indications of interest from prospective institutional investors have been received in the book-building process.

The Offer Price has been determined by the Managers in agreement with the Company and the Selling Shareholders. A number of factors have been considered in deciding the Offer Price and the bases of allocation under the Offering, including the level and the nature of the demand for the Shares and GDRs and the objective of encouraging the development of an orderly after-market in the Shares and GDRs. The Managers have established the Offer Price at a level determined in accordance with these arrangements, taking into account indications of interest received from persons (including market-makers and fund managers) connected with the Managers.

All Shares and Shares in the form of GDRs issued or sold pursuant to the Offering will be issued or sold at the relevant Offer Price. The Joint Bookrunners will receive an aggregate underwriting commission equal to approximately \$13.4 million in connection with the Offering. In addition, the Joint Bookrunners may receive a discretionary fee of up to approximately \$2.7 million in connection with the Offering. Certain investors, including Sibur, have been allocated more than 5 per cent. of the Shares in the form of Shares or GDRs to be sold in the Offering.

See "*Use of Proceeds*" for information regarding the commissions, fees and expenses payable by the Company and the Selling Shareholders in connection with the Offering.

Stabilisation

In connection with the Offering, the Stabilising Manager or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited after the issue date. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

Underwriting Agreement and Listing Agreement

The Underwriting Agreement and Listing Agreement contain, among others, the following provisions:

- The obligations of the parties to the Underwriting Agreement and Listing Agreement are subject to certain conditions including, but not limited to, the accuracy of the representations and warranties under the Underwriting Agreement and Listing Agreement, and the application for admission having been approved on or prior to the Closing Date. The Joint Bookrunners may, in their absolute discretion, terminate the Underwriting Agreement and Listing Agreement prior to admission in certain specified circumstances including the occurrence of certain material changes in the business, financial condition, prospects or results of operations of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement and Listing Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement and Listing Agreement is terminated prior to, admission, then the Offering will lapse.
- The Managers are offering the GDRs, subject to prior sale, when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and the GDRs and other conditions contained in the Underwriting Agreement and Listing Agreement, such as receipt by the Managers of certain officers' certificates, Selling Shareholders certificates, legal opinions and certain indemnities from the Selling Shareholders and the Company to the Managers.
- The Company, the Selling Shareholders and certain other existing shareholders of the Company have agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act, in connection with the Offering. If these indemnities are unenforceable, the Company, the Selling Shareholders and certain other existing shareholders of the Company have agreed to contribute to any payments that the Managers must make in respect of the liabilities against which the Company, the

Selling Shareholders and certain other existing shareholders of the Company have agreed to indemnify them.

- If a Joint Bookrunner defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Joint Bookrunners may be increased, or the Underwriting Agreement and Listing Agreement may be terminated.

Lock-up Arrangements

Company

The Company has agreed, in the Listing Agreement, for a period of 180 days after the Closing Date, that it shall not, nor shall any other member of the Group, nor shall any affiliate of any member of the Group, nor shall any person acting on its or their behalf, without the prior written consent of the Joint Bookrunners:

- (a) issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs or any Shares, or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any GDRs or any Shares, or any security or financial product whose value is determined directly or indirectly by reference to the price of any GDRs or any Shares or any other such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities, except for (i) the conversion of the Company's convertible preference shares into Shares, (ii) a split of the Shares, and (iii) any issuance, sale, assignment, transfer or any other disposal of any GDRs or Shares as part of any private transaction to the extent an acquirer or recipient of such GDRs or Shares first agrees to be bound by the terms of the lock-up by executing a legally valid, binding and enforceable deed or agreement on the same terms, provided that any issue, sale, assignment, transfer or other disposal of GDRs or Shares (whether alone, or taken together with any such previous transactions) in respect of GDRs or Shares that represent greater than 10 per cent. of the ordinary share capital of the Company in any rolling 12-month period shall require the consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed);
- (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any GDRs or Shares; or
- (c) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of GDRs or Shares or such other securities, in cash or otherwise.

Shareholders

The Selling Shareholders and certain other existing shareholders of the Company, in the Underwriting Agreement, and all other existing shareholders of the Company, in deeds of lock-up entered into as required in the Underwriting Agreement, have agreed, subject to certain exceptions, for a period of 180 days after Closing Date, that they shall not, nor shall any of their subsidiaries, affiliates or connected persons, nor shall any person acting on its or their behalf, without the prior written consent of the Joint Bookrunners:

- (a) offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs or any Shares, or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any GDRs or any Shares, or any security or financial product whose value is determined directly or indirectly by reference to the price of any GDRs or any Shares or any other such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities, without the prior written consent of the Joint Bookrunners, except for (i) the merger of any of the Selling Shareholders and certain other shareholders of the Company into a new entity to the extent such new entity agrees to be bound by the terms of the lock-up by executing a legally valid, binding and enforceable deed or agreement on the

same terms and subject to certain other conditions, and (ii) any sale, assignment, transfer or any disposal of any GDRs or Shares as part of any private transaction that is notified to the Joint Bookrunners to the extent an acquirer or recipient of such GDRs or Shares first agrees to be bound by the terms of the lock-up by executing a legally valid, binding and enforceable deed or agreement on the same terms and subject to certain other conditions;

- (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any GDRs or Shares; or
- (c) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of GDRs or Shares or such other securities, in cash or otherwise.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with, and performed various investment banking, financial advisory and other services for, the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees. In particular, banks affiliated with Citigroup Global Markets Limited and ZAO Raiffeisenbank provided various forms of financing to the Group. The Managers and their respective affiliates may provide such services for the Company and the Selling Shareholders and their respective affiliates in the future.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account, may take up Shares or GDRs and in that capacity may retain, purchase or sell for its own account such Shares or GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the Shares or GDRs being offered or placed should be read as including any offering or placement of GDRs to the Managers and any affiliate acting in such capacity. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholders and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Managers may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral, which could result in such Managers acquiring shareholdings in the Company.

Selling Restrictions

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Shares or GDRs in any country or jurisdiction where action for that purpose is required.

United States

The Shares and GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Shares and the GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Managers may directly or through their respective US broker-dealer affiliates, arrange for the offer and resale of the Shares and GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Shares and GDRs, an offer or sale of Shares and GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Managers has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect

to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of any GDRs which are the subject of the Offering contemplated herein has not and may not be made in that Relevant Member State other than the offers contemplated in the prospectus in relation to the Shares or GDRs once it has been approved by the competent authority in the United Kingdom, except that an offer of Shares or GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (a) to legal entities which are qualified investors as defined under the Prospectus Directive;
- (b) to investors who, in order to participate in the Offering, must purchase securities in the Offering with a minimum purchase price or minimum consideration of at least €100,000;
- (c) to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the group or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of any shares or GDRs to the public*” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information of the terms of the offer and any Shares or GDRs to be offered so as to enable an investor to decide to purchase any Shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State; and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

In the case of any Shares or GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Shares or GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Bookrunners has been obtained to each such proposed offer or resale. The group, the Selling Shareholders, the Managers and their respective affiliates, and others will rely (and the group and the Selling Shareholders each acknowledges that the Managers and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase Shares or GDRs.

Russian Federation

The GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

Japan

No registration pursuant to Article 4, paragraph 1 of the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948) (the “**FIEA**”) has been made or will be made with respect to the solicitation of the

application for the acquisition of the Securities as such solicitation falls within a Solicitation for Small Number Investors (as defined in Article 23-13 paragraph 4 of the FIEA). Accordingly, the Securities have not been, directly or indirectly, offered or sold and will not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except in compliance with the requirements for the application of a “Small Number Secondary Offering Exemption” under Article 2, paragraph 4, item 2 (c) of the FIEA and the other applicable laws and regulations of Japan.

Pursuant to the Small Number Secondary Offering Exemption, the Securities held by a resident of Japan may not be transferred unless all of the Securities held by the resident of Japan are transferred in a lump sum.

Australia

ASIC has not reviewed this document or commented on the merits of investing in the Shares or the GDRs nor has any other Australian regulator.

No offer of GDRs is being made in Australia, and the distribution or receipt of this document in Australia does not constitute an offer of securities capable of acceptance by any person in Australia, except in the limited circumstances described below relying on certain exemptions in the Corporations Act.

This document may only be provided in Australia to select investors who are able to demonstrate that they are “wholesale clients” for the purposes of Chapter 7 of the Corporations Act and fall within one or more of the following categories (“**Exempt Investors**”): “sophisticated investors” or “professional investors” who meet the criteria set out in, respectively, section 708(8) and section 708(11) and as defined in section 9 of the Corporations Act, experienced investors who receive the offer through an Australian financial services licensee, where all of the criteria set out in section 708(10) of the Corporations Act have been satisfied or senior managers of the Company (or a related body, including a subsidiary), their spouse, parent, child, brother or sister, or a body corporate controlled by any of those persons, as referred to in section 708(12) of the Corporations Act.

Switzerland

The GDRs or the Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“**SIX**”) or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the Offering, the Company, the GDRs or the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of the GDRs and the Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of the GDRs and the Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (“**CISA**”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of GDRs or Shares.

General information only

This document is intended to provide general information only and has been prepared without taking into account any particular person’s objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Investors should review and consider the contents of this document and obtain financial advice specific to their situation before making any decision to make an application for the GDRs.

TRANSFER RESTRICTIONS

Transfer Restrictions

None of the Shares or GDRs (or the Shares represented thereby) has been or will be registered under the Securities Act and the Shares and GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Shares and GDRs are being offered and sold only:

- (i) to QIBs in compliance with Rule 144A under the Securities Act or in reliance on another exemption from, or transaction not subject to, registration under the Securities Act; and
- (ii) in offshore transactions in compliance with Regulation S under the Securities Act. As used in this document, the term “offshore transaction” has the meaning given to it in Regulation S.

GDRs Purchased Pursuant to Rule 144A

Each purchaser of Shares or GDRs in the Offering pursuant to Rule 144A, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

- (a) The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale to it is being made in reliance on Rule 144A, and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB;
- (b) The purchaser is aware that such Shares or GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that such Shares or GDRs (and the Shares represented thereby) are subject to significant restrictions on transfer;
- (c) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Shares represented thereby), such Shares and GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY ARE SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY, THE DEPOSITARY AND THE DR SERVICER THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION (AS SUCH TERM IS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO

AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY, THE DEPOSITARY AND THE DR SERVICER HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY, NOR THE DR SERVICER NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE FOREIGN REGISTRAR IN THE NAME OF CITIGROUP GLOBAL MARKETS DEUTSCHLAND AG, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. NEITHER THE DEPOSITARY NOR THE DR SERVICER OR THE CUSTODIAN WILL BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY AND THE DR SERVICER HAVE BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK, THE COURTS OF ENGLAND OR THE COURTS OF GERMANY.

- (d) The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Shares or GDRs purchased pursuant to Rule 144A will be deemed to have acknowledged that the Company, the Selling Shareholders, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

GDRs purchased pursuant to Regulation S

Each purchaser of Shares or GDRs in the Offering pursuant to Regulation S, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (a) The purchaser (i) is, and the person, if any, for whose account it is acquiring such Shares or GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire such Shares or GDRs (or the Shares represented thereby) from the Company or an affiliate thereof in the initial distribution of Regulation S;
- (b) The purchaser is aware that such Shares or GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act, are being offered outside the United States in reliance on Regulation S, and are subject to significant restrictions on transfer;
- (c) The purchaser will not offer, resell, pledge or otherwise transfer such Shares or GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States; and
- (d) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Shares represented thereby), such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY, THE DEPOSITARY AND THE DR SERVICER THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES PROVIDED THAT THE OFFER AND SALE OF THE REGULATION S GDR CERTIFICATES, THE REGULATION S GDRs EVIDENCED THEREBY AND THE SHARES REPRESENTED HEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

THE COMPANY, THE DEPOSITARY AND THE DR SERVICER HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY, NOR THE DR SERVICER NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE FOREIGN REGISTRAR IN THE NAME OF CITIGROUP GLOBAL MARKETS DEUTSCHLAND AG, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY

ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. NEITHER THE DEPOSITARY NOR THE DR SERVICER OR THE CUSTODIAN WILL BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY AND THE DR SERVICER HAVE BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK, THE COURTS OF ENGLAND OR THE COURTS OF GERMANY.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised the Company as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "*Taxation—Certain US Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the DR Servicer as custodian for DTC. As necessary, the DR Servicer will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear,

Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The DR Servicer will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Luxembourg, Luxembourg.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the DR Servicer and the Depositary in accordance with the Term and Conditions of the GDRs.

Settlement and Delivery of Shares

Each purchaser of the Shares in the Offering is required to pay for any such Shares in U.S. dollars or roubles, as the case may be, on, or prior to, a date agreed with the Joint Bookrunners. In order to take delivery of the Shares, an investor should either have a direct account with the Company's share registrar, or a deposit account with CJSC Depositary Clearing Company ("**DCC**") or the National Settlement Depository ("**NSD**") or any other depositary that has an account with DCC or NSD or a direct account with its share registrar. Investors may at their own expense choose to hold the Shares through a direct account with the Company's share registrar. However, directly-held Shares are ineligible for trading on MICEX or RTS. Only if the Shares are deposited with DCC (or through another depositary having an account at DCC) can they be traded on RTS and only if the Shares are deposited NSD (or through another depositary having an account in NSD) can they be traded on MICEX. It is expected that delivery of the Shares in the Offering will commence on or about 18 July 2011. The timing for the delivery of the Shares to the purchasers' accounts will in each case depend on which account will be used for the delivery of Shares.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Each purchaser of the Shares offered hereby in reliance on Rule 144A ("**Rule 144A Shares**") will be deemed to have represented and agreed as follows:

- (1) The purchaser is (a) a QIB, (b) aware, and each beneficial owner of the Shares has been advised, that the sale of the Shares to it is being made in reliance on Rule 144A, and (c) acquiring the Shares for its own account or for the account of a QIB; and
- (2) The purchaser understands that the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (a)(i) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144

thereunder (if available), and (b) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144A(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Shares.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling and Transfer Restrictions*”.

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary via the DR Servicer to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary via the DR Servicer to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary via the DR Servicer to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary via the DR Servicer to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Selling Shareholders, the Managers, the Depositary, the DR Servicer, the Custodian or the Company's or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

Citigroup Global Markets Deutschland AG has been appointed as Depositary pursuant to the Deposit Agreements. Citigroup Global Markets Deutschland AG, which was incorporated on 10 June 2010, is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citi operates a corporate and investment banking business, offering companies, governments and institutional investors comprehensive financial strategies in investment banking, fixed income, foreign exchange, equities and derivatives, and global transaction services.

Citigroup Global Markets Deutschland AG is a public limited company (Aktiengesellschaft), which is organised under the laws of Germany, with its registered office at Frankfurter Welle, Reuterweg 16, D-60323 Frankfurt am Main. Citigroup Global Markets Deutschland AG is entered in the commercial register of the Local Court of Frankfurt am Main under registration number HRB 88301 and is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (the German supervisory agency for financial institutions) and by Deutsche Bundesbank (the German central bank).

Citigroup Global Markets Deutschland AG's articles of association as currently in effect and its most recent audited annual financial statements are available for inspection during normal office hours at the following address: Legal Department, Reuterweg 16, D-60323 Frankfurt am Main.

INFORMATION RELATING TO THE DR SERVICER

Citibank, N.A. ("**Citibank**") has been appointed as DR Servicer pursuant to the Deposit Agreements. Citibank is an indirect, wholly-owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organized on June 16, 1812, and is now a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043.

Citibank's Consolidated Balance Sheets are set forth in Citigroup's most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited), each on file on Form 10-K and Form 10-Q, respectively, with the United States Securities and Exchange Commission.

Citibank's Articles of Association and By-laws, each as currently in effect, together with Citigroup's Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for the Company by Clifford Chance LLP, London, England and Clifford Chance CIS Limited, Moscow, Russian Federation. Certain legal matters with respect to the Offering will be passed upon for the Managers by Linklaters LLP and Linklaters CIS.

INDEPENDENT AUDITORS

The Group's Audited Financial Statements included in this Prospectus have been audited and the Group's 2011 Interim Financial Statements included in this Prospectus have been reviewed by ZAO KPMG of Naberezhnaya Tower Complex, Block C, 10 Presnenskaya, Naberezhnaya, Moscow, 123317 Russia, independent auditors, as stated in their report appearing herein. ZAO KPMG is a member of the Audit Chamber of Russia.

ZAO KPMG has given and has not withdrawn its written consent to the inclusion of its Independent Auditors' Reports on the Company in relation to the Consolidated Financial Statements in this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of such reports for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 of Commission Regulation (EC) 809/2004 (the "**Prospectus Directive Regulation**").

For the purposes of Prospectus Rule 5.5.4R(2)(f), ZAO KPMG accepts responsibility for its Independent Auditors' Reports as part of the Prospectus and declares that it has taken all reasonable care to ensure that the information contained in such reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex X item 1.2 of the Prospectus Directive Regulation.

As the offered securities have not been and will not be registered under the Securities Act of 1933, ZAO KPMG has not filed a consent under the Securities Act of 1933.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about 18 July 2011. Application has been made for the additional GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on an “as, when and if issued” basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
2. The Shares underlying the GDRs being offered were registered with the FSFM on 30 November 2001.
3. The circulation of the Shares outside the Russian Federation in the form of GDRs was approved by the FSFM on 24 May 2011.
4. The Company has obtained all consents, approvals and authorisations in Russia in connection with the issue of the GDRs.
5. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company from the date of publication of this Prospectus to the Admission:
 - this Prospectus;
 - its charter (English translation);
 - the Competent Person’s Report; and
 - its Consolidated Financial Statements, together with the auditors’ reports relating thereto.

The registered office of the Company is located at Leninsky prospekt 55/1, building 1, Moscow, 119333, Russian Federation and the telephone number is +7 495 231 2747.

6. If definitive certificates are issued in exchange for the Master GDR Certificates, the Company will appoint an agent in the United Kingdom.
7. There has been no significant change in the financial or trading position of the Group since 31 March 2011, the end of the last financial period for which financial information has been published.

8. The following table sets forth the names, country of incorporation and ownership of each of the Company's significant subsidiaries:

Name	Country of incorporation	Effective shareholding as of 31 December 2010	Effective shareholding as of 31 December 2009	Effective shareholding as of 31 December 2008
Ammophos, OJSC	Russia	94%	94%	95%
Apatit, OJSC ⁽¹⁾	Russia	58%	59%	52%
Balakovo Mineral Fertilizers, LLC	Russia	100%	100%	100%
Cherepovetsky Azot, JSC ^{(1), (2)}	Russia	69%	69%	62%
NIUIF, OJSC	Russia	94%	94%	94%
NW Nordwest AG	Switzerland	—	100%	100%
PhosAgro AG, CJSC	Russia	100%	100%	100%
PC Agro-Cherepovets, LLC	Russia	100%	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%	100%
FosAgro-Trans, LLC	Russia	100%	100%	100%
PhosAsset GmbH	Switzerland	—	100%	100%
PhosInt Limited	Cyprus	—	100%	100%
Region-Agro-Belgorod, LLC	Russia	100%	100%	100%
Region-Agro-Don, LLC	Russia	100%	100%	100%
Region-Agro-Idel, LLC	Russia	—	—	51%
Region-Agro-Kuban, LLC	Russia	100%	100%	100%
Region-Agro-Kursk, LLC	Russia	100%	100%	100%
Region-Agro-Lipetsk, LLC	Russia	75%	75%	75%
Region-Agro-Oryol, LLC	Russia	100%	100%	100%
Region-Agro-Stavropol, LLC	Russia	100%	100%	100%
Region-Agro-Volga, LLC	Russia	87%	87%	87%
FOSAGRO UKRAINE, LLC	Ukraine	—	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%	100%

(1) Including non-voting preferred shares.

(2) See note 16 to the Consolidated Financial Statements on put-call option agreement on acquisition of shares in JSC "Cherepovetsky" Azot.

9. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offering will be made public by the Company through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
10. Holders of GDRs may contact the Depositary or Citibank, N.A., as DR Servicer for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained by Citibank N.A., as DR Servicer at the DR Servicer's registered office at 388 Greenwich Street, 14th Floor, New York, NY 10013.
11. IMC, whose registered office is at Icon Business Centre, Lake View Drive, Sherwood Park, Nottingham, NG15 0DT, United Kingdom, has given and has not withdrawn its written consent to the inclusion of the Competent Person's Report at Annex 1 of this Prospectus and to the inclusion of the references to the Competent Person's Report and its name in the form and context in which they are respectively included and has authorised the contents of the Competent Person's Report for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. IMC accepts responsibility for the information contained in the Competent Person's Report, and to the best of IMC's knowledge and belief that, having taken all reasonable care to ensure that such is the case, the information contained in the Competent Person's Report is in accordance with the facts and does not omit anything likely to affect the import of such information.
12. Pursuant to paragraph 133(i)(b) of ESMA, the Company confirms that no material changes have occurred since the date of the MER the omission of which would make the MER misleading.
13. The London Stock Exchange trading symbol is "PHOR".

GLOSSARY OF TECHNICAL TERMS

“Ammonia”	A colourless combustible alkaline gas with chemical formula NH_3 . Ammonia is a compound of nitrogen and hydrogen, and is used in the production of mineral fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals.
“Ammonium Nitrate” or “AN”	A nitrogen-based fertiliser produced by reacting nitric acid (an intermediate chemical feedstock produced from ammonia) with ammonia (contains around 34 per cent. nitrogen).
“Ammonium Polyphosphate” or “APP”	Liquid phosphate-based fertiliser.
“Apatite”	A group of phosphate minerals (phosphate ore), usually referring to hydroxylapatite, fluorapatite, and chlorapatite with the chemical formula $\text{Ca}_5(\text{PO}_4)_3(\text{OH}, \text{F}, \text{Cl})$. Apatite is the world’s major source of phosphorus, found as variously coloured, glassy crystals, masses, or nodules. The phosphorus content of apatite is traditionally expressed as phosphorus pentoxide (P_2O_5).
“Complex Fertilisers”	Fertilisers containing at least two of the primary nutrients obtained by chemical reaction. The resulting granules contain a specified ration of nutrients.
“Diammonium Phosphate” or “DAP”	A type of multi-nutrient fertiliser containing nitrogen and phosphorous. Production of DAP is based on neutralisation of phosphoric acid by ammonia with subsequent drying and granulating.
“Feed Phosphates”	Inorganic feed phosphates are a high quality phosphorus source for animal feed. Most inorganic feed phosphates are derived from phosphate rock, which is chemically treated to make phosphorus available for animals in the form of quality feed phosphates. The main inorganic feed phosphates are calcium, magnesium, calcium-magnesium, ammonium and sodium phosphates. These phosphates are constant in composition, low in impurities and considered to be the best available sources of phosphorus for animals. An adequate supply of inorganic feed phosphates in animal feed is essential for animals’ well-being.
“JORC Code”	The Australasian Code for Reporting Mineral Resources and Ore Reserves (2004 Edition) published by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia.
“JORC Reserve(s)—Probable”	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Refer to JORC Code.
“JORC Reserve(s)—Proved”	The economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These

	assessments demonstrate at the time of reporting that extraction could reasonably be justified. Refer to JORC Code.
“JORC Reserve(s)”	The economically mineable part of a measured and/or indicated mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves. Refer to JORC Code.
“JORC Resource(s)—Indicated”	Part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed. Refer to JORC Code.
“JORC Resource(s)—Inferred”	Part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability. Refer to JORC Code.
“JORC Resource(s)—Measured”	Part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity. Refer to JORC Code.
“JORC Resource(s)”	A concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order to increase geological confidence, into inferred, indicated and measured categories. Refer to JORC Code.
“Mineral Rights”	The ownership of the minerals on or under a given surface with the right to remove the said minerals.
“Mining Licence”	Permission to mine minerals from a mineral rights area.
“Monoammonium Phosphate” or “MAP”	A type of multi-nutrient fertiliser containing nitrogen and phosphorous. Production of MAP is based on neutralisation of phosphoric acid by ammonia with subsequent drying and

	granulating. Monoammonium phosphate is often used in blending of dry agricultural fertilisers.
“Monocalcium Phosphate” or “MCP”	A type of feed phosphates.
“Natural Gas”	Colourless highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it can also be present as a gas cap above the oil.
“Nitrogen” or “N”	One of the primary plant nutrients essential for plant growth.
“NP”	A type of multi-nutrient fertiliser containing nitrogen and phosphorous.
“NPK 10-26-26”	An efficient concentrated granulated fertiliser that includes all three main nutrient elements (nitrogen, phosphorous and potassium) as well as macro and microelements such as sulfur, magnesium, calcium and small amounts of Cu, Zn, Mn, Fe, Si and other elements which makes this fertiliser even more valuable. Application of NPK 10-26-26 not only enhances crop yields but also improves the quality of produce and enhances resistance of plants to diseases, vermin and unfavourable weather conditions.
“NPK”	A multi-nutrient fertiliser containing nitrogen, phosphorous and potassium.
“Open Pit Mine”	A mine working or excavation open to the surface where material is not replaced into the mined out areas.
“Phosphate Rock”	Enriched apatite-nepheline ore with fixed P_2O_5 content. Phosphate rock is extracted from apatite-nepheline ore
“Apatite-Nepheline Ore”	Rocks and minerals containing apatite and nepheline.
“Phosphates”	A salt or ester of phosphoric acid or a fertiliser containing phosphorus compounds.
“Phosphoric Acid” or “ P_2O_5 ”	Mineral (inorganic) acid having the chemical formula H_3PO_4 .
“Phosphorous” or “P”	One of the primary plant nutrients essential for plant growth. It occurs in natural geological deposits known as phosphorus rocks.
“Potash”	Potash is the common term for fertiliser forms of the element potassium (K).
“Potassium” or “K”	One of the primary plant nutrients essential for plant growth.
“Primary Nutrients”	Nitrogen (N), phosphorous (P) and potassium (K).
“Reclamation”	In the context of mining, refers to the process of restoring land and the environment to their original state following mining activities. The process commonly includes “recontouring” or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground cover. Reclamation operations are generally initiated before the mining of a site is completed.
“Rolling Stock”	Any type of rail car, including any type of locomotive or freight car.
“Shaft”	A mine-working (usually vertical) used to transport miners, supplies, ore or waste.

“Subsidence”	The sinking or settling of material, especially over an underground mining operation.
“Sulphur” or “S”	Chemical element that has the atomic number 16. It is an abundant multivalent non-metal.
“Sulphuric Acid”	A strong sulphur-based mineral acid with a chemical formula H_2SO_4 .
“Tailing(s)”	The fluid slurry after treatment and extraction of the economically extracted mineral.
“Urea”	An organic compound of carbon, nitrogen, oxygen and hydrogen. It is the most widely used nitrogen-based fertiliser formed by reacting ammonia with carbon dioxide at a high pressure.

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OJSC “PhosAgro”
Consolidated Interim Condensed
Financial Statements for
the three-month period ended
31 March 2011 (unaudited)

OJSC “PhosAgro”

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Independent Auditors' Report on review of Interim Financial Information

To the Board of Directors

OJSC "PhosAgro"

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OJSC PhosAgro (the "Company") and its subsidiaries (the "Group") as at 31 March 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2011 and 2010 (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 31 March 2011 and for the three-month periods ended 31 March 2011 and 2010 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG
10 June 2011

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

OJSC “PhosAgro”
Consolidated Interim Condensed Statement of Comprehensive Income
for the three-month period ended 31 March 2011 (unaudited)

	Note	Three months ended 31 March	
		2011	2010
		(RUB million)	
Revenues	4	24,486	16,963
Cost of sales	5	(13,511)	(11,495)
Gross profit		10,975	5,468
Administrative expenses	6	(1,057)	(1,242)
Selling expenses	7	(1,570)	(1,406)
Taxes, other than income tax		(322)	(265)
Other expenses, net	8	(368)	(87)
Operating profit		7,658	2,468
Finance income	9	289	251
Finance costs		(85)	(85)
Profit before taxation		7,862	2,634
Income tax expense	10	(1,627)	(671)
Profit for the period		6,235	1,963
Attributable to:			
Non-controlling interests		900	114
Equity holders of the Parent		5,335	1,849
Other comprehensive income:			
Revaluation of available-for-sale securities		261	470
Actuarial gains and losses		(21)	(36)
Foreign entity translation difference		(551)	(366)
Other comprehensive income for the period		(311)	68
Total comprehensive income for the period		5,924	2,031
Attributable to:			
Non-controlling interests		894	146
Equity holders of the Parent		5,030	1,885
Basic earnings per share (in RUB)	18	501	174
Diluted earnings per share (in RUB)	18	500	174

The consolidated interim condensed financial statements were approved on 10 June 2011:

Chief executive officer

Volkov M.V.



Chief accountant

Valenkova E.V.



The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages F-9 to F-19.

OJSC “PhosAgro”
Consolidated Interim Condensed Statement of Financial Position
as at 31 March 2011 (unaudited)

	<u>Note</u>	<u>31 March 2011</u>	<u>31 December 2010</u>
		<u>(RUB million)</u>	
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	11	47,056	46,480
Intangible assets		784	776
Investments in associates	12	7,296	9,365
Other non-current assets	13	8,113	7,147
		<u>63,249</u>	<u>63,768</u>
<i>Current assets</i>			
Other current investments	14	4,782	3,300
Inventories	15	8,703	7,716
Current income tax receivable		68	379
Trade and other receivables	16	14,642	15,521
Cash and cash equivalents		9,206	5,261
		<u>37,401</u>	<u>32,177</u>
Total assets		<u>100,650</u>	<u>95,945</u>
EQUITY AND LIABILITIES			
<i>Equity</i>	17		
Share capital		360	360
Share premium		496	496
Treasury shares		(37)	(37)
Retained earnings		60,357	55,311
Reserves		1,815	2,120
		<u>62,991</u>	<u>58,250</u>
Equity attributable to Equity holders of the Parent		16,530	15,079
Equity attributable to non-controlling interests		<u>79,521</u>	<u>73,329</u>
<i>Non-current liabilities</i>			
Loans and borrowings	19	3,829	3,423
Defined benefit obligations		948	931
Deferred tax liabilities		2,633	2,700
		<u>7,410</u>	<u>7,054</u>
<i>Current liabilities</i>			
Trade and other payables	20	8,057	9,461
Current income tax payable		921	592
Loans and borrowings	19	4,741	5,509
		<u>13,719</u>	<u>15,562</u>
Total equity and liabilities		100,650	95,945

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages F-9 to F-19.

OJSC “PhosAgro”
Consolidated Interim Condensed Statement of Cash Flows
for the three-month period ended 31 March 2011 (unaudited)

		Three months ended 31 March	
	Note	2011	2010
		(RUB million)	
OPERATING ACTIVITIES			
Profit before taxation		7,862	2,634
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		1,451	1,201
Loss on disposal of fixed assets	8	61	21
Interest expense		85	85
Interest income	9	(168)	(204)
Dividend income	9	—	(2)
Share of profit of associates	9	(60)	—
Operating profit before changes in working capital		9,231	3,735
Increase in inventories		(987)	(1,017)
Decrease in trade and other receivables		3,968	2,085
Increase/(decrease) in trade and other payables		824	(1,022)
Cash flows from operations before income taxes and interest		13,036	3,781
Income tax paid		(1,052)	(1,465)
Interest paid		(48)	(51)
Cash flows from operating activities		11,936	2,265
INVESTING ACTIVITIES			
Loans repaid/(issued)		(1,518)	(333)
Acquisition of intangible assets		(50)	(48)
Acquisition of property, plant and equipment		(3,021)	(2,013)
Proceeds from disposal of property, plant and equipment		121	37
Proceeds from disposal of investments		—	122
Acquisition of investments		(18)	(1,743)
Interest received		168	204
Cash flows used in investing activities		(4,318)	(3,774)
FINANCING ACTIVITIES			
Proceeds from borrowings		3,185	4,690
Repayment of borrowings		(3,512)	(3,287)
Proceeds from disposal of non-controlling interests		8,460	—
Acquisition of non-controlling interests		(9,177)	—
Dividends paid to non-controlling interests		(159)	—
Dividends paid to shareholders of the Parent		(2,419)	—
Finance leases paid		(51)	(64)
Cash flows (used in)/from financing activities		(3,673)	1,339
Net increase/(decrease) in cash and cash equivalents		3,945	(170)
Cash and cash equivalents at beginning of period		5,261	5,622
Cash and cash equivalents at end of period		9,206	5,452

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages F-9 to F-19.

OJSC “PhosAgro”

Consolidated Interim Condensed Statement of Changes in Equity for the three-month period ended 31 March 2011(unaudited)

	Attributable to equity holders of the Company							Attributable to non-controlling interests	Total
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury shares		
	(RUB million)								
Balance at 1 January 2010	360	210	49,215	1,905	102	140	—	15,064	66,996
Total comprehensive income for the year									
Profit for the period	—	—	1,849	—	—	—	—	114	1,963
Revaluation of available-for-sale securities	—	—	—	470	—	—	—	—	470
Actuarial gains and losses	—	—	—	—	(68)	—	—	32	(36)
Foreign subsidiary translation difference	—	—	—	—	—	(366)	—	—	(366)
	—	—	1,849	470	(68)	(366)	—	146	2,031
Balance at 31 March 2010	360	210	51,064	2,375	34	(226)	—	15,210	69,027
Balance at 1 January 2011	360	496	55,311	2,132	(177)	165	(37)	15,079	73,329
Total comprehensive income for the year									
Profit for the period	—	—	5,335	—	—	—	—	900	6,235
Revaluation of available-for-sale securities	—	—	—	261	—	—	—	—	261
Actuarial gains and losses	—	—	—	—	(15)	—	—	(6)	(21)
Foreign subsidiary translation difference	—	—	—	—	—	(551)	—	—	(551)
	—	—	5,335	261	(15)	(551)	—	894	5,924
Transactions with owners, recognised directly in equity									
Acquisition and disposal of non-controlling interest in a subsidiary	—	—	36	—	—	—	—	557	593
Dividends to shareholders of the Company	—	—	(325)	—	—	—	—	—	(325)
	—	—	(289)	—	—	—	—	557	268
Balance at 31 March 2011	360	496	60,357	2,393	(192)	(386)	(37)	16,530	79,521

The Consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial statements set out on pages F-9 to F-19.

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited)

1 Background

(a) Organisation and operations

OJSC “PhosAgro” (the “Parent Company” or “the Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian legal entities. The Parent company was registered in October 2001. The Parent Company’s registered office is Leninsky Prospekt 55/1 building 1, Moscow, Russian Federation.

The Group’s principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region) and Balakovo (Saratov region), and their distribution across the Russian Federation and abroad.

The Company’s key shareholders are several Cyprus entities holding between 5% and 10% of the Company’s ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guriev and his family members.

(b) Russian business environment

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

2 Basis of preparation

The International Financial Reporting Standards (“IFRS”) consolidated interim condensed financial statements (“consolidated interim condensed financial statements”) of the Group have been prepared in accordance with International Accounting Standard 34—“Interim Financial Reporting”.

These consolidated interim condensed financial statements do not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with PhosAgro’s consolidated annual financial statements for the year ended 31 December 2010.

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2010.

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Parent Company and most of the subsidiaries. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

3 Segment information

The Group has two reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

- *Phosphate-based products* includes mainly production and distribution of ammophos, diammoniumphosphate and other phosphate based fertilisers on the factories located in Cherepovets and Balakovo and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- *Nitrogen fertilisers* includes mainly production and distribution of ammonium and urea on the factory located in Cherepovets.

OJSC “PhosAgro”

**Notes to the Consolidated Interim Condensed Interim Financial Statements
for the three-month period ended 31 March 2011 (unaudited) (Continued)**

3 Segment information (Continued)

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the “other operations” line. None of these operations meet any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in internal management reports that are reviewed by the Group’s CEO.

Business segment information of the Group at 31 March 2011 and for the three month-period then ended is as follows:

	Phosphate-based products	Nitrogen fertilisers	Other operations (RUB million)	Inter-segment elimination	Total
<i>Segment revenue and profitability</i>	21,105	3,175	213	—	24,493
Segment external revenues, thereof:					
Export	14,033	2,492	—	—	16,525
Domestic	7,072	683	213	—	7,968
Inter-segment revenues	—	861	—	(861)	—
Cost of goods sold	(11,750)	(1,927)	(673)	861	(13,489)
Gross segment profit/(loss)	<u>9,355</u>	<u>2,109</u>	<u>(460)</u>	<u>—</u>	<u>11,004</u>
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(1,167)	(94)	(26)	—	(1,287)
Total non-current segment assets	<u>37,304</u>	<u>5,244</u>	<u>2,252</u>	<u>—</u>	<u>44,800</u>
Additions to non-current assets	<u>1,442</u>	<u>630</u>	<u>54</u>	<u>—</u>	<u>2,126</u>

Business segment information of the Group for the three month-period ended 31 March 2010 and as at 31 December 2010 is as follows:

	Phosphate-based products	Nitrogen fertilisers	Other operations (RUB million)	Inter-segment elimination	Total
<i>Segment revenue and profitability</i>	15,019	1,658	285	—	16,962
Segment external revenues, thereof:					
Export	8,377	997	20	—	9,394
Domestic	6,642	661	265	—	7,568
Inter-segment revenues	—	575	—	(575)	—
Cost of goods sold	(10,366)	(1,561)	(494)	575	(11,846)
Gross segment profit/(loss)	<u>4,653</u>	<u>672</u>	<u>(209)</u>	<u>—</u>	<u>5,116</u>
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(1,002)	(84)	(24)	—	(1,110)
Total non-current segment assets	<u>37,241</u>	<u>4,767</u>	<u>2,309</u>	<u>—</u>	<u>44,317</u>
Additions to non-current assets	<u>978</u>	<u>37</u>	<u>24</u>	<u>—</u>	<u>1,039</u>

OJSC “PhosAgro”

**Notes to the Consolidated Interim Condensed Interim Financial Statements
for the three-month period ended 31 March 2011 (unaudited) (Continued)**

3 Segment information (Continued)

The analysis of export revenue by regions is as follows:

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Europe	3,976	4,011
India	3	1,255
North and South America	9,640	1,746
Other regions	2,906	2,382
	<u>16,525</u>	<u>9,394</u>

In the three-month period ended 31 March 2011, revenue from sales of phosphate-based products to one single customer amounted to approximately 18% (RUB 4,379 million) of the Group’s total revenue (three-month period ended 31 March 2010: 27% (RUB 4,575 million)).

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Total segment revenues	24,493	16,962
Difference in timing of revenue recognition between management accounts and IFRS	(7)	1
Consolidated revenue	<u>24,486</u>	<u>16,963</u>

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Total segmental gross profit	11,004	5,116
Difference in depreciation and amortisation between management accounts and IFRS	(164)	(91)
Difference in timing of expenses recognition	(8)	78
Difference in timing of revenue recognition between management accounts and IFRS	(7)	1
Re-allocation of administrative expenses	161	—
Other adjustments	(11)	364
Consolidated gross profit	<u>10,975</u>	<u>5,468</u>

	31 March 2011	31 December 2010
	(RUB million)	
Total non-current segment assets	<u>44,800</u>	<u>44,317</u>
Difference in the carrying value of the tangible and intangible assets between management accounts and IFRS	<u>3,040</u>	<u>2,939</u>
Consolidated non-current assets	<u>47,840</u>	<u>47,256</u>

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

4 Revenues

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Sales of chemical fertilisers	19,611	12,316
Sales of apatite concentrate	3,796	3,627
Sales of nepheline concentrate	177	143
Other sales	902	877
	<u>24,486</u>	<u>16,963</u>

The domestic sales of apatite concentrate included in these consolidated financial statements amounted to RUB 2,351 million (three-month period ended 31 March 2010: RUB 1,982 million).

5 Cost of sales

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Materials and services	(5,739)	(5,238)
Salaries and social contributions	(2,648)	(2,478)
Natural gas	(1,430)	(1,195)
Depreciation and amortisation	(1,332)	(1,125)
Fuel	(1,301)	(1,134)
Sulphur and sulphur acid	(629)	(566)
Electricity	(956)	(777)
Other items	(12)	(16)
Change in stock of WIP and finished goods	536	1,034
	<u>(13,511)</u>	<u>(11,495)</u>

6 Administrative expenses

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Salaries and social contributions	(650)	(854)
Depreciation and amortisation	(49)	(46)
Other	(358)	(342)
	<u>(1,057)</u>	<u>(1,242)</u>

OJSC “PhosAgro”

**Notes to the Consolidated Interim Condensed Interim Financial Statements
for the three-month period ended 31 March 2011 (unaudited) (Continued)**

7 Selling expenses

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Russian Railways infrastructure tariff and operators' fees	(851)	(698)
Materials and services	(245)	(291)
Port and stevedoring expenses	(307)	(274)
Salaries and social contributions	(149)	(129)
Depreciation and amortisation	(18)	(14)
	<u>(1,570)</u>	<u>(1,406)</u>

8 Other expenses, net

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Loss on disposal of fixed assets	(61)	(21)
(Increase)/decrease in provision for inventory obsolescence	(37)	136
Depreciation, amortisation and impairment	(52)	(16)
Other operating expenses	(218)	(186)
	<u>(368)</u>	<u>(87)</u>

9 Finance income

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Dividend income	—	2
Interest income	168	204
Foreign exchange gains	61	45
Share of profit of associates	60	—
	<u>289</u>	<u>251</u>

10 Income tax expense

The Parent company's applicable corporate income tax rate is 20% (three-month period ended 31 March 2010: 20%).

	Three months ended 31 March	
	2011	2010
	(RUB million)	
Current tax expense	(1,694)	(677)
Origination and reversal of temporary differences, including change in unrecognised assets	67	6
	<u>(1,627)</u>	<u>(671)</u>

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

10 Income tax expense (Continued)

Reconciliation of effective tax rate:

	Three months ended 31 March 2011		Three months ended 31 March 2010	
	(RUB million)	%	(RUB million)	%
Profit before taxation	7,862	100	2,634	100
Income tax at applicable tax rate	(1,572)	(20)	(527)	(20)
Overprovided in respect of prior years	28	0	—	—
Unrecognised tax liability on income from associates	12	0	—	—
Unrecognised foreign exchange difference relating to intragroup transfer of investments	118	2	—	—
Increase/(realisation) of tax loss carry-forward due to intragroup transfer of investments	329	4	(329)	(13)
Non-deductible items	(214)	(3)	(243)	(9)
Change in unrecognised deferred tax assets	(328)	(4)	428	16
	<u>(1,627)</u>	<u>(21)</u>	<u>(671)</u>	<u>(26)</u>

11 Property, plant and equipment

	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
			(RUB million)		
Net book value at 1 January 2010	9,145	22,241	237	10,934	42,557
Additions	—	—	—	1,049	1,049
Transfers	69	841	10	(920)	—
Disposals	(5)	(16)	—	(37)	(58)
Depreciation	(138)	(1,023)	(32)	—	(1,193)
Net book value at 31 March 2010	<u>9,071</u>	<u>22,043</u>	<u>215</u>	<u>11,026</u>	<u>42,355</u>
Net book value at 1 January 2011	9,254	20,460	1,501	15,265	46,480
Additions	—	—	—	2,168	2,168
Transfers	611	2,686	225	(3,522)	—
Disposals	(19)	(46)	(13)	(104)	(182)
Depreciation and impairment	(170)	(1,131)	(72)	(37)	(1,410)
Net book value at 31 March 2011	<u>9,676</u>	<u>21,969</u>	<u>1,641</u>	<u>13,770</u>	<u>47,056</u>

The impairment relates to a social asset.

Security

Properties with a carrying amount of RUB 3,265 million are pledged to secure bank loans (31 December 2010: RUB 4,643 million).

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

12 Investments in associates

	(RUB million)
Balance at 31 December 2010	9,365
Share in profit for the period	60
Share in revaluation surplus of available-for-sale securities	261
Currency translation difference	(550)
Dividends accrued	(1,840)
Balance at 31 March 2011	<u>7,296</u>

13 Other non-current assets

	<u>31 March 2011</u>	<u>31 December 2010</u>
	(RUB million)	
Advances issued for construction of property, plant and equipment, at cost	4,619	3,766
Advance for construction of residential property, at cost	2,278	2,278
Financial assets available-for-sale, at fair value	122	66
Other loans, at amortised cost	27	27
Financial assets available-for-sale, at cost	720	720
Finance lease receivable	347	290
	<u>8,113</u>	<u>7,147</u>

14 Other current investments

	<u>31 March 2011</u>	<u>31 December 2010</u>
	(RUB million)	
Bank promissory notes	798	766
Letters of credit	—	64
Bank deposits	—	4
Loans issued to associates, at amortized cost	2,758	—
Loans issued to related parties, at amortised cost	<u>1,226</u>	<u>2,466</u>
	<u>4,782</u>	<u>3,300</u>

Loans issued to associates represent a loan issued in March 2011 by one of the Group subsidiaries to PhosInt Limited. The loan is USD denominated, bears interest of 3.5%. The loan has been repaid subsequent to the balance sheet date.

15 Inventories

	<u>31 March 2011</u>	<u>31 December 2010</u>
	(RUB million)	
Raw materials and spare parts	4,832	4,344
Work-in-progress	434	329
Fertilisers	3,134	2,645
Apatit rock	272	293
Apatit concentrate	337	374
Provision for obsolescence	<u>(306)</u>	<u>(269)</u>
	<u>8,703</u>	<u>7,716</u>

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

16 Trade and other receivables

	31 March 2011	31 December 2010
	(RUB million)	
Receivable for shares of OJSC “AgroGard-Finance”	1,521	4,222
Taxes receivable	3,275	3,285
Advances issued	1,670	2,462
Trade accounts receivable	1,877	1,846
Receivables from related parties	2,197	2,546
Other receivables	1,734	1,117
Deferred expenses	202	185
Receivables from associates	2,429	131
Provision for doubtful accounts	(263)	(273)
	<u>14,642</u>	<u>15,521</u>

The receivable for the share of OJSC “AgroGard-Finance” was redeemed in April 2011.

Receivable from related parties due from LLC “PhosAgro-Invest” in the amount of RUB 1,739 million have been repaid subsequent to the balance sheet date.

Dividend receivable from PhosInt Limited, the Group’s associate in the amount of RUB 1,840 million, recorded within receivable from associates, has been received subsequent to the balance sheet date.

During the three-month period ended 31 March 2011, the Group conducted a legal restructuring of the shareholding in one of its subsidiaries. The restructuring resulted in a series of sales-purchase transactions with the effect of a net contribution in the amount of RUB 36 million recognized in equity, receivable from associate in the amount of RUB 433 million and receivable from third parties in the amount of RUB 784 million. This receivable from the associate and third parties was redeemed subsequent to the balance sheet date.

17 Equity

In March 2011, the rights of the holders of the preferred shares of the class “A1” and “A2” were amended as follows: the preferred shares are convertible into the same number of ordinary shares with the same par value based on the Board decision; the minimum annual dividend amounts to RUB 49 and RUB 50 for one preferred share of class “A1” and “A2”, respectively. The dividend is not cumulative. The dividend to holders of preferred shares is accrued upon discretion of the Board of Directors and General Shareholders’ meeting. However, if the dividend is not paid by the Company, preferred shares carry the right to vote in the annual shareholders’ meeting following the meeting when the decision on non-payment or partial payment of dividends has been taken.

In May 2011 the Board of Directors decided to convert “A1” preferred shares into ordinary shares.

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

18 Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Diluted ordinary shares are calculated assuming the conversion of all convertible preferred shares.

	31 March 2011	31 March 2010
	(RUB million)	
Weighted average number of ordinary shares in issue	10,647,708	10,647,708
Profit for the period attributable to ordinary shareholders of the parent, RUB million	5,335	1,849
Basic earnings per share, RUB	501	174
Weighted average number of dilutive convertible preferred shares	20,000	—
Total number of shares for the purpose of calculation of diluted earnings per share	10,667,708	10,647,708
Diluted earnings per share, RUB	500	174

19 Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings.

	Contractual interest rate	31 March 2011	31 December 2010
		(RUB million)	
<i>Current loans and borrowings</i>			
Secured bank loans:			
RUB-denominated	Fixed at 2.0%-10.75%	1,000	1,944
USD-denominated	Variable at 1m LIBOR + 3.0%-3.3%	2,274	2,438
Unsecured loans:			
RUB-denominated	Fixed at 2.1%-2.33%	142	229
RUB-denominated	Fixed at 12%	5	—
USD-denominated	Fixed at 2.33%	569	674
USD-denominated	Variable at 1m LIBOR + 2.45%	569	—
Secured letter of credit			
EUR-denominated	Fixed at 0.9%-1.2%	—	31
Secured finance leases:			
USD-denominated	Fixed at 11.2-13.9%	179	187
Interest payable:			
RUB-denominated		3	6
		4,741	5,509
<i>Non-current loans and borrowings</i>			
Secured letter of credit			
RUB-denominated	Fixed at 0.9%	200	
USD-denominated	Variable at 6m EURIBOR + 0.8%	314	337
EUR-denominated	Variable at 3m EURIBOR + 4.35%	1,801	1,855
EUR-denominated	Fixed at 0.9%	88	57
EUR-denominated	Fixed at 1.1%	328	—
EUR-denominated	Fixed at 1.25%	591	596
Secured finance leases:			
USD-denominated	Fixed at 11.2%-13.9%	507	578
		3,829	3,423
		8,570	8,932

OJSC “PhosAgro”

**Notes to the Consolidated Interim Condensed Interim Financial Statements
for the three-month period ended 31 March 2011 (unaudited) (Continued)**

20 Trade and other payables

	<u>31 March 2011</u>	<u>31 December 2010</u>
	(RUB million)	
Trade accounts payable	2,485	2,266
Advances received	1,701	1,970
Accruals	797	632
Payables to employees	502	590
Taxes payable	1,364	799
Payables to related parties	145	50
Dividends payable	358	2,611
Other payables	705	543
	<u>8,057</u>	<u>9,461</u>

21 Commitments

The Group has entered into a contract to purchase plant and equipment for RUB 8,650 million (31 December 2010: RUB 7,446 million).

22 Related party transactions

(a) Transactions and balances with associates

(i) Transactions with associates

	Three months ended 31 March	
	<u>2011</u>	<u>2010</u>
	(RUB million)	
Sales of goods and services	476	86
Sales of equity investments	6,123	—
Purchases of goods and services	(719)	(522)

The sales of equity investments relates to a legal restructuring described in Note 16.

(ii) Balances with associates

	<u>31 March 2011</u>	<u>31 December 2010</u>
	(RUB million)	
Current loans issued	2,758	—
Receivables	589	131
Payables	(83)	(26)
Dividends receivable	1,840	—

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	Three months ended 31 March	
	<u>2011</u>	<u>2010</u>
	(RUB million)	
Sales to related parties	231	284
Purchases of goods and services	(51)	(41)
Interest income from related parties	36	52

OJSC “PhosAgro”

Notes to the Consolidated Interim Condensed Interim Financial Statements for the three-month period ended 31 March 2011 (unaudited) (Continued)

22 Related party transactions (Continued)

(ii) Balances with other related parties

	31 March 2011	31 December 2010
	(RUB million)	
Short-term loans issued to related parties	1,226	2,466
Receivable for shares of OJSC “AgroGard-Finance”	1,521	4,222
Other receivables from related parties	2,197	2,546
Payables to related parties	(62)	(24)
Dividends payable to shareholders of the Parent	—	(2,094)

(iii) Key management remuneration

The remuneration of directors and other key management personnel amounted to RUB 35 million (three-month period ended 31 March 2010: RUB 82 million).

(iv) Financial guarantees

The financial guarantees given to related parties as at 31 March 2011 amounted to RUB 2,287 million (31 December 2010: RUB 1,779 million).

23 Seasonality

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group’s revenue is partially offset by the facts that the Group sells its fertilisers globally and fertiliser application and purchases vary by region. In particular, in Russia purchases of fertilisers by farmers generally peak in the third quarter. Due to the fact that Russia is the main fertiliser market for the Group, this normally results in the Group having a somewhat higher revenue in the third quarter as compared to the other quarters. However, fertiliser demand from other regions tends to peak in other periods of the year (for example, fertiliser demand from India and Brazil generally peaks in the first quarter while fertiliser purchases by European customers normally prevail in the second quarter), which partially offsets the increase in the Group’s revenue in third quarter resulting from fertiliser sales in Russia.

The Group’s costs are generally stable throughout the year with the exception of a slight increase during May- June as a result of maintenance activities undertaken at the Group’s production facilities.

24 Events subsequent to the reporting date

In April 2011, the Board of Directors proposed a dividend in the amount of RUB 2,097 for one ordinary share and RUB 2,080.5 for one preferred share of class “A1” and RUB 52.9 for one preferred share of class “A2”. The total proposed dividend is RUB 26,000 million. This decision was approved by the shareholders’ meeting and the dividends were paid in May-June 2011.

In April 2011, the Board of Directors proposed payment of an interim dividend for the first quarter of 2011 in the amount of RUB 310.35 for one ordinary share, RUB 308.25 for one preferred share of the class “A1” and RUB 50.2 for one preferred share of class “A2”. The total amount of proposed dividend is RUB 3,850 million. This decision was approved by the shareholders’ meeting and the dividends were paid in May-June 2011.

In May 2011 the Group entered into several bank loan facility agreements in total amounting to USD 650 min. The facility is repayable from 2012 till 2014 and bears interest of Libor+2.1 to Libor+2.9. The bank commission associated with the borrowings amount to USD 0.75 million

In May 2011 the Group entered into an acquisition agreement for 24% of ZAO “Metachem” for a consideration of USD 6 million and 21% of ZAO “Pikalevskaya soda” for a consideration of USD 5 million.

In June 2011 the Group sold 90,172 preferred treasury shares of class “A1” representing 5.11% of such shares to PhosInt Limited, a Group associate, for a consideration of USD 28.6 million.

See Notes 16,17,18 for other significant subsequent events.

OJSC “PhosAgro”
Consolidated Financial Statements
for the years ended
31 December 2010, 2009 and 2008

OJSC “PhosAgro”

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Independent Auditors' Report

To the Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG
7 June 2011

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

OJSC “PhosAgro”

Consolidated Statements of Comprehensive Income for the year ended 31 December 2010

	Note	2010	2009	2008
			(RUB million)	
Revenues	7	76,951	60,785	92,191
Cost of sales	9	(47,670)	(39,894)	(36,594)
Gross profit		29,281	20,891	55,597
Administrative expenses	10	(5,247)	(3,914)	(3,416)
Selling expenses	11	(6,515)	(5,451)	(7,400)
Taxes, other than income tax		(999)	(1,113)	(1,044)
Other (expenses)/income, net	12	(1,833)	664	(1,564)
Operating profit		14,687	11,077	42,173
Finance income	13	1,380	1,694	2,231
Finance costs		(437)	(845)	(1,063)
Profit before taxation		15,630	11,926	43,341
Income tax expense	14	(3,649)	(3,250)	(10,824)
Profit for the year		<u>11,981</u>	<u>8,676</u>	<u>32,517</u>
Attributable to:				
Non-controlling interests		<u>1,403</u>	<u>2,295</u>	<u>4,941</u>
Equity holders of the Parent		<u>10,578</u>	<u>6,381</u>	<u>27,576</u>
Other comprehensive income:				
Revaluation of available-for-sale securities		227	1,405	(1,925)
Actuarial gains and losses		(377)	74	417
Foreign subsidiary translation difference		25	35	38
Other comprehensive income for the year		<u>(125)</u>	<u>1,514</u>	<u>(1,470)</u>
Total comprehensive income for the year		<u>11,856</u>	<u>10,190</u>	<u>31,047</u>
Attributable to:				
Non-controlling interests		<u>1,305</u>	<u>2,353</u>	<u>5,081</u>
Equity holders of the Parent		<u>10,551</u>	<u>7,837</u>	<u>25,966</u>
Basic and diluted earnings per share (in RUB)	24	<u>993</u>	<u>599</u>	<u>2,590</u>

The consolidated financial statements were approved on 7 June 2011:

Chief executive officer

Volkov M.V.



Chief accountant

Valenkova E.V.



The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-28 to F-64.

OJSC “PhosAgro”
Consolidated Statements of Financial Position as at 31 December 2010

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
			(RUB million)	
ASSETS				
<i>Non-current assets</i>				
Property, plant and equipment	15	46,480	42,557	37,640
Intangible assets		776	711	577
Investments in associates	16	9,365	—	—
Other non-current assets	17	7,147	10,992	5,216
		<u>63,768</u>	<u>54,260</u>	<u>43,433</u>
<i>Current assets</i>				
Other current investments	19	3,300	917	7,972
Inventories	20	7,716	6,847	8,781
Current income tax receivable		379	717	1,245
Trade and other receivables	21	15,521	12,642	9,773
Cash and cash equivalents	22	5,261	5,622	14,348
		<u>32,177</u>	<u>26,745</u>	<u>42,119</u>
Total assets		<u>95,945</u>	<u>81,005</u>	<u>85,552</u>
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital	23	360	360	360
Share premium		496	210	210
Treasury shares		(37)	—	—
Retained earnings		55,311	49,215	46,847
Reserves		2,120	2,147	691
Equity attributable to Equity holders of the Parent . . .		58,250	51,932	48,108
Equity attributable to non-controlling interests		15,079	15,064	14,754
		<u>73,329</u>	<u>66,996</u>	<u>62,862</u>
<i>Non-current liabilities</i>				
Loans and borrowings	25	3,423	2,020	2,086
Defined benefit obligations	26	931	646	690
Deferred tax liabilities	18	2,700	2,557	1,770
		<u>7,054</u>	<u>5,223</u>	<u>4,546</u>
<i>Current liabilities</i>				
Trade and other payables	28	9,461	6,252	14,216
Current income tax payable		592	374	41
Loans and borrowings	25	5,509	2,160	3,887
		<u>15,562</u>	<u>8,786</u>	<u>18,144</u>
Total equity and liabilities		<u>95,945</u>	<u>81,005</u>	<u>85,552</u>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-28 to F-64.

OJSC “PhosAgro”

Consolidated Statements of Cash Flows for the year ended 31 December 2010

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
			(RUB million)	
OPERATING ACTIVITIES				
Profit before taxation		15,630	11,926	43,341
<i>Adjustments for:</i>				
Depreciation, amortisation and impairment		5,777	4,100	3,231
Loss on disposal of fixed assets	12	262	267	442
Interest expense		437	845	916
Interest income	13	(703)	(1,074)	(1,475)
Dividend income	13	(78)	(57)	(170)
Gain on disposal of investments	13	(731)	(337)	(74)
Operating profit before changes in working capital . . .		20,594	15,670	46,211
(Increase)/decrease in inventories		(869)	1,934	(3,208)
(Increase)/decrease in trade and other receivables . . .		(1,953)	1,250	(3,140)
Increase/(decrease) in trade and other payables		594	(7,820)	9,707
Cash flows from operations before income taxes and interest		18,366	11,034	49,570
Income tax paid		(2,940)	(1,602)	(12,591)
Interest paid		(293)	(701)	(727)
Cash flows from operating activities		15,133	8,731	36,252
INVESTING ACTIVITIES				
Loans repaid/(issued)		(4,376)	5,074	(6,007)
Acquisition of “AgroGard”	21	—	(4,801)	—
Acquisition of intangible assets		(191)	(166)	(190)
Acquisition of property, plant and equipment		(13,040)	(12,206)	(11,124)
Proceeds from disposal of property, plant and equipment		49	52	375
Proceeds from disposal of investments		2,359	2,605	2,935
Acquisition of subsidiaries	35	—	—	(1,079)
Acquisition of investments		(1,580)	(1,046)	(676)
Interest received		703	1,074	1,475
Dividends received		78	57	170
Cash and cash equivalents included in investments in associates upon deconsolidation	16	(977)	—	—
Cash flows used in investing activities		(16,975)	(9,357)	(14,121)
FINANCING ACTIVITIES				
Proceeds from borrowings		21,182	15,412	26,951
Repayment of borrowings		(16,110)	(17,078)	(28,153)
Acquisition of treasury shares		(75)	—	—
Proceeds from disposal of non-controlling interests . . .		42	258	—
Acquisition of non-controlling interests		(3)	(5,133)	(7,475)
Dividends paid to non-controlling interests		(859)	(483)	(140)
Dividends paid to shareholders of the Parent		(2,469)	(948)	(943)
Finance leases paid		(227)	(207)	(245)
Cash flows from/(used in) financing activities		1,481	(8,179)	(10,005)
Net (decrease)/increase in cash and cash equivalents . .		(361)	(8,805)	12,126
Cash and cash equivalents at beginning of year		5,622	14,348	2,195
Effect of change in exchange rates		—	79	27
Cash and cash equivalents at end of year	22	5,261	5,622	14,348

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-28 to F-64.

OJSC “PhosAgro”

Consolidated Statements of Changes in Equity for the year ended 31 December 2010

		Attributable to equity holders of the Company								
	Note	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury shares	Attributable to non-controlling interests	Total
(RUB million)										
Balance at 1 January 2008		360	210	24,063	2,425	(191)	67	—	13,544	40,478
Total comprehensive income for the year										
Profit for the year		—	—	27,576	—	—	—	—	4,941	32,517
Revaluation of available-for-sale securities		—	—	—	(1,925)	—	—	—	—	(1,925)
Actuarial gains and losses		—	—	—	—	277	—	—	140	417
Foreign subsidiary translation difference		—	—	—	—	—	38	—	—	38
		—	—	27,576	(1,925)	277	38	—	5,081	31,047
Transactions with owners, recognised directly in equity										
Effect of acquisition of additional shares in subsidiaries	23	—	—	(3,849)	—	—	—	—	(3,626)	(7,475)
Dividends to shareholders of the Company		—	—	(943)	—	—	—	—	—	(943)
Dividends to non-controlling interests		—	—	—	—	—	—	—	(245)	(245)
		—	—	(4,792)	—	—	—	—	(3,871)	(8,663)
Balance at 1 January 2009		360	210	46,847	500	86	105	—	14,754	62,862
Total comprehensive income for the year										
Profit for the year		—	—	6,381	—	—	—	—	2,295	8,676
Revaluation of available-for-sale securities		—	—	—	1,405	—	—	—	—	1,405
Actuarial gains and losses		—	—	—	—	16	—	—	58	74
Foreign subsidiary translation difference		—	—	—	—	—	35	—	—	35
		—	—	6,381	1,405	16	35	—	2,353	10,190
Transactions with owners, recognised directly in equity										
Correction of non-controlling interests	34	—	—	170	—	—	—	—	(170)	—
Effect of acquisition of additional shares in subsidiaries		—	—	(3,285)	—	—	—	—	(1,691)	(4,976)
Disposal of non-controlling interests in subsidiary		—	—	50	—	—	—	—	209	259
Dividends to shareholders of the Company	23	—	—	(948)	—	—	—	—	—	(948)
Dividends to non-controlling interests		—	—	—	—	—	—	—	(391)	(391)
		—	—	(4,013)	—	—	—	—	(2,043)	(6,056)
Balance at 31 December 2009		360	210	49,215	1,905	102	140	—	15,064	66,996

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-28 to F-64.

OJSC “PhosAgro”
Consolidated Statements of Changes in Equity for the year ended 31 December 2010 (Continued)

	Note	Attributable to equity holders of the Company							Attributable to non-controlling interests	Total
		Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Treasury shares		
					(RUB million)					
Balance at 1 January 2010		360	210	49,215	1,905	102	140	—	15,064	66,996
Total comprehensive income for the year										
Profit for the year		—	—	10,578	—	—	—	—	1,403	11,981
Revaluation of available-for-sale securities		—	—	—	227	—	—	—	—	227
Actuarial gains and losses		—	—	—	—	(279)	—	—	(98)	(377)
Foreign subsidiary translation difference		—	—	—	—	—	25	—	—	25
		—	—	10,578	227	(279)	25	—	1,305	11,856
Transactions with owners, recognised directly in equity										
Effect of acquisition of additional shares in subsidiaries		—	—	(10)	—	—	—	—	(52)	(62)
Disposal of non-controlling interests in subsidiary		—	—	91	—	—	—	—	107	198
Acquisition of treasury shares		—	—	—	—	—	—	(75)	—	(75)
Disposal of treasury shares		—	286	—	—	—	—	38	—	324
Dividends to shareholders of the Company	23	—	—	(4,563)	—	—	—	—	—	(4,563)
Dividends to non-controlling interests		—	—	—	—	—	—	—	(1,345)	(1,345)
		—	286	(4,482)	—	—	—	(37)	(1,290)	(5,523)
Balance at 31 December 2010		360	496	55,311	2,132	(177)	165	(37)	15,079	73,329

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-28 to F-64.

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

1 Background

Organisation and operations

OJSC “PhosAgro” (the “Parent Company” or “the Company”) is a Russian open joint stock company as defined in the Civil Code of the Russian Federation. The Parent Company and its subsidiaries (together referred to as the “Group”) comprise Russian legal entities and legal entities located abroad. The Parent company was registered in October 2001. The Parent Company’s registered office is 119333, Leninsky Prospekt 55/1 building 1, Moscow, Russian Federation.

The Group’s principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region) and Balakovo (Saratov region) and their distribution across the Russian Federation and abroad.

The Company’s key shareholders are several Cyprus entities holding between 5% and 10% of the Company’s ordinary shares each. During 2008-2010 the majority of the shares of the Company were ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guriev and his family members.

Russian business environment

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

2 Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Parent Company and most of the subsidiaries. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

2 Basis of preparation (Continued)

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

- Determination of the recoverable amount of property, plant and equipment, see note 15(a).

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

- Consolidation of OJSC “Apatit”, see note 33.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Loss of control

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

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise.

3 Significant accounting policies (Continued)

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment***(i) Owned assets***

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date (“deemed cost”) as determined by an independent appraiser.

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

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the profit and loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

3 Significant accounting policies (Continued)

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years
- Plant and equipment 4 to 15 years
- Fixtures and fittings 3 to 6 years

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 15 to 30 years
- Plant and equipment 5 to 30 years
- Fixtures and fittings 2 to 10 years

(d) Intangible assets and negative goodwill

(i) *Goodwill and negative goodwill*

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 *Business combinations* to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) *Research and development*

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) *Other intangible assets*

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) *Amortisation*

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 - 10 years.

(e) Investments

Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

3 Significant accounting policies (Continued)

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(i) Impairment*Financial assets*

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

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

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

3 Significant accounting policies (Continued)

investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

3 Significant accounting policies (Continued)**(j) Share capital*****(i) Preference share capital***

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits***(i) Pension plans***

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(ii) Long-term service benefits other than pensions

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash

3 Significant accounting policies (Continued)

flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(p) Revenues

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies' warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier (mainly for export).

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

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

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of

3 Significant accounting policies (Continued)

financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Other expenses**(i) Operating leases**

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

(ii) Social expenditure

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

(s) New Standards and Interpretations***Standards that are effective for 2010 financial statements***

- Revised IFRS 3 *Business Combinations* (2008). Effective 1 January 2010 the Group adopted the Revised IFRS 3 *Business Combinations* which introduces a number of changes:
 - the definition of a business was broadened;
 - contingent consideration is to be measured at fair value;
 - transaction costs, other than share and debt issue costs, should be expensed as incurred;
 - any pre-existing interest in the acquiree should be measured at fair value; and
 - any non-controlling interest should be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised standard will have an impact on the accounting for future business combinations.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008). Effective 1 January 2010 the Group adopted the Amended IAS 27 *Consolidated and Separate Financial Statements* which requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement.

The revised IAS27 did not have an impact on the financial statements, since the Group already adopted the accounting policy of recognition of the effect of changes in parent's ownership interest in the subsidiary while maintaining the control, in equity.

- Amended IAS 7 *Statement of Cash Flows*. Effective 1 January 2010 the Group adopted the Amended IAS 7 *Statement of Cash Flows* which requires cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control to be classified as cash flows from financing activities. The adoption of this amendment resulted in a re-classification of cash outflow of

3 Significant accounting policies (Continued)

RUB 5,133 million and RUB 7,475 million for purchase of non-controlling interests from investing to financing activity in 2009 and 2008 respectively.

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

Standards that are not effective for 2010 financial statements

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. These pronouncements are not expected to have a material impact on the Group's operations.

- Revised IAS 24 *Related Party Disclosures* (2010) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amended IFRS 7 *Disclosures—Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group does not intend to adopt this standard early.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described in 4(a) to 4(c). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

4 Determination of fair values (Continued)**(b) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management**(a) Overview**

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

- credit risk;
- liquidity risk;
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers, and loans issued to related parties.

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group’s customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group’s standard payment and delivery terms and conditions are offered. The Group’s review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group’s benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group’s customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group’s wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

5 Financial risk management (Continued)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Current and non-current financial assets and cash and cash equivalents

The Group lends money to related parties, who have good credit standing. Management believes that there is no significant credit risk in respect of related party loans and third party loans since they are secured.

Cash and cash equivalents are primarily held with banks with high credit rating.

Guarantees

The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

(c) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

(d) Market risk

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

(e) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily being the Russian Rouble (RUB). The currencies giving rise to this risk are primarily USD and Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk.

(f) Interest rate risk

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

5 Financial risk management (Continued)

(g) Capital management

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board’s approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the countries their domicile and the bank covenants, see note 25.

6 Segment information

The Group has two reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

- *Phosphate-based products segment* includes mainly production and distribution of ammophos, diammoniumphosphate and other phosphate based and complex (NPK) fertilisers on the factories located in Cherepovets and Balakovo and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- *Nitrogen fertilisers segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain assets, revenue and expenses, not allocated to any particular segment, and are therefore included into the “other operations” column. None of these operations meet any of the quantitative thresholds for determining reportable segments in 2010, 2009 or 2008.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in the internal management reports that are reviewed by the Group’s CEO.

Business segment information of the Group at 31 December 2010 and for the year then ended is as follows:

	<u>Phosphate-based products</u>	<u>Nitrogen fertilisers</u>	<u>Other operations</u>	<u>Inter-segment elimination</u>	<u>Total</u>
	(RUB million)				
<i>Segment revenue and profitability</i>					
Segment external revenues, thereof:	68,832	7,012	1,106	—	76,950
Export	43,875	6,131	78	—	50,084
Domestic	24,957	881	1,028	—	26,866
Inter-segment revenues	—	2,154	—	(2,154)	—
Cost of goods sold	(42,812)	(6,253)	(1,814)	2,154	(48,725)
Gross segment profit/(loss)	<u>26,020</u>	<u>2,913</u>	<u>(708)</u>	<u>—</u>	<u>28,225</u>
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(4,262)	(347)	(115)	—	(4,724)
Total non-current segment assets	<u>37,241</u>	<u>4,767</u>	<u>2,309</u>	<u>—</u>	<u>44,317</u>
Additions to non-current assets	<u>8,393</u>	<u>1,101</u>	<u>1,120</u>	<u>—</u>	<u>10,614</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

6 Segment information (Continued)

Business segment information of the Group at 31 December 2009 and for the year then ended is as follows:

	<u>Phosphate-based products</u>	<u>Nitrogen fertilisers</u>	<u>Other operations</u>	<u>Inter-segment elimination</u>	<u>Total</u>
	(RUB million)				
<i>Segment revenue and profitability</i>					
Segment external revenues, thereof:	53,283	6,469	1,071	—	60,823
Export	33,805	5,136	85	—	39,026
Domestic	19,478	1,333	986	—	21,797
Inter-segment revenues	—	2,130	—	(2,130)	—
Cost of goods sold	(36,796)	(5,540)	(1,409)	2,130	(41,615)
Gross segment profit/(loss)	<u>16,487</u>	<u>3,059</u>	<u>(338)</u>	<u>—</u>	<u>19,208</u>
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(3,341)	(283)	(115)	—	(3,739)
Total non-current segment assets	<u>33,320</u>	<u>4,130</u>	<u>2,887</u>	<u>—</u>	<u>40,337</u>
Additions to non-current assets	<u>8,171</u>	<u>908</u>	<u>224</u>	<u>—</u>	<u>9,303</u>

Business segment information of the Group at 31 December 2008 and for the year then ended is as follows:

	<u>Phosphate-based products</u>	<u>Nitrogen fertilisers</u>	<u>Other operations</u>	<u>Inter-segment elimination</u>	<u>Total</u>
	(RUB million)				
<i>Segment revenue and profitability</i>					
Segment external revenues, thereof:	83,809	8,820	1,512	—	94,141
Export	56,315	6,319	—	—	62,634
Domestic	27,494	2,501	1,512	—	31,507
Inter-segment revenues	—	1,933	—	(1,933)	—
Cost of goods sold	(31,942)	(4,614)	(2,251)	1,933	(36,874)
Gross segment profit/(loss)	<u>51,867</u>	<u>6,139</u>	<u>(739)</u>	<u>—</u>	<u>57,267</u>
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(2,722)	(215)	(51)	—	(2,988)
Total non-current segment assets	<u>28,576</u>	<u>3,353</u>	<u>2,239</u>	<u>—</u>	<u>34,168</u>
Additions to non-current assets	<u>8,625</u>	<u>552</u>	<u>1,947</u>	<u>—</u>	<u>11,124</u>

The analysis of export revenue by regions is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Europe	14,381	11,407	14,443
India	9,127	10,064	13,411
North and South America	14,334	4,731	19,108
Other regions	12,242	12,824	15,672
	<u>50,084</u>	<u>39,026</u>	<u>62,634</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

6 Segment information (Continued)

In 2010 revenue from sales of phosphate-based products to one single customer amounted to approximately 20% (RUB 15,169 million) of the Group’s total revenue (2009: 24% (RUB 14,529 million), 2008: 16% (RUB 15,174 million)).

	2010	2009	2008
	(RUB million)		
Total segment revenues	76,950	60,823	94,141
Accrual of provision for litigation	—	—	(1,992)
Difference in timing of revenue recognition between management accounts and IFRS	1	(38)	42
	76,951	60,823	94,141
Consolidated revenue	76,951	60,785	92,191
	2010	2009	2008
	(RUB million)		
Total segmental profit	28,225	19,208	57,267
Difference in depreciation and amortisation between management accounts and IFRS	(50)	(31)	(112)
Difference in timing of expenses recognition	(76)	558	(723)
Difference in timing of revenue recognition between management accounts and IFRS	1	(38)	42
Re-allocation of administrative expenses	1,044	641	442
Accrual and the reversal of the excess of cost of inventories over net realisable value	—	212	(253)
Other adjustments	137	341	(1,066)
Consolidated gross profit	29,281	20,891	55,597
	2010	2009	2008
	(RUB million)		
Total segment assets	44,317	40,337	34,168
Difference in the carrying value of the tangible fixed assets and intangible assets between management accounts and IFRS	2,939	2,931	4,049
Consolidated non-current segment assets	47,256	43,268	38,217

7 Revenues

	2010	2009	2008
	(RUB million)		
Sales of chemical fertilisers	59,172	45,365	72,246
Sales of apatite concentrate	13,887	11,928	14,279
Sales of nepheline concentrate	615	378	715
Other sales	3,277	3,114	4,951
	76,951	60,785	92,191

The domestic sales prices for apatite concentrate are subject to various regulations of the Federal Anti-monopoly Service and Russian law “On the protection of competition and restriction of monopoly activities”. Domestic revenue of the Company is to a significant extent dependent on the decisions taken on the basis of these laws and regulations.

The domestic sales of apatite concentrate included in these consolidated financial statements amounted to RUB 7,995 million (2009: RUB 5,220 million, 2008: RUB 9,112 million).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

8 Personnel costs

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Cost of sales	(8,789)	(8,117)	(7,424)
Administrative expenses	(2,809)	(2,050)	(1,735)
Selling expenses	(461)	(286)	(240)
	<u>(12,059)</u>	<u>(10,453)</u>	<u>(9,399)</u>

Personnel costs include salaries and wages, social contributions and current pension service costs.

9 Cost of sales

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Materials and services	(21,013)	(15,390)	(14,102)
Salaries and social contributions	(8,789)	(8,117)	(7,424)
Natural gas	(4,459)	(3,726)	(3,222)
Depreciation and amortisation	(4,774)	(3,770)	(3,100)
Fuel	(3,674)	(2,625)	(3,243)
Sulphur and sulphuric acid	(2,447)	(2,613)	(5,474)
Electricity	(3,152)	(2,499)	(1,981)
Other items	(43)	(29)	(37)
Change in stock of WIP and finished goods	681	(1,125)	1,989
	<u>(47,670)</u>	<u>(39,894)</u>	<u>(36,594)</u>

10 Administrative expenses

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Salaries and social contributions	(2,809)	(2,050)	(1,735)
Depreciation, amortisation and impairment	(428)	(180)	(91)
Other	(2,010)	(1,684)	(1,590)
	<u>(5,247)</u>	<u>(3,914)</u>	<u>(3,416)</u>

11 Selling expenses

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Russian Railways infrastructure tariff and operators' fees	(3,272)	(2,390)	(1,918)
Materials and services	(1,401)	(1,307)	(1,268)
Port and stevedoring expenses	(1,291)	(1,196)	(767)
Salaries and social contributions	(461)	(286)	(240)
Custom duties	—	(233)	(3,189)
Depreciation and amortisation	(90)	(39)	(18)
	<u>(6,515)</u>	<u>(5,451)</u>	<u>(7,400)</u>

Effective from 1 February 2009, the Government of the Russian Federation cancelled the duties on exports of phosphate fertilisers to countries outside the CIS Customs Union. Effective from 1 May 2009, the Government of the Russian Federation also cancelled the duties on exports of apatite to countries outside the CIS customs Union. The duties, introduced in April 2008 were equal to 8.5% and 6.5% of the declared customs value of the phosphate fertilisers and apatite, respectively. In 2009 and 2008 export sales were presented gross of the export duties which amounted to RUB 233 million and RUB 3,189 million

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

11 Selling expenses (Continued)

respectively, since in substance such export duties represent a part of the sales price and selling expenses to the Company.

12 Other income/(expenses), net

	2010	2009	2008
	(RUB million)		
Reversal of provision for litigation	—	1,992	—
Loss on disposal of fixed assets	(262)	(267)	(442)
Decrease/(increase) in provision for inventory obsolescence	151	69	(318)
Depreciation and amortisation	(83)	(111)	(22)
Impairment losses	(402)	—	—
Social expenditures	(964)	(755)	(183)
Other operating expenses	(273)	(264)	(599)
	<u>(1,833)</u>	<u>664</u>	<u>(1,564)</u>

In 2009, the Company reversed the provision for litigation with one of its customers (for further details refer to note 28).

13 Finance income

	2010	2009	2008
	(RUB million)		
Dividend income	78	57	170
Interest income	703	1,074	1,475
Foreign exchange gains/(losses), net	(132)	226	512
Gain on disposal of investments	731	337	74
	<u>1,380</u>	<u>1,694</u>	<u>2,231</u>

Interest income mainly relates to interest accrued on bank deposits and loans issued to related parties.

The gain on disposal of investment in 2010 relates mainly to disposal of 60% in a subsidiary LLC “FOSAGRO UKRAINE” for a consideration of RUB 1 million to a third party. At the moment of disposal, this subsidiary had negative net assets in the amount of RUB 288 million which resulted in recognition of a gain on disposal of RUB 289 million. The Group retained 40% shareholding in LLC “FOSAGRO UKRAINE” subsequent to the disposal.

14 Income tax expense

The Parent company’s applicable corporate income tax rate is 20% (2009: 20%, 2008: 24%).

	2010	2009	2008
	(RUB million)		
Current tax expense	(3,506)	(2,463)	(11,582)
Origination and reversal of temporary differences, including change in unrecognised assets	(143)	(787)	758
	<u>(3,649)</u>	<u>(3,250)</u>	<u>(10,824)</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

14 Income tax expense (Continued)

Reconciliation of effective tax rate:

	2010		2009		2008	
	(RUB million)	%	(RUB million)	%	(RUB million)	%
Profit before taxation	<u>15,630</u>	<u>100</u>	<u>11,926</u>	<u>100</u>	<u>43,341</u>	<u>100</u>
Income tax at applicable tax rate	(3,126)	(20)	(2,385)	(20)	(10,402)	(24)
Underprovided in respect of prior years . .	7	—	(23)	—	—	—
Tax effect of disposed subsidiary	—	—	60	1	—	—
Change in tax rate	—	—	—	—	354	1
Realisation of the deferred tax liability relating to investment in subsidiary due to intra-group transfer of investments . .	(329)	(2)	—	—	—	—
Non-deductible items	(574)	(3)	(577)	(5)	(606)	(1)
Change in unrecognised deferred tax assets	373	2	(325)	(3)	(170)	(1)
	<u>(3,649)</u>	<u>(23)</u>	<u>(3,250)</u>	<u>(27)</u>	<u>(10,824)</u>	<u>(25)</u>

The changes in the fair value of the available-for-sale securities represent permanent differences in accordance with the law of the relevant tax jurisdiction and no significant income tax charge was recognised in other comprehensive income.

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

15 Property, plant and equipment

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Fixtures and fittings</u> (RUB million)	<u>Construction in progress</u>	<u>Total</u>
<i>Cost</i>					
At 1 January 2008	9,130	21,364	634	5,961	37,089
Additions	8	1,204	—	9,912	11,124
Acquisition of subsidiary	789	895	3	37	1,724
Transfers	311	5,266	119	(5,696)	—
Disposals	(112)	(749)	(8)	(231)	(1,100)
At 1 January 2009	10,126	27,980	748	9,983	48,837
Additions	—	—	—	9,303	9,303
Transfers	1,668	6,498	111	(8,277)	—
Disposals	(119)	(566)	(19)	(75)	(779)
At 1 January 2010	11,675	33,912	840	10,934	57,361
Additions	—	—	—	10,614	10,614
Transfers	625	3,913	1,387	(5,925)	—
Transfer to investments in associates, see note 16	—	(1,183)	—	(10)	(1,193)
Disposals	(38)	(410)	(12)	(158)	(618)
At 31 December 2010	12,262	36,232	2,215	15,455	66,164
<i>Accumulated depreciation</i>					
At 1 January 2008	(1,639)	(6,282)	(358)	—	(8, 279)
Depreciation charge	(459)	(2,627)	(115)	—	(3,201)
Disposals	25	253	5	—	283
At 1 January 2009	(2,073)	(8,656)	(468)	—	(11,197)
Depreciation charge	(507)	(3,409)	(151)	—	(4,067)
Disposals	50	394	16	—	460
At 1 January 2010	(2,530)	(11,671)	(603)	—	(14,804)
Depreciation charge	(505)	(4,457)	(119)	—	(5,081)
Impairment	—	(213)	—	(190)	(403)
Transfer to investments in associates, see note 16	—	297	—	—	297
Disposals	27	272	8	—	307
At 31 December 2010	(3,008)	(15,772)	(714)	(190)	(19,684)
Net book value at 1 January 2009	8,053	19,324	280	9,983	37,640
Net book value at 1 January 2010	9,145	22,241	237	10,934	42,557
Net book value at 31 December 2010	9,254	20,460	1,501	15,265	46,480

(a) Impairment testing

At the reporting date the Group performed an impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of 5 to 10 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 13.8% (2009: 12.1%, 2008: 17%)
- Terminal growth rate 3% (2009: 3%, 2008: 3%)

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

15 Property, plant and equipment (Continued)

Based on the analysis, no impairment loss was recognised. A 2% change in the discount rate would not have resulted in an impairment loss.

(b) Security

Properties with a carrying amount of RUB 4,643 million (2009: RUB 4,970 million, 2008: RUB 4,989 million) are pledged to secure bank loans (see note 25).

(c) Leasing

Machinery with the carrying value of RUB 994 million (31 December 2009: RUB 963 million, 2008: RUB 972 million) is leased under various finance lease agreements, see note 27.

16 Investments in associates

In September and October 2010 two Group subsidiaries, PhosInt Limited and PhosAsset GmbH, increased their share capital which was subscribed by a related party resulting in the dilution of the Group's shareholding in these entities to 49%. As a consequence these entities and Northwest AG, a subsidiary of PhosAsset GmbH (further the PhosInt Group) were deconsolidated from the Group. At the same time, the Group retained its preference right for the dividends from these entities in the amount of their retained earnings as at 31 December 2010 as determined by the executive management by reference to the IFRS financial statements of these entities.

As at 31 December 2010 these entities held a number of financial assets, including equity and debt instruments of Russian issuers, loans issued, property and cash. Accordingly, the fair value of the Group's shareholding in these entities after the loss of control is equal to the Group's share in the book value of the identifiable assets and liabilities of these entities at the moment of loss of control.

Once the total dividend distributed will reach the amount of retained earnings of PhosInt Group as at 31 December 2010, any subsequent dividend will be made proportionate to the shareholding in these companies.

No consideration was received by the Group on disposal and the financial result of this transaction was nil.

Upon the loss of control in the associate, the Group entered in a number of put-call agreements with the PhosInt Limited, whereby the PhosInt Limited has the right and the obligation to sell and the Company has the right and obligation to buy, 561 thousand of ordinary and 106 thousand of preferred shares in JSC “Cherepovetsky “Azot”, representing 7.03% and 9.44% of the shares of the relevant class, for a fixed consideration of RUB 570 million. In accordance with the substance of these agreements, the minority parcels of the shares subject to the option agreements have been recognised as if the shares are owned by the Company.

Carrying values of the Group's investment in associates at 31 December 2010 are as follows:

	(RUB million)
PhosInt Group	9,365
FOSAGRO UKRAINE	—
	<u>9,365</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

16 Investments in associates (Continued)

The summarized financial data of the associates at 31 December 2010 is as follows:

	PhosInt Group	FOSAGRO UKRAINE
	(RUB million)	
Total assets	9,575	148
Total liabilities	(210)	(436)
	<u>9,365</u>	<u>(288)</u>

No significant revenue or net result was realised by PhosInt Group or LLC “FOSAGRO UKRAINE” from the moment when they became Group associates until the reporting date.

17 Other non-current assets

	2010	2009	2008
	(RUB million)		
Advances issued for construction of property, plant and equipment, at cost	3,766	1,340	2,037
Advance for construction of residential property, at cost	2,278	3,600	—
Financial assets available-for-sale, at fair value	66	3,012	579
Other loans, at amortised cost	27	147	638
Financial assets available-for-sale, at cost	720	695	76
Financial assets held-to-maturity, long-term	—	669	676
Finance lease receivable	290	249	163
Loans issued to a related party, at amortised cost	—	1,280	1,047
	<u>7,147</u>	<u>10,992</u>	<u>5,216</u>

In 2009 the Group advanced RUB 3,600 million for the construction of residential property in Saint Petersburg. During 2010 the Group transferred RUB 200 million of additional advance for construction. Later in 2010 a portion of the advance was assigned to a related party for a consideration of RUB 1,561 million and settled in full subsequent to the reporting date. The remaining advance in the amount of RUB 2,278 million is expected to be settled in 2011.

As at 31 December 2009 financial assets available-for-sale, at fair value included equity and debt investments in OJSC “Acron”, OJSC “Novatec”, OJSC “Rostelecom” and OJSC “Sberbank” owned by PhosInt Group at that time. The investments are valued by reference to quotations in the relevant stock exchange, which corresponds to level 1 of the hierarchy of fair value measurements.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>	<u>2008</u>
	(RUB million)								
Property, plant and equipment	25	(2,912)	(2,887)	20	(2,646)	(2,626)	23	(2,395)	(2,372)
Other long-term assets	10	(108)	(98)	41	(102)	(61)	—	(92)	(92)
Current assets	263	(115)	148	359	(262)	97	413	(124)	289
Liabilities	261	(63)	198	281	(42)	239	715	(34)	681
Tax loss carry-forward	167	—	167	395	—	395	—	—	—
Provision for tax loss carry-forward	(167)	—	(167)	(395)	—	(395)	—	—	—
Unrecognised deferred tax assets	(61)	—	(61)	(206)	—	(206)	(276)	—	(276)
Tax assets/(liabilities)	498	(3,198)	(2,700)	495	(3,052)	(2,557)	875	(2,645)	(1,770)
Set off of tax	(498)	498	—	(495)	495	—	(875)	875	—
Net tax assets/(liabilities)	<u>—</u>	<u>(2,700)</u>	<u>(2,700)</u>	<u>—</u>	<u>(2,557)</u>	<u>(2,557)</u>	<u>—</u>	<u>(1,770)</u>	<u>(1,770)</u>

The unrecognised tax losses expire within nine years from the reporting date.

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 26,306 million (31 December 2009: RUB 34,718 million, 31 December 2008: RUB 40,002 million). The deferred tax liability for these temporary differences has not been recognised because the Parent can control the timing of reversal of the temporary difference and it is probable that temporary differences will not reverse in the foreseeable future.

(b) Movement in temporary differences during the year

	<u>2009</u>	<u>Recognised in profit and loss</u>	<u>2010</u>
	(RUB million)		
Property, plant and equipment	(2,626)	(261)	(2,887)
Other long-term assets	(61)	(37)	(98)
Current assets	97	51	148
Liabilities	239	(41)	198
Tax loss carry-forward	395	(228)	167
Provision for tax loss carry-forward	(395)	228	(167)
Unrecognised deferred tax assets	(206)	145	(61)
Net tax assets/(liabilities)	<u>(2,557)</u>	<u>(143)</u>	<u>(2,700)</u>

	<u>2008</u>	<u>Recognised in profit and loss</u>	<u>2009</u>
	(RUB million)		
Property, plant and equipment	(2,372)	(254)	(2,626)
Other long-term assets	(92)	31	(61)
Current assets	289	(192)	97
Liabilities	681	(442)	239
Tax loss carry-forward	—	395	395
Provision for tax loss carry-forward	—	(395)	(395)
Unrecognised deferred tax assets	(276)	70	(206)
Net tax assets/(liabilities)	<u>(1,770)</u>	<u>(787)</u>	<u>(2,557)</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

18 Deferred tax assets and liabilities (Continued)

	<u>2007</u>	<u>Effect of acquisition of a subsidiary</u>	<u>Recognised in profit and loss</u>	<u>2008</u>
	(RUB million)			
Property, plant and equipment	(2,449)	(328)	405	(2,372)
Other long-term assets	(18)	—	(74)	(92)
Current assets	120	—	169	289
Liabilities	253	—	428	681
Unrecognised deferred tax assets	(106)	—	(170)	(276)
Net tax assets/(liabilities)	<u>(2,200)</u>	<u>(328)</u>	<u>758</u>	<u>(1,770)</u>

19 Other current investments

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Bank promissory notes	766	—	1,866
Letters of credit	64	—	—
Bank deposits	4	186	616
Loans issued, at amortised cost	—	376	3,155
Loans issued to related parties, at amortised cost	2,466	292	2,329
Other financial assets	—	63	6
	<u>3,300</u>	<u>917</u>	<u>7,972</u>

For comparability purposes, the Group re-classified certain loans issued in 2008 and 2009 from “Other receivables” to “Other current investments”.

20 Inventories

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Raw materials and spare parts	4,344	4,307	5,185
Work-in-progress	329	333	365
Fertilisers	2,645	1,605	2,784
Apatit rock	293	491	531
Apatit concentrate	374	531	405
Provision for obsolescence	(269)	(420)	(489)
	<u>7,716</u>	<u>6,847</u>	<u>8,781</u>

Finished goods with the carrying value of RUB 36 million (31 December 2009: RUB 183 million, 31 December 2008: RUB 79 million) are pledged to secure bank loans, see note 25.

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

21 Trade and other receivables

	2010	2009	2008
	(RUB million)		
Receivable for shares of OJSC “AgroGard-Finance”	4,222	4,222	—
Taxes receivable	3,285	3,157	4,436
Advances issued	2,462	1,983	1,221
Trade accounts receivable	1,846	1,752	1,897
Receivables from related parties	2,546	1,080	1,666
Other receivables	1,117	498	634
Deferred expenses	185	135	172
Receivables from associates	131	53	44
Provision for doubtful accounts	(273)	(238)	(297)
	<u>15,521</u>	<u>12,642</u>	<u>9,773</u>

In November 2009 OJSC “AgroGard-Finance”, a Russian agricultural producer, which is a related party, issued ordinary shares which were purchased by the group subsidiaries, resulting in the Group obtaining 79% of the charter capital in OJSC “AgroGard-Finance”, for a cash consideration of RUB 4,801 million. In December 2009 the Group sold 69% of the charter capital to a related party for the consideration of RUB 4,222 million approximating the cost of acquisition. The payment for the shares was received in full in March and April 2011.

Included in trade and other receivables are trade accounts receivable with the following ageing analysis as at the reporting dates:

	2010	2009	2008
	(RUB million)		
Not past due	1,773	1,659	1,683
Past due 0-180 days	35	22	159
Past due 180-365 days	17	12	33
More than one year	21	59	22
	<u>1,846</u>	<u>1,752</u>	<u>1,897</u>

Provision for doubtful trade accounts receivable as at 31 December 2010 amounted to RUB 24 million (31 December 2009: RUB 70 million, 31 December 2008: RUB 18 million).

22 Cash and cash equivalents

	2010	2009	2008
	(RUB million)		
Cash in bank	2,857	1,914	9,409
Call deposits	2,400	3,642	4,901
Petty cash	4	66	38
	<u>5,261</u>	<u>5,622</u>	<u>14,348</u>

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

23 Equity

Share capital

Number of shares unless otherwise stated	Ordinary shares	Preferred shares of class “A1”	Preferred shares of class “A2”
Shares on issue at 31 December 2010, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2010, RUB 25 par value	100,000,000	30,000,000	—
Shares on issue at 31 December 2009, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2009, RUB 25 par value	100,000,000	30,000,000	—
Shares on issue at 31 December 2008, RUB 25 par value	10,647,708	1,764,001	35,999
Shares authorised for additional issue at 31 December 2008, RUB 25 par value	100,000,000	30,000,000	—

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 “*Financial Reporting in Hyperinflationary economies*”.

In February 2006 the Company issued 1,764,001 preferred shares of class “A1” and 35,999 preferred shares of class “A2”, both with a par value of 25 Russian Rubles. The issue price was 140 and 200 Russian Rubles per share for the shares of class “A1” and “A2”, respectively. The total proceeds from the share issue were RUB 254 million.

Preferred shares have no right of conversion or redemption, but are entitled to an annual dividend of 35% of the net cash inflow received by the Parent Company from the distribution of profits by its investees for preferred shares of the class “A1” and 60% for the preferred shares of the class “A2” respectively.

If the dividend is not paid by the Company, preferred shares carry the right to vote in the annual shareholders’ meeting following the meeting when the decision on non-payment or partial payment of dividends has been taken. The dividend is not cumulative. The preferred shares also carry the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation.

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

See note 36 regarding the changes in the rights of the preferred shareholders subsequent to the reporting date.

Dividends

In accordance with Russian legislation the Parent Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Parent Company had cumulative retained earnings of RUB 27,179 million (31 December 2009: RUB 11,305 million, 31 December 2008: RUB 8,607 million).

In June 2010 dividends in the amount of RUB 378.98 for each issued outstanding preferred share of class “A1” and of RUB 46,951.23 for each issued outstanding share of class “A2” were approved in the General shareholders’ meeting.

OJSC “PhosAgro”

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued)

23 Equity (Continued)

In December 2010 dividends in the amount of RUB 207.00 for each issued outstanding ordinary share were approved in the General shareholders' meeting.

In January 2011 dividends in the amount of RUB 205.35 for each issued outstanding preferred share of class “A1” were approved in the General shareholders' meeting. The total amount of approved dividend is RUB 362 million

In April 2011 the Board of Directors proposed a dividend in the amount of RUB 2,097 for one ordinary share and RUB 2,080.5 for one preferred share of class “A1” and RUB 52.9 for one preferred share of class “A2”. The total proposed dividend is RUB 26,000 million. This decision was approved by the shareholders' meeting and the dividends were paid in May 2011.

In April 2011 the Board of Directors proposed payment of an interim dividend for the first quarter of 2011 in the amount of RUB 310.35 for one ordinary share, RUB 308.25 for one preferred share of the class “A1” and RUB 50.2 for one preferred share of class “A2”. The total amount of proposed dividend is RUB 3,850 million. This decision was approved by the shareholders' meeting and the dividends were paid in May 2011.

Treasury shares

During 2010 the Group purchased 180,492 preferred treasury shares of class “A1” representing 10.23% of such shares for the consideration of RUB 75 million. The Group sold 90,320 of these shares for a consideration of RUB 324 million with the result recognised in share premium in the statement of changes in equity. At the reporting date the Group held 90,172 preferred treasury shares of class “A1” representing 5.11% of such shares.

Special right of the Russian Federation for participation in governance of OJSC “Apatit”-“Golden share”

OJSC “Apatit”, a Group subsidiary belongs to a category of entities, where the government of the Russian Federation retained special voting rights after the entity's privatisation. These rights include a right to appoint one Federal representative to the Company's Board of directors and to the audit committee, right to call for extraordinary shareholder's meeting and a “veto” voting right in the shareholder's meeting in respect of certain issues as defined by the Federal Law on the “Privatisation of the Federal and Municipal property” and specified in the charter of OJSC “Apatit”. The “veto” voting right can be exercised in respect of the following issues:

- Making changes to the entity's charter;
- Reorganisation of the entity;
- Liquidation of the entity;
- Amendment of the entity's share capital;
- Approval of “significant transactions” and “transactions with interest”, as defined in the Russian Law on “Join stock companies”.

Additionally, the Government of the Russian Federation holds 26% of the ordinary voting shares (20% of all issued shares of OJSC “Apatit”).

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

24 Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2010	2009	2008
Weighted average number of ordinary shares in issue	10,647,708	10,647,708	10,647,708
Profit for the year attributable to ordinary shareholders of the parent, RUB million	10,578	6,381	27,576
Basic and diluted earnings per share, RUB	993	599	2,590

25 Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings. For more information about the finance leases, see note 27. For more information about the Group’s exposure to foreign currency risk, see note 29.

	Contractual interest rate	2010	2009	2008
		(RUB million)		
<i>Current loans and borrowings</i>				
Secured bank loans:				
RUB- denominated	Fixed at 2.0%-10.75%	1,944	632	3,606
USD-denominated	Variable at 1m LIBOR + 3.0%-3.3%	2,438	—	—
Unsecured loans:				
RUB-denominated, related parties loans	Fixed at 11%	—	250	—
RUB- denominated	Fixed at 2.1%-2.33%	229	—	—
RUB- denominated	Fixed at 8%-11.5%		1,143	40
USD-denominated	Fixed at 2.33%	674	—	—
Secured letter of credit				
EUR-denominated	Fixed at 0.9%-1.2%	31	—	83
Secured finance leases:				
USD-denominated	Fixed at 11.2-13.9%	187	123	114
Interest payable:				
USD-denominated		—	7	30
RUB- denominated		6	5	14
		5,509	2,160	3,887
<i>Non-current loans and borrowings</i>				
Secured bank loans:				
USD-denominated	Variable at 1m LIBOR + 3.7%	—	983	955
Secured letter of credit				
USD-denominated	Variable at 6m EURIBOR + 0.8%	—	334	325
EUR-denominated	Variable at 3m EURIBOR + 4.35%	1,855	—	—
EUR-denominated	Variable at 6m EURIBOR + 0.8%	337	—	—
EUR-denominated	Fixed at 0.9%	57	—	—
EUR-denominated	Fixed at 1.25%	596	—	—
Secured finance leases:				
USD-denominated	Fixed at 11.2%-13.9%	578	703	806
		3,423	2,020	2,086
		8,932	4,180	5,973

See note 15(b) and note 20 on the assets pledged as a security for bank loans.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

25 Loans and borrowings (Continued)

In addition to the pledges the loan agreements contain a number of restrictive covenants, such as maintaining a minimum turnover on the current account, limiting the maximum joint indebtedness and minimum total assets of several Group subsidiaries. The Group complied with these covenants during the year.

26 Defined benefit obligations

	2010	2009	2008
	(RUB million)		
Pension obligations, long-term	549	418	473
Post-retirement obligations other than pensions	382	228	217
	<u>931</u>	<u>646</u>	<u>690</u>

Defined benefit—pension plans relate to three subsidiaries of the Company: OJSC “Apatit”, OJSC “Ammophos” and JSC “Cherepovetsky “Azot”. The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in OJSC “Apatit”. This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in OJSC “Apatit” upon their retirement. All defined benefit plans are unfunded.

The movement in the defined benefit obligation is made up as follows:

	Pension obligation	Post-retirement obligation other than pension
	(RUB million)	
Present value of the defined benefit obligation at 1 January 2008	859	244
Interest cost	43	20
Benefit paid	(47)	(12)
Recognised actuarial (gains)/losses	(382)	(35)
Present value of defined benefit obligation at 31 December 2008	<u>473</u>	<u>217</u>
Interest cost	36	20
Benefit paid	(16)	(10)
Recognised actuarial (gains)/losses	(75)	1
Present value of defined benefit obligation at 31 December 2009	<u>418</u>	<u>228</u>
Interest cost	31	17
Benefit paid	(119)	(21)
Recognised actuarial (gains)/losses	219	158
Present value of defined benefit obligation at 31 December 2010	<u>549</u>	<u>382</u>

The key actuarial assumptions used in measurement of the defined benefit obligation are as follows:

	2010	2009	2008
Discount rate	7%	9%	9%
Future pension increases	6%	6%	7%

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

27 Leases

Finance leases

LLC “FosAgro-Trans”, a Group subsidiary, has entered into several agreements to lease 1,100 railway wagons. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2010		
	Minimum lease payments	Interest	Principal
	(RUB million)		
Less than one year	273	86	187
Between one and five years	615	189	426
More than five years	168	16	152
	<u>1,056</u>	<u>291</u>	<u>765</u>
	2009		
	Minimum lease payments	Interest	Principal
	(RUB million)		
Less than one year	227	104	123
Between one and five years	797	245	552
More than five years	195	44	151
	<u>1,219</u>	<u>393</u>	<u>826</u>
	2008		
	Minimum lease payments	Interest	Principal
	(RUB million)		
Less than one year	226	112	114
Between one and five years	870	298	572
More than five years	315	81	234
	<u>1,411</u>	<u>491</u>	<u>920</u>

Operating leases

During 2008-2010, LLC “FosAgro-Trans”, a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2010, which are recorded in the cost of sales, amounted to RUB 414 million (2009: RUB 453 million, 2008: RUB 467 million).

The non-cancellable operating lease rentals are payable as follows:

	2010	2009	2008
	(RUB million)		
Less than one year	278	262	181
Between one and five years	202	278	540
	<u>480</u>	<u>540</u>	<u>721</u>

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

28 Trade and other payables

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
Trade accounts payable	2,266	2,368	8,500
Advances received	1,970	1,892	786
Provision for litigation	—	—	1,992
Accruals	632	649	578
Payables to employees	590	591	546
Taxes payable	799	538	1,233
Payables to related parties	50	84	209
Dividends payable	2,611	31	123
Other payables	543	99	249
	<u>9,461</u>	<u>6,252</u>	<u>14,216</u>

In 2008 the Group was involved in litigation with one of its customers with respect to the sale of apatite concentrate. The court decisions of the first, second and third instance were in favour of the claimant. In 2009 the Group appealed these decisions in the Supreme Arbitration Court of the Russian Federation. The court supported the Group’s appeal and concluded that the matter should be re-examined in the court of the first instance. Following the decision of the Supreme Arbitration Court and management’s assessment of the claim the provision of RUB 1,992 million was released in 2009. In 2010 the claimant withdrew its claim against the Group.

29 Financial instruments

Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and Euro.

The Group has the following foreign-currency-denominated financial assets and liabilities:

	<u>2010 USD</u> <u>denominated</u>	<u>2010 EUR</u> <u>denominated</u>	<u>2009 USD</u> <u>denominated</u>	<u>2009 EUR</u> <u>denominated</u>	<u>2008 USD</u> <u>denominated</u>	<u>2008 EUR</u> <u>denominated</u>
	(RUB million)					
<i>Current assets</i>						
Receivables	1,978	184	1,566	393	888	465
Current investments	—	—	—	—	1,205	78
Cash and cash equivalents	180	7	614	95	8,168	966
<i>Non-current liabilities</i>						
Non-current loans and borrowings	(578)	(2,845)	(2,020)	—	(2,086)	—
<i>Current liabilities</i>						
Payables	(632)	(12)	(609)	(252)	(11)	(159)
Current loans and borrowings	<u>(3,299)</u>	<u>(31)</u>	<u>(130)</u>	<u>—</u>	<u>(144)</u>	<u>(83)</u>
	<u>(2,351)</u>	<u>(2,697)</u>	<u>(579)</u>	<u>236</u>	<u>8,020</u>	<u>1,267</u>

Management estimate that a 10% strengthening/(weakening) of the USD and EUR against Russian Ruble, based on the Group’s exposure as at the reporting date would have decreased/(increased) the Group’s net profit for the year by RUB 505 million, before any tax effect (2009: RUB 34 million, 2008: RUB (929) million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009 and 2008.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

29 Financial instruments (Continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(RUB million)		
<i>Fixed rate instruments</i>			
Long-term loans and promissory notes receivable	27	2,096	2,361
Short-term promissory notes	766	—	1,866
Letters of credit	64	—	—
Finance lease receivable	290	249	163
Short-term deposits	2,404	3,828	5,517
Other short-term loans and, at amortised cost	2,466	668	5,484
Long-term borrowings	(1,231)	(703)	(806)
Short-term borrowings	(3,071)	(2,160)	(3,887)
	<u>1,715</u>	<u>3,978</u>	<u>10,698</u>
<i>Variable rate instruments</i>			
Long-term borrowings	(2,192)	(1,317)	(1,280)
Short-term borrowings	(2,438)	—	—
	<u>(4,630)</u>	<u>(1,317)</u>	<u>(1,280)</u>

At 31 December 2010, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 46 million (31 December 2009: RUB 13 million, 31 December 2008: RUB 13 million).

Liquidity risk

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	2010							
	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
	(RUB million)							
Secured bank loans	4,382	4,452	4,452					
Unsecured bank loans	903	907	907					
Letters of credit	2,876	3,484	34	68	—	369	—	3,013
Interest payable	6	6	6	—	—	—	—	—
Secured finance leases	765	1,056	273	208	169	119	119	168
Trade and other payables	6,102	6,102	6,102	—	—	—	—	—
Financial guarantees given to related parties	1,779	1,779	1,779	—	—	—	—	—
	16,813	17,786	13,553	276	169	488	119	3,181

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

29 Financial instruments (Continued)

		2009						
	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
(RUB million)								
Secured bank loans	1,615	1,683	682	1,001	—	—	—	—
Unsecured bank loans	1,393	1,444	1,444	—	—	—	—	—
Letters of credit	334	549	39	39	39	39	39	354
Interest payable	12	12	12	—	—	—	—	—
Secured finance leases	826	1,219	227	215	207	168	207	195
Trade and other payables	3,231	3,231	3,231	—	—	—	—	—
Financial guarantees given to related parties	1,415	1,415	1,415	—	—	—	—	—
	<u>8,826</u>	<u>9,553</u>	<u>7,050</u>	<u>1,255</u>	<u>246</u>	<u>207</u>	<u>246</u>	<u>549</u>

		2008						
	Carrying value	Contractual cash flow	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
(RUB million)								
Secured bank loans	4,561	4,883	3,867	40	976	—	—	—
Unsecured bank loans	40	41	41	—	—	—	—	—
Letters of credit	408	643	105	38	38	38	38	386
Interest payable	44	44	44	—	—	—	—	—
Secured finance leases	920	1,411	226	226	222	219	203	315
Trade and other payables	11,651	11,651	11,651	—	—	—	—	—
Financial guarantees given to related parties	1,105	1,105	1,105	—	—	—	—	—
	<u>18,729</u>	<u>19,778</u>	<u>17,039</u>	<u>304</u>	<u>1,236</u>	<u>257</u>	<u>241</u>	<u>701</u>

Credit risk

At the reporting date there was a significant concentration of credit risk in respect to accounts receivable from related parties in the amount of RUB 9,234 million. Of this amount RUB 4,222 million were secured by a pledge of shares of OJSC “AgroGard-Finance”. Subsequent to the reporting date RUB 8,415 million has been repaid by related parties, see notes 21 and 32(ii).

At the reporting date there are no significant overdue trade accounts receivable.

Fair values

Management believes that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

30 Commitments

The Group has entered into a contract to purchase plant and equipment for RUB 7,446 million (31 December 2009: RUB 4,361 million, 31 December 2008: RUB 4,982 million).

See also note 7 describing sales restrictions on the domestic sales prices for apatite concentrate.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

31 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Taxation contingencies

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

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

During 2008, 2009 and 2010 several of the Group's subsidiaries were involved in litigation brought against them by the Russian taxation authorities. The most significant litigations relate to claims against OJSC “Apatit” for various taxes, interest and penalties relating to the 2001, 2002 and 2003 tax years. The initial amounts claimed by the Russian taxation authorities in respect to the 2001, 2002 and 2003 tax years were RUB 5,329 million, RUB 3,855 million, and RUB 4,325 million, respectively. These claims were examined by Russian arbitration courts of the first, second and third instance with decisions in favour of the Group. The claims relating to the 2001 and 2002 tax years were additionally heard by the Supreme Arbitration Court of the Russian Federation also with the decisions in favour of the Group. On the basis of management's assessment of conclusions progressively reached by the Russian arbitration courts over the period from 2008 to 2010, the Group did not recognise provisions against these claims in the years ended 31 December 2008, 2009 and 2010.

In a view of the positive court decisions, Group management has concluded that no provision is required.

Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigation with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management's position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

32 Related party transactions

Transactions and balances with associates

	2010	2009	2008
	(RUB million)		
Sales of goods and services	345	187	157
Purchases of goods and services	(2,076)	(1,564)	(1,204)
Receivables	131	53	44
Payables	(26)	(26)	—

Transactions and balances with other related parties

(i) Transactions with other related parties

	2010	2009	2008
	(RUB million)		
Assignment of receivables to a related party	1,561	—	—
Sales to related parties	563	563	2,236
Purchases of goods and services	(163)	(164)	(122)
Interest income from related parties	131	266	177

(ii) Balances with other related parties

	2010	2009	2008
	(RUB million)		
Long-term loans issued to related parties	—	1,280	1,047
Short-term loans issued to related parties	2,466	292	2,329
Short-term loans from related parties	—	(250)	—
Receivable for shares of OJSC “AgroGard-Finance”	4,222	4,222	—
Other receivables from related parties	2,546	1,080	1,666
Payables to related parties	(24)	(58)	(209)
Dividends payable to shareholders of the Parent	(2,094)	(2)	—

The balances due from related parties at 31 December 2010 include RUB 3,662 million of receivables from and loans issued to LLC “PhosAgro-Invest”, a related party. The loans and receivables were redeemed in full in March and April 2011. The remaining balance is represented with trade receivables from and loans issued to various entities of AgroGard Group and receivable for shares of OJSC “AgroGard-Finance”.

Receivables for shares of OJSC “AgroGard-Finance” were also redeemed in full in March and April 2011.

(iii) Key management remuneration

The remuneration of directors and other key management personnel amounted to RUB 271 million (2009: RUB 103 million, 2008: RUB 100 million).

See notes 16, 17, 21 and 23 and 29 describing other transactions with related parties.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

33 Significant subsidiaries

Name	Country of incorporation	Effective shareholding as of 31 December 2010	Effective shareholding as of 31 December 2009	Effective shareholding as of 31 December 2008
Ammophos, OJSC	Russia	94%	94%	95%
Apatit, OJSC ⁽¹⁾	Russia	58%	59%	52%
Balakovo Mineral Fertilizers, LLC	Russia	100%	100%	100%
Cherepovetsky Azot, JSC ^{(1),(2)}	Russia	69%	69%	62%
NIUIF, OJSC	Russia	94%	94%	94%
NW Nordwest AG	Switzerland	—	100%	100%
PhosAgro AG, CJSC	Russia	100%	100%	100%
PC Agro-Cherepovets, LLC	Russia	100%	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%	100%
FosAgro-Trans, LLC	Russia	100%	100%	100%
PhosAsset GmbH	Switzerland	—	100%	100%
PhosInt Limited	Cyprus	—	100%	100%
Region-Agro-Belgorod, LLC	Russia	100%	100%	100%
Region-Agro-Don, LLC	Russia	100%	100%	100%
Region-Agro-Idel, LLC	Russia	—	—	51%
Region-Agro-Kuban, LLC	Russia	100%	100%	100%
Region-Agro-Kursk, LLC	Russia	100%	100%	100%
Region-Agro-Lipetsk, LLC	Russia	75%	75%	75%
Region-Agro-Oryol, LLC	Russia	100%	100%	100%
Region-Agro-Stavropol, LLC	Russia	100%	100%	100%
Region-Agro-Volga, LLC	Russia	87%	87%	87%
FOSAGRO UKRAINE, LLC	Ukraine	—	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%	100%

(1) including non-voting preferred shares

(2) see note 16 on put-call option agreement on acquisition of shares in JSC “Cherepovetsky “Azot”.

Consolidation of OJSC “Apatit”

As at the reporting date the Group held 49.95% of ordinary and 85.48% of preferred shares in OJSC “Apatit”. The remaining ordinary and preferred shares are widely held. In accordance with the subsidiary’s charter, under certain circumstances, holders of preferred shares are entitled to vote in the meetings of the shareholders. As at the reporting date the preferred shares were non-voting. Management believes that the current shareholding allows the Group to exercise de-facto control over OJSC “Apatit”.

34 Acquisition of shares in subsidiaries

In 2008, the Group acquired an additional 11% of OJSC “Apatit” from third parties for a consideration of RUB 5,660 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 2,886 million was recognised in retained earnings.

In 2008, the Group acquired an additional 12% of OJSC “Ammophos” from third parties for the total consideration of RUB 1,847 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 633 million was recognised in retained earnings.

In 2009, the Group acquired an additional 6.60% of OJSC “Apatit” from third parties for a consideration of RUB 4,590 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 3,059 million was recognised in retained earnings.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

34 Acquisition of shares in subsidiaries (Continued)

In 2009, the Group acquired an additional 6.88% of JSC “Cherepovetsky “Azot” from third parties for a consideration of RUB 543 million. The excess of consideration paid over the share in net assets acquired in the amount of RUB 226 million was recognised in retained earnings.

35 Acquisition of LLC PC “Agro-Cherepovets”

In 2008, the Group entered into agreement to acquire 67% of the participation rights in LLC PC “AgroCherepovets” for RUB 1,089 million, payable in cash. The fair values of net assets of the acquired subsidiary were determined at the date of acquisition as follows:

	(RUB million)
Non-current assets	1,770
Property, plant and equipment	1,724
Investments	46
Current assets	325
Inventories	205
Trade and other receivables	110
Cash and cash equivalents	10
Non-current liabilities	328
Deferred tax liabilities	328
Current liabilities	181
Trade and other payables	181
Net identifiable assets, liabilities	1,586
Share in net identifiable assets, liabilities acquired	1,063
Goodwill/(negative goodwill) on acquisition	26
Consideration paid	1,089
Less cash acquired in a business combination	(10)
Net cash outflow	1,079

The aggregate value of goodwill recognised on the acquisition of all participation rights of LLC PC “Agro-Cherepovets”, including goodwill which was included into the carrying amount of investment in associate during 2007, was RUB 174 million.

Should the acquisition took place as at 1 January 2008, the Group’s consolidated revenue would have amounted to RUB 93,122 million and consolidated net profit would have amounted to RUB 32,674 million.

36 Events subsequent to the reporting date

See notes 21 and 23 for significant events which took place after 31 December 2010.

In March 2011, the rights of the holders of the preferred shares of the class “A1” and “A2” were amended as follows: the preferred shares are convertible into the same number of ordinary shares with the same par value based on the Board decision; the minimum annual dividend amounts to RUB 49 and RUB 50 for one preferred share of class “A1” and “A2”, respectively. The dividend is not cumulative. The dividend to holders of preferred shares is accrued upon discretion of the Board of Directors and General Shareholders’ meeting. However, if the dividend is not paid by the Company, preferred shares carry the right to vote in the annual shareholders’ meeting following the meeting when the decision on non-payment or partial payment of dividends has been taken.

In May 2011 the Board of Directors decided to convert “A1” preferred shares into ordinary shares.

OJSC “PhosAgro”
Notes to the Consolidated Financial Statements
for the year ended 31 December 2010 (Continued)

36 Events subsequent to the reporting date (Continued)

In May 2011 the Group entered into several bank loan facility agreements in total amounting to USD 650 mln. The facility is repayable from 2012 till 2014 and bears interest of Libor+2.1 to Libor+2.9. The bank commission associated with the borrowings amount to USD 0.75 million.

In May 2011 the Group entered into an acquisition agreement for 24% of ZAO “Metachem” for a consideration of USD 6 mln and 21.85% of ZAO “Pikalevskaya soda” for a consideration of USD 5 mln.

ANNEX 1—COMPETENT PERSON’S REPORT



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Date 16th June 2011

Dear Sirs,

Competent Persons Report of the Mining Assets of OAO PhosAgro, Russia

Purpose of Report

This report has been prepared by IMC Group Consulting Ltd ("IMC") for the inclusion in both a preliminary and final prospectus (the "Prospectus") to be published by OAO PhosAgro (the "Company") in connection with a global offer of global depository receipts representing the ordinary shares in the Company and the proposed admission of the global depository receipts representing the ordinary shares of the Company to the Official List maintained by the Financial Services Authority ("FSA") and the admission of such global depository receipts to trading on London Stock Exchange plc's main market for listed securities (the "Global Offer").

IMC was instructed by the Directors of the Company to prepare a Competent Person's Report (CPR) for the OAO Apatit ("Apatit") mining assets of the Company. This report, which summarises the findings of IMC's review, has been prepared in order to satisfy the requirements of a Competent Person's Report as set out in the European Commission's Regulation on Prospectuses No. 809/2004 in conjunction with the recommendations of the CESR updated with the ESMA guidelines of March 2011 and with the requirements the Prospectus Rules of the FSA (the "Prospectus Rules").

IMC has reviewed the practices and estimation methods undertaken by the Company for reporting reserves and resources in accordance with the Former Soviet Union's "Classification and Estimation Methods for Reserves and Resources", approved in 1981, and the "Methodological Recommendations for Classification of Hard Mineral Reserves and Prognostic Resources", updated in 2007, and submitted, as is mandatory, to the Ministry of Natural Resources of the Russian Federation. This procedure establishes the nature of evidence required to ensure compliance with the Classification. Within this is a "Conditions for Estimation of Reserves and Resources" unique to each deposit.

IMC has reviewed the reserves and resources statements of the individual units compiled by the Company and has reconciled and restated the reserves and resources in compliance with the recommendations of the CESR updated with the ESMA guidelines of March 2011 and in accordance with the criteria for internationally recognised reserve and resource categories of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" published by the Joint Ore Reserves Committee, as amended ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code"). In this report, all reserves and resources estimates, initially prepared by the Company in accordance with the FSU Classification, have been substantiated by evidence obtained from IMC's site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by the management of the Company and Apatit.

IMC has reviewed the information in the Prospectus which relates to Apatit extracted from our report and confirm that the information presented is accurate, balanced and complete and not inconsistent with the CPR and can conclude that there are no material omissions from the Prospectus and that the conclusions of the Prospectus conform to conclusions in the CPR.

No valuation of Proved and Probable Reserves has been included in the Scope of Works for this CPR at the request of the Company as Apatit forms only a part of the ZAO Phosagro operations.

Capability and Independence

This report was prepared by IMC, the signatory to this letter. The Project Director has 8 years experience of directing Competent Person's and Mineral Expert's Reports. He is qualified under the provisions of the ESMA guidelines Section 133 (i) (a) and in particular both subsections (1) and (2) as a Competent Person under the requirements of the JORC Code.

Details of the qualifications and experience of the consultants who carried out the work are in Appendix A to this report.

IMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to clients. IMC has received, and will receive, professional fees for its preparation of this report. However, neither IMC nor any of its directors, staff or sub consultants who contributed to this report has any interest in:

- The Company or Apatit; or
- the mining assets reviewed; or
- the outcome of any possible financing initiative.

Drafts of this report were provided to the Company, but only for the purpose of confirming both the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Scope of Work/Materiality/Limitations and Exclusions

IMC reviewed the assets in accordance with the scope of work set out in Appendix B to this report.

IMC has independently assessed the mining assets of the Company by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine ("LOM") plans relating to productivity, production, operating costs, capital expenditures and revenues.

All opinions, findings and conclusions expressed in this report are those of IMC and its sub consultants.

Inherent Mining Risk

Open pit and underground mining is carried out in an environment where not all events are predictable.

Whilst an effective management team can, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

Glossary of Terms

Defined and technical terms used in this report are set out in Appendix D.

IMC has given and not withdrawn its written consent to the issue of the Prospectus with its name included within and to the inclusion of this report and references to this report and the Prospectus. For the purposes of Prospectus Rule 5.5.3. R(2)(f), IMC accepts responsibility for the information contained in this report set out in this section of the Prospectus and those parts of the Prospectus which include references to this report and declares that IMC has taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

**Competent Persons Report on Mining Assets
Russian Federation**

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1 OVERVIEW

1.1 General

Phosagro operates a number of subsidiary companies with operational units and administrative centres. One such centre is OAO Apatit based in Kirovsk, Russia and reporting into a headquarters in Moscow. The Apatit operations include mines and facilities producing apatite, nepheline and syenite concentrates, which also contain rare earth compounds.

Currently all of the Company's ore reserves are at operational mines and is one prospect currently being evaluated. There are four open pits and two underground mines providing ore for two concentrators supported by ancillary railway, warehousing and explosives facilities.

All of the mines are extracting apatite from deposits in the Khibinsky intrusion, which is an alkaline igneous complex, circular in plan and measuring about 30 km in diameter. The intrusion consists of numerous varieties of nepheline syenite arranged in concentric cones around a central section of foyaite, containing xenoliths of carbonatite

1.2 Description of Assets

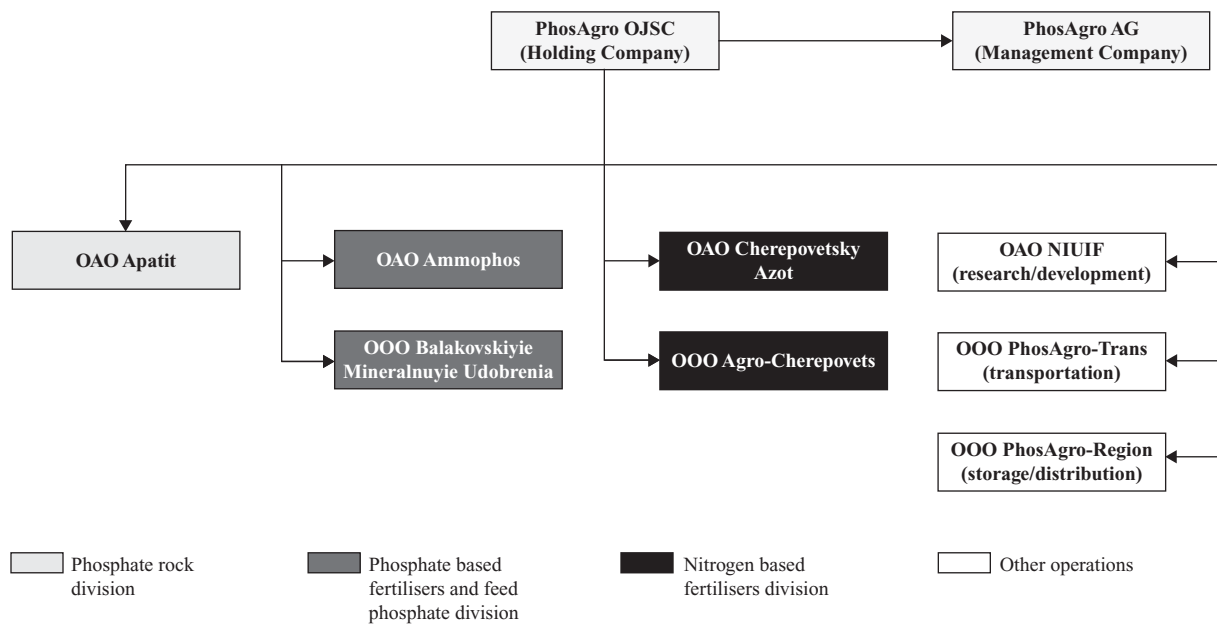
IMC reviewed the assets listed in Table 1-1 below all of which are wholly owned by Apatit and located as shown in Plate 1, Appendix C.

Table 1-1 List of Assets

<u>Asset</u>	<u>Status</u>	<u>Type</u>	<u>Product/Output</u>	<u>Date of Commencement of Operation*</u>
Mining				
Kukisvumchorr	Operating	Open Pit	Apatite, nepheline	1930
Joint Kirovsky	Operating	Underground Mine	Apatite, nepheline	1926
Rasvumchorr	Operating	Underground Mine	Apatite, nepheline	1954
Centralny	Operating	Open Pit	Apatite, nepheline	1964
Vostochny Koashva	Project	Open Pit	Apatite, nepheline	1978
Vostochny Njorkpahk	Project	Open Pit	Apatite, nepheline	1983
Processing				
ANOF 2	Operating	Concentrator	Apatite, nepheline, Syenite concentrate	1980
ANOF 3	Operating	Concentrator	Apatite concentrate	1988
Ancillary Facilities				
Central Railway	Operating	Railway System		1980
Explosives Centre	Operating	Explosives Service		1980
Central Warehousing	Operating	Materials		1980

1.3 Company Operational Interrelationship Structure

Figure 1-1 below shows a simplified OAO PhosAgro Company structure.



1.4 Summary of Geological Characteristics

The OAO Apatit apatite deposits are developed in the Khibinsky intrusion, which is an alkaline igneous complex, circular in plan and measuring about 30 km in diameter. The intrusion is located 200 km south of Murmansk and consists of numerous varieties of nepheline syenite arranged in concentric cones around a central section of foyaite, containing xenoliths of carbonatite. The intrusion is horseshoe shaped with the opening towards the east.

The ore mineralogy largely (95%) comprises apatite, nepheline, aegirine, sphene, feldspar and titanomagnetite with the remainder consisting up to 400 different mineralogical species, many of which are very rare. The apatite is associated with rare earth oxides and strontium, and the nepheline with rubidium, caesium and gallium.

1.5 Reserves and Resources

1.5.1 Categorisation of Reserves and Resources under JORC

The Russian Federation uses, by law, the classification system and estimation methods for reserves and resources established by the Former Soviet Union and last revised by the Ministry of Natural Resources in 2007. In practice, this means that the statements of reserves and resources developed by Apatite and the mining plans to which they relate must be submitted for approval to the corresponding committees of the Ministry of Natural Resources. Adherence to the standardised national system of reserves and resources estimation is mandatory.

As part of the exploitation licence for each mineral deposit, a set of Conditions for Estimation of Reserves were prepared by the corresponding national design institute and were approved by a State supervisory authority. The conditions apply a well-defined process of classifying the specific deposit into one of five major deposit categories, subject to which, the principles for exploration and classification of reserves and resources have been established. Reserves and resources are classified into five main classes and designated by the symbols A, B, C1, C2 and P1 and P2, based on the degree of reliability of exploration data. The P categories of resources are “prognosticated” and are considered equivalent to inferred resources.

The Conditions for Estimation of Reserves for each deposit specify the method of computation of reserve blocks, the minimum thickness for exploitation of the orebody and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties. With reference to these conditions, the reserves stated for each deposit are further categorised

as “balance reserves”, which means they meet the pre-determined criteria for economically justifiable extraction, or are “out-of-balance resources” considered to be uneconomic to exploit.

Mineral deposits in Russia are classified in terms of geological complexity according to the size, continuity and structural disposition of the deposit. With respect to the deposits in exploitation or planned for future operation by Apatite, three groups are of relevance:

- Group 1 deposits are large deposits, simple in form with uniform distribution of minerals. The highest confidence classes of reserves, A + B reserves, can be established on the basis of drillholes, trenches and trial pits.
- Group 2 deposits are large deposits with variable and sometimes complicated forms and an uneven distribution of minerals. Only B and C1 reserves may be defined based on exploration data, such as drillholes, trenches and pits, and higher confidence reserves classes can be established only by a combination of closely spaced drillholes and active exploitation.
- Group 3 deposits are smaller-sized deposits with uneven distribution of minerals (examples include vein-hosted or pegmatite deposits, skarns and dykes). Only C1 and C2 reserves may be defined based on exploration data and higher confidence reserves classes can be established only on the evidence of operational experience.

The classification of reserves and resources in higher confidence classes based on progressively higher density of observation points is broadly in line with Western resource categories. There is common consensus, supported by the experience of the Consultants, that the spacing of deposit definition points prescribed in the Soviet system is generally more exacting than commonly applies in Western exploration practice. The criteria for the classes of reserves and resources used in the Russian system may be summarised:

- Category A: the deposit is known in detail; boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.
- Category B: the deposit has been explored but is only known in fair detail; boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.
- Category C1: the deposit has been estimated by a sparse grid of trenches, drillholes or underground workings. The quality and properties of the deposit are known tentatively by analogy with known deposits of the same type and the general conditions for exploitation are known tentatively. This category includes resources peripheral to the boundaries of the A and B category and also reserves allocated in complex deposits in which the ore distribution cannot be reliably determined even by a very dense grid.
- Category C2: deposit deposition has been extrapolated from limited data. This category includes resources adjoining areas designated as A, B, and C1 in the same deposit.

After inspection of the Conditions for Estimation of Reserves which apply to the specific deposits under exploitation and exploration by Apatite, and the corresponding density of exploration data required for the classification of resources, the Consultants are of the view that classification of resources and resource blocks in the categories A, B, C1 and C2 is a reliable guide to the confidence for volumetric definition of resources in-place. The Conditions for Estimation of Reserves define cut-off grades and the density values employed for ore in-place. These appear consistent with the current commercial performance of the operations and a relevant guide to the commercial exploitability of these resources.

The computation method for reserves and resources is also specified in the Conditions for Estimation of Reserves for each deposit. This follows methods defined under the Soviet administration, for which the detail of the method depends on the geometry of the deposit. In all cases the computation method is designed to be performed manually. In recent years there has been increasing use of computers for developing graphical materials and also for modelling of deposits. Estimations generated by computer models are increasingly being generated in parallel with the official approved methodology.

The current management of resource extraction planning comprises a long-term strategic plan which establishes targets for ore production and ore grade, with allowance for standard dilution and losses, which are allocated on an annual basis to each production unit. It is the responsibility of each operating unit to prepare an annual exploitation plan to meet the strategic production target, within cost budget limits set by

the central organization of the Company. Reserve depletion is calculated on an annual basis, against the nominal reserves base, and reconciliation establishes reserves which may be required to be written off and restates the reserve base.

It is the opinion of IMC that this system represents a very traditional system of resource management as demanded by national legislation. The system is nevertheless a robust and reliable reflection of the utilisation and depletion of reserves and resources.

The Apatite mineral deposit volumes are estimated by the determination of the areas at specific levels and the multiplication of this area by the average thickness estimated from sections through the applicable area. The estimate of resource tonnage is obtained by multiplication of the estimated volume by the assumed specific gravity (SG) defined in the Conditions for Estimation of Reserves for each deposit for specific ore type and grade.

The Former Soviet Union system includes defined standards and procedures for exploration drilling and sampling as well as standards during subsequent development and during production. Drilling and channel sampling is carried out during development and samples analysed and included into plans. Similar standards and procedures are also defined for the production phase and channel samples in stopes, grab samples at loading points and from ore trucks are taken (usually at a weighbridge in the latter case). These are all analysed and, with check samples and blanks, sent for analysis. The results of the ore analysis are included in the plans.

IMC has reviewed the reserves and resources statements of the individual units and has reconciled and restated the reserves and resources in accordance with JORC as in Table 1-2 below. The alignments use the new “Guidelines on Alignment of Russian minerals reporting standards and the CRIRSCO Template” published jointly in 2010 by the Russian Federal Government Agency State Commission on Mineral Reserves and the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) as a guide but actual classifications are the judgement of the IMC geologist.

Table 1-2 Classification of Reserves/Resources and Relationship of FSU Categories with International Definitions

<u>FSU Reserve Category</u>	<u>Reserve blocks identified for extraction within Plans</u>	<u>Resources not allocated to detailed plans (may be scheduled in long-term strategic plans without cost support)</u>
A	Proved reserve	Measured resource
B	Proved reserve	Measured resource
C1	Proved reserve	Measured resource
C2	Probable reserve	Indicated resource
P1	—	Inferred resource
P2	—	—

1.5.2 Reserves and Resources Statement

All reserves quoted in tables in this report are discounted for ore losses and dilution. Resources are not discounted for losses and dilution and are inclusive of reserves. All figures in reserves and resources are in thousands metric tonnes and are as at 1st June 2011.

Table 1-3 below shows the reserves and resources of Apatite as at 1st June 2011.

Table 1-3 JORC Equivalent Reserves and Resources as at 1st June 2011

Mine	Category	Mineral Resources					Ore Reserves			
		'000t	P ₂ O ₅ %	Al ₂ O ₃ %	REO%	SrO%	Category	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Joint	Measured	807,979	14.61	14.07			Proved	378,655	12.67	13.99
Kirovsky	Indicated	161,348	13.56	14.42			Probable	74,817	11.76	14.34
LOM 20+ Years	Total	969,327	14.43	14.13	0.32	1.18	Total	453,472	12.52	14.05
Rasvumchorr	Measured	191,434	14.12	14.41			Proved	73,572	12.76	14.55
Underground	Indicated	103,769	13.35	14.16			Probable	34,294	11.56	14.31
LOM 20+ Years	Total	295,203	13.85	14.32	0.37	1.30	Total	107,866	12.38	14.47
Centralny	Measured	68,490	14.71	14.76			Proved	19,522	15.23	15.59
Open Pit	Indicated	49,703	13.41	14.16			Probable	247	24.52	14.22
LOM 4.9 Years	Total	118,193	14.17	14.51	0.37	1.31	Total	19,769	15.35	15.57
Vostochny	Measured	183,308	19.3	12.16			Proved	141,577	18.77	13.42
(Koashva)	Indicated	447,593	15.76	12.16			Probable	45,423	17.25	13.42
LOM 20+ Years	Total	630,901	16.79	12.16	0.41	1.53	Total	187,000	18.40	13.42
Vostochny	Measured	27,295	15.28	12.89			Proved	1,329	15.19	13.58
(Njorkpahk)	Indicated	32,998	14.46	12.83			Probable	1,974	14.5	13.55
LOM 0.9 Years	Total	60,293	14.83	12.86	0.41	1.53	Total	3,303	14.78	13.56
Vostochny	Measured	210,603	18.78	12.25			Proved	142,907	18.74	13.42
Total	Indicated	480,591	15.67	12.21			Probable	47,397	17.14	13.43
	Total	691,194	16.62	12.22	0.41	1.53	Total	190,304	18.34	13.42
PhosAgro	Measured	1,278,507	15.23	13.86			Proved	614,656	14.17	13.97
Total	Indicated	795,411	14.80	13.03			Probable	156,755	13.36	14.06
	Total	2,073,918	15.06	13.54	0.36	1.32	Total	771,411	14.01	13.99

1.6 Mines and Facilities

The Apatit operations comprise four surface mines and two underground mines. The two underground mines employ continuous block caving and sub level caving methods of mining. The open pits employ conventional shovel and truck operations. Ore from the mines is rail hauled to two adjacent concentrators producing apatite, nepheline and syenite concentrates, which also contain rare earth compounds, for subsequent in Company refinement or third part sales. Currently there are no facilities within Phosagro to isolate the rare earths.

The mines and concentrators are supported by a 220 km Company owned and run railways system with approximately 300 ore wagons and 60 electric locomotives. There is also a central explosives facility and warehousing function.

1.6.1 Historic Production Figures

Historic production figures are given below in Table 1-4 to Table 1-6 inclusive. IMC has reviewed the forecast production levels and found them to be reasonable and attainable.

Table 1-4 Historic Production

Mine	Year	Ore Production			Overburden	
		000't	P ₂ O ₅ %	Al ₂ O ₃ %	000'm ³	Stripping Ratio
Kukisvumchorr Open Pit	2008	1,058	14.02	14.81	178	0.17
	2009	1,229	12.95	15.46	185	0.15
	2010	1,234	12.03	16.02	141	0.11
	2011 (5m)	548	11.68	16.23	19	0.03
Kirovsky Underground	2008	9,830	13.22	15.30		
	2009	9,487	13.23	15.29		
	2010	10,137	13.26	15.27		
	2011 (5m)	3,959	14.04	14.80		
Rasvumchorr Underground	2008	3,297	12.83	14.64		
	2009	3,061	12.57	14.63		
	2010	3,640	12.91	14.53		
	2011 (5m)	1,471	12.89	14.47		
Centralny Open Pit	2008	5,418	11.61	15.76	10,732	1.98
	2009	4,958	11.55	15.65	12,178	2.46
	2010	6,197	12.07	15.48	15,397	2.48
	2011 (5m)	2,493	12.03	15.41	6,808	2.73
Vostochny Koashva	2008	2,837	15.2	13.97	12,941	4.56
	2009	1,869	15.71	13.44	13,333	7.13
	2010	2,622	15.91	13.41	14,291	5.45
	2011 (5m)	1,649	14.42	14.19	6,463	3.92
Vostochny Njorkpahk	2008	3,728	12.16	15.41	4,610	1.24
	2009	3,316	12.15	14.21	4,162	1.26
	2010	3,270	12.21	14.29	4,046	1.24
	2011 (5m)	1,102	12.23	14.25	918	0.83
Total	2008	26,168	12.93	15.16	28,461	2.18*
	2009	23,920	12.83	14.99	29,858	2.63*
	2010	27,100	13.01	14.95	33,875	2.54*
	2011 (5m)	11,222	13.21	14.82	14,208	2.45*

Note *Total stripping ratio is a weighted average for open pit mining

Table 1-5 Historic Apatite Production

Unit	Year	Milled '000t	P ₂ O ₅ %	Recovery %	Total Conc		Standard Conc		Super Conc		Tailings	
					'000t	P ₂ O ₅ %	'000t	P ₂ O ₅ %	'000t	P ₂ O ₅ %	'000t	P ₂ O ₅ %
ANOF 2	2008	13,702	12.84	88.76	3,909	39.20	3,661	39.14	248	40.15	1.92	
	2009	12,526	12.77	90.00	3,610	39.17	3,447	39.12	163	40.17	1.82	
	2010	14,205	13.01	89.97	4,166	39.19	3,945	39.14	221	40.16	1.86	
	2011 (5m)	5,595	13.36	89.86	1,679	39.22	1,573	39.16	106	40.14	1.96	
ANOF 3	2008	11,476	13.01	89.19	3,334	39.19	2,959	39.08	375	40.05	1.93	
	2009	11,728	12.84	90.36	3,409	39.16	3,159	39.09	250	39.98	1.78	
	2010	13,448	13.06	90.31	3,961	39.25	3,685	39.19	276	40.02	1.81	
	2011 (5m)	5,576	13.01	90.38	1,640	39.25	1,557	39.20	83	40.09	1.79	
Total	2008	25,178	12.92	88.96	7,243	39.20	6,620	39.11	623	40.09	1.92	
	2009	24,254	12.80	90.17	7,019	39.16	6,606	39.11	413	40.05	1.80	
	2010	27,653	13.03	90.14	8,127	39.22	7,630	39.16	497	40.08	1.84	
	2011 (5m)	11,171	13.19	90.12	3,319	39.23	3,130	39.18	189	40.12	1.88	

Table 1-6 Historic Nepheline and Syenite Production

Unit	Year	Feed '000t	Al ₂ O ₃ %	Total Concentrate '000t	Al ₂ O ₃ %	Nepheline Concentrate '000t	Syenite Concentrate '000t	Concentrate P ₂ O ₅ %
ANOF 2	2008	2,517	15.06	565.6	28.37	538.8	26.8	0.20
	2009	2,203	14.99	495.0	28.35	474.5	20.5	0.18
	2010	4,567	14.86	1,026.3	28.44	1,001.0	25.3	0.16
	2011 (5m)	1,919	14.58	431.1	28.33	419.9	11.2	0.14

1.7 Management and Manpower

IMC's personnel were in regular contact and held numerous discussions with Company management at various levels. IMC is satisfied that Apatit management is capable of implementing the proposed production plans based on this contact and on direct observations of operational management. The Company operates its management and financial programmes in accordance with International Financial Reporting Standards (IFRS) as part of a standardised electronic reporting system for health and safety, production and financial performance. The Company is focused in one location for its mining and concentrate processing operations under the control of a locally based directorate in Kirovsk. There are a limited number of new projects which are managed by a central projects department.

Changes to the approved reserve statements and to certain approved mine production and staffing plans must be submitted to and approved by the relevant government authorities. IMC is not aware of any refusals in the past and Apatit remains confident of obtaining this approval as and when necessary.

Apatit currently has a strategy of operating its mines at their existing steady state outputs to satisfy the capacities of the two concentrators, with the exception of Kirovsky which will increase production with the new ore shaft commissioning in 2013. Thus the management and manpower requirement of the Company are unlikely to significantly change.

The number of employees of Apatit at the start of each year, 2008 to 2011 is shown below in Table 1-7 below.

Table 1-7 Number of Employees 2008 to 2011

Manpower	2008	2009	2010	2011
Total Employees at the Start of Year	11,526	11,646	11,833	11,748

During the last three years the total number of personnel has been steady with turnovers as follows.

- 2008 4.85%
- 2009 3.21%
- 2010 4.07%.

Retirements are the major source of personnel turnover which can be expected where there is a dominant employer serviced by two fairly isolated towns.

Table 1-8 below shows the percentage distribution of personnel in each of the major categories together with their average ages. This average age can be considered to be comparable to other similar operations internationally.

Table 1-8 Breakdown of Employees by Category

Category	%	Average Age
Management	11.8	44.5
Professional	11.6	42.8
Administration	0.5	44.0
Production	76.1	40.7
Total	100	42.8

Professional training and upgrading of skills is undertaken via

- Vocational training of workers
- Upgrading of management staff and professionals skills.

Training and upgrading courses for the Company personnel are organized by a Training Centre with assistance of the Personnel Training Bureau. There are several types of vocational training including induction of new workers, re-training, second career and coordinating specialty training, production economics courses and specialized bespoke courses.

Training of the workers for specific operations (that require permits) is done at training centres with certification by Rostekhnadzor.

Mandatory training of managers and specialists includes:

- Permitting in the main areas of production and business activity;
- Training and certification of specialists responsible for the operation of facilities subject to supervisory control.

Training is provided by the leading training centres of Moscow, Saint-Petersburg, and Murmansk. During the last three years the number of Company employees who underwent the training is shown in Table 1-9 below.

Table 1-9 Historic Training Schedules

<u>Category</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Production	1,392	3,288	2,938
Technical and Engineering	752	505	623

1.8 Health and Safety

Apatit adheres to the Health and Safety Laws of Russia. Activity based risk analysis and work procedures are now required as part of the 2009 regulations which the Company is implementing.

The Company has a safety policy supported by regulations and standing instructions applying to all operations and job categories and which are updated every five years under the Health and Safety Laws of Russia. In addition, the Company is seeking accreditation according to integrated quality, environmental, health and safety management system OHSAS18001, where the initial criteria have been met and the training phase has commenced. Each facility has a health and safety programme for operational and technical issues and programmes are updated and re-issued at the end of each year. Each has a representative coordinating safety inspection and investigation teams compiling shift reports on all aspects of safety. Government safety inspections are carried out and reports made to the units. Internal reports are reviewed and actioned at regular production meetings.

The Lost Time Injury Frequency Rate is one of the parameters used to monitor safety performance in industry and is usually measured per 100,000 manshifts or one million manhours. Phosagro use a rate that is not comparable to other figures based per 1,000 employees.

The international standard for reporting of accidents is the 'Lost Time Incident Frequency Rate' (LTIFR) is per million man hours but the Company standard is per 1,000 employees on books. An Incident becomes registered as an LTI where any man loses a single shift which, is in line with internationally accepted procedures for LTI classification.

Apatit calculation method:

$$\text{LTIFR} = \frac{\Sigma \text{LTI} \times 1,000}{\text{Total Number of Men on Books}}$$

International calculation method

$$\text{LTIFR} = \frac{\Sigma \text{LTI} \times 1,000,000}{\text{Total Number of Man hours Worked}}$$

Similarly, the international calculation method for ‘Lost Time Incident Severity Rate’ (LTISR) is also based on million manhours worked.

$$\text{LTISR} = \frac{\Sigma \text{ Days Lost} \times 1,000,000}{\text{Total Number of Man hours Worked}}$$

IMC has converted the Company figures to the international standard per million man-hours worked for an easier industry comparison, shown below in Table 1-10 below.

Table 1-10 Health and Safety Statistics

	2008	2009	2010
Manpower	11,473	11,682	11,853
Total Accidents	27	29	29
Fatalities	13	3	5
LTI Frequency Rate	1.3	1.4	1.4
LTI Severity Rate	29.1	34.1	31.2

The LTIFR average for similar international mining operations is 6.26 per million man-hours worked. The Company is significantly better than the international average and the trend for the last three years is steady.

The LTISR is also better than other similar international mining operations.

Twenty one people involved in fatal accidents over the last three years can be considered to be high by international standards for operations of this size. In one incident in 2008, 12 people died in an explosion at Rasvumchorr mine. IMC understand that the Company has now banning the use of ammonium nitrate based explosives and has an initiative to introduce safer emulsion explosives. The five fatalities in 2010 were attributed to a fall of ground, transport, electrocution and a lifting device failure. Operational procedures have come under close scrutiny resulting high visibility Personal Protective Equipment being issued and the introduction of ongoing training programmes.

1.9 Regional Infrastructure

The Kirovsk and Apatite area is serviced by well developed road, rail and air transport networks and linked by Class 1 and 2 roads to the regional capital of Murmansk, 200 km to the north.

Communications are good with land, mobile and satellite telephone links and a postal service.

Water is supplied primarily by water abstraction from lakes and rivers but supplemented by boreholes at each one of the operational sites. Power is supplied to the all sites from two power stations via the centralised distribution system in Kirovsk.

1.10 Projects and Prospects

Currently all the Company’s ore reserves are at operational mines and there additional resources at Njorkpahk, and Centralny, which are currently being evaluated as prospects for either an open pit or underground mine projects.

1.10.1 Prospects

- Njorkpahk additional measured and indicated resources of 57,104 kt of an average grade of 14.84% P₂O₅ and 12.86% Al₂O₃. The mining options are currently being evaluated.
- Centralny additional measured and indicated resources of 99,960 kt of an average grade of 14.18% P₂O₅ and 14.51% Al₂O₃ are allocated to Centralny mine. The mining options are currently being evaluated for a possible extension of mine life.

1.11 Environmental Issues and Environmental Permitting

1.11.1 Legislation

The primary legislation governing the exploitation of mineral deposits is the Federal Law on Subsoil, which establishes the basis for the issuing exploration and mining licences and defines the concept of the rational use of resources. Environmental regulation applied through all phases of exploration, mining and processing is established in the Federal Law on Environmental Protection 2002 and administered by the Ministry of Natural Resources (MNR). Regulatory procedures, quality standards and requirements for land restoration are provided in Primary articles of legislation, the most relevant of which include Federal Laws and their amendments on:

- Protection of the Air, 1999.
- Waste Production and Consumption, 1998. The Water Code, 2006.
- The Land Code, 2001.
- The Forest Code, 2006.
- Production and Consumption of Waste, 1998.
- Protection of the Sanitary, Epidemiological and Health of Citizens, 1999.
- Licensing of Activities.

To IMC's knowledge there are no forthcoming changes or additions to the existing legislation likely to have material effect on the current and proposed operations.

Numerous Decrees and subsidiary regulations support the primary legislation. Of particular relevance is the Federal Decision concerning the norms for payments for use of the environment in terms of emissions to air from stationary and moveable sources, discharge of polluting matter into water objects and the production and placement of dangerous waste materials.

A key element of the project initiation phase is the OVOS process as defined in the Regulation on Environmental Impact Assessment of Planned Economic and Other Types of Activity, 2000; equivalent to the international Environmental and Social Impact Assessment (ESIA) procedure. The draft OVOS is subjected to peer review before implementation according to the Federal Law on Ecological Expertise, 1995.

Licences provide a general right to utilise natural resources, including emission or discharge of controlled substances whereas permits give detailed conditions relating to the emission or discharge. The terms and conditions attached to each mining licence generally specify the need to conform to statutory procedures, to ensure adequate environmental protection and safety measures and for rehabilitation of the site after cessation of mining. Breach of these conditions may in theory lead to suspension of the licence or difficulty in renewal.

The overall regulation of environmental issues at regional level, including approval of permits and licences, is under the authority of Rostekhnadzor, the Federal Department for Ecological, Technical and Atomic Supervision. Planned environmental management and monitoring activities must be submitted annually by the mines and approved by Roztekhnadzor.

Permissions to discharge polluting substances to the atmosphere and water objects, the generation and placement of waste materials are issued on the basis of Technical Projects prepared by specialist companies which establish the normative discharge levels of a wide range of substances for a particular operation. Any substantial modification to the operational design must be supported by an amended Project, which in any case must be revised every 5 years.

Monitoring is undertaken to assess compliance with the permit conditions and environmental taxes are paid each quarter according to the actual emissions, discharges and waste and their hazard classification. Exceeding the permit conditions does not necessarily constitute a legal offence, nor does it necessarily result in an adverse environmental impact; minor transgressions merely incur additional taxation based on a higher unit rate for the excess.

Environmental standards, maximum acceptable concentrations (MACs), are specified in normative documents including ambient air quality, workplace air, water quality, soil and vegetation. Where a direct

comparison is feasible, Russian MACs are invariably at least as stringent as international environmental quality standards such as those adopted by the World Bank Group and World Health Organisation.

1.11.2 Status

Apatite and nepheline minerals have been mined for over 70 years in the vicinity of Apatity and Kirovsk towns, which lie in the Khibinsky mountain range, Murmansk Region of the Kola Peninsula. A relatively large area of land has been disturbed as a result of historical activities and current mining and processing operations. However the activities have not excluded land from other purposes. There are no areas of special conservation or protection likely to be influenced by the operations.

Surface and underground mining at numerous sites, processing of the ores together with ancillary operations have potential for impact on the nearby communities and the local environment, particularly with respect to air and surface water quality. The risks are minimised by use of appropriate measures for dust control, water treatment and storage of mining and processing waste materials. There is ample capacity for future storage of tailings waste.

The Company has established an environmental protection department based on the requirements of environmental legislation in Russian. This includes a comprehensive monitoring system incorporating air emissions, air quality, water discharges, river water quality and ground water as well as the safety of hydro-technical facilities. The standards for certain parameters in water discharges and ground water are exceeded although any impact appears to be minor and localised. The company's 2011 management plan includes measures to improve the efficiency of water treatment systems.

On the evidence provided, IMC found the operations to be in general compliance with the requirements of the environmental legislation. With the exception of a permit for discharge of water, the company has the necessary environmental permits, agreements and licences. A project for specifying the water discharge limits has been submitted for approval to the supervisory agency and a permit is expected in the near future. The company complies with the terms of the permits except for some relatively minor items and has not received any significant fines or penalties in recent years.

As a result of site observations and information provided, IMC believes that there are no outstanding major environmental liabilities and no factors likely to materially affect this valuation under current Russian legislation.

1.11.3 Rehabilitation

1.11.3.1 Progressive

Overburden, mining waste and process tailings are stored according to approved designs and regulations. Some in-pit dumping of rock is carried out which minimises land disturbance and future restoration costs. Facilities are installed to protect mines and storage facilities from high water flows and also to prevent pollution from storage areas entering surface and ground waters.

Ongoing rehabilitation includes dust suppression at the tailings storage facilities by cultivation the completed dam walls. Non-process waste materials are collected and stored temporarily before removal by specialist organisations.

Processing plant ANOF 1 ceased operating more than 10 years ago and is scheduled for demolition followed by land clearance and levelling. The land previously allocated to storage of ANOF 1 tailings is partially occupied by tailings of ANOF 3 plant, but areas not used by ANOF 3 have self vegetated. Depending on the extent of reclamation and final objective, decided jointly with the city administration, the restoration is estimated at RR 15 to 25 M.

1.11.3.2 Closure rehabilitation

The mine designs include preliminary concepts on restoration activities with an assessment of their financial feasibility. Restoration of all the facilities involved in the operation is not planned until after 2031.

Despite the relatively long timescale, it is necessary to establish a mechanism for funding in line with international requirements. A design for a 15 year expansion of the existing tailings storage of ANOF 2 has been developed. When this is implemented, some 345 Ha of land occupied by the current tailings facilities will be liberated and require cultivation at an estimated cost of RR207 M. The requirements for restoration upon closure of the ANOF 2 and ANOF 3 tailings storage facilities are not known at this stage

and the costs involved difficult to estimate. However, given the large areas involved the cost for full technical and biological measures, if necessary, will be a substantially higher amount.

1.12 Statutory Authorisations and Licensing

A registered ‘Sub-soil Use Contract’ is required to be entered into with the relevant governmental body for all commercial sub-soil use, exploration and/or exploitation operations in Russia under the Sub-soil Law.

IMC reviewed the statutory authorisations for the mines and operations and a summary of the status is given in Table 1-11 below. IMC believes all licences and permits are in place and correctly located but has not proven the legal title.

Table 1-11 Statutory Authorisations—Principal Sub-Soil Operations

Deposit	Licence No and Date	Type of Licence	Date of Issue	Date of Expiry
Kukisvumchorr and Yukspor	MYP No 00465 TЭ	Mining of Apatite—Nepheline Ores	02/11/1999	31/12/2014
Apatitovy Cirque and the under the pit section of Plato Rasvumchorr	MYP No 00468 TЭ	Mining of Apatite—Nepheline Ores	02/11/1999	31/08/2013
Plato Rasvumchorr	MYP No 01853 TЭ	Mining of Apatite—Nepheline Ores	02/02/2000	31/05/2014
Koashva	MYP No 00467 TЭ	Mining of Apatite—Nepheline Ores	02/11/1999	31/12/2014
Njorkpahk	MYP No 00466 TЭ	Mining of Apatite—Nepheline Ores	02/11/1999	31/12/2014

1.13 Costs

Phosagro has six mining operations, two underground mines and four open pits. In the model provided to IMC each open pit is accounted separately and the two underground operations are accounted as one where each location is treated as a cost centre. However, IMC understands that each mine and open pit is accounted separately within the “Oracle” Company management information system.

There are two processing operations which receive ore from a mix of the mines. Each processing plant is separately costed and input from the mines is shown as an internal raw material cost. Thus, the total costs from the processing plants amount to the total cost of production of phosphate concentrate.

The Company has provided IMC with recent management accounts and a model of estimated future outputs, costs and capital expenditure. These have been the basis of analysis.

1.13.1 Capital Expenditure

Table 1-12 below shows the capital expenditure for the period 2008 to 2010.

Table 1-12 Historic Capital Expenditure

Year	Capital Expenditure (RUR M.)
2008	3,700
2009	4,935
2010	5,103

Capital expenditure for the future has been provided by the Company in general terms only, as part of the business plan financial model, as one total sum, under the heading Capital Investment Programme (CIP). However, this has been supported by a detailed schedule of items by year. Review of this document indicates that the Company has provided for regular replacement of general mining equipment (excavators, dump trucks etc.) as well as capital for major infrastructure projects to maintain and increase output as necessary.

It is evident that the future programme continues recent trends. This reflects a steady-state operation which does not anticipate any major changes in structure or any major step changes in production or production technique.

1.13.2 Operational Expenditure

There are six cost centres for what are, effectively seven operations. Each open pit is separately accounted but the two underground operations are costed together. Thus, it is not possible from the records shown to see whether the underground operations are cross subsidised.

All mines send output to the two processing plants in quantities that suit the individual operations, to minimize logistic costs and to provide the final outputs that are anticipated as being optimal. Costs of these inputs are charged to the processing plants as internal raw material and the total cost of production appears in the total cost of the processing plants.

Table 1-13 below shows the direct cash cost per tonne of concentrate produced for the period 2008 to 2010. To make some allowance for inflation, 2008 and 2009 costs have been inflated by 12% and 10% in relevant years.

Table 1-13 Historic Direct Operational Expenditure

<u>Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actual direct cash cost of concentrate (RUR/tonne)	1,523	1,888	1,836

These results are typical of an established and stable operation with the somewhat higher figure in 2009 as a consequence of reduced output rather than loss of control of costs. Many of the operations making up the Company have significant fixed costs elements that mean that changes in output have little effect on total cost.

It is important to note that this is the direct production cash cost. Typically, the Company incurs additional costs in sales and general administration costs, royalties and other costs. The total cost per tonne of concentrate in the 2008 to 2010 period is shown in Table 1-14 below.

Table 1-14 Historic Total Operational Expenditure

<u>Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total cash cost of concentrate (RUR/tonne)	1,826	2,556	2,629

Within the figures quoted above, there are variations in mining cost between the five operations that seem significant and suggest that some mining operations are not contributing as much to a maximization of profit. For example, although the average mining cost in 2010 is about RUR 427 /t, this ranges from RUR 204 to 563 /t, depending upon the source of the ore, the most expensive not being from underground as might be expected. It should be further noted that these costs do not take account of any credit that can be gained from the sale of nephilite.

1.14 Financial Analysis

The Company has provided a model of future outputs, costs and capital expenditure. This is a high level model which has a fixed cost base of wages, sales and administration costs etc., a royalty payment and variable costs driven by output or throughput at each location. These costs are generally in line with recent year's performance except that from 2011 there is a marked drop in SG&A costs by some 50% from typically RUR 7.5 M in 2010 to about RUR 4.5 M in 2011 and onwards.

Going forward, both fixed and variable costs are adjusted based upon planned outputs.

Inflation has been applied so that the costs are real costs. IMC considers that generally acceptable levels of inflation have been applied.

1.14.1 Risks and Synergies

Section 4, Special Factors, refers to aspects of the business which may materially affect IMC's view of capital and operational costs.

- Wage inflation;

- Escalation of electricity and transport tariffs; and
- Oil and oil products cost inflation.

1.15 Sales and Marketing

The grade of the apatite concentrate produced is 39% P_2O_5 , which is high by international phosphate rock standards and low in deleterious impurities and there is even a portion of super concentrate produced with a 40% P_2O_5 content. The Phosagro group is also a significant producer of fertilisers utilising half its own phosphate rock together with other reactants and ingredients for fertiliser production, accounting for over half of final sales production. The balance is sold as concentrate to other customers including considerable amounts of exports.

The nepheline concentrate contains 28% alumina and high levels of alkalis. However, it also contains 2.1 to 2.5% Fe_2O_3 and 0.5 to 1.5% FeO , which is well above levels that are required for use in ceramics and glass, but acceptable in the production of alumina. A syenite concentrate with 26 to 28% alumina also has high levels of iron at 2.18 to 3.5% Fe_2O_3 and 0.9 to 1.2% FeO .

1.16 Conclusions

IMC concludes from the independent technical review that:

- management's geological and geotechnical knowledge and understanding is of a satisfactory level to support short, medium and long term planning as appropriate and operations are well managed at an operating level;
- the mine plans appropriately consider geological and geotechnical factors to minimise mining hazards;
- all licences and permits are in place for continued operation and where required there is a reasonable expectation renewal;
- Apatit's mining equipment (either in place or planned in the capital forecasts) is suited to its mine plans and is adequate, with minor adjustments, for the production plans;
- Apatite-nepheline ore processing and other infrastructure are capable of continuing to supply appropriate quality concentrate products to the markets or for secondary refining within other Company facilities at the forecast production plans;
- After conversion to the international format the LTIFR can be seen to be better than other comparable operations. The LTISR is also better but the number of fatalities is worse than other comparable activities.
- environmental issues are well managed and there are no issues that could materially impede production nor are any prosecutions pending;
- the assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- capital and operating costs used in the financial model reflect the mine plans and development schedules and the forecast production levels;
- special factors identified by IMC are well understood by management and appropriate action to mitigate these risks is being taken. Further, the mine plans and cost forecasts appropriately account for these risks; and
- management operates a management accounting system and are able to monitor and forecast production and cost parameters. Management are updating the management accounting systems to IFRS over the short term.

2 OAO APATIT

2.1 Maps and Plans

Plate 2	Cross Section of the Regional Geology
Plate 3	Kirovsky Mine Plan
Plate 4	Kirovsky Mine Cross Section
Plate 5	Rasvumchorr Mine
Plate 6	Rasvumchorr Mine Cross Section
Plate 7	Centralny Open Pit
Plate 8	Vostochny (Koashva and Njorkpahk) Open Pits
Plate 9	Vostochny (Njorkpahk) Open Pit

IMC visited all of the operations between January and April 2011.

2.2 Geology

The OAO Apatit apatite deposits are developed in the Khibinsky intrusion, which is an alkaline igneous complex, circular in plan and measuring about 30 km in diameter. The intrusion is located 200 km south of Murmansk and consists of numerous varieties of nepheline syenite arranged in concentric cones around a central section of foyaite, containing xenoliths of carbonatite. The intrusion is horseshoe shaped with the opening towards the east.

The OAO Apatit deposits are the final differentiate of an alkaline magmatic melt intruded as shallow-dipping (30-40 degrees) stratiform horizons between rischorrite (hanging wall) and ijolite/urtite (footwall) zones to the south the central foyaite zone. Ijolite is named after a locality in Finland, while urtite (containing 80% nepheline) and rischorrite (containing 20% poikilitic nepheline) are named after mountains on the Kola Peninsula. Fenites are developed around the periphery of the Khibinsky intrusion, the result of metasomatic alteration of the host gneisses. The apatite deposits are overlain by 70-90 m of water-bearing glacial moraine, with implications for open pit drainage.

The ore mineralogy largely (95%) comprises apatite, nepheline, aegirine, sphene, feldspar and titanomagnetite with the remainder consisting up to 400 different mineralogical species, many of which are very rare. The apatite is associated with rare earth oxides and strontium, and the nepheline with rubidium, caesium and gallium.

The OAO Apatit apatite deposits are grouped contiguously as follows (from west to east) with a combined strike length of 17,200m and maximum vertical persistence of about 1,000 m:

South West Orebody:

- Kukisvumchorr and Yukspor deposits. Both deposits are worked through the Kirovsky underground mine. There is a small remnant open pit reserve at Kukisvumchorr that will be mined out in 2011;
- Apatitovy Cirque and Plato Rasvumchorr deposits. Both deposits are worked through the Rasvumchorr underground mine. The Apatitovy Cirque open pit was mined out in 2001, while the design institute Gyproruda is re-designing the current Plato Rasvumchorr open pit as a larger Central Open Pit following recent exploration in the area. This re-design should be completed in 2012.

South East Orebody:

- Koashva and Njorkpahk deposits, (the latter comprising the Njorkpahk proper and Suoluayv open pit mines) both worked open pit. Options for future open pit or underground mining at Njorkpahk are currently being examined and should be completed in 2011.

The celebrated Russian geologist AE Fersman, after whom the Mineralogical Museum in St Petersburg is named, discovered the deposits in 1920. They have subsequently been mined over many years, with the thicker parts extracted in open pits, some of which are now worked out. The remaining part of the South West Orebody consists of a single orebody about 80 m thick that thins down dip. The South East Orebody is much less persistent and now comprises many orebodies 10-60 m thick that also thin down-dip. The rischorrite hanging wall is sharp and visually distinct against the orebody, and sometimes marked by zone of ijolite/urtite enriched in sphene. The ijolite/urtite footwall is defined by a gradational falling of P_2O_5 grade in the apatite orebody.

The geological structure and orebody morphology of the South West deposits (classified as being of Group 1 Complexity) is simple and very well established. The orebody morphology of the South East deposits (classified as being of Group 2 Complexity) is more varied and less persistent. All of the deposits have been extensively explored with ongoing operational exploration providing detailed geological interpretation.

The SW deposits comprise a single shallow-dipping phosphate horizon, whereas the SE deposits comprise many pinching and swelling horizons. All of the deposits thin with depth. The six deposits have the approximate current dimensions and persistence with depth shown in Table 2-1 below.

Table 2-1 Ore Body Dimensions

Deposit	Strike Length (m)	Orebody Thickness (m)	Depth below Lowest Level or Pit Base (m)
Kukisvumchorr	2,300	100	700
Yukspor	3,200	80	670
Apatitovy Cirque	2,900	60-80	360
Plateau Rasvumchorr	2,800	20-60	760
Koashva	4,000	10-60	870
Njorkpahk	2,000	10-60	45

2.2.1 Exploration

The six apatite deposits have a common exploration history with almost all of the preliminary exploration being from exploration (core) drilling undertaken from 1930-50 and continuing in the 1960s. Some 200-300 holes were drilled over each of the six deposits. Current exploration comprises operational exploration for the purpose of orebody definition (some 200-300 holes per deposit) along with closely spaced blast hole drilling, for occasional (footwall) grade control. All major underground development and production faces are chip sampled to produce samples weighing 200-300 g for analysis.

Historic exploration drilling was done using Russian manufactured ZIF 300, 650 and 1,200 type machines with drill hole diameters of 59 mm. Until 1953, drilling was done using steel balls added to the drill hole (an outdated practice). Subsequently, hard alloy and diamond bits were used. Current operational exploration is by vertical cored holes 59 mm in diameter at a spacing of 25-50 m (depending on geological complexity) and typically 50 m deep. Blast holes are typically on a 4 m grid and 15 m deep, but these holes are not normally sampled.

Average core recovery was 85-90% in the orebody. If core recovery was unsatisfactory (less than 80%), the hole was drilled again. Shorter core runs were made in fractured ground.

2.2.2 Nature of Evidence

Experienced geologists described the cores in detail including drilling interval, geological description, percentage recovery, structure, texture, sampling details, chemical analyses and drawings of the core. Results were recorded in special registry books, according to established practice in the Soviet Union.

Cores were split longitudinally using hand methods and, later, a core breaker with half core being retained for physical and technological testing and check assaying. Samples were taken as dictated by the geology, and averaged 3 m in length. In current operational exploration, the whole core is sampled with samples not more than 3m long. Core sample duplicates are retained.

Sample preparation and processing techniques followed standard procedures established for the deposits. This involved crushing 4 kg samples from 59 mm diameter holes to -2.5 mm. These were successively reduced by splitting, and then ground to -1 mm using a disc mill to produce samples for analysis.

All historic (and current) exploration samples were analysed at the Murmansk Geological Expedition Laboratory (the oldest Expedition in Russia) for P_2O_5 , Al_2O_3 , Al_2O_3 (acid soluble) and TiO_2 with analyses also being made for SrO, REO (rare earth oxides) and Th. The apatite, nepheline and titano-magnetite contents of the ore were estimated, based respectively on the P_2O_5 , Al_2O_3 (acid soluble) and TiO_2 analyses. The rare earths, which were considered confidential data until 2004, are not individually reported and are contained within the apatite crystal lattice.

5-10% of samples were sent for internal and external check analysis. No details were seen of the results of these check analyses but these were reported to be satisfactory.

Current analytical methods comprise “express analysis” by neutron activation at mine site laboratories, with one in five holes (20%) being checked by wet chemical methods (titration) at the company’s No 2 Processing Plant. Phosphate ore in rail cars is analysed for P_2O_5 by γ geophysical measurement.

Historic drill holes were surveyed for location to within 1m and for altitude to within 0.2 m. Inclined holes are surveyed at approximate 25 m intervals down the hole for direction (azimuth) and inclination. Topographic plans at 1:5,000, 1:2,000 and 1:1,000 scales were produced for base plans, cross sections and for resource estimation purposes. Current operational exploration holes are vertical and are not surveyed down the hole.

A total of approximately 200-300 historic drill holes were drilled over each deposit. Holes were positioned along profiles set 64-100 m apart (depending on the geological complexity of the deposit and whether it was to be mined underground or open pit) with the objective of achieving intersections 100-300 m apart over most of the orebody with wider spacing (up to 350 m) on the periphery and in down-dip extensions.

Holes (most of which were inclined and shallowed slightly with depth) were sited so as to intersect the orebody at 90 degrees to the strike direction.

The average specific weight of the ore was initially estimated from drill core samples. It is now well established from operational experience.

The results of the exploration over the six deposits were presented to the GKZ (State Commission on Mineral Reserves) most recently between 1983 (for Apatitovy Cirque) and 2005 (for Kukisvumchorr and Yukspor) as part of the resource re-estimation approval process. No other formal audits or reviews have been undertaken.

The integrity of the original resource estimation data will have been audited and approved under appropriate GKZ guidelines. With the exception of the Apatitovy Cirque deposit, this data is largely in electronic format although no geological models exist. The original GKZ plans and cross sections have been progressively modified with the mining of the deposits and are used as working documents.

2.2.3 Historic Resource Assessments

The OAO Apatit mines have been operating over many years over which time their resources have been modified annually to take account of depletion (through production) and resource addition or category change as a result of exploration, and duly reported to the GKZ in the official 5GR Form. In some cases the resources have subsequently been re-estimated and re-registered with the GKZ. The dates of the original resource estimate (or initial mine production), and the dates of the latest resource re-estimate and establishment of cut-off criteria are summarised in Table 2-2 below.

Table 2-2 Resource Assessment Dates

<u>Deposit</u>	<u>Original Estimate</u>	<u>Latest Update</u>	<u>Latest Cut-off Criteria</u>
Kukisvumchorr	1985	2005	1990
Yukspor	1980	2005	1980
Apatitovy Cirque	1983	1983	1981
Plato Rasvumchorr	1964*	2001	1981
Koashva	1978*	1986	1985
Njorkpahk	1984*	2004	1975

Note * Start of mining operations

OAO Apatit is in the process of developing pre-feasibility studies (TEO) for all of its deposits for the purpose of establishing new cut-off grade criteria and re-estimating resources for GKZ approval. The Plato Rasvumchorr deposit will be the first to be re-estimated.

The OAO Apatit resources were estimated by “traditional” methods using cross-sectional projections, with estimation profiles at the separations shown in Table 2-3 below.

Table 2-3 Cross Section Separations

<u>Deposit</u>	<u>Separation (m)</u>
Kukisvumchorr	64
Yukspor	72
Apatitovy Cirque	64
Plateau Rasvumchorr	100
Koashva	100
Njorkpahk	100

This cross-sectional estimation method is considered satisfactory since the deposits have fairly simple geometries and grade distributions, although geological block models would assist in resource re-estimation using different cut-off criteria. OAO Apatit has AutoCAD software that it uses for mine planning.

Grade and other cut off criteria applied in the resource estimates are shown in Table 2-4 below.

Table 2-4 Cut Off Grade Criteria

<u>Deposit</u>	<u>Type</u>	<u>Date</u>	<u>P₂O₅%</u>			<u>Minimum Ore Thickness (m)</u>	<u>Maximum Waste Thickness (m)</u>
			<u>Sample Grade %</u>	<u>Block Grade %</u>	<u>OOB* Grade %</u>		
Kukisvumchorr	Open Pit	1990	4	8.1	2	8	10
Kukisvumchorr	Underground	1990	4	8.1	2	8	10
Yukspor	Underground	1980	4	8	2	8	10
Apatitovy Cirque	Underground	1981	4	8.4	2	8	10
Plateau Rasvumchorr	Open Pit	1981	4	8.4	2	8	8
Plateau Rasvumchorr	Underground	1981	4	8.4	2	8	10
Koashva	Open Pit	1985	4	7	2	6	6
Koashva	Underground	1985	4	7	2	6	8
Njorkpahk	Open Pit	1975	4	10	2	5	5
Njorkpahk	Underground	1975	4	10	2	6	6

Note * Out of balance ore

As can be seen, these cut off criteria have remained unchanged in some deposits for over 35 years. A new pre-feasibility study (TEO) is being prepared for the Plateau Rasvumchorr deposit in order to establish new cut-off criteria and as a preliminary to estimating and registering a new resource estimate. The Koashva, Kukisvumchorr, Yukspor, Njorkpahk and Apatitovy Cirque deposits will follow in this process.

In 1998, OAO Apatit applied to the GKZ to raise the sample cut-off grade for underground operations from 4% P₂O₅ to 8% P₂O₅, but this was refused. In fact, OAO Apatit mines and stockpiles out of balance (low-grade) ore at Koashva with an average grade of 3.13% P₂O₅, blending it with higher-grade material when possible. This low-grade material containing between 2% P₂O₅ and 4% P₂O₅ forms a continuous horizon up to 20 m thick in the footwall of the apatite orebodies. In the 1930s, when the mines first began operating, the cut-off grade was 18% P₂O₅.

Following established Soviet practice, the resources were originally classified into the following categories according to the distance between the exploration drill holes:

- A 150 m by 100 m;
- B 250 m by 200 m;
- C1 300 m by 250 m; and
- C2 350 m by 300 m on the flanks of the orebodies and in their down-dip extensions.

The original resources have been progressively promoted to higher categories with the inclusion of operational exploration drill holes, typically drilled on a 50 m grid in the open pits in the simpler SW Orebodies but at 25 m by 30 m in the more complex SE Orebodies. Underground operational exploration drilling is typically at 50-70 m spacing in roadways. Blast hole drilling is typically on a 4 m grid.

OAO Apatit reportedly carries out reconciliations between resource estimates and production data that show “good agreement” for tonnage and grade although IMC did not see the results of any such

comparisons. In the deeper parts of the SE Orebodies, orebody outlines as established during mining frequently showed 25-30% discrepancies in plans and cross sections as compared with the original exploration interpretation. This is because of the relatively wide spacing of surface drill hole intersections in the deeper parts of the deposit.

GKZ monitors annual resource depletion (through production) and resource addition or category change when they are reported in the 5GR Form. There is no other independent audit or review.

The OAO Apatit deposits are of substantial size, relatively simple structure and have been extensively explored. IMC consequently considers that their resource estimates are essentially reliable.

2.2.4 Kukisvumchorr and Yukspor Deposits

2.2.4.1 Geology

The contiguous Kukisvumchorr and Yukspor deposits are worked through the Kirovsky underground mine. There is a small remnant open pit reserve at Kukisvumchorr that will be mined out in 2011.

The deposits are classified as Group 1 in terms of their complexity, size and shape, with simple form and uniform distribution of minerals. The apatite orebody has a combined strike length of 5,500 m over the two deposits, with an average thickness of between 80-100 m in its remaining unworked part. It is a single horizon dipping at 25-30 degrees that pinches out and steepens slightly with depth. There are no major faults or other displacements to the orebodies, which are cut by minor alkaline dolerite dykes in the west and by monchiquite (lamprophyre) dykes in the east.

2.2.4.2 Resources and Reserves

Resources for the Kukisvumchorr deposit are given in Table 2-5 below.

Table 2-5 JORC Equivalent Kukisvumchorr Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}
Measured	1,906	9.94	16.35	338,901	14.84	15.46	340,887	14.80	15.47
Indicated				80,998	13.98	15.46	80,998	13.98	15.46
Total	1,906	9.94	16.35	419,899	14.67	15.46	421,805	14.64	15.47
Inferred									

Note Resources include undiscounted reserves.

Table 2-6 below shows the reserves statement estimated as at 1st June 2011. Not all resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-6 JORC Equivalent Kukisvumchorr Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	P ₂ O _{5%}
Proved	1,906	9.94	16.35	143,370	12.88	15.46	145,276	12.83	15.47
Probable				34,449	12.15	15.46	34,449	12.15	15.46
Total	1,906	9.94	16.35	177,819	12.74	15.46	179,725	12.70	15.47

Note Reserves include adjustments for loss and dilution modifying factors.

Resources for the Yukspor deposit are given in Table 2-7 below.

Table 2-7 JORC Equivalent Yukspor Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}
Measured				467,173	14.46	13.06	467,173	14.46	13.06
Indicated				80,350	13.13	13.38	80,350	13.13	13.38
Total				547,523	14.27	13.11	547,523	14.27	13.11
Inferred									

Note Resources include undiscounted reserves.

Table 2-8 below shows the reserves statement estimated as at 1st June 2011. Not all resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-8 JORC Equivalent Yukspor Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}	'000t	P ₂ O _{5%}	Al ₂ O _{3%}
Proved				233,378	12.57	13.06	233,378	12.57	13.06
Probable				40,367	11.43	13.38	40,367	11.43	13.38
Total				273,745	12.41	13.11	273,745	12.41	13.11

Note Reserves include adjustments for loss and dilution modifying factors.

2.2.5 Apatitovy Cirque and Plato Rasvumchorr Deposits

2.2.5.1 Geology

The contiguous Apatitovy Cirque and Plato Rasvumchorr deposits are worked through the Rasvumchorr underground mine. The Apatitovy Cirque open pit was mined out in 2001, while the design institute Gyproruda is re-designing the current Plato Rasvumchorr open pit as a larger Central Open Pit following recent exploration in the area. This re-design should be completed in 2012. It will include 100 Mt of resources currently assigned to the Plateau Rasvumchorr underground mine and involve the removal of substantial amounts of rock waste that have been dumped above the unworked orebody.

The Apatitovy Cirque and Plato Rasvumchorr deposits are classified as Group 1 in terms of their complexity, size and shape, with simple form and uniform distribution of minerals. The orebody has a combined strike length of 5,700 m over the two deposits, with an average thickness of between 60-80 m in the remaining unworked part of Apatitovy Cirque and 20-60 m at Plato Rasvumchorr. It is a single horizon dipping at 25-30 degrees that pinches out and steepens to 45 degrees at the 100 mL at Plato Rasvumchorr.

There is minor superficial oxidation of the apatite orebody at Apatitovy Cirque, resulting in alteration of nepheline to hydromica and the development of hydrous oxide films on the apatite crystals, making their recovery by flotation more difficult. This affects 7-8% of the Apatitovy Cirque reserves. There are no dykes, major faults or other displacements to the Plato Rasvumchorr orebody.

2.2.5.2 Resources and Reserves

Resources for the Apatitovy Cirque deposit are given in Table 2-9 below.

Table 2-9 JORC Equivalent Apatitovy Cirque Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Measured				94,402	15.32	14.69	94,402	15.32	14.69
Indicated				25,879	13.17	14.69	25,879	13.17	14.69
Total				120,281	14.86	14.69	120,281	14.86	14.69
Inferred				5,635	11.80	14.69	5,635	11.80	14.69

Note Resources include undiscounted reserves.

Table 2-10 below shows the reserves statement estimated as at 1st June 2011. Not all resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-10 JORC Equivalent Apatitovy Cirque Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Proved				50,803	13.29	14.69	50,803	13.29	14.69
Probable				14,029	11.45	14.69	14,029	11.45	14.69
Total				64,832	12.90	14.69	64,832	12.90	14.69

Note Reserves include adjustments for loss and dilution modifying factors.

Resources for the Plateau Rasvumchorr deposit are given in Table 2-11 below.

Table 2-11 JORC Equivalent Plateau Rasvumchorr Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Measured	19,028	16.08	15.56	146,494	13.34	14.23	165,522	13.69	14.40
Indicated	241	25.93	15.01	127,352	13.39	14.05	127,593	13.41	14.05
Total	19,269	16.19	15.55	273,846	13.36	14.15	293,115	13.57	14.25
Inferred				7,560	12.53	14.15	7,560	12.53	14.15

Note Resources include undiscounted reserves.

Table 2-12 below shows the reserves statement estimated as at 1st June 2011. Not all of the underground resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-12 JORC Equivalent Plateau Rasvumchorr Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Proved	19,522	15.23	15.59	22,769	11.59	14.23	42,291	13.35	14.89
Probable	247	24.52	14.22	20,265	11.64	14.05	20,512	11.79	14.05
Total	19,769	15.33	15.57	43,034	11.61	14.15	62,803	12.87	14.63

Note Reserves include adjustments for loss and dilution modifying factors.

2.2.6 Koashva and Njorkpahk Deposits

2.2.6.1 Geology

The Koashva and Njorkpahk deposits (the latter comprising the Njorkpahk proper and Suoluayv open pit mines) are both worked open pit. Options for future open pit or underground mining at Njorkpahk are currently being examined and should be completed in 2011.

The deposits are classified as Group 2 in terms of their complexity, size and shape, with different and sometimes complicated forms and uneven distribution of minerals.

The Koashva orebody comprises seven apatite bodies 10-60 m thick that are developed in an ore zone 150 m thick over a strike length of 4,000 m. The zone dips at 25-30 degrees, steepening and pinching out with depth. It has the greatest down-dip persistence of the Apatite orebodies, extending to a depth of 1,000 m from the surface. There are two minor dykes of lamprophyre and alkaline dolerite but no major faults or other displacements to the Koashva orebody.

The Njorkpahk deposit is a single brecciated zone cemented by urtite that dips at 20-30 degrees. It has a strike length of 2,000 m at surface, which decreases to 800 m at depth.

2.2.6.2 Resources and Reserves

Resources for the Koashva deposit are given in Table 2-13 below.

Table 2-13 JORC Equivalent Koashva Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Measured	143,400	19.97	13.42	39,908	16.87	7.58	183,308	19.30	12.16
Indicated	46,000	18.34	13.42	401,593	15.46	12.02	447,593	15.76	12.16
Total	189,400	19.57	13.42	441,501	15.59	11.61	630,901	16.79	12.16
Inferred	465	12.26	13.42	207,555	12.72	12.16	208,020	12.72	12.16

Note Resources include undiscounted reserves.

Table 2-14 below shows the reserves statement estimated as at 1st June 2011. The open pit Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-14 JORC Equivalent Koashva Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Proved	141,577	18.77	13.42				141,577	18.77	13.42
Probable	45,423	17.25	13.42				45,423	17.25	13.42
Total	187,000	18.41	13.42				187,000	18.41	13.42

Note Reserves include adjustments for loss and dilution modifying factors.

Resources for the Njorkpahk deposit are given in Table 2-15 below.

Table 2-15 JORC Equivalent Njorkpahk Deposit Resources as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Measured	3,752	16.23	13.58	23,543	15.09	12.75	27,295	15.28	12.89
Indicated	3,934	15.48	13.55	29,064	14.32	12.73	32,998	14.46	12.83
Total	7,686	15.89	13.56	52,607	14.66	12.74	60,293	14.84	12.86
Inferred				3,175	17.98	12.78	3,175	17.98	12.78

Note Resources include undiscounted reserves. Table 2-16 below shows the reserves statement estimated as at 1st June 2011. Not all resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-16 JORC Equivalent Njorkpahk Deposit Reserves as at 1st June 2011

Category	Open Pit			Underground			Total		
	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Proved	1,329	15.19	13.58				1,329	15.19	13.58
Probable	1,974	14.50	13.55				1,974	14.50	13.55
Total	3,303	14.88	13.56				3,303	14.88	13.56

Note Reserves include adjustments for loss and dilution modifying factors.

2.2.7 Summary of Reserves and Resources

The Apatite A, B, C1 and C2 resources were estimated to the point where the deposits thin out laterally or down-dip (in the case of Koashva this is to a depth of 1,000 m from surface). IMC has assigned and re-classified these resources (as reported in the 5GR Form) into JORC-equivalent Measured, Indicated and Inferred resources. IMC's resource appraisal follows the 2004 JORC Code's guidelines for estimating

and reporting mineral reserves while its re-classification reflects, but does not fully follow, the August 2010 guidelines of the Committee for Mineral Reserves International Reporting Standards. All resources are reported on a dry basis since moisture content is insignificant.

A summary of Mineral Resources by operating mine for the Company is given below in Table 2-17.

Table 2-17 JORC Equivalent Mineral Resources Summary by Mine as at 1st June 2011

Mine	Category	Mineral Resources				
		'000t	P ₂ O ₅ %	Al ₂ O ₃ %	REO %	SrO %
Joint	Measured	807,979	14.61	14.07		
Kirovsky	Indicated	161,348	13.56	14.42		
	Total	969,327	14.43	14.13	0.32	1.18
Rasvumchorr	Measured	191,434	14.12	14.41		
Underground	Indicated	103,769	13.35	14.16		
	Total	295,203	13.85	14.32	0.37	1.30
Centralny	Measured	68,490	14.71	14.76		
Open Pit	Indicated	49,703	13.41	14.16		
	Total	118,193	14.18	14.51	0.37	1.31
Vostochny	Measured	183,308	19.3	12.16		
(Koashva)	Indicated	447,593	15.76	12.16		
	Total	630,901	16.80	12.16	0.41	1.53
Vostochny	Measured	27,295	15.28	12.89		
(Njorkpahk)	Indicated	32,998	14.46	12.83		
	Total	60,293	14.84	12.86	0.41	1.53
Vostochny	Measured	210,603	18.77	12.26		
Total	Indicated	480,591	15.67	12.21		
	Total	691,194	16.62	12.22	0.41	1.53
PhosAgro	Measured	1,278,507	15.23	13.86		
Total	Indicated	795,411	14.80	13.03		
	Total	2,073,918	15.06	13.55	0.36	1.32

Note Resources include undiscounted reserves.

The average rare earth oxide (REO) and strontium grades are based on fewer analyses from within the mines, and sometimes by correlation with the P₂O₅ grade. IMC considers them to be Indicated resources and since they are not necessarily economically recoverable from the apatite concentrate, they are not considered fully JORC-compliant.

Table 2-18 below shows the typical composition for the different minerals including the rare earth metals.

Table 2-18 Typical Mineral Composition

Composition %	Mineral					
	Apatite	Nepheline	Sphene	Pyroxene	Titano-magnetite	Feldspar
P ₂ O ₅	40.36	0.18			0.1	
Al ₂ O ₃	0.22	31.8	0.31	2.61	1.0	18.7
SiO ₂	0.48	41.7	29.9	50.19	1.95	64.4
Fe ₂ O ₃	0.32	1.99	0.79	4.93	37.6	0.4
FeO		0.24	0.18	8.57	39.1	0.18-
TiO ₂	0.02		37.8	1.7	17.6	
CaO	52.74	1.4	26.3	19.88	1.68	0.27
K ₂ O	0.09	6.41	0.09	0.27	0.46	14.2
Na ₂ O	0.13	15.8	0.29	0.55	1.27	1.6
F	3.15		0.2			
REO	0.95		0.5	0.01		
SrO	3.0		0.26			
Ga ₂ O		0.0035-				
V ₂ O ₅				0.15	0.48	
Rb ₂ O				0.004		
Cs ₂ O						
Nb ₂ O ₅			0.37			
Li ₂ O				0.01		
ZrO ₂			0.21			

IMC has derived JORC-compliant reserves from Apatit “industrial reserves”, which are contained within an open pit envelope or underground mine design. These “industrial reserves” are based on a full TEO or pre-feasibility study and do not contain permanent pillars. They take account of mining loss but are not assigned a (resource or reserve) category. IMC has consequently assigned proven and probable reserve categories to them in the same proportion as it assigned measured and indicated resource categories to the original GKZ “reserves”. This is a slightly conservative approach since the “industrial reserves” are usually more extensively explored than the rest of the deposit.

Table 2-19 below shows the Ore Reserves statement by operating mine for the Company estimated as at 1st June 2011. Not all resources identified as Measured and Indicated are considered sufficiently planned to be converted to reserves.

Table 2-19 JORC Equivalent Ore Reserves Summary by Mine as at 1st June 2011

Mine	Ore Reserves			
	Category	'000t	P ₂ O ₅ %	Al ₂ O ₃ %
Joint	Proved	378,655	12.67	13.99
Kirovsky	Probable	74,817	11.76	14.34
LOM 20+ Years	Total	453,472	12.52	14.04
Rasvumchorr	Proved	73,572	12.76	14.55
Underground	Probable	34,294	11.56	14.31
LOM 20+ Years	Total	107,866	12.38	14.47
Centralny	Proved	19,522	15.23	15.59
Open Pit	Probable	247	24.52	14.22
LOM 4.9 Years	Total	19,769	15.33	15.57
Vostochny	Proved	141,577	18.77	13.42
(Koashva)	Probable	45,423	17.25	13.42
LOM 20+ Years	Total	187,000	18.40	13.42
Vostochny	Proved	1,329	15.19	13.58
(Njorkpahk)	Probable	1,974	14.5	13.55
LOM 0.9 Years	Total	3,303	14.88	13.57
Vostochny	Proved	142,907	18.71	13.42
Total	Probable	47,397	17.14	13.43
	Total	190,304	18.32	13.42
PhosAgro	Proved	614,656	14.17	13.97
Total	Probable	156,755	13.36	14.06
	Total	771,411	14.01	13.99

Note Reserves include adjustments for loss and dilution modifying factors.

IMC considers that the above Mineral Resources and Ore Reserves to be reliable and trustworthy as at 1st June 2011.

2.2.8 Expected Recovery and Dilution Factors

IMC applied the following mining loss and dilution factors when converting resources to reserves. The diluting material is assumed to contain 1% P₂O₅ (the average of the hanging and footwall adjacent to the orebody) and to have the same Al₂O₃ content as the resource. The mining loss and dilution factors applied are based on project designs or actual performance and are shown in Table 2-20 below.

Table 2-20 Losses and Dilution

Deposit	Type	Loss %	Dilution %
Kukisvumchorr	Open Pit	0.0	0.0
Kukisvumchorr	Underground	17.8	16.5
Yukspor	Underground	18.3	16.3
Apatitovy Cirque	Underground	20.9	16.5
Plateau Rasvumchorr	Open Pit	4.0	6.0
Plateau Rasvumchorr	Underground	19.5	16.5
Koashva	Open Pit	7.0	6.7
Njorkpahk	Open Pit	6.9	7.3

2.3 Mining

2.3.1 Joint Kirovsky Mine

The Joint Kirovsky mine is located in Kirovsky district, Murmansk region, 6 km north-east of Kirovsk town and has been in operation since 1926. The Kukisvumchorr and Yukspor apatite-nepheline ore bodies outcrop on the slopes of mountains of the same names which are divided by the Saamskaya valley. The Kukisvumchorr deposit has been mined since 1930 by the Kirovsky open pit and underground mine whilst the Yukspor deposit has been mined since 1954 by the Yukspor mine. However, after 1989 both deposits have been worked by the Combined Kirovsky mine. The geographic coordinates of the deposits (centre) are 67°41' N and 33°45' E.

The Kukisvumchorr and Yukspor deposits are parts of a single apatite deposit of the south-western ore field of Khibiny massif. The deposits are of sheet and lens like type, strike towards north-west, dip towards north-east at an angle of 15-50 degrees. The total length of the deposit is 5.7 km. and the mineable thickness of the ore body varies from 20 to 300 m, average 140 m.

2.3.1.1 Current Underground Operations

Mining operations in the Kukisvumchorr deposit are on the +250 m and +170 m levels. Ore from level +250 m is delivered to the surface via an 800 m conveyor drift. Ore from level +170 m is wound to the surface at the main skip shaft. Level +90 m is currently being developed for production.

Mining operations in the Yukspor deposit are on levels +410 m, 320 m and 250 m. Ore from level +410 m is delivered via ore passes to the Yukspor tunnel. Ore from levels +320 m and +250 m, is wound to the surface at the main skip shaft. Level +170 is currently being developed together with new underground crushing facilities and No. 2 skip shaft to wind ore directly to the surface.

The mine is accessed via a number of surface and inter level drifts and shafts.

• Surface conveyor drift	Ore
• Main shaft No. 1	Ore, men and materials
• Main shaft No. 2	Ore (under construction)
• Auxiliary shaft No. 1	Men and materials
• Western auxiliary shaft	Men and materials
• Northern No. 1	Ventilation
• Southern No. 2	Ventilation
• Central No. 3	Ventilation
• Various adits and vehicle ramps	

There are a total, 1 conveyor drift, 9 shafts, 4 vehicle ramps and 1 staple shaft.

It is intended to sink main shaft No. 4 and deepen the existing shafts to access new levels.

Two mining methods are used at the mine.

- Block caving of the main substantive ore body;
- Sub-level caving of the main ore body periphery and the smaller ore bodies.

Block caving is the progressive extraction of ore from an orebody by initial fracture with explosives blasted through deep boreholes and drawing the broken ore from underneath through ore passes controlled by vibration feeders. As the broken ore is drawn off it induces a progressive fracturing of the remaining rock mass which can be controlled again by the rate of draw off with the vibration feeders.

The ore body is accessed by levels at 70 to 90 m intervals. These levels are divided into rectangular mining blocks with a strike length of 124 to 216 m but equal to the horizontal thickness of the ore body with the ore haulage roadways every 24 m underneath the blocks.

Stable holes for VDPU-4TM vibration feeders are every 17 to 24 m from ore haulage roadways for ore drawing with two ore cones for each of the feeder. There is a ventilation level above each block.

For initial ore fracture blocks are divided into sections of 60 to 400 kt each which are developed from sub-level roadways every 25 to 30 m down the block. Fans of 105 mm boreholes are drilled from these drilling roadways to a maximum hole length of 40 m. These blast hole fans are drilled by NKR-100M and Solo drill rigs and are charged with granulated explosives using compressed air blast hole chargers.

Recently this method has been replaced by sub-level caving with ore drawing at the block edge or with smaller orebodies. Both Kirovsky and Rasvumchorr mines have now been styled on the extremely efficient Kiruna iron mine in Sweden employing sub-level caving and ore clearance with electric or diesel load haul dump (LHD) and dump trucks supported by mobile drill rigs and ancillary equipment all of which are trackless vehicles.

The block level is split into sub-levels which are mined in a descending and retreating sequence. The sub-level height is normally 15 to 25 m which has haulage and drilling roadways in a rectangular configuration underneath each sub block. Blast hole drilling is undertaken with Solo or Simba drill rigs and ore is hauled by TORO-400E and TORO-1400E LHDs to the nearest ore pass normally less than 100 m away.

Table 2-21 below shows the main production and development equipment at the mine.

Table 2-21 Kirovsky Mobile Plant

Equipment	Description	Units
Tamrock Axera	4 m twin boom drill rig	3
Tamrock Minimatic	Single and twin boom drill rigs	3
UBSh-207 and 221P	Drill rigs	8
Solo	100 mm stope drill rigs	7
NKR-100	100 mm stope drill	27
Toro 400	4.6 m ³ diesel and electric loader	14
Toro 1400E	6 m ³ electric loader	4
Toro 35 and 40D	35/40 t haul truck	4
MZKS-160	Hole Charger	2
Paus	Hole Charger	2
Spraymec	Shotcrete Spray	2
Cabolt	Cable Bolter	3
Scamec	Roadway Scaler	3

The equipment is of various age but is relatively new and all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management. IMC understands that the availability of the new western mobile plant is above 90% but this deteriorates to approximately 80% over a 2 to 3 year period. In addition, the expected life of a machine is expected to be 8 years but will be replaced earlier if the cost of maintenance and repairs becomes greater than the replacement cost. Maintenance is duty based (number or running hours) as part of a planned preventative maintenance scheme for each machine and the manufacturer (OEM) is involved during the warranty periods. IMC would have expected the availability of the machines to remain higher for longer with an effective maintenance scheme but support the unit replacement with excessive operating costs.

The main roadways are mainly in ore and footwall rock which is usually solid and does not require additional support. However, there are areas where the ground is friable or mineralised with calcite which requires to be bolted and or shotcrete sprayed to stabilise and support the roof and sides. Solid or cable bolts are cement grouted into 2.5 m holes and or over sprayed with up to 100 mm of shotcrete. Rows of stress relief holes are drilled in some of the junction corner pillars to control stress distribution and alleviate potential rock bust. This provides stable access roadways with good running tracks for the various trackless vehicles.

Ore is fed to various ore passes which discharge on the haulage level where it is loaded into VG-9 and VRG-4.5 rail cars with the capacity 4.5 or 9.0 m³ and transported by K-14 overhead wire locomotives to a revolving tipper. Ore is then delivered to the surface via crushing facilities then the conveyor drift or the main ore shaft No. 1. On the surface the ore is loaded into 105 t rail dump cars and transported to the processing plants.

Ore from high levels goes down ore passes onto the Yukspor tunnel and is then delivered directly to the processing plants by rail.

Ore produced from the lower levels is transported as follows.

- Level +410 m through ore passes No. 1 and 2 to lower levels.
- Levels +320 m and +250 m via crushers and drift belts;
- Level +170 m via crushers and the main ore skip shaft No. 1;

The 800 m conveyor drift is equipped with twin steel core belts each with a capacity of 1,200 tph which have been in operation since 1976 with an annual capacity of 9.5 Mtpa

Main ore shaft No.1 equipped with twin 16 t skips and a capacity of 600 tph, was commissioned in 2003 with an annual capacity of 2.9 Mtpa.

The Company is currently preparing an additional ore shaft to skip wind from the lower levels. Main ore shaft No.2 will be commissioned in 2013 after being equipped with twin 60 t skips and a 6 rope tower mounted friction winder with a capacity of approximately 8.5 Mtpa. Currently, the shaft is sunk and being equipped and the underground skip pocket facilities are being prepared.

IMC understands that the mine is intended to continue at its current steady state production rate of approximately 12 Mtpa until the new main ore shaft No.2 is commissioned in 2013 where production will increase to approximately 14 Mtpa. IMC considers this plan to be achievable given that this expected production is within the capacity of the enhanced infrastructure and that the strategic and replacement development is sufficiently advanced to provide the appropriate number of production stopes. However, additional mobile production equipment may be required at the appropriate time.

2.3.1.2 Current Open Pit Operations

Open pit mining is used to extract the reserves of Kukisvumchorr deposit which were written off as losses in the footwall. The mine is operated by conventional drill and blast using excavators and trucks to load and haul the ore and waste materials. Ore is delivered to the rail loading station stockpile outside the pit where it is loaded by EKG-10 excavator into rail dump cars to be transported to processing plant No. 2. Waste delivered to in-pit and external dumps located at the pit walls or at the overburden dump areas.

Mining benches are cut across the strike to the full thickness of an ore body and progress along the strike of the ore body. The bench height is 10 to 12 m drilled and blasted from the top of each bench. Blasted ROM ore is loaded by EKG-4.6, RH-40 and RH-30 excavators and is transported by BelAZ-7523 trucks.

The main production equipment used at the mine is shown in Table 2-22 below.

Table 2-22 Kukisvumchorr Mobile Plant

Equipment	Description	Units
Atlas Copco DML-LP	Rotary Drill Rig	2
EKG-10	Electric Rope Excavators	3
EKG-4.6	Electric Rope Excavators	2
RH-40	Hydraulic Excavators	2
RH-30	Hydraulic Excavators	2
Belaz 75423	Rigid Dump Trucks	10
Auxiliary Equipment	Loaders, Graders, Dozers	10

IMC understands that this open pit will have a relatively short remaining life. The equipment is of various ages but is all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management for the remainder of the mine's life.

2.3.1.3 Infrastructure

Access

Access to the site is via a class 1 and class 2 roads from the town of Kirovsk 6 km to the south west and 200 km north to Murmansk. This road is only used for limited industrial purposes and mainly for personnel access to the towns of Kirovsk and Apatit which are both ski resorts.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from Kirovsky and the other mines to the two concentrators with a fleet of approximately 300 tipper wagons each 105 t

capacity hauled by 60 locomotives. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a “bonded” warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage. There are mobile phone transmitters underground on the main levels allowing cellular coverage throughout the main areas of the mine.

Electrical Power

Power for the Kirovsk Mine supplied via two separate sub stations which are part of the Apatit distribution network.

- Substation No. 43, voltage 150/35/6 kV, power 2×40 MVA
- Rudnichnaya main distribution substation (GRP), voltage 35/6 kV, power 2×25 MVA.

Substation No.43 is powered by two independent sources of OAO Kolenergo system via two OHL 150 kV, one from Switchyard the Kirovsk State District Power Station and the second from the Kola Nuclear Power Station. Power is distributed at the mine sites at 6 kV, 1 kV and 400 V for the mine equipment.

Water Supply

Portable water and industrial water to this and the other operational sites is provided from water abstraction points at:

- Imandra Lake;
- Bolshoi Vudjyavr Lake;

Mine water is treated on surface and used for all industrial purposes.

Ventilation

Ventilation in the mine is a forcing system from ventilation drifts.

- The northern air shaft is equipped with two VRTsD-4.5 fans producing 300 m³/s and ventilates the Kukisvumchorr wing of Levels 320 m, 250 m, 170 m in addition to, Level 90 m
- The southern air shaft No. 2 is equipped with two VRTsD-4.5 fans producing 310 m³/s and ventilates Levels 320 m, 250 m, 170 m, and 90 m.
- The ventilation adit is equipped with two VRTsD-4.5 fans producing 270 m³/s.
- The central system is equipped with two VOD-40M axial fans producing 280 m³/s.

Air is electrically heated at all fan stations as it enters the mine and is adequate for the operations.

Drainage

The mine is not particularly wet with any water being channelled to the sumps on each operating level.

250 m level	5 pumps with 6 kV motors each rated at either 600 kW and can handle 800 m ³ /hr at 130 m head pump the water to a surface.
172 m level	16 pumps with 6 kV motors each rated at either 1,250 or 800 kW and can handle 800 m ³ /hr at 200 m head pump the water to a surface.
92 m level	9 pumps with 6 kV motors each rated at either 2 MW and can handle 800 m ³ /hr at 330 m head pump the water to a surface.

The mine is complex but the above pumping system is more than adequate to cope with the drainage requirements.

Compressors

The majority of the mine equipment is mobile and has self contained power sources so the need for compressed air is limited. There is a turbo compressor house with cooling tower on the surface which was built when the mine was more dependent on compressed air which has more than sufficient capacity for the current needs.

Mine Workshops

There is an underground maintenance workshop for regular lubrication maintenance and minor repairs. The main workshop is on the surface which is used to service the mobile plant in accordance with a duty based (number or running hours) planned preventative maintenance scheme. The scheme is supplemented with major overhaul services supplied by the OEM and warranty period support.

Explosives

Explosives for all the mines are stored and distributed from a central magazine facility. Each site is supplied directly with their daily need which is transported underground in dedicated explosives trucks to the point of use.

2.3.2 Rasvumchorr Mine

The Rasvumchorr mine has been in operation since 1954 and extracts ore from both the Apatite Cirque and Plato Rasvumchorr deposits which are located within a single apatite deposit of the Khibiny area, 8 km north east of Kirovsk. The geographic coordinates of the deposits (centre) are 67°37' N and 33°52' E.

Until 1982 the deposits were worked by open pit when the operations went underground. In 1987, extraction of ore losses in pillars, left in the course of underground mining operations, was resumed in the open pit. Since 2005 only underground mining has been employed.

The total strike length of the Apatite Cirque and Plato Rasvumchorr deposits is 5.7 km. The Plato Rasvumchorr deposit is 3.2 km long and the Apatite Cirque deposit is 2.5 km long, which dips towards north-east at an angle of 15-50° at thicknesses from 40 to 150 m.

2.3.2.1 Current Operations

Access underground is via adits at levels +430 m, +440 m, +470 m, +530 m and +600 m and by a surface shaft to level +308 m. Cross measure drifts from the shaft connect to levels +470 m, +530 m and +600 m. Level +450 m is accessed by two inclined vehicle ramps from level +470 m and a cross measure drift from level +440 m.

The ore is extracted by sub-level caving of these smaller orebodies. Both Kirovsky and Rasvumchorr mines have now been styled on the extremely efficient Kiruna iron mine in Sweden employing sub-level caving and ore clearance with electric or diesel load haul dump (LHD) and dump trucks supported by mobile drill rigs and ancillary equipment all of which are trackless vehicles.

The block levels at 90 m vertical spacing are split into sub-levels which are mined in a descending and retreating sequence. The sub-level height is normally 22 m which has haulage and drilling roadways in a rectangular configuration underneath each sub block. Blast hole drilling is undertaken with Simba drill rigs and ore is hauled by TORO-400E and TORO-1400E LHDs to the nearest ore pass normally less than 100 m away.

Table 2-23 below shows the main production and development equipment at the mine.

Table 2-23 Rasvumchorr Mobile Plant

Equipment	Description	Units
Tamrock Axera	4 m twin boom drill rig	3
Tamrock Minimatic	Single and twin boom drill rigs	1
Simba	100 mm stope drill rigs	2
NKR-100	100 mm stope drill	1
Toro 400D and 7M	4.6 m ³ diesel and electric loader	5
Toro 1400E	6 m ³ electric loader	1
Toro 35 and 40D*	35/40 t haul truck	3
Chaermec	Hole Charger	2
Paus	Hole Charger	2
Spraymec	Shotcrete Spray	2
Cabolt	Cable Bolter	3
Scamec	Roadway Scaler	3

The equipment is of various age but is relatively new and all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management. IMC understands that the availability of the new western mobile plant is above 90% but this deteriorates to approximately 80% over a 2 to 3 year period. In addition, the expected life of a machine is expected to be 8 years but will be replaced earlier if the cost of maintenance and repairs becomes greater than the replacement cost. Maintenance is duty based (number of running hours) as part of a planned preventative maintenance scheme for each machine and the OEM is involved during the warranty periods. IMC would have expected the availability of the machines to remain higher for longer with an effective maintenance scheme but support the unit replacement with excessive operating costs.

The main roadways are mainly in ore and footwall rock which is usually solid and does not require additional support. However, there are areas where the ground is friable or mineralised with calcite which requires to be bolted and or shotcrete sprayed to stabilise and support the roof and sides. Solid or cable bolts are cement grouted into 2.5 m holes and or over sprayed with up to 100 mm of shotcrete. Rows of stress relief holes are drilled in some of the junction corner pillars to control stress distribution and alleviate potential rock bust. This provides stable access roadways albeit with a smaller cross section than Kirovsky. The roadway floor is subject to water degradation which has affected the standard of the running tracks for the various trackless vehicles.

There is a 2.5 km tunnel which forms level +431 m of Rasvumchorr mine and extends beyond under the Centralny open pit. Standard locomotives and ore trains with 105 t tipper wagons load ore from capital (large diameter) ore passes and loading points under both mines for direct transport to the concentrators.

- Level +600 m ore is delivered through local ore passes 1, 2 and 3 onto level +530 m and is then transported to main ore passes 3 and 4.
- Level +530 m ore is delivered through ore passes 3 and 4 onto the main transport tunnel at level +431 m.
- Level +470 m ore is drawn through ore passes 1, 2 and 4 onto level +530 m and is then transported to main ore passes 3 and 4.

The inter ore pass transfer along level +530 m is undertaken with a fleet of Toro 40D diesel haulage trucks but the Company is in the process of installing two steel core conveyor belts to transfer the ore from levels +450 and +422 more efficiently and continuously. This will also allow the haul trucked to be deployed to the removal of waste as the lower levels are developed.

IMC understands that the mine is intended to continue at its current steady state production rate of approximately 4.2 Mtpa. IMC considers this plan to be achievable given that this expected production is within the capacity of the infrastructure and that the strategic and replacement development is sufficiently advanced to provide the appropriate number of production stopes.

2.3.2.2 Infrastructure

Access

Access to the site is via a class 1 and class 2 roads from the town of Kirovsk 5 km to the south west and 200 km north to Murmansk. This road is only used for limited industrial purposes and mainly for personnel access to the towns of Kirovsk and Apatit which are both ski resorts.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from Rasvumchorr and the other mines to the two concentrators with a fleet of approximately 300 tipper wagons each 105 t capacity hauled by 60 locomotives. Ore transport trains go directly into the mine via the +431 m to load as described in the operations section above. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a “bonded” warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage. There are mobile phone transmitters underground on the main levels allowing cellular coverage throughout the main areas of the mine.

Electrical Power

Power for the Rasvumchorr Mine is supplied from substation No.73, voltage 150/35/6 kV which has two separate which are part of the Apatit distribution network.

- substation PS-351 with 2×16 MVA transformers and one 5.6 MVA transformer to step the voltage down from 35 kV to 6 kV
- substation PS-418 with 2×10 MVA transformers, to step the voltage down from 35 kV to 6 kV.

These substations are powered by two independent sources of OAO Kolenergo system via two OHL 150 kV, one from Switchyard the Kirovsk State District Power Station and the second from the Kola Nuclear Power Station.

Power is distributed at the mine sites at 6 kV, 1 kV and 400 V for the mine equipment. Power is also fed to Centralny mine via the access shaft at 6 kV.

Water Supply

Portable water and industrial water to this and the other operational sites is provided from water abstraction points at:

- Imandra Lake;
- Bolshoi Vudjyavr Lake;

Mine water is treated on surface and used for all industrial purposes.

Ventilation

Ventilation in the mine is a forcing system from 4 ventilation shafts or drifts and associated fans.

• Level 651 m, No.1 shaft	190m ³ /s
• Level 591 m, Adit	90m ³ /s
• Level 458 m, Ventilation shaft to haulage level	64m ³ /s
• Level 450 m, Ventilation shaft to haulage level	85m ³ /s

Air is electrically heated as it enters the mine and is adequate for the operations.

Drainage

A temporary pumping station for level +310 m is being used until the main pumping system is commissioned. This temporary facility is equipped with three TsNS 300-180 pumps with a capacity of 300 m³/hr at 180 m head and installed power of 250 kW.

The permanent pumping system at Level +310 m, will be equipped with four TsNSA 850-240 pumps and two TsNSA 500-160 pumps to discharge the anticipated inflows of an average 640 m³/hr, maximum 3,540 m³/hr with a yearly average of 950 m³/hr to the surface.

Compressors

The majority of the mine equipment is mobile and has self contained power sources so the need for compressed air is limited.

There is a compressor station on the surface equipped with 8 compressors producing 287 m³/min against a mine requirement of 207 m³/min.

Mine Workshops

There is an underground maintenance workshop for regular lubrication maintenance and minor repairs. The main workshop is on the surface which is used to service the mobile plant in accordance with a duty based (number or running hours) planned preventative maintenance scheme. The scheme is supplemented with major overhaul services supplied by the OEM and warranty period support.

Explosives

Explosives for all the mines are stored and distributed from a central magazine facility. Each site is supplied directly with their daily need which is transported underground in dedicated explosives trucks to the point of use.

2.3.3 Centralny Open Pit

The Centralny open pit extracts the base of Plateau Rasvumchorr deposit 8.0 km to the north east of Kirovsk. The geographical coordinates of the deposit (central part) are 67°38'N and 33°55' E.

Plato Rasvumchorr deposit is an eastern part of a single apatite measure of the south western ore field of Khibini and has been in open pit mined since 1964. Maximum production of 28.2 Mtpa was achieved in 1985.

The ore body is 3.2 km along the strike and 1.4 km down the dip and has a seam or lens shape with a dip of 20° at the surface and up to 40 to 50° at deeper levels with a thickness varying from 8 to 120 m.

2.3.3.1 Current Operations

The pit is operated as a strip mine following the ore body for its full width down dip in benches or strips. The bench face angle is 70° whilst the overall pit slope is 45°.

Access into the mine is currently via a series of ramps constructed along the walls of the open pit. The pit top is at the top of a mountain at over +1,000 m level, where the weather can be arduous in the low temperatures and high wind chill factors prevailing in the long winter months. Vehicle access to the top of the mountain via dirt roads can therefore be difficult so the Company has sunk a men and materials access shaft adjacent to the pit rim down into the Rasvumchorr mine workings which is used for personnel access to the mine when the dirt access roads are impassable. Mine management is concerned about the weather effects on the safe operation of the pit and constantly monitors the 3 day weather forecasts and avalanche warnings.

The open pit is operated by conventional drill and blast methods using excavators and trucks to load. Working bench height is 15 m. Blast holes are drilled in designated areas within the pit for ore extraction and waste stripping operations. Blast holes 250 cm in diameter are drilled with SBSH-250 MH rigs drill a regular rectangular pattern. Explosives charging trucks are to charge wet blast holes with “Poremit” emulsion explosive and granulated TNT, whilst the dry blast holes are charged with 79/21 grammonite and customized mixed explosive. Blasted ore or waste is loaded into 130 t Belaz dump trucks with a fleet of electric and hydraulic excavators.

There is a 2.5 km tunnel which forms level +431 m of Rasvumchorr mine and extends beyond under the Centralny open pit. Ore is delivered and discharged in to a series of large diameter ore passes 100 to 300 m deep located within the Centralny pit where it is loaded into standard ore trains, with 105 t tipper wagons, for direct transport to the concentrators.

Waste rock is hauled to the external dumps located on the slopes of the southern, eastern and northern Rasvumchorr mountains.

The main production equipment used at the mine is shown in Table 2-24 below.

Table 2-24 Centralny Mobile Plant

<u>Equipment</u>	<u>Description</u>	<u>Units</u>
SBSH-250MN/MNA	Rotary Drill Rig	8*
EKG-10	Electric Rope Excavators	3
EKG-8	Electric Rope Excavators	2
RH-90	Hydraulic Excavators	2
RH-120	Hydraulic Excavators	3
Belaz 75145	Dump Trucks	12
Belaz 75131	Dump Trucks	8**
CAT 777	Dump Trucks	7
Auxiliary Equipment	Loaders, Graders, Dozers	18

The equipment is of various age but is relatively new and all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management. IMC understands that the availability of the new western mobile plant is above 90% but this deteriorates to approximately 80% over a 2 to 3 year period. The mine has a large well run mobile plant workshop which caters for all the machine maintenance and repairs including major component replacement.

IMC understands that the mine is intended to continue at its current steady state production rate of approximately 4.5 Mtpa. To sustain this production the current stripping ratio of 3.06 t/bcm will have to rise to and average of approximately 4.0 t/bcm and peak at 5.9 t/bcm in 2022. IMC considers this plan to be achievable, however additional mobile plant may have to be transferred from the Company's other open pit operations periodically to address the additional waste stripping requirements.

2.3.3.2 Infrastructure

Access

Access to the site is via a class 2 road and dirt haul road up the side of the mountain from the town of Kirovsk 8 km to the south west. The dirt road is only used for limited industrial purposes and for personnel access to the mine site and part way for skiers to access the pistes. There is a manned security gate to prevent unauthorised access to the mine curtilage.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from Centralny and the other mines to the two concentrators with a fleet of approximately 300 tipper wagons each 105 t capacity hauled by 60 locomotives. Ore transport trains go directly into the mine via the +431 m to load as described in the operations section above. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a "bonded" warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage.

Electrical Power

Power is supplied from substations No.27bis, 110/6 kV and No.351, 35/6 kV of the Apatit power network. Due to harsh climate substation No. 27 bis is located 6 km from the mine site and has two transformers, power 10 MVA each, connected by separately via 110 kV OHLs to the central power plant of Kolenergo. This substation then supplies distribution substation No. 27 (TP-27) at the mine site via two cables

A standby power supply for substation TP-27 is provided from substation No.351 at Rasvumchorr Mine via two cables through the underground workings.

Power is distributed at the mine site with 6 kV cables for weather protection and transformed to the working voltages of 6,000, 400 and 230 V.

Water Supply

Water is supplied to the mine from Rasvumchorr Mine Pump Station by two TsNSD 105/147 pumps with a capacity of 60 m³/hr and two PE pumps with a capacity of 60 m³/hr at the Centralny mine.

The Surface pump station is equipped with 3 × 4KM-8A pumps with a capacity of 90 m³/hr each to supply the mine's operational needs. Annual water consumption is around 0.2 Mm³.

Drainage

The mine water is collected in the open pit sump and pumped or gravity fed to Level +460 m from there it is discharged via a bore hole to Level + 451

In addition, water drains to the ventilation crosscut at level 452/450 m then is piped to Pass No.6. where it merges with mine water of Rasvumchorr Mine.

Compressors

The majority of the mine equipment is mobile and has self contained power sources so the need for compressed air is limited.

Mine Workshops

The main workshop is extensive which caters for all the machine maintenance and repairs including major component replacement in accordance with a duty based (number or running hours) planned preventative maintenance scheme. The scheme is supplemented with major overhaul services supplied by the OEM and warranty period support. Because of the arduous weather all the workshops and other buildings are sprayed with a layer of polyurethane as an insulation medium which appears to be very effective in terms of heat retention and durability.

Explosives

Explosives for all the mines are stored and distributed from a central magazine facility. Each site is supplied directly with their daily need which is transported underground in dedicated explosives trucks to the point of use.

2.3.4 Vostochny Open Pits

Vostochny Open pit operates as two pits extracting the Koashva and Njorkpahk orebodies. The open pits are 15 to 20 km to the north east of Kirovsk, in the south-eastern part of Khibini mountain massif. The geographic coordinates of the deposit centres are Koashva 67°38' N and 33°57' E and Njorkpahk 67°40' N and 34° 09' E.

Koashva has been mined as an open pit operation since 1978 where maximum production was achieved in 1989 of 6.8 Mt of ore.

Njorkpahk pit was commissioned in 1983 and achieved it's maximum production in 1989 of 13.3 Mt of ore. From 1990 production declined and in 1994 the pit was mothballed but resumed operations in 1996.

2.3.4.1 Current Koashva Operations

The ore body dips gently at 20 to 30° to the north west, which has a strike length of 3 km and 1.5 km down the dip with a thickness varying from 10 to 300 m, averaging 165 m. The ore zone has a multi-tier structure with seven ore bodies including 4 main and 3 secondary sections. The length of the main ore levels is 1.7 to 3.0 km with an average thickness of 20 to 40 m.

Access into the pit is via two systems of ramps. The southern wall ramp system connects the pit with the ore storage and rail loading station as well as waste dump No.2. The northern wall ramp system connects the pit to the operational facilities and waste dump No.3.

The pit is similar to other Company open pits which are operated as a strip mine following the ore body for its full width down dip in benches or strips. The bench face angle is 70° whilst the overall finished pit slope is 45°. Benches from the surface to the level +240 m, and partially the benches down to 220 m are highly water saturated loose moraine sediments. Current operations are in a valley at the levels from 64 to 280 m.

The open pit is operated by conventional drill and blast methods using excavators and trucks to load. Working bench height is 10 and 12 m with a width of 40 m. Ore and hard rocks are blasted whilst moraine sediments are directly excavated. Blast holes are drilled in designated areas within the pit for ore extraction and waste stripping operations. Blast holes 250 cm in diameter are drilled with SBSH-250 MH rigs drill a regular rectangular pattern. Explosives charging trucks are to charge wet blast holes with “Poremit” emulsion explosive and granulated TNT, whilst the dry blast holes are charged with 79/21 grammonite and customized mixed explosive. Blasted ore or waste is loaded into 130 t Belaz dump trucks with a fleet of electric and hydraulic excavators.

Ore from the pit is hauled by dump trucks to the ore storage and rail loading station at level 285 m where it is loaded into 105 t rail dump cars and transported to the processing plants. Overburden waste is transported by the dump trucks directly to the dumps located to the north west No.3 and to the south east No.2 of the pit.

The main production equipment used at both Vostochny mines is shown in Table 2-25 below.

Table 2-25 Koashva and Njorkpahk Mobile Plant

<u>Equipment</u>	<u>Description</u>	<u>Units</u>
SBSH-250MN/MNA	Rotary Drill Rig	7
EKG-10	Electric Rope Excavators	4
Cat- 320DL	Hydraulic Excavators	1
RH-90	Hydraulic Excavators	3
RH-120	Hydraulic Excavators	2
Dressta 9.5	Hydraulic Excavator\Loader	1
Belaz 75145	Dump Trucks	3
Belaz 75131	Dump Trucks	38
Belaz 7547	Dump Trucks	2
CAT 785	Dump Trucks	6

The equipment is of various age but is relatively new and all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management. IMC understands that the availability of the new western mobile plant is above 90% but this deteriorates to approximately 80% over a 2 to 3 year period. The mine has a large well run mobile plant workshop which caters for all the machine maintenance and repairs including major component replacement.

The Company is in the process of trialling a GPS control system for all mobile plant which covers both the Koashva and Njorkpahk operations. GPS and machine data monitoring is install in all the mobile plant which relays information back to a central control room and a real time computer mimic screen. Currently, plant movements and status are being monitored with operational data directly fed into the Company’s “Oracle” Management Information System. IMC understands that the system will be extended to a control function once the ore body block model is integrated into the system. When fully operational this will refine the mined ore grade control, the efficiency of the haulage and loading operations and give detailed running costs for each vehicle. This system is used to great effect at the more advanced open pit mining operations around the world.

Hydrological conditions of the deposit are complicated and characterised by:

- Presence of surface water streams—the Vuonnemjok river and its tributaries.
- Avalanches on the adjoining mountain slopes and talus cones in the mountain creeks.
- Numerous seasonal springs in the valley of the Vuonnemjok river.
- Presence in the valley section:
 - blanket moraine ground waters;
 - artesian waters of fluvioglacial deposits of the mountain moraine;
 - fracture self-flowing and artesian waters in intrusive rocks;
 - fracture-vein high-pressure waters in the intrusive rocks.
- Presence of weak sandy aquifers in the fluvioglacial deposits of blanket moraine that are prone to sloughing and do not maintain the highwall stability.

Pit walls have intersected all aquifers present in the ore body. The pit is flooded to a significant degree and water inflow to the pit from ground water is 5,500 m³/h and atmospheric precipitation is 3,000 to 4,800 m³/h. To provide acceptable mining conditions the following de-watering measures are employed.

- In-pit drainage
- Dewatering wells
- Pit wall drainage on the eastern wall
- Drains in the base of moraine and fluvioglacial deposits

Pit wall and bench stability are affected by the fracturing and weathering of hard rocks, water saturation of loose quaternary sediments and broken hard rocks, the zones of intense fracturing, the methods of drilling and blasting operations at the ultimate pit contour.

Since the open pit walls are sub-parallel to the natural surface of mountain slopes and completely located in the weathering zone with the wide distribution of fractures analysis of bench and slope conditions indicates that slips, collapses and splitting is occurring. However, these types of deformations can occur in the highwalls without compromising the stability provided that they are monitored.

IMC understands that the mine is intended to continue at its current steady state production rate of approximately 4 Mtpa. To sustain this production an average stripping ratio of approximately 4.0 t/bcm is required, which is below the current ratio of 4.98 t/bcm. IMC considers this plan to be achievable with the appropriate management of mobile plant.

2.3.4.2 Current Njorkpahk Operations

The Njorkpahk ore body is 280 to 350 m thick and consists of 3 gently sloping seam sections at 10 to 35° separated by host rock strata of 100 to 300 m thick. The length of ore zone is 1.8 km and the plan width is 600 to 800 m with an average thickness of 35 to 55 m.

The open pit is accessed with a system of benches cut into the side of the Njorkpahk mountain which connect the working levels with the waste dumps and the ore storage areas. The main communication between the sites is along the 470 m level transportation bench. The deeper part of the pit is accessed by ramps that run along the south eastern wall of the pit from the 320 m level.

The pit is similar to other Company open pits which are operated as a strip mine following the ore body for its full width in to the side of the mountain in benches or strips. The bench face angle is 70° whilst the overall finished pit slope is 45°.

The open pit is operated by conventional drill and blast methods using excavators and trucks to load. Working bench height is 15 m. Blast holes are drilled in designated areas within the pit for ore extraction and waste stripping operations. Blast holes 250 cm in diameter are drilled with SBSH-250 MH rigs drill a regular rectangular pattern. Explosives charging trucks are to charge wet blast holes with “Poremit” emulsion explosive and granulated TNT, whilst the dry blast holes are charged with 79/21 grammonite and customized mixed explosive. Blasted ore or waste is loaded into 130 t Belaz dump trucks with a fleet of electric and hydraulic excavators.

Ore from the pit is hauled by dump trucks to the ore storage and rail loading station where it is loaded into 105 t rail dump cars and transported to the processing plants. Overburden waste is transported by the dump trucks directly to the dumps Nos. 1, 2A, 2B, 4A.

The main production equipment used at the mine is shown in Table 2-25 above as total figures for the Vostochny operations. Again the equipment is of various age but is relatively new and all in adequate condition. It is capable of maintaining planned production rates with appropriate maintenance and management. IMC understands that the availability of the new western mobile plant is above 90% but this deteriorates to approximately 80% over a 2 to 3 year period. The mine has a large well run mobile plant workshop which caters for all the machine maintenance and repairs including major component replacement.

The Company is in the process of trialling a GPS control system for all mobile plant which covers both the Koashva and Njorkpahk operations. GPS and machine data monitoring is install in all the mobile plant which relays information back to a central control room and a real time computer mimic screen. Currently, plant movements and status are being monitored with operational data directly fed into the Company’s

“Oracle” Management Information System. IMC understands that the system will be extended to a control function once the ore body block model is integrated into the system. When fully operational this will refine the mined ore grade control, the efficiency of the haulage and loading operations and give detailed running costs for each vehicle. This system is used to great effect at the more advanced open pit mining operations around the world.

Two hydraulically connected aquifers are present in the ore body area:

- Quaternary aquifer that comprises pore and pore-seam waters;
- Paleozoic bedrock aquifer that contains fracture and fracture-vein waters.

Paleozoic rock aquifer is widely distributed and has a thickness about 400 m. where water bearing rocks are present as rischorrit, urtite, iolite, juvite, and khibinite. The depth of water level varies from 7 to 84 m with elevations varying from 270 to 530 m.

Hydrogeological conditions are simple, the source of water inflow is ground water from the Paleozoic aquifer and atmospheric precipitation. Average values of actual water inflow vary from 88 to 424 m³/h, with a maximum of 800 m³/h, and the pit is dewatered by in- pit drainage.

IMC understands that with the current status of the reserves Njorkpahk pit will stop its operations in 2013. However, the Company are currently looking at underground and open pit options to extend the mine's life. IMC considers this to be achievable with the appropriate management of mobile plant.

2.3.4.3 Infrastructure

Access to the site is via a class 2 road and dirt haul road up the side of the mountain from the town of Kirovsk 20 km to the south west. The dirt road is only used for limited industrial purposes and for personnel access to the mine site. There is a manned security gate to prevent unauthorised access to the mine curtilage.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from Vostochny and the other mines to the two concentrators with a fleet of approximately 300 tipper wagons each 105 t capacity hauled by 60 locomotives. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a “bonded” warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage.

Electrical Power

Power is supplied from substation No.74 “Titan” (PS-74), 150/35/6/3.3 kV of the Apatit power network. PS-74 receives power by two OHL at 150 kV from two sources of OAO “Kolebergo” and the Kola Nuclear Power Station.

At the mine site substation No. 76 “Koashva” (PS-76), 150/35/6/3.3 kV with a capacity of 2 X 40 MVA, distributes to the following.

- Two rectifier units with transformers 2 × 4, 63 MVA feeding a 3.3 kV DC grid
- OHL at 35 kV (LK 48 and LK-49) to the substation of the Koashva township, 2 × 35/6 kV transformers with a power of 4 MVA each
- OHL at 35 kV (LK-30 and LK-31) to substations
 - No. 378, 2 × 35/6 kV transformers with a power of 10 MVA each supplying the Northern distribution board
 - No. 379, 2 × 35/6 kV transformers with a power of 16 MVA each supplying the Southern distribution
 - No. 353, 2 × 35/6 kV transformers with a power of 10 MVA each supplying the Njorkpahk distribution board

Water Supply

There are 3 water supply systems available at the site domestic, utility and fire fighting, production and recirculation.

The Existing Koashva subsurface water intake is the source of water for production and domestic and utility needs of the mine site. Potable water from underground wells is delivered to $2 \times 500 \text{ m}^3$ tanks where it is chlorinated and fluorinated then delivered to the mine site and settlement.

Production water from the mine water discharge ponds.

Drainage

Mining operations at the Koashva pit are drained with dewatering wells located along the pit walls and equipped with Flygt CS330 pumps. The main sump, on the level +64 m is pumped by six tandem Flygt CP3311 and D1600 pumps with an average capacity $1,150 \text{ m}^3/\text{h}$ each. Pumping equipment and the volume of water sump are designed for the normal water inflow of $7,237 \text{ m}^3/\text{h}$. If the maximum water inflow of $12,523 \text{ m}^3/\text{h}$ continues for 3 days, the pit bottom is flooded for 5 days.

Dewatering wells are located outside the pit envelope and provide pumping of ground and surface waters. Water is pumped from the wells by 43 ECV pumps, with capacities varying from 40 to $230 \text{ m}^3/\text{h}$, averaging $55 \text{ m}^3/\text{h}$.

Mining operations at the Njorkpahk pit are drained with in pit Flygt CP3311 pumps.

Compressors

The majority of the mine equipment is mobile and has self contained power sources so the need for compressed air is limited.

Mine Workshops

The main workshop is extensive which caters for all the machine maintenance and repairs including major component replacement in accordance with a duty based (number or running hours) planned preventative maintenance scheme. The scheme is supplemented with major overhaul services supplied by the OEM and warranty period support.

Explosives

Explosives for all the mines are stored and distributed from a central magazine facility. Each site is supplied directly with their daily need which is transported underground in dedicated explosives trucks to the point of use.

2.4 Projects and Prospects

2.4.1 Njorkpahk Prospect

With the current status of the reserves the Njorkpahk open pit will cease its operations in 2013. However, as Table 2-17 shows there are 57,104 kt of measured and indicated resources with average grades of 14.84% P_2O_5 and 12.86% Al_2O_3 available based on the current exploration. The Company is currently evaluating both underground and open pit design options to extract these resources but have not yet developed them into a Project.

2.4.2 Centralny Prospect

With the current status of the reserves the Centralny open pit will cease its operations in 2017. However, as Table 2-17 shows there are 99,960 kt of measured and indicated resources with average grades of 14.18% P_2O_5 and 14.51% Al_2O_3 available. The Company is currently evaluating both underground and open pit design options to extract these resources but have not yet developed them into a Project. However, it is likely that that a proportion of these resources will be converted into reserves for Centralny open pit and extend its mine life.

2.5 Concentrators

Apatit ROM apatite-nepheline is processed by two concentrators ANOF 2 and ANOF 3. The original ANOF 1 concentrator was situated in the centre of Kirovsk town and has now been removed when the more modern ANOF 3 plant was built.

The final products produced by both concentrators are as follows:

- Apatite concentrate (GOST 22275-90)
- “Super” apatite concentrate (TU 2111-37-00203938-96)
- Coarse ground apatite concentrate (TU 2111-37-00203938-98)
- Nepheline concentrate (TU 2111-28-00203938-93)
- Syenite-aluminium alkali concentrate (TU 5726-047-00203938-97)

The apatite concentrates are crystalline grey powders at 39 to 40% pure P_2O_5 . The nepheline concentrate is a fine grain grey powder at 28 to 29% Al_2O_3 . The syenite-aluminium alkali concentrate is an odourless grey powder with an Al_2O_3 content of a minimum 26%.

2.5.1 ANOF 2 Concentrator

The ANOF 2 concentrator is in the suburban zone of the town of Apatity in the valley of the Belaya River at the foothill of the Vudayvrchorr mountain 20 km to the south west of Kirovsk and 5 km north east of Apatity.

The concentrator was completed in 1980 to a design capacity of 14 Mtpa of apatite concentrate. In the 90s due to low product sales the redundant plant facilities were decommissioned and in the late 90s the plant capacity was reduced to 9.9 Mtpa of apatite concentrate. Refurbishment that started in 1999 on the decommissioned flotation, grinding and drying process facilities and the current capacity is now 18.1 Mtpa ore and 4.8 Mtpa apatite concentrate.

2.5.1.1 Plant Description

Ore is tipped into the plant receiving hoppers from the 105 t tipper wagon trains bringing ore from all the mining operations. The ore is feed into the crusher, which include two independent crusher modules (I and II). There are two crushing lines in each of the modules consisting of three stages.

The oversize (+180 mm) is fed to the primary cone crushers for crushing to 150 mm. Undersize is combined with the crushed ore and is transported to secondary crushing receiver bins.

From the secondary crusher bins, ore of the size (–320 to 0 mm) is screened at 90 X 140 mm where oversize is fed to the secondary cone crushers. The undersize and the ore after secondary crushing are fed to the tertiary crusher bins with capacity of 7,000 t (module I) and 11,000 t (module II).

The ore from the bins is screened at 28 mm and the oversize is fed to the tertiary cone crushers. The undersize (–28 to 0 mm) and the ore after tertiary crushing are conveyed for grinding and flotation.

The grinding and flotation plant consisting of two modules two mill types are installed: MSHR-3600 × 4000 and MSHR-4500 × 5000 where 100 and 80 mm steel balls are used.

In circuit No.1 the mill overflow is fed to GC-100 and GC-71 hydro-cyclones where oversize is recycled by gravity to the mill for regrinding.

No.2 circuit has MSHR 4,500 × 5,000 mm mills which operate in a three stage ore classification circuit:

- 1st stage—IKN-30 single-screw classifier;
- 2nd stage—GC-100 hydro cyclone;
- 3rd stage—GC-71 hydro cyclone.

The IKN-30 single-screw classifier operating in scalping conditions is designed for separation of the biggest size sand fractions. The GC-100 and GC-71 hydro-cyclones operate in a similar way to circuit No.1, where oversize is recycled by gravity to the mill for regrinding

In addition two MSHR 3,600 × 4,000 mm mills in module II operate in a closed circuit with a 2KSN-30 double screw classifier. In this circuit the mill overflow is fed by gravity to the classifier where overflow is

fed to the flotation circuits. The circulation load on the ball mills are high at 300 to 500% which is a concern to the Company and IMC understand that the issue is being addressed.

In module I the feed from the hydro-cyclone overflows fed to agitators where dosing chemicals are added to the slurry and pass through primary flotation cells by gravity. The primary flotation cell underflow, at up to 3% P_2O_5 , flows by gravity to secondary flotation then is discharged to the tailings sump via the second cell collector. The secondary flotation cell product at $P_2O_5\%$ at 0.8 to 0.5% is feed for nepheline concentrate production.

The primary flotation froth product at 31 to 34% P_2O_5 is cleaned in floatation columns to give

- Flotation concentrate (39.0 to 39.4% P_2O_5);
- Column flotation middlings (20.0 to 28.0% P_2O_5).

In module II there is primary, secondary flotation and three crude concentrate re-cleaner operations being equipped with FMR-6.3 flotation machines.

The primary flotation froth product in each unit, at 31.0 to 34.0% P_2O_5 , is fed by gravity to the first crude concentrate re-cleaning. The primary flotation cell underflow, at 3.0 to 5.0% P_2O_5 , is fed to secondary flotation.

The first re-cleaner froth product, at 36.0 to 38.0% P_2O_5 , is fed to the second and third stage concentrate re-cleaner where the froth product is a minimum 39.0% P_2O_5 .

Dehydration comprises four stages:

- Flotation concentrate thickening in GC-75 hydro-cyclones;
- Hydro-cyclone overflow thickening in circular thickeners, 30 m;
- Hydro-cyclone sands and thickener product filtration;
- Cake drying.

Flotation concentrate is fed to GC-75 hydro-cyclones to break down foam and to improve apatite grain coagulation in the thickening process. This hydro-cyclone thickening process enables production of super concentrate.

Filtration of the concentrate is undertaken in 11 continuous vacuum filter units including three equipped with 12 drum vacuum filters with a surface area of 40 m² which are used to filter the super concentrate. Each of the other units are equipped with five eight-disc DN 63-2.5 vacuum filters with an area of 63 m².

Filter cake is dried in parallel flow direct heat exchange drying drums by 11 rotary drying drums. The high temperature in the furnaces is fired with fuel oil to maintained temperatures in the range of 900 to 1,200°C.

Part of the bulk flotation cell product is sent for nepheline concentrate production by thickening in hydro-cyclones. Minerals having magnetic properties (titanomagnetite) are separated from the mineral slurry and sent to tailings storage. Non-magnetic fractions are recycled to primary and secondary nepheline flotation. The primary flotation is in OK-38 flotation machines (2 × 6 cells), the secondary flotation is in FMR-63 flotation machines (4 × 10 cells). The secondary flotation results in a nepheline concentrate at 28.5 Al_2O_3 or aluminium alkali concentrate at 26% Al_2O_3 .

Filtration of nepheline concentrates is by drum vacuum filters producing a cake up to 13.0% moisture and up to 1% solid. Drying is in 3 parallel flow drying drums.

The tailings storage facility (TSF) is used for concentrator waste and the ash-slag mixture from the Heat and Power Plant. The TSF is a hydraulic fill single section type with water clarification settlement.

2.5.1.2 Plant Performance

Table 2-26 below shows the apatite historic production for ANOF 2 concentrator.

Table 2-26 ANOF 2 Concentrator Historic Apatite Production

Year	Milled '000t	P ₂ O ₅ %	Recovery %	Total Conc '000t	P ₂ O ₅ %	Standard Conc '000t	P ₂ O ₅ %	Super Conc '000t	P ₂ O ₅ %	Tailings P ₂ O ₅ %
2008	13,702	12.84	88.76	3,909	39.20	3,661	39.14	248	40.15	1.92
2009	12,526	12.77	90.00	3,610	39.17	3,447	39.12	163	40.17	1.82
2010	14,205	13.01	89.97	4,166	39.19	3,945	39.14	221	40.16	1.86
2011(5m)	5,595	13.36	89.86	1,679	39.22	1,573	39.16	106	40.14	1.96

Apatite concentrate production in 2008 and 2009 was limited by the world financial crisis and the flotation section upgrading works. In 2010 an increase in concentrate production can be observed.

Table 2-27 below shows the Nepheline and Syenite historic production for ANOF 2 concentrator.

Table 2-27 ANOF 2 Concentrator Historic Nepheline and Syenite Production

Year	Feed '000t	Al ₂ O ₃ %	Total Concentrate '000t	Al ₂ O ₃ %	Nepheline Concentrate '000t	Syenite Concentrate '000t	Concentrate P ₂ O ₅ %
2008	2,517	15.06	565.6	28.37	538.8	26.8	0.20
2009	2,203	14.99	495.0	28.35	474.5	20.5	0.18
2010	4,567	14.86	1,026.3	28.44	1,001.0	25.3	0.16
2011(5m)	1,919	14.58	431.1	28.33	419.9	11.2	0.14

Reduction of nepheline and syenite concentrates for 2008 and 2009 can be observed again due to the world economic crisis as well as an overall drop in market demand for nepheline products.

It is noted that there is a froth layer on the thickener, with the formation of local froth caps, that uses in-house aluminosilicic coagulant-flocculant. IMC would recommend tests for the selection of a more efficient coagulant-flocculant prior to upgrading the thickener P-30 (C-30).

It should be noted that topping TSF dam up to 200 m will provide the concentrator with free capacity only until 2026. Thus, it is necessary that the decision of further dam topping or construction of a new TSF should be taken by 2020 at the latest.

IMC considers the ore process flow sheets to be satisfactory and are consistent with recent technical developments. The conditions of the main processing equipment are satisfactory and the Company approach to repairs of the available equipment and purchasing new equipment is satisfactory.

2.5.1.3 Infrastructure

Access

Access to the site is via a class 1 and class 2 roads from the town of Kirovsk 20 km to the north east 5 km south west to Apatity and 200 km north to Murmansk. This road is only used for limited industrial purposes and mainly for personnel access to the towns of Kirovsk and Apatit which are both ski resorts.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from all the mines to the concentrator with a fleet of approximately 300 tipper wagons each 105 t capacity hauled by 60 locomotives. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a “bonded” warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage. There are mobile phone transmitters underground on the main levels allowing cellular coverage throughout the main areas of the mine.

Electrical Power

Power for the ANOF 2 concentrator is supplied via separate sub stations which are part of the Apatit distribution network.

Power is distributed at the mine sites at 6 kV, 1 kV and 400 V for the mine equipment.

Water Supply

Portable water and industrial water to this and the other operational sites is provided from water abstraction points at:

- Imandra Lake;
- Bolshoi Vudjyavr Lake.

2.5.2 ANOF 3 Concentrator

The ANOF 3 concentrator is in the suburban zone of the town of Kirovsk in the Kirovsky forestry state fund 500 to the south east of Novy Titan railway station 8 km from Kirovsk and 17 km from Apatity and 26 km away from the village of Koashva.

The first stage of the concentrator was completed in 1988 to a design capacity of 3.0 Mtpa of apatite concentrate. In the 1993 the second stage was added to take the capacity 5.5 Mtpa of apatite concentrate.

Construction of the third stage was terminated due to drop in demand of apatite concentrate. As of 1995 the capacity has been was 5.1 Mtpa of concentrate, 17.2 Mtpa of ore

2.5.2.1 Process Description

Ore is tipped into the plant receiving hoppers from the 105 t tipper wagon trains bringing ore from all the mining operations.

From the receiver bins, ore size 1,200 mm is fed to primary cone crushers and is crushed to – 275 mm. After primary crushing the ore is screened where the oversize is fed to the secondary cone crushers. The secondary crusher reduces the ore to – 70 mm which is then fed to ten tertiary crushers. After the tertiary crushing the ore is – 40 mm and is fed for check screening in GIST-72M screens at 25 mm. Oversize is a recycled for re-crushing, undersize – 25 mm is fed to the mills.

The crushed ore is ground in MSHC 5500*6500 mills operating in a closed circuit with GC-140 and GC-100 hydro-cyclones installed in series. The ore is ground to 0.16 mm, which ensures apatite grain release and the size of the apatite concentrate produced is maximum 13.5% +0.16 mm.

The mill discharge is fed to GC-140 and GC-100 hydro-cyclones, underflows are combined and are recycled by gravity to MSHC 5,500 × 6,500 mills. The total circulation sand load on the mill is 200-300% which the Company considers to be excessive and are considering alternative forms of classification.

The flotation process flow includes primary, secondary flotation and four concentrate re-cleaners. From the agitators the slurry is fed by gravity to the primary flotation units, 8 lines of two OK-38-2I double-cell machines. The secondary flotation includes 8 lines of single OK-38-2I double-cell machines, the first re-cleaner includes 8 lines of single OK-38-2I double-cell machines, the second and the third re-cleaners include four lines of single OK-38-2I treble-cell machines and the fourth re-cleaner includes 4 lines of single OK-38-2I double-cell machines.

Flotation concentrate at 25 to 45% solids is pumped to GC-1000 hydro-cyclones where overflows are fed to a quadruple surge tank and flow by gravity to 50 m thickeners. Overflow from the thickeners at <1% solid are combined with flotation tailings. From the surge tank the feed is distributed to 6 × D-63-2.5 disc vacuum-filters which results filtration cake at 13% moisture with a maximum size of +0.16 mm 13.5% for standard concentrate and at 32% moisture with a minimum size of +0.16 mm.

Filter cake is fed to six drying drums producing standard concentrate at 125 to 130 t/hr and super concentrate at 80 to 100 t/hr.

Filter cake is dried in parallel flow direct heat exchange drying drums by rotary drying drums. The high temperature in the furnaces is fired with fuel oil to maintained temperatures in the range of 400 to 1,150°C.

The TSF is located within the former tailings dam of ANOF 1 at the Zhemchuzhnaya River 3 km to the south of ANOF 3 concentrator.

2.5.2.2 Plant Performance

Table 2-28 below shows the apatite historic production for ANOF 3 concentrator.

Table 2-28 ANOF 3 Concentrator Historic Apatite Production

Year	Milled '000t	P ₂ O ₅ %	Recovery %	Total Conc '000t	P ₂ O ₅ %	Standard Conc '000t	P ₂ O ₅ %	Super Conc '000t	P ₂ O ₅ %	Tailings P ₂ O ₅ %
2008	11,476	13.01	89.19	3,334	39.19	2,959	39.08	375	40.05	1.93
2009	11,728	12.84	90.36	3,409	39.16	3,159	39.09	250	39.98	1.78
2010	13,448	13.06	90.31	3,961	39.25	3,685	39.19	276	40.02	1.81
2011 (5m)	5,576	13.01	90.38	1,640	39.25	1,557	39.20	83	40.09	1.79

ANOF 3 is the more modern of the two processing plants and is loaded as a preference to ANOF 2 because of operating cost and efficiencies.

High dust emissions were observed during the visit to ANOF-3 indicating inefficient operation of the dust collection system.

IMC considers that the combination and condition of ANOF 2 and ANOF 3 concentrators are adequate to sustain a concentrate production of 8.9 ktpa, which supports the long-term Company mining schedule provided that the facilities are managed and maintained to the current standards.

2.5.2.3 Infrastructure

Access

Access to the site is via a class 1 and class 2 roads from the town of Kirovsk 8 km away, 17 km to Apatity and 26 km to the village of Koashva.

Rail access is via 220 km of Company track which is used to transport all the ROM ore from all the mines to the concentrator with a fleet of approximately 300 tipper wagons each 105 t capacity hauled by 60 locomotives. Materials are also supplied by rail to a central warehouse for distribution to the mines by road and rail. This warehouse, which was originally intended to be a “bonded” warehouse is located close to the mine site.

The closest air facilities are located in Apatit which has a limited domestic service and the regional capital Murmansk which has an international airport.

Telecommunications are excellent at the mine site with land lines and full mobile coverage. There are mobile phone transmitters underground on the main levels allowing cellular coverage throughout the main areas of the mine.

Electrical Power

Power for the ANOF 2 concentrator is supplied via separate sub stations which are part of the Apatit distribution network.

Power is distributed at the mine sites at 6 kV, 1 kV and 400 V for the mine equipment.

Water Supply

Portable water and industrial water to this and the other operational sites is provided from water abstraction points at:

- Imandra Lake;
- Bolshoi Vudjyavr Lake;

2.6 Environmental

2.6.1 Environmental and Social Status

Phosphate minerals have been mined for over 70 years in the vicinity of Apatity and Kirovsk towns, which lie in the Khibinsky mountain range, Murmansk Region of the Kola Peninsula. The total area of land disturbed either as a result of current mining and processing operations or historical activities exceeds over 7,000 Ha. However the area is designated as an industrial zone and there are no National Parks or protected areas likely to be influenced by the operations.

The Kola Peninsula is within Atlantic-Arctic temperate zone with average temperatures ranging from minus 12°C in winter to plus 8 to 12°C in summer. Heavy winter snowfall presents the risk of avalanche whilst the occurrence of temperature inversion phenomena has some influence on the planning of environmental protection measures.

Surface waters under the influence of the operations include the Imandra and Bolshoi Vudjyavr Lakes used for fresh water supply and the Vuonnemjok, Zhemchuzhnaya and Belaya rivers and Kitchepahk and Bolshoi Vudjyavr lakes which receive water discharges. All are classed as fishery standard waters.

The operational units having potential for impact on residential areas and the local environmental media include:

- Joint Kirovsk mine underground and open pit mining of apatite-nepheline ores;
- Rasvumchorr mine underground mining of apatite-nepheline ores;
- Centralny mine open pit mining of apatite-nepheline ores;
- Vostochny mine open pit mining of apatite-nepheline ores;
- Ore processing complex including two apatite-nepheline concentrator plants, ANOF 3 and ANOF 2, and associated tailings storage facilities;
- Utility supply complex for water, heat, and electric power;
- Road and rail transport departments;
- Mining department for major mine development activities;
- Construction and maintenance departments;
- Explosives workshop for manufacturing of explosives for the company use.

All the operations are located close to the towns of Kirovsk and Apatity. Joint Kirovsky mine is 6 km north east of Kirovsk and the most remote Vostochny mines, Koashva and Njorkpahk deposits, are approximately 15 km north east of Kirovsk. The processing plants, ANOF 2 and ANOF 3, are located north of Apatite and 5 km south east of Kirovsk respectively. These communities grew alongside the development of mining and processing which provide the main source of employment and basis of the economy of the district. The company has a social policy for community aid and development and operates facilities for culture and sports.

2.6.2 Potential Impacts and Control Measures

The current and historical operations have disturbed a relatively large area but due to the climate, topography and poor topsoil the land is not considered suitable for other use, such as agriculture. Environmental impacts are mainly associated with dust emissions and potential effects on residential areas, discharges of mine and process waters to the local rivers and storage of waste materials.

2.6.2.1 Air Emissions

The Project Design on the standards for permissible pollution describes the characteristics of all sources of air pollution. Within the operations there are 474 identified sources of air pollution sources, of which 395 sources are emissions from a defined place and the remainder are non-organised or fugitive emissions. Sulphur dioxide produced during fuel combustion in heating plants and the concentrate drying kilns is the most significant emission in terms of quantity and potential for impact. In addition inorganic dust emissions arise during most of the company's primary and auxiliary activities, including:

- Drilling and blasting operations;
- Ore and waste rock handling, storage and transport;

- Ore crushing;
- Concentrate drying;
- Tailing storage; and
- Fuel combustion.

Dust suppression measures, such as water spraying and containment, are practised during mining and material handling when conditions necessitate. The ore crushing facilities are equipped with gas handling and dust capture systems. Emissions from the concentrate drying kilns are treated in a multi-stage cleaning system for abatement of dust and sulphur dioxide. In order to improve the efficiency of air emission control, the company carries out regular maintenance and replacement of the ventilation systems.

The impact of dust blowing from the tailings storage facilities is minimized by fixation of dust-forming surfaces using bitumen emulsion and biological restoration of completed slopes of the dumps.

At present the Company is preparing justifications for the extent of the boundaries of the sanitary protection zones.

2.6.2.2 Water Use and Discharge

Fresh water for industrial and domestic use is obtained under agreement from the company's facilities at Imandra and Bolshoi Vudjyavr Lakes, Predgorny ground water intake point in Koashva deposit, Klyuchevoi and Borehole 5v ground water intakes, and from a third party Apatitvodokanal central water intake point. The water supply sources are also used by third parties, including Koashva and Titan settlements.

Waste waters including treated domestic effluents, underground and surface mine drainage water, drainage water of de-watering boreholes, process waters and storm water run-off are discharged at eight points, to the receiving rivers Vuonnemjok, Zhemchuzhnaya and Belaya, and Kitchepahk and Bolshoi Vudjyavr lakes:

- Water Outlet No.1 for discharge of surplus water from the tailings facility of ANOF 3 via a secondary settling pond to the Zhemchuzhnaya river;
- Water Outlet No.2 for discharge of surplus water from tailings facility of ANOF 2 via a secondary settling pond to the Belaya river;
- Water Outlet No.3 for discharge of rainfall water of ANOF 2 site via a water treatment facility to the Belaya river;
- Water Outlet No.4 for discharge of mine water from Rasvumchorr, Yukspor and Central mines together with industrial waste water via Saamskaya and Yuksporjok rivers into settling pond of Bolshoi Vudjavr lake, and further to the lake via a scattering dam;
- Water Outlet No.5 for discharge of mine water from Koashva and Njorkpahk open pits and storm water sewage via hydro-technical facilities of Vostochny mine to Kitchepahk;
- Water Outlet No.6 for discharges of de-watering wells in the Vostochny mine to the Vuonnemyok;
- Water Outlet No.7 for discharge of treated sewage water from Vostochny mine to the Vuonnemyok river;
- Water Outlet No.8 for discharge of filtration water from settling point No. 2 of Koashva mine to Kitchepahk lake.

The most complex hydro-geological and hydrological conditions are present at the Vostochny mines where, according to the 2010 balance scheme, 38 Mm³ of water was discharged from the settling ponds. With respect to protection of the quality of the surface water receptors, the main issues are:

- Lack of current permit for discharge of pollutants. The design for allowable pollution discharge standard on the basis of which permit is issued is developed and has been submitted to the nature protection supervisory bodies;
- Exceeding the maximum permissible concentrations in discharges with respect to fluoride, phosphates, aluminium, nitrites and nitrates, petroleum products, and suspended particles;
- Lack of treatment facilities for some mine water discharges.

2.6.2.3 Solid Waste

Overburden and waste rock from mining operations together with tailings waste from the concentrator plants constitute the bulk of the solid waste materials and are in the lowest category of hazard. In addition there are numerous types of non-process wastes ranging from hazardous mercury lamps and lead batteries to relatively low hazard domestic waste. These are generally stored on a temporary basis before transfer to specialist organizations.

Industrial waste is stored in several places:

- Tailings facility ANOF 2 located in Belaya bay of Imangra lake for long-term storage of processing tailings and ash from heating plant;
- Tailings facility ANOF 3 located in floodplain of the Zhemchuzhnaya river;
- Rock dumps No. 11 and No. 14 of Central mine;
- Rock dumps Nos.1, 2, 3 and 4 of Vostochny mine;
- Rock dumps Nos. 3 and 3a of the Joint Kirovsky mine;
- In-pit rock dump of Rasvumchorr mine;

Rock dumps have water collection ditches arranged on their perimeter to collect drainage waters and monitoring of ground and surface water qualities is performed in the areas used for long-term storage of wastes.

There are 3 hydro-technical facilities:

- Tailings storage facility (TSF) ANOF 2 located in Belaya Bay of Imandra Lake 8 km from the concentrator plant;
- TSF of ANOF 3 located 3 km south of industrial site near the Zhemchuzhnaya river;
- Hydro-technical facility complex of the Vostochny mine.

All of the hydro-technical facilities have the relevant permits for construction and operation, declaration on safety condition, emergency response and safety monitoring plans, and regular supervision. The current designs of the TSFs of ANOF 2 and ANOF 3 provide capacities equivalent to a further 15 and 20 years operation respectively.

The hydraulic engineering structures of the Vostochny mine includes facilities for diverting and cleaning of mine water, snowmelt and storm water in the area of Koashva open pit and rock dumps, and the Njorkpahk open pit and rock dumps, to protect Koashva open pit from river water and snowmelt flows. Other constructions divert the Vuonnemyok river and its tributaries in the territory of the open pit and rock dumps. These facilities comprise a complex system of drainage canals, barrages, dams, and settling ponds.

2.6.3 Environmental Management

Currently the company has no certification under international environmental management systems ISO 14000 but plans to implement these in the future. The environment management system is based on the requirements of Russian legislation including the following main aspects:

- Impact assessment of planned activities;
- Environmental justification of design solutions;
- Environmental action plans and monitoring of their implementation;
- Identification of responsible persons on environmental issues;
- Training, certification and staff development;
- Environmental control and monitoring;
- Reporting to the authorities in accordance with the laws and internal reporting standards;
- Coverage of the company's activities, including environmental issues, in the media.

A comprehensive monitoring programme is established and consists of more than 1000 items. The air monitoring programme includes schedules for each source of emissions, efficiency measurements on dust and gas collectors, and air quality monitoring at the sanitary protection zones and TSFs. In 2010 detailed monitoring of atmospheric air was carried out in order to justify the sufficiency or reduction of the standard sanitary protection zones in 2011.

Monitoring of water includes flow rate and parameters of discharges, bi-monthly or quarterly sampling of 15 control points on rivers, all-year-round monitoring of hydrological parameters of the water flow, more frequent schedule of controlling the hydrological parameters during high water levels.

Monitoring of long term waste storage facilities includes chemical analysis of surface and ground waters in the zone of pollution.

Management of the hydro-technical facilities includes examination of hydro-transport and recycled water supply systems, piezometer readings to check the dam conditions, visual observations of dams and diversion channels. The results of monitoring of ground water since 2000 reveal that ground water is contaminated by fluorine, manganese, cadmium, and that it has high level of minerals.

The Company is also planning to implement a scheme for monitoring of biological resources.

2.6.4 Permitting and Compliance

The company holds the required regulatory documentation and permits as listed in Table 2-29 below. Although the permit for discharge of polluting substances into water bodies expired at the end of 2010, a design on waste disposal limits that is the basis to issue a permit has been developed and submitted for approval to environmental protection authority. IMC understands that the new permit is expected in the near future.

Table 2-29 Environmental Permits and Licences

Permit/Licence	Registration ID	Expiry Date
Permits for Air Pollution		
Processing Plant ANOF 2	Nº1771 dated 30.06.2008	26 June 2013
Processing Plant ANOF 3	Nº1811 dated 11.03.2009	19 February 2014
Centralny Mine boiler	Nº1782 dated 01.09.2008	27 August 2013
Kirovsky Mine boiler	Nº1783 dated 03.09.2008	03 September 2013
Rasvumchorr Mine	Nº1891 dated 22.03.2010	15 February 2015
Vostochny Mine	Nº1707 dated 19.03.2008	11 March 2013
Repair, Construction and Installation Department ..	Nº1746 dated 27.03.2008	26 March 2013
Boiler in Kirovsk	Nº1638 dated 21.01.2008	06 April 2011
Mining Workshop	Nº1745 dated 27.03.2008	26 March 2013
Railway Workshop	Nº1772 dated 15.07.2008	15 July 2013
Petroleum Storage Depot	Nº1641 dated 21.01.2008	08 August 2011
Kukisvumchorr surface mine	Nº1856 dated 14.07.2009	29 July 2014
Licences for the Abstraction of Ground Water		
Koashva deposit, Predgorny Water Intake Point ...	MYP No 00463 TЭ	01 November 2015
Vudyavrskiye deposit, Klyuchevo and Borehole Sites	MYP No 00464 TЭ	30 April 2014
At Apatity municipal unit	MYP No 00776 BЭ	31 December 2030
Water Use and Discharge Agreements		
Intake from Bolshoi Vudjavr Lake	No 51-02.02.00.003-X-Д3BO-C-2010-00142/00	14 January 2016
Intake from Imandra Lake	No 51-02.02.00.003-O-Д3BO-C-2011-00213/00	16 March 2015
Permit for pollutant discharge into water bodies ...	Nº109 dated 28.04.2006	01 January 2011
Waste Licence		
For collection, use, detoxification, transportation and disposal of hazardous wastes	NºOT-26-000218 (51)	05 February 2013
Limits for waste disposal	Nº114 dated 23.03.2010	05 February 2013

Apart from the absence of a current water discharge permit, IMC considers that the company is in general compliance with the requirements of the environmental legislation of the Russian Federation and also with the specific conditions of its permits and licences. Some relatively minor exceeding of permissible levels in some air emissions and production of construction waste were observed but, in IMC's opinion, not significant. The Company has not received any significant fines or penalties in recent years.

The Company also complies with general international standards and requirements with respect to environmental assessment, planning, monitoring and reporting, social obligations and dissemination of information.

The results of environmental monitoring indicate some exceeding of standards for air quality and of certain parameters in water discharges to rivers and ground water close to the TSFs. However there is no evidence that these are causing significant impact.

2.6.5 Rehabilitation

2.6.5.1 Progressive Rehabilitation

Progressive restoration is implemented at completed areas of the tailings facilities of ANOF 2 and ANOF 3; the associated costs are included into the operating budgets.

Processing plant ANOF 1 ceased operating more than 10 years ago and is scheduled for demolition followed by land clearance and levelling. The land allocated to storage of ANOF 1 tailings is partially occupied by the TSF of ANOF 3 plant, but areas not used by ANOF 3 have self vegetated. Depending on the extent of reclamation, decided jointly with the city administration, further stages may involve deposition of fertile soil and biological measures. Alternatively the site could be used for construction in which case, reclamation will comprise mainly landscaping. Given the uncertainty with regards to the area involved and the final objective the site restoration costs can vary from RR15 to 25 M.

2.6.5.2 Closure Rehabilitation

Mine designs include information on restoration activities with an assessment of their financial feasibility. However at the moment all designs are being modified to take account of new ore production targets and the site restoration plans will be revised accordingly. Restoration of all the facilities involved in the mining operation is planned no earlier than in 2031.

Despite the relatively long timescale, it is necessary to establish a mechanism for funding in line with international requirements. A design for a 15 year expansion of the existing tailings storage of ANOF 2 has been developed. When this is implemented, some 345 Ha of land occupied by the current tailings facilities will be liberated and require cultivation at an estimated cost of RR207 M. The requirements for restoration upon closure of the ANOF 2 and ANOF 3 tailings storage facilities are not known at this stage and the costs involved difficult to estimate. However, given the large areas involved the cost for full technical and biological measures, if necessary, will be a substantially higher amount.

2.6.6 Summary of Potential Risks and Liabilities

The Company is in general compliance with the requirements of Russian legislation and the conditions of its environmental permits. The current and historical operations have disturbed a large area of land and have significant potential for pollution due to air emissions, water discharge and storage of water. IMC considers that the Company has a well organized environment management and monitoring system providing a reasonably effective control of risks and timely identification of areas of concern.

Environmental monitoring indicates some exceeding of standards particularly with respect to water discharges and ground water. Any effects appear to be limited and not causing significant impact to the local environmental media or communities. However, the Company is implementing measures to improve the environmental control and protection. The principal cost items in the water protection action plan include construction of water treatment facilities for mine water, selection of an optimum method for treatment to reduce levels of fluorides, suspended particles, petroleum products, and aluminium.

The Company should further develop the plans for reclamation of unused areas and determine the source of funding for subsequent site restoration activity. Preliminary plans for closure restoration are included in the mine designs, which are presently under revision. In line with international requirements the Company should develop realistic costs for closure and accumulate the required funds. In order to reduce the future

reclamation cost of the land disturbed by surface mining, in pit rock dumping should be practiced where possible.

3 MARKETING

The grade of the apatite concentrate produced is 39% P_2O_5 , which is high by international phosphate rock standards and low in deleterious impurities and there is even a portion of super concentrate produced with a 40% P_2O_5 content. The Phosagro group is also a significant producer of fertilisers utilising its own phosphate rock together with other reactants and ingredients, accounting for over half of final sales production. The balance is sold as concentrate to other customers including considerable amounts of exports.

The nepheline concentrate contains 28% alumina and high levels of alkalis. However, it also contains 2.1 to 2.5% Fe_2O_3 and 0.5 to 1.5% FeO , which is well above levels that are required for use in ceramics and glass, but acceptable in the production of alumina. A syenite concentrate with 26 to 28% alumina also has high levels of iron at 2.18 to 3.5% Fe_2O_3 and 0.9 to 1.2% FeO .

3.1 Phosphate Rock

3.1.1 World Production

World production of phosphate rock is concentrated in a few countries. The total production in 2010 was estimated to be 176 Mt an increase of 10 Mt tonnes over the previous year. The four of the largest producers in 2010 were:

• China	65 Mt
• USA	26.1 Mt
• Morocco	26 Mt
• Russia	10 Mt

These four countries represent approximately about 72% of the world total, with Tunisia, Jordan and Brazil added the share of production comes to 83%.

A large proportion of the phosphate rock production is consumed in-house by integrated producers with large capacities for the production of phosphorous containing fertilisers. About 70% of the phosphate rock is used by producers that are vertically integrated, manufacturing products such as DAP and MAP as major value added commodities that are then traded.

3.1.2 Reserves

World reserves and resources of phosphate rock are also concentrated in a small number of countries. Of the estimated 65 Bt world resource 79% are estimated to be in Morocco with China in second place at only an estimated 6%.

3.1.3 Markets

International trade in phosphate rock is less than 30% of current production with much of the production consumed within the country of production mainly by the rock miners themselves for the production of downstream processed fertilisers or phosphoric acid, into which nearly all phosphate rock is converted for use in the manufacture of fertilisers, which are then traded as value added products.

Exports from Russia have been declining but are still significant whereas there has been some growth in exports from the main supplier Morocco and from Middle East countries. Even excluding the effects of the recession there has been little overall growth in phosphate rock exports over the 10 year period with a greater degree of integration in the industry resulting in more trade in finished fertilisers manufactured from phosphate rock. China and the USA now use virtually all of their production internally for domestic use or for the manufacture of fertiliser products for exports. China has been an exporter but has imposed export restrictions and duties to reduce or possibly eliminate future exports of raw product.

It is expected that in the longer term there will be a decline in trade of phosphate rock with an accompanying increase in trade in value added fertilisers.

3.1.4 Prices

Prices are still at high levels in historic terms but well below levels reached during 2008. The price reached a maximum level of \$262 per tonne FOB Morocco and was accompanied by maxima in MAP (and other derivative phosphates) as well as sulphur. These prices were at unsustainable levels as farmers in many parts of the world simply could not afford to buy the fertilisers despite increases in food prices.

Rationalisation in the phosphates industry in 2005 and 2006 meant that there was insufficient capacity available to meet the surge in demand. Prices then fell sharply from their peaks but still well above historic levels. Crop prices and fuel prices fell considerably in the second half of 2008. The subsequent recession resulted in decreased demand because of tight credit conditions, destocking of fertilisers and farmers simply taking a “fertiliser holiday” and not treating fields. Prices of phosphate rock fell to about \$95 per tonne on and FOB Morocco basis but have since risen again. There is expected to be continuing increases in demand with rising population levels, especially in China India and developing countries. However, there are a large number of new projects in the pipeline, which are expected to moderate pricing but remaining at levels well above historic levels.

3.2 Nepheline Syenite

Outside of Russia, the nepheline syenite market is essentially restricted to a single producer, Sibelco, a privately owned Belgian company. It has two operations, one in Canada serving North American markets and one in Norway serving North European markets.

Russia is the only country using nepheline syenite as a raw material for the production of alumina. None of the alumina plants in Europe are designed to accept nepheline syenite working with bauxite raw material.

Nepheline syenite is, however, an important raw material in the manufacture of glass and ceramics. It is in competition with feldspar in these markets but is regarded as a higher quality material particularly in the manufacture of container glass and sanitaryware, where its high levels of alkalis for fluxing and high alumina levels are desirable.

Only the sales from the Norwegian operation would be considered as potential markets to target as transport costs to more distant markets would tend to mean that local competition from feldspar in other regions would make deliveries uneconomic. Total production in Norway, is fairly steady at between 300 and 350 ktpa, although it fell below the 300 ktpa during the recession of 2009.

It should be remembered that the Norwegian nepheline syenite is a very high specification product. There are very strict limits on impurities, particularly colouring impurities such as iron. Typically the specification for a glass grade demands a minimum of 23% Al_2O_3 , 14% combined alkalis, and 0.1-to .35% Fe_2O_3 . For ceramics the iron content is generally specified as a maximum of 0.07% Fe_2O_3 . The Apatit material would not meet these specifications as the nepheline concentrate contains 28% alumina and high levels of alkalis. However, it also contains 2.1 to 2.5% Fe_2O_3 and 0.5 to 1.5% FeO , which is well above levels that are required for use in ceramics and glass, but acceptable in the production of alumina. The syenite concentrate with 26 to 28% alumina also has high levels of iron at 2.18 to 3.5% Fe_2O_3 and 0.9 to 1.2% FeO .

4 SPECIAL FACTORS

Risks likely to impact on the Company’s forecast production, capital and operating costs by less than 10% are not considered significant. Any significant risks not adequately addressed in the Company’s production plans are considered to be “material” and are listed as “Special Factors”.

Risk

- Operating costs have increased substantially over the last 3 years of the IMC review. This is primarily down to the influence of world prices for steel, oil, gas, electricity and other oil/energy related products. Salary increases for all employees is generally in line with this general level of inflation and have shown a large escalation over the last 3 years.

5 CONCLUSIONS

IMC concludes from the independent technical review that:

- management's geological and geotechnical knowledge and understanding is of a satisfactory level to support short, medium and long term planning as appropriate and operations are well managed at an operating level;
- the mine plans appropriately consider geological and geotechnical factors to minimise mining hazards;
- all licences and permits are in place for continued operation and where required there is a reasonable expectation renewal;
- Apatit's mining equipment (either in place or planned in the capital forecasts) is suited to its mine plans and is adequate, with minor adjustments, for the production plans;
- Apatite-nepheline ore processing and other infrastructure are capable of continuing to supply appropriate quality concentrate products to the markets or for secondary refining within other Company facilities at the forecast production plans;
- After conversion to the international format the LTIFR can be seen to be better than other comparable operations. The LTISR is also better but the number of fatalities is worse than other comparable activities.
- environmental issues are well managed and there are no issues that could materially impede production nor are any prosecutions pending;
- the assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- capital and operating costs used in the financial model reflect the mine plans and development schedules and the forecast production levels;
- special factors identified by IMC are well understood by management and appropriate action to mitigate these risks is being taken. Further, the mine plans and cost forecasts appropriately account for these risks; and
- management operates a management accounting system and are able to monitor and forecast production and cost parameters. Management are updating the management accounting systems to IFRS over the short term.

Yours Faithfully,



John S Warwick B Sc (Hons) FIMMM, C Eng,
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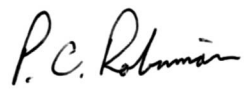
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Key Words: Russian Federation, Apatite, Nepheline, Syenite, Apatit, Due Diligence, CPR

	Signature	Name/Designation
Production:		John Warwick Project Director
Verification:		Peter Robinson Project Manager
Approval:		John Warwick Project Director
Date:	10 th June 2011	

Appendix A

QUALIFICATIONS OF THE CONSULTANTS

***J S Warwick Project Director and Mining Engineer**

B Sc Electrical Engineering (Hons), Newcastle University (1973); B Sc Mining Engineering (Hons), Nottingham University (1975); Mine Manager's 1st Class Certificate; Fellow Institute of Materials, Minerals and Mining; Chartered Engineer; European Engineer (Eur Ing).

35 years experience in the coal, base metals and industrial minerals mining industry and 8 years of directing Competent Person's and Mineral Expert's Reports. He is qualified under the provisions of the ESMA guidelines Section 133 (i) (a) and in particular both subsections (1) and (2) as a Competent Person under the requirements of the JORC Code.

P C Robinson Project Manager

Associate, Chartered Institute of Management Accountants

30 years experience in the mining, minerals and consulting industry worldwide with specific experience of investment and mine purchases, project management, production of a competent persons report in support of a flotation on major stock exchanges for major companies.

***N. Scott Geologist**

BSc Geology, London University

More than 35 years experience in different types of metalliferous and industrial mineral deposits in 50 countries; Due diligence appraisals and JORC or NI 43-101 reserve/resource audits; Feasibility studies; Mineral sector studies; and Legal, policy and re-structuring advice in the minerals and environmental sectors Neil Scott is a Competent Person under the requirements of the JORC Code.

***A Vidysh Process Engineer**

Graduate of Norilsk Industrial Institute in 1996. Before joining IMC she had 17 years experience in processing of ore minerals, including her work as a specialist in a scientific and research organizations. She was engaged in development of new science-driven processes and technologies within the frame of strategic development of processing and metallurgical production.

***M George Environmental Engineer**

BSc (Hons) in Applied Chemistry, Kingston-upon-Thames University (1971); Specialist courses in Hydrometallurgy, Solvent Extraction, Management in Industry, Assessment of Competence in Process Operations, Radiological Protection Supervision, Environmental and Safety Auditing, Health and Safety at Work Regulations, COSHH (Control of Substances Hazardous to Health) Assessment, Integrated Pollution Control.

30 years experience in base metals processing including environmental aspects and specialising in the environmental field for the last 5 years.

***W Lewis Financial Analyst**

Fellow, Chartered Management Accountant, Chartered Institute of Management Accountants (1991); BSc Hons Physics; Imperial College, London (1974).

Over 20 years of combined experience in coal and metal mining and in business modelling, mine evaluations, mine investment proposal production, costing of production and general investment appraisal for underground and surface mine operations.

***A Dvornikov Mining Engineer**

Has occupied management positions in mines at a transpolar branch of OAO "GMK "Norilsky Nickel", with 12 years experience in mine development sector and a 4 years experience in mining sector. Currently Aleksey participates in coal and other mining projects as a specialist in the areas of mining technologies, mining equipment, infrastructure, industrial safety, environmental protection and economics.

***M Sokolova Environmental Engineer**

Graduate of Moscow Geological Exploration Academy and is a certified engineer specializing in eco-geology. She has 11 years experience in the area of environmental protection. From 2000 to 2008 she worked in the Monitoring and Forecast Centre at the RF Emergency Committee and held position of the main specialist at the Environmental Emergencies Monitoring Division. There she acquired Russia-wide work experience in the area of environmental protection, including the area of environmental safety at industrial enterprises. Currently she takes part in projects making environment impact assessments and assessment of compliance of the mine operations with the local Environmental Law and international standards.

* denotes visited operations

Appendix B

SCOPE OF WORK, MATERIALITY & LIMITATIONS

Scope of Work

IMC carried out the following scope of work which satisfies the requirements of a Competent Person's Report as set out in the European Commission's Regulation on Prospectuses No. 809/2004 in conjunction with the recommendations of the CESR updated with the ESMA guidelines of March 2011, the requirements the Prospectus Rules of the FSA and the listing requirements of the London Stock Exchange.

- Introductory meetings with Apatit directors and management to understand the business plan;
- Site visits and collection of data. Consultants marked with an asterisk (*) in Appendix A visited the assets relevant to their disciplines and inspected:
 - o Geological maps, plans and sections;
 - o Mining operations and equipment;
 - o Apatite, nepheline, syenite concentrating plants;
 - o Infrastructure including transport systems and maintenance facilities; and
- Data and documentation was supplied to IMC personnel at each site and financial data at Apatit base in Kirovsk and Phosagro headquarters in Moscow. This included:
 - o Historical production and costs on an annual basis;
 - o Budgets and plans; and
 - o Project studies.
- A technical review was undertaken at each asset including the following elements:
 - o Data suitability;
 - o Geology and mining hazards;
 - o Resources and reserves;
 - o Apatite and nepheline mining operations;
 - o Apatite and nepheline ore processing to concentrates;
 - o Infrastructure;
 - o Environmental issues;
 - o Capital and operating costs; and
 - o Review of budget forecasts.

Materiality & Limitations

No valuation of Proved and Probable Reserves has been included in the Scope of Works for this CPR at the request of the Company as Apatit forms only a part, but a material part, of the ZAO Phosagro operations.

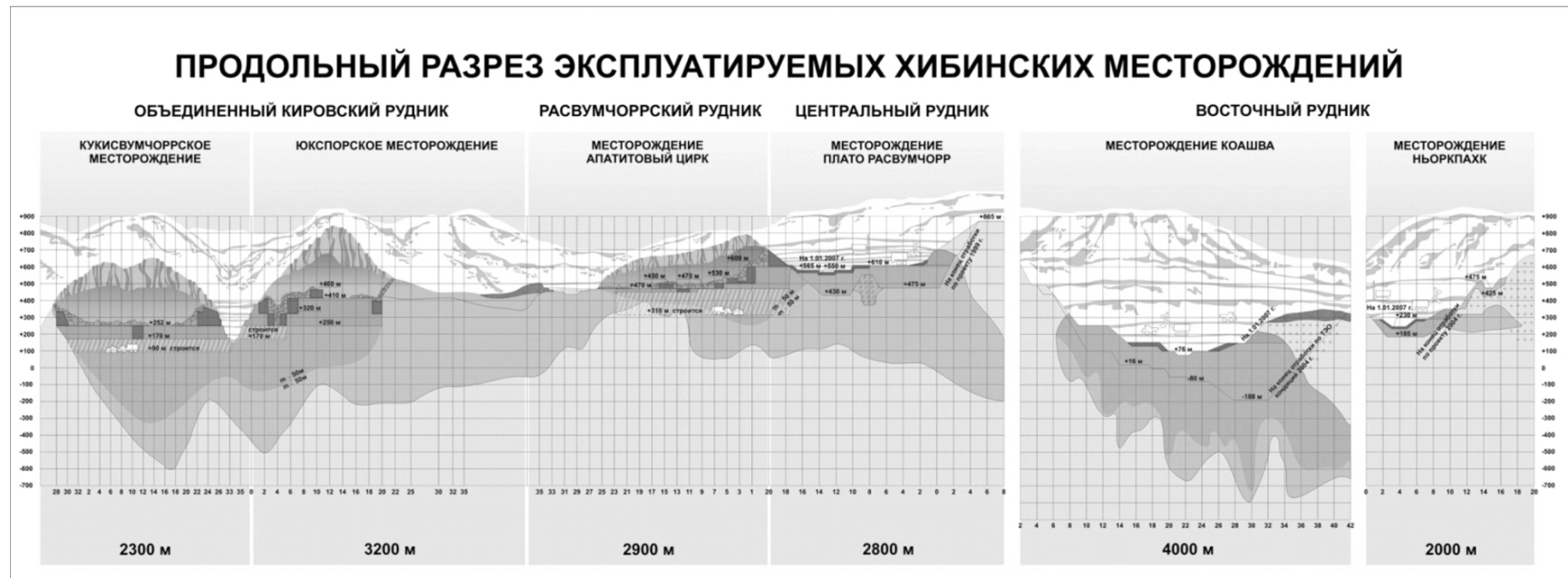
Appendix C

MAPS AND PLANS

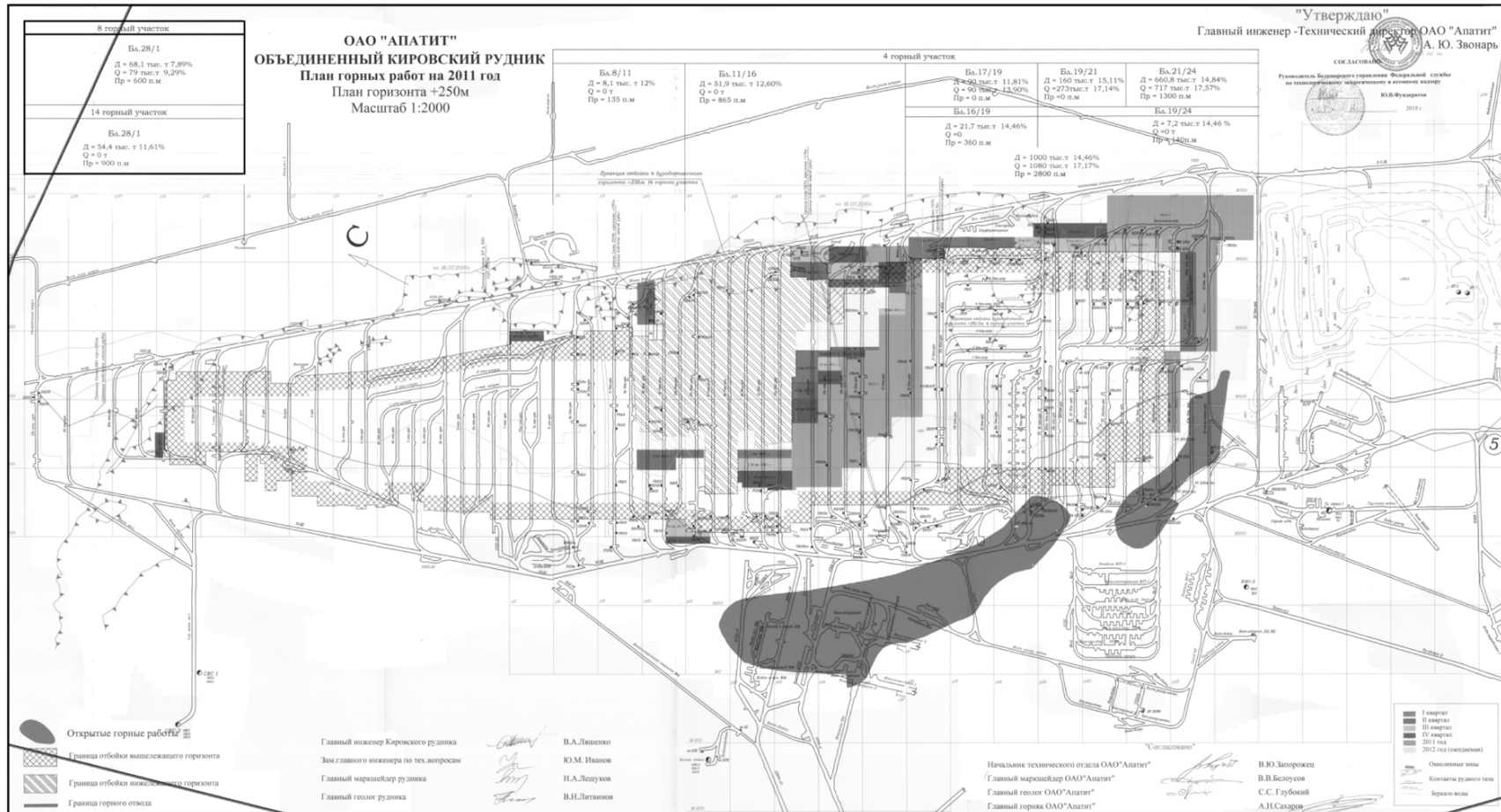
0AO Apatit Location Plan



Cross Section of the Regional Geology

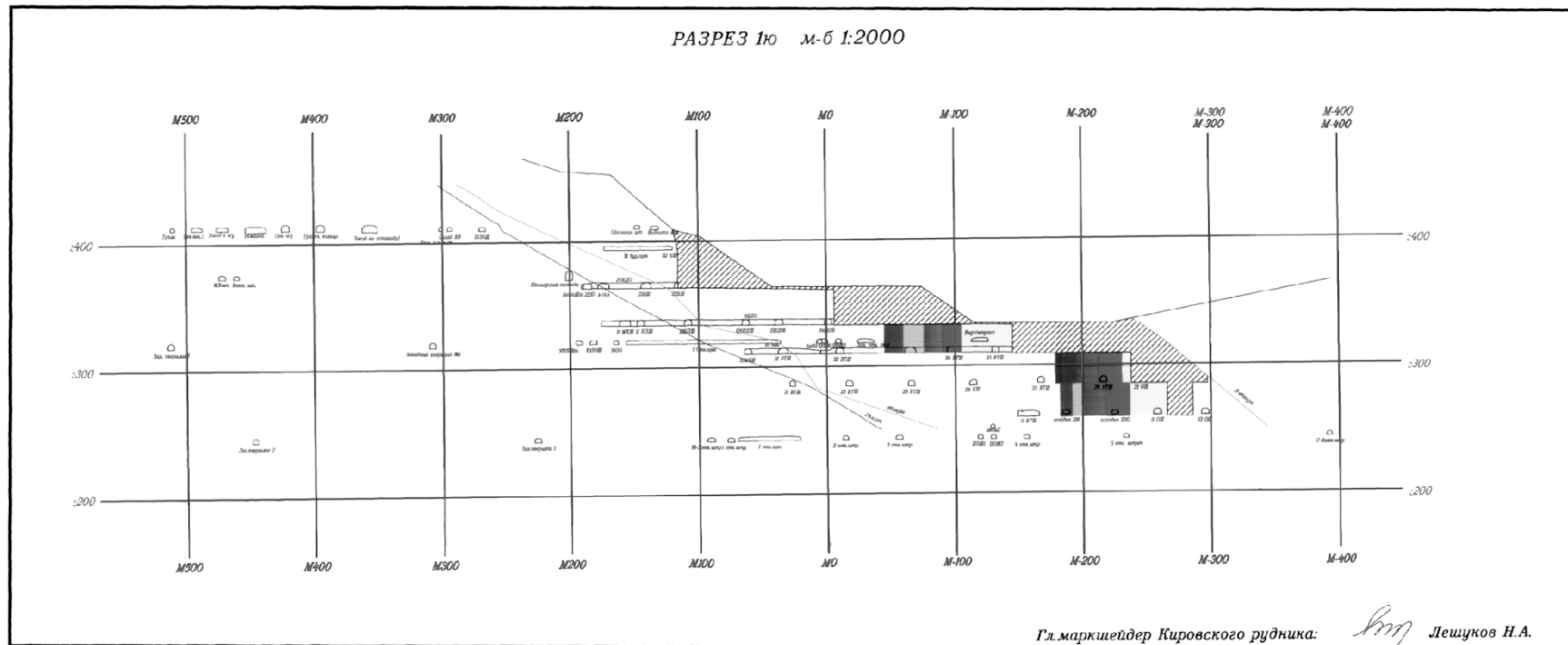


Kirovsky Mine Mining Plan

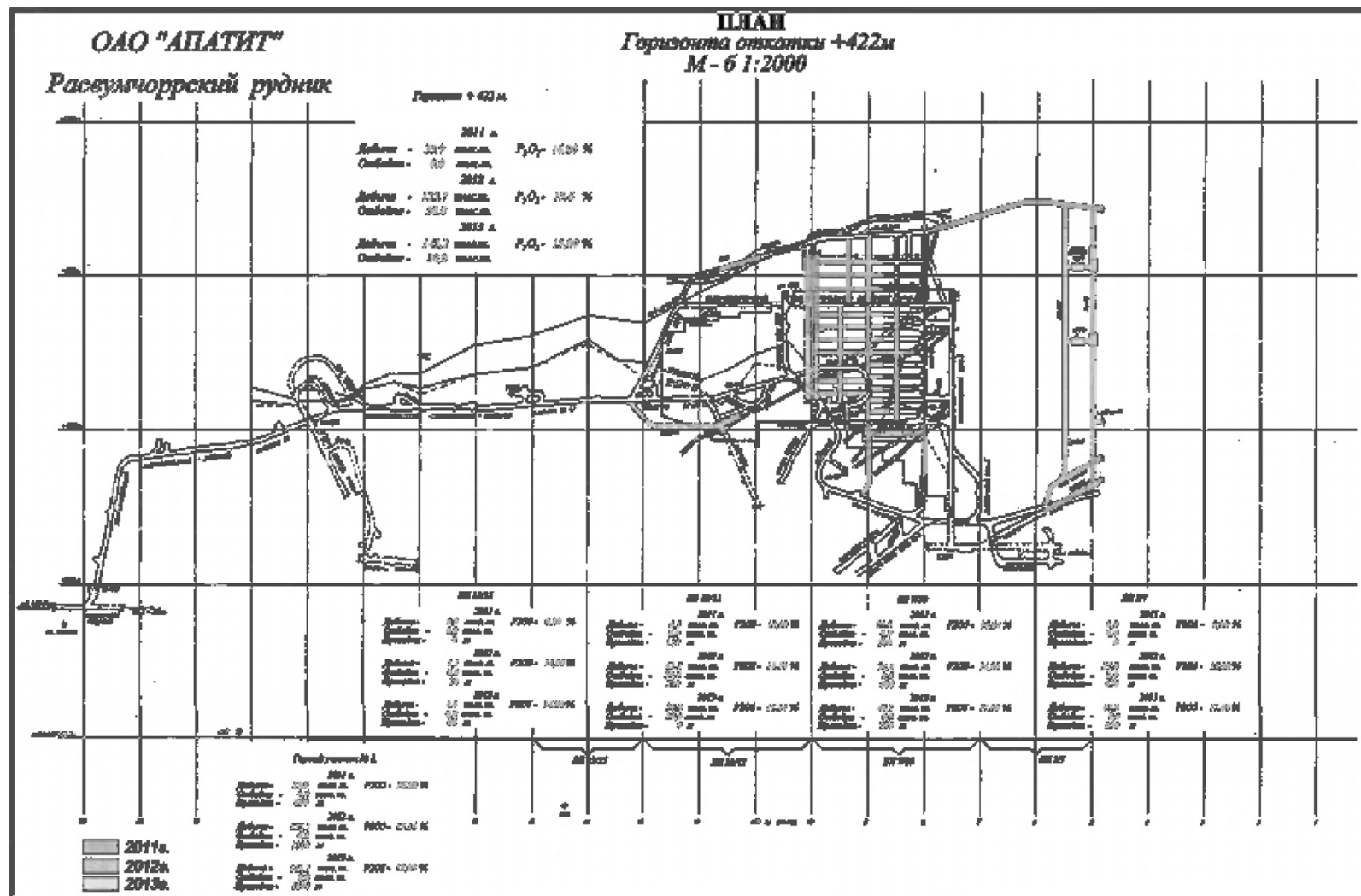


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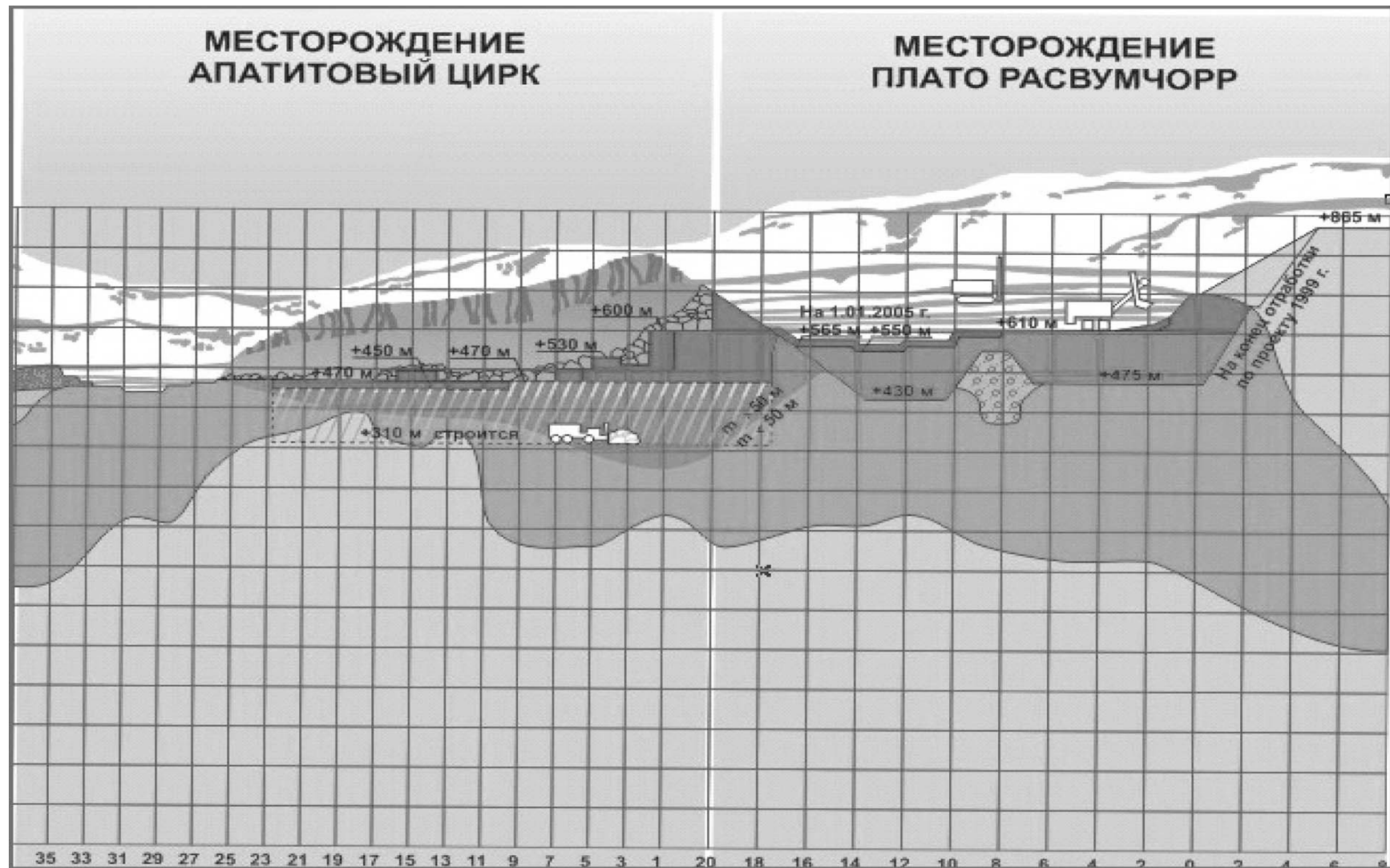
Kirovsky Mine Cross Section



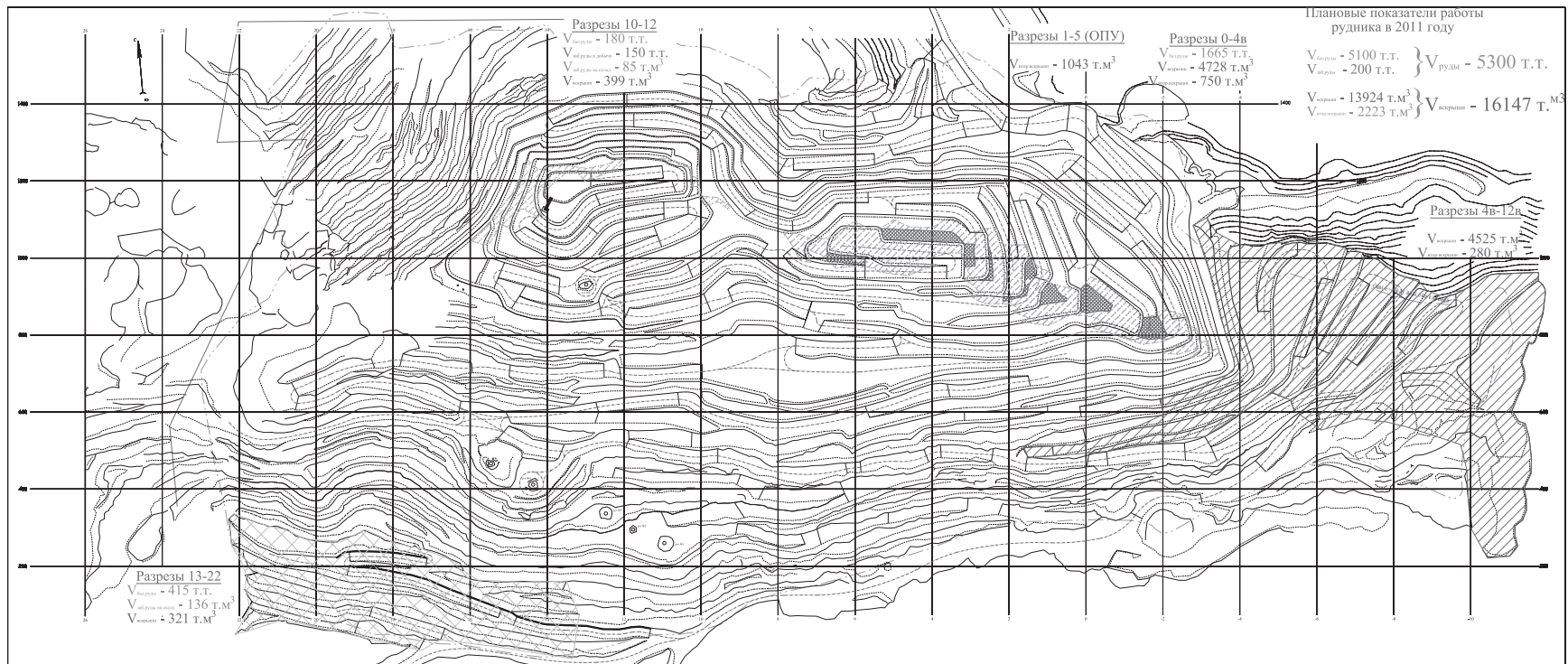
Plan Level +422m



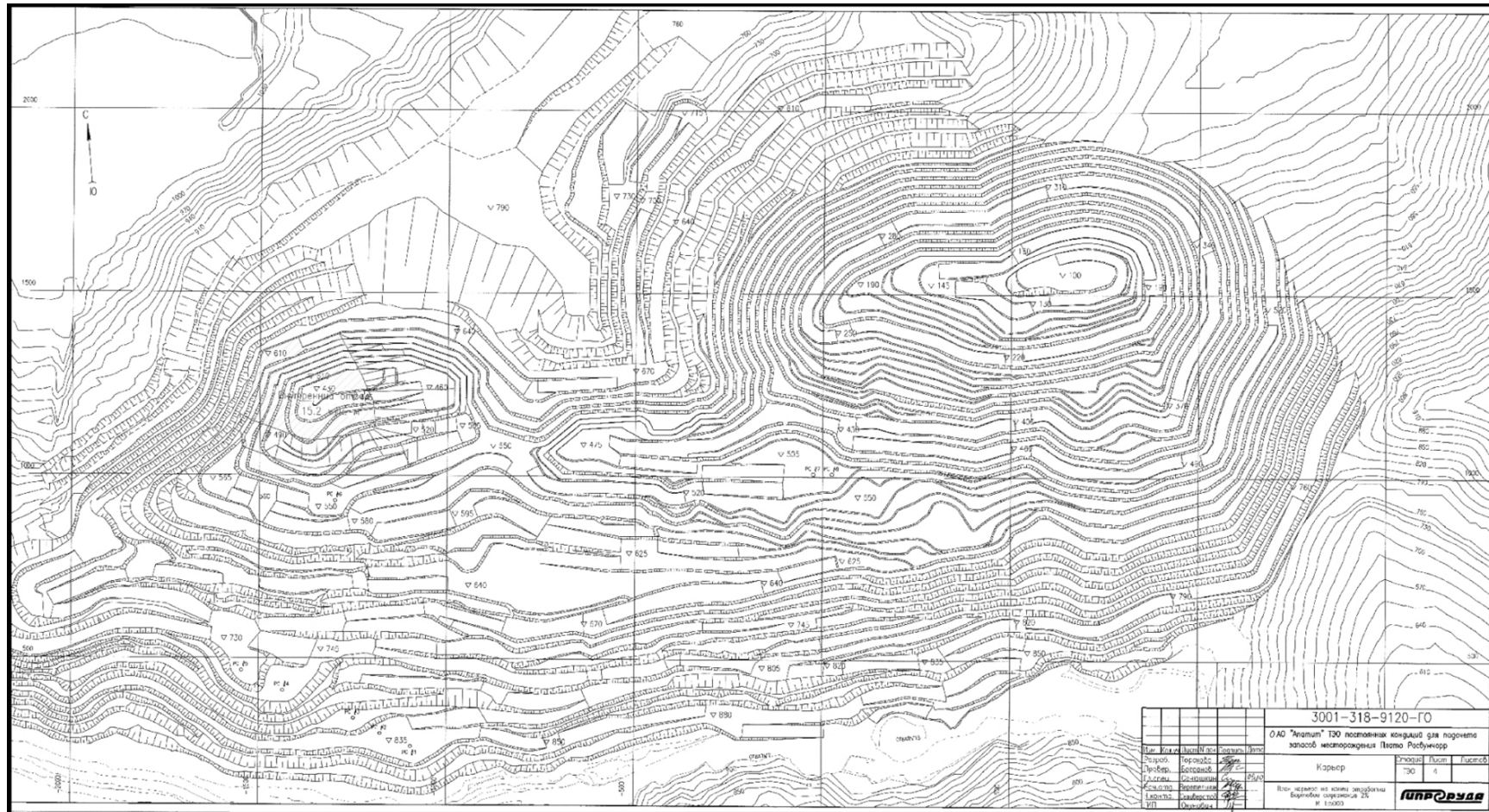
Rasvumchorrsky Mine
Geological Cross-Section



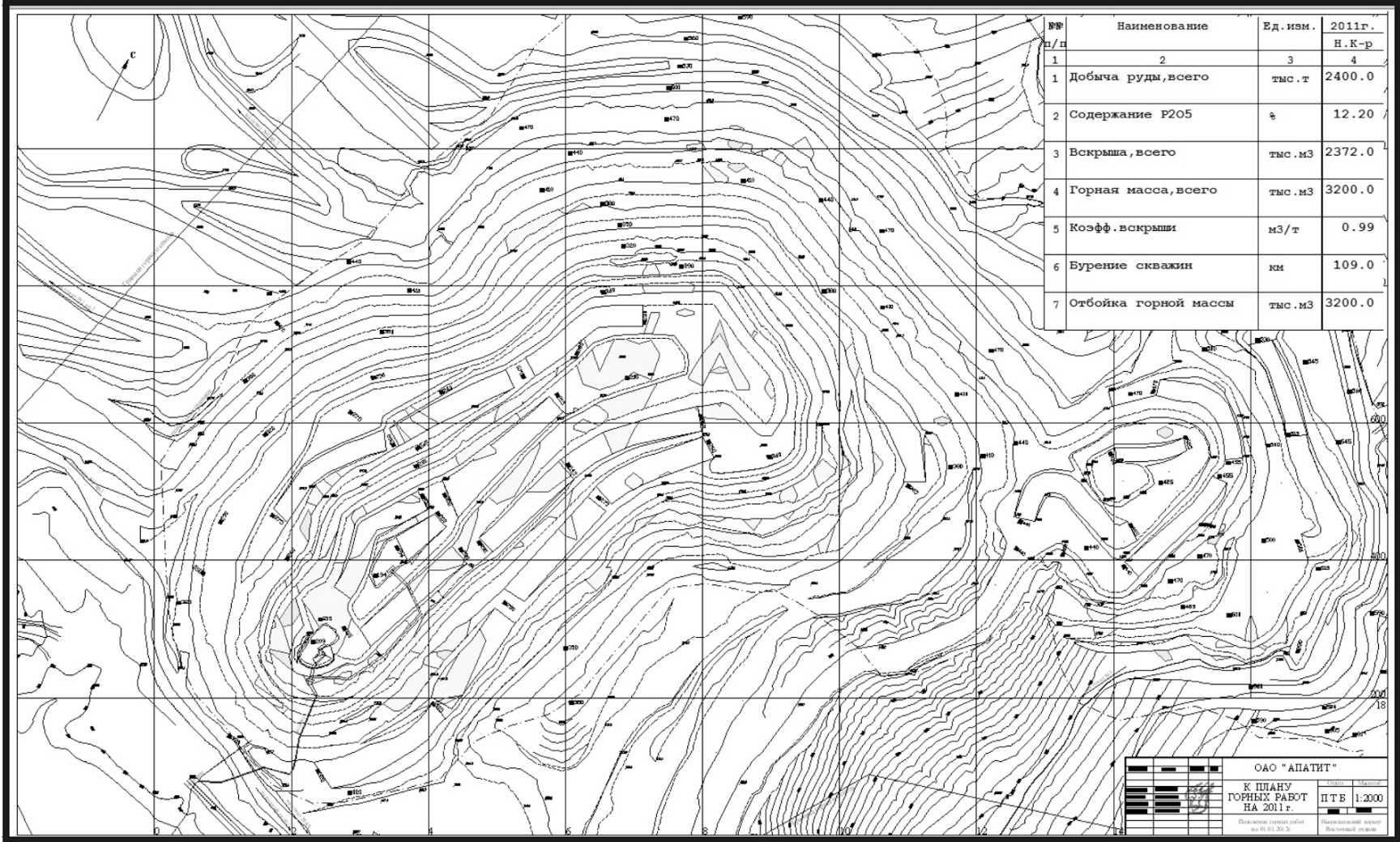
Centralny Mine Mining Plan



Vostochny Mine (Koashva and Njorkpahk Mines) Mining Plan



Njorkpahk Mine Mining Plan



Appendix D

GLOSSARY OF TERMS

\$	United States Dollars
\$M	Million United States Dollars
Adit	A horizontal or nearly horizontal entrance/access to an underground mine from surface. Often starting from the side of a hill.
Air pollution.	The presence of contaminant or pollutant substances in the air that do not disperse properly and interfere with human health or welfare or produce other harmful environmental effects.
Ambient air.	Any unconfined portion of the atmosphere: open air, surrounding air.
Andesite	A fine-grained igneous rock
Anticline	A strata fold that is concave downwards.
Apatite	A phosphorus oxide compound P_2O_5 a constituent of ore and concentrate
Aquifer	An underground geological formation or group of formations, containing usable amounts of groundwater that can supply wells and springs.
Assay	The percentage of a particular element or compound in a given sample.
Assay Laboratory	Facility in which the proportions of metal in ores or concentrates are determined using analytical techniques.
Autogenous Mill	Mill using the feed material to reduce through friction and breakage without the assistance of other forces
Backfill	Waste sand, rock and classified mill tailings used to fill voids in mines after removal of ore from stopes or other underground openings.
Backfilling	The operation of depositing waste into a previously mined out void
Background level	In air pollution control, the concentration of air pollutants in a definite area during a fixed period of time prior to the starting up or on the stoppage of a source of emission under control. In toxic substances monitoring, the average presence in the environment, originally referring to naturally occurring phenomena.
Bank cubic metre, (bcm)	One cubic metre of in-situ undisturbed rock (coal or overburden).
Bench	A near horizontal working area in a mine at least one side of which is defined by a significant vertical drop
Bench preparation	Loosening in-situ material by blasting or ripping or otherwise to allow the material to be excavated
Beresite or Beseritisation	The Soviet term for hydrothermal alteration characterised by the presence of pyrite, sericite and carbonate.
Best Practice	Operating procedures that are recognised in the international mining community which maximise productivity and return on investment commensurate with stewardship of the assets.
Billion	One thousand million.
Blending	Mixing two or more materials together to give a mixture of the desired quality
Block Caving	An inexpensive mining method in which large blocks of ore are undercut and allowed to break and cave under their own weight.
Bolted roadways	Roadways that are supported using full column resin bolts (a drill hole filled with quick setting resin and through which a steel rod is rotated to mix resin and hardener)

Boom-drilling machine	A rock drilling machine mounted on an articulated arm.
Bord and Pillar	A system of mining in which interlacing tunnel excavations are made at right angles to one another into the orebody (reef), leaving square or rectangular pillars to support the overlying rock.
Borehole	A hole made with a drill, auger or other tool for exploring strata in search of minerals.
By-product	Material, other than the principal product, that is generated as a consequence of an industrial process.
Capex	Capital expenditure
Carboniferous	Geological Period in which the coal basins of northern Europe were formed.
Cash Flow	The sum of cash generated and spent by a business, usually computed on an annual basis.
Cleanup	Actions taken to deal with a release or threat of release of a hazardous substance that could affect humans, the environment, or both. The term is sometimes used interchangeably with the terms remedial action, removal action, response action, or corrective action.
Concentrate	Material that has been separated from an ore which has a higher concentration of mineral values than the mineral values originally contained in the ore. Concentrates are produced in a plant called a concentrator.
Concentrator	Equipment used in the reduction of ore
Conveyor	A rubberised belt running on rollers transporting the coal or other material from the faces to the endpoints. They can be reversed and used for manriding (carrying personnel to their working places.
Core	A cylindrical sample of rock obtained during core drilling.
Cross Section	A diagram or drawing that shows features transected by a vertical plane drawn at right angles to the longer axis of a geologic feature.
Crush, Crushing, Crushed	A mechanical method of reducing the size of rock.
Crusher	A machine for crushing rock.
Cut and Fill	A method of stoping in which ore is removed in slices, and the resulting excavation filled with waste material (backfill) which supports the walls of the stope when the next cut is mined.
Cut-off Grade	The lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit, and in operations to segregate ore and waste.
Deposit	An area of resources or reserves identified by surface mapping, drilling or development.
Development	Excavations or tunnels required to access the ore. (i) The initial stages of opening up a new mine, and/or (ii) The tunnelling to access, prove the location and value, and allow the extraction of ore.
Diamond Drilling or Core Drilling	A drilling method, where the rock is cut with a diamond bit, attached to hollow rods. It cuts a core of rock, recovered in cylindrical sections for geological analysis.
Dilution	The contamination during the mining process of excavated ore by non-ore material from the roof, floor or in-seam partings

Dip	The angle that a structural surface, i.e. a bedding or fault plane makes with the horizontal measured perpendicular to the strike of the structure.
Discount Rate	The interest rate at which the present value, if compounded, will yield a cash flow in the future.
Discounted Cash Flows (DCF) .	The present value of future cashflows.
Disposal	Final placement or destruction of toxic, radioactive, or other wastes; surplus or banned pesticides or other chemicals; polluted soils; and drums containing hazardous materials from removal actions or accidental releases.
Down-Dip	Parallel to or in the general direction of the dip of the reef, stratum, vein seam or bed.
Drillhole	A circular hole made in rock, often in conjunction with a core barrel in order to obtain a core sample.
Drives—related to mining	A horizontal excavation or tunnel.
Dump	A site used to dispose of solid wastes without environmental controls.
Dyke	A discordant tabular body of igneous rock that was injected when molten, that cuts across the structure of the adjacent country rock.
Emission	Pollution discharged into the atmosphere from smokestacks, other vents, and surface areas of commercial or industrial facilities, from residential chimneys; and from motor vehicle, locomotive, or aircraft exhausts.
Emission standard	The maximum amount of airpolluting discharge legally allowed from a single source, mobile or stationary.
Environment	The sum of all external conditions affecting the life, development, and survival of an organism.
Environmental assessment (EA) .	A process whose breadth, depth, and type of analysis depend on the proposed project. EA evaluates a project's potential environmental risks and impacts in its area of influence and identifies ways of improving project design and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and by enhancing positive impacts.
Environmental audit	1. An independent assessment of the current status of a party's compliance with applicable environmental requirements. 2. An independent evaluation of a party's environmental compliance policies, practices, and controls.
Exploration	The search for mineral. Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
Fault	A structural discontinuity in the earth's crust formed by movement between adjacent blocks resulting from tectonic forces.
Fault Throw	The amount of vertical displacement in an upward or downward direction produced by a fault.
Feasibility Study	A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.
Felsic	relating to or denoting a group of light-coloured minerals including feldspar, quartz, and muscovite.

Float	The product of the flotation process
Flocculation	The process by which clumps of solids in water or sewage are made to increase in size by biological or chemical action so that they can be separated from the water.
Flotation	A recovery process by which valuable minerals are separated from waste to produce a concentrate. Selected minerals are induced to become attached to air bubbles and float.
Flux	A substance that absorbs the mineral impurities, or promotes the fusing of minerals or metals, or prevents the forming of oxides.
Fold	Any bending or wrinkling of rock strata.
Footwall	The underlying side of a fault, an orebody, or mine workings. An assay footwall is the lower surface of an orebody which separates ore- and waste-grade material.
Fractured—relating to geology . .	Breaks in rock formations due to intense faulting or folding.
FSU	Former Soviet Union
ft	Foot
Geological losses	Losses deducted from proven reserves due to geological constraints, eg faults, seam splitting.
Geotechnical Conditions	The engineering behaviour of rocks as a result of an excavation.
Grab Sample	samples taken manually
Grade	The relative quality or percentage of metal content.
Grade (ore)	The classification or value of ore.
Granodiorite	a coarse-grained plutonic rock between granite and diorite in composition
Grinding	Size reduction of crushed rock into relatively fine particles.
Groundwater	The supply of fresh water found beneath the Earth's surface (usually in aquifers), which is often used for supplying wells and springs. Because groundwater is a major source of drinking water, there is growing concern about areas where leaching agricultural or industrial pollutants or substances from leaking underground storage tanks are contaminating it.
Hangingwall	The overlying side of a fault, an orebody or mine workings. An assay hangingwall is the upper surface of an orebody which separates ore- and waste-grade material.
Haul Truck	A self propelled vehicle used to transport material.
Hazardous wastes	By-products of society that can pose a substantial or potential hazard to human health or the environment when improperly managed. Substances classified as hazardous wastes possess at least one of four characteristics—ignitability, corrosivity, reactivity, or toxicity—or appear on special lists.
HDPE	High Density Polyethylene geomembranes for hydraulic applications in canals and ponds for the containment of chemicals
High wall	The face of the excavation limit where the depth from original ground level is greatest
Highgrading	Intentional concentration of mining operations in the highest grade areas of a mineral deposit.
Hoisted	Coal, ore, men or materials lifted up the shaft to surface

Horizon	a layer or level with particular characteristics or representing a particular period.
Hydrocyclones	Cyclones using waterbased material
Hydrology	The science dealing with the properties, distribution, and circulation of water.
hydrometallurgical	Of or pertaining to hydrometallurgy; involving the use of liquid reagents in the treatment or reduction of ores
Hydrothermal	relating to or denoting the action of heated water in the earth's crust
In Situ	In place, i.e. within unbroken rock.
Indirects	Costs not directly attributable to specific construction activities.
Interburden	Sterile soil and rock material lying between coal seams
Intrusion	Any injection of igneous material into country rock.
Joints—relating to geology	A fracture or parting that cuts through and abruptly interrupts the physical continuity of a rock mass.
km	Kilometre
kPa	kilo Pascals
kt	Thousand metric tonnes
ktpa	Thousand metric tonnes per year
kV	kilo Volt
kVA	Kilo Volt Amperes
kVAr	Kilo volt—reactive/compensating
kW	Kilo Watts power rating
kWh	kilowatt hour lb pound
kWh	Kilowatt hour
Lagoon	1. A shallow pond in which sunlight, bacterial action, and oxygen work to purify wastewater; also used for storage of wastewaters or spent nuclear fuel rods. 2. A shallow body of water, often separated from the sea by coral reefs or sandbars.
Lease	Contract between two parties enabling one to search for and/or produce minerals from the other's property.
Lenticular	shaped like a lentil; biconvex
Level	The workings or tunnels of an underground mine which are on the same horizontal plane. Level numbers usually designate depth below the shaft collar.
Loading rate	The number of tonnes loaded per day (of 24 hours).
Load-out	Clearing debris or mineral onto the transport system usually after blasting
LOM	Life of Mine
Loose cubic metre, (lcm)	One cubic metre of overburden or interburden after blasting or excavation.
Losses—Geological	Ore lost due to unpredictable geological phenomena.
Losses—Mining	Ore lost due to less than perfect mining operations.

LTIFR	Lost Time Injury Frequency Rate, usually measured per 100,000 manshifts or one million manhours
M	Million
Magmatic	Result of motion or activity of magma
Matte	An impure product of the smelting of sulphide ores, especially those of copper or nickel.
Mechanised Mining	Mining operations which are partly or fully conducted using machines powered by electricity or diesel fuel.
Metallurgical Recovery	Proportion of metal in plant feed which is recovered by a metallurgical process or processes.
Mill Feed Grade	The grade of material feed to the mill, equivalent to received at the mill.
Milling/Mill	The comminution of the ore, although the term has come to cover the broad range of machinery inside the treatment plant where the minerals and/or metals are separated from the ore.
Mineable	Capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations.
Mined-out	An area where all economic material has been extracted.
Mineral Deposit	A mineral occurrence of sufficient size and grade to have potential or existing commercial value; sometimes referred to as mineralisation.
Mineral Rights	The ownership of the minerals on or under a given surface with the right to remove the said minerals.
Mineralisation	Any mass of host rock in which minerals of potential commercial value occur.
Mining Licence	Permission to mine minerals from a Mineral Rights area.
Mining Permit	Permission to mine minerals from a Mineral Rights area.
Mitigation	Measures taken to reduce adverse impacts on the environment.
mm ²	Cross sectional area of phase conductor
Monitoring	Periodic or continuous surveillance or testing to determine the level of compliance with statutory requirements or pollutant levels in various media or in humans, animals, and other living things.
Mt	Million metric tonnes
Mtpa	Million tons per annum
Mtpa	Million metric tonnes per year
MV	Mega Volt
MVA	Mega Volt Amps
MW	Megawatt
Native Copper	Copper metal occurring naturally.
Nepheline	An aluminium oxide compound Al ₂ O ₃ a constituent of ore and concentrate
Open Pit	Surface mining in which the ore is extracted from a pit. The geometry of the pit may vary with the characteristics of the orebody.
Open Pit Mine	A mine working or excavation open to the surface where material is not replaced into the mined out areas.
Opex	Operating expenditure

Overburden	Sterile soil and rock material overlying the coal
Oxide	That portion of a mineral deposit within which all or the majority of sulphide minerals have been oxidised, usually by surficial weathering processes.
Pa	Pascal unit of pressure
Pegmatoid Intrusion(s)	A very coarse grained pegmatic facies of igneous rock.
Permeability	The rate at which liquids pass through soil or other materials in a specified direction.
pH	A measure of the acidity or alkalinity of a liquid or solid material.
Pillar(s)	An area of ore left during mining to support the overlying strata or hangingwall in a mine. Blocks of ore left intact to act as support for shafts or other underground workings.
Pit	A hole in the ground—an excavation below original ground level—a surface mine may comprise one or more pits
Plant	Fixed or moveable equipment required in the process of winning or processing the ore.
Pollutant	Generally, the presence of matter or energy whose nature, location, or quantity produces
Porphyry	a hard igneous rock containing crystals of feldspar in a fine-grained, typically reddish groundmass
Potable water	Water that is safe for drinking and cooking.
ppm/ppb	Parts per million/parts per billion, a way of expressing tiny concentrations of pollutants in air, water, soil, human tissue, and food and or other products.
Pre-Feasibility Planning Study . .	A study with an overall accuracy of +/- 25%.
Prospect	A mineral deposit with insufficient data available on the mineralisation to determine if it is economically recoverable, but warranting further investigation.
Prospecting Licence	An area for which permission to explore has been granted.
Prospecting Permit	Permission to prospect for minerals from a Mineral Rights area.
Pulveriser	A device used in an assay laboratory to reduce rolls crushed feed to 0.1 mm grains
Purchaser	A sole-purpose company which is acquiring the Assets.
Pyrite	A brassy-coloured mineral of iron sulphide (containing 53 percent sulphur):
Pyritic sulphur	All that sulphur contained within iron sulphur minerals such as pyrrhotite, pyrite, marcasite, generally represented as (FeS_2) . The mineral pyrite is generally formed as a secondary mineral after the formation of the coal. Pyrite is often a source of acidic water when oxidised in the presence of air. Pyritic sulphur can be removed by gravity separation.
Quartz	A mineral compound of silicon and oxygen, generally white-coloured to transparent.
Rare Earths	A group of 15 elements with atomic numbers ranging from 57 to 71, lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium and lutetium.

Refinery	An industrial installation where a substance is refined
Rehabilitation	Land restored to its former condition
REO	Rare earth oxide
Rhyolite	A pale fine grained volcanic rock of granitic composition
Rights—Surface Rights	The ownership of the surface land under which minerals occur.
Risk assessment	The qualitative and quantitative evaluation performed in an effort to define the risk posed to human health or the environment by the presence or potential presence and use of specific pollutants.
Rolls Crusher	A crusher with two revolving metal cylinders with parallel horizontal axes separated by a small gap; in an assay laboratory, a properly gapped crusher should reduce jaw-crushed feed to 2 mm grains.
ROM	Run of mine
Roof of the seam	The top of the seam.
Room	The excavated tunnel between the pillars in the underground mine workings.
Room and Pillar Mining	A method of mining flat-lying deposits in which the mined areas, or rooms, are separated by pillars of lesser or equal size.
Royalty	A share of the product or profit reserved by the owner for permitting another to exploit the property.
Runoff	That part of precipitation, snowmelt, or irrigation water that runs off the land into streams or other surface water; can carry pollutants from the air and land into the receiving waters.
Sample	A representative fraction of a coal seam collected by approved methods, guarded against contamination, and analysed to determine the nature, chemical, mineralogical or petrographic composition, percentage content of specified constituents, and heat value.
Sampling	Taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content).
Screen	A device for separating by size
Seam	A layer or bed of coal. Correlated seams of coal are normally assigned a name, letter or number. A single seam can contain one or more non-coal partings resulting in a sub-division into leaves.
Seam outcrop	A manifestation of a coal seam at the Earth's surface
Secondary Mineralisation	Mineralisation resulting from the weathering of primary ore, usually leading to an increase in metal content.
Sedimentary	Formed by the deposition of solid fragmental material that originates from weathering of rocks and is transported from a source to a site of deposition.
Sediments	Soil, sand, and minerals washed from land into water, usually after rain. Sediments pile up in reservoirs, rivers, and harbours, destroying fish-nesting areas and holes of water animals and clouding the water so that needed sunlight may not reach aquatic plants. Careless farming, mining, and building activities will expose sediment materials, allowing them to be washed off the land after rainfalls.

Septic tank	An underground storage tank for wastes from homes having no sewer line to a treatment plant. The wastes go directly from the home to the tank, where the organic waste is decomposed by bacteria and the sludge settles to the bottom. The effluent flows out of the tank into the ground through drains; the sludge is pumped out periodically.
Settleable solids	Material heavy enough to sink to the bottom of a wastewater treatment tank.
Sewage	The waste and wastewater produced by residential and commercial establishments and discharged into sewers.
Shaft	A mine-working (usually vertical) used to transport miners, supplies, ore, or waste.
Shaft pillar	A prescribed area of ground around the shaft in which mining is not permitted. The pillar affords stability to the shaft ensuring this essential access is preserved.
Shovel and truck mining	Excavating overburden, interburden and coal using stand-alone excavators loading into dump trucks, dumpers and highway trucks
Shrinkage Stopping	Mining method whereby the blasted material is used as floor and material is extracted from below
Skarn	lime-bearing siliceous rock produced by the metamorphic alteration of limestone or dolomite.
Skips	The conveyance/vessels into which coal/ore is tipped at the bottom of the shaft and then hoists to the top where the ore is tipped into a receiving bin and then the cycle is repeated.
Slag	stony waste matter separated from metals during the smelting or refining of ore
Slimes	Water based waste product
Slurry	A suspension of coal or waste in water
Smelting	Thermal processing whereby molten metal is liberated from beneficiated ore or concentrate with impurities separating as lighter slag. The plant where this is performed is called a smelter.
Specific Gravity (SG)	The ratio of the mass of a unit volume of ore or waste material to the mass of an equal volume of water at 4 degrees C.
Split	An in-seam parting which attains a thickness such that the resultant leaves of coal are considered as separate seams from a mining point of view.
Spoil	Excavated material of no commercial value also referred to as waste
Spot	The purchase price of a commodity at the current price, normally this is at a discount to the long term contract price but currently coke, coking coal and thermal coal are being sold at a premium to the long term contract prices.
SrO	Strontium Oxide
Stratiform	In layers
Stockpile	An accumulation of ore or mineral.
Stope	The underground excavation from which ore is extracted.
Stoping	The act of excavating ore, either above or below a set level, in a series of steps in an underground mine.
Strata	Layers of sedimentary rock.

Strike	Bearing of direction of a horizontal line on the surface of a planar feature; 90° to the true dip.
Strike Length	Length of a feature in the strike direction.
Stripping	Non economic material which must be removed to expose ore in an open-pit mine or the process of removing such material to expose ore.
Stripping ratio, (SR)	The amount of overburden that must be removed to gain access to a unit amount of coal. This is normally reported as bank cubic metres (bcm) overburden per recoverable tonne of coal (bcm/t).
Sub-Level Caving	A mining method whereby ore is allowed to cave into drifts located on sub-levels from which the ore is extracted.
Sub-Level Open Stopping	A mining method whereby ore is blasted from horizontal workings placed at intermediate levels (sub-levels) into drawpoints located on main levels, from which the ore is hauled away.
Sump	A pit or tank that catches liquid runoff for drainage or disposal.
Supergene	Mineralisation formed by leaching, transportation and deposition via groundwater.
Surface water	All water naturally open to the atmosphere (rivers, lakes, reservoirs, streams, impoundments, seas, estuaries, etc.); also refers to springs, wells, or other collectors that are directly influenced by surface water.
Suspended solids	Small particles of solid pollutants that float on the surface of or are suspended in sewage or other liquids. They resist removal by conventional means. See also Total suspended solids
Sustaining Capital	Periodic capital expenditures required to replace or overhaul equipment. Also known as replacement capital.
Syenite	An aluminium oxide compound
Syncline	A strata fold which is concave upwards.
t	Metric tonne = 1000 kg
Tailing(s)	The fluid slurry after treatment and extraction of the economically extracted mineral.
Tailings Dam	One to which the slurry is transported, the solids settling while the liquid may be withdrawn.
Tectonic influence	The influence of primary and secondary geological activity on an area.
Topographical	The physical features of a district or region delineated on a map.
Total Moisture	The sum of the inherent moisture and the free (or surface) moisture.
Total sulphur	The total amount of sulphur contained within the coal comprising sulphur from pyrite, sulphate minerals and organic sulphur.
Total suspended solids (TSS) . . .	A measure of the suspended solids in wastewater, effluent, or water bodies. See also Suspended solids
tpd	Metric tonnes per day
tpm	Tonnes per month.
tpy	Metric tonnes per year
Trackless	Mining without the use of locomotives
trenches	Lines excavated to a pre determined depth to establish the geological structure of a deposit

Ultimate analysis	Analysis of the elemental components of coal—carbon, hydrogen, nitrogen, oxygen and sulphur. Normally reported on a dry or dry ash-free basis.
Volcanogenic	From volcanic rock
Waste	Rock lacking sufficient grade and/or other characteristics of ore to be economic.
Waste—Internal	Rock or material of no commercial value residing within the ore horizon/reef.
Wastewater	Spent or used water from individual homes, communities, farms, or industries that contains dissolved or suspended matter.
Wastewater treatment plant	A facility containing a series of tanks, screens, filters, and other processes by which pollutants are removed from water.
Water makes	The quantity of water flowing into an area or the mine.
Water pollution	The presence in water of enough harmful or objectionable material to damage water quality
Winders	An electrically driven drum with rope attached to either skips (coal) or cages (men and materials) used to remove coal or ore from a mine and facilitate en and materials to the underground workings.
Workable	See mineable
Working Capital	Accounts receivable less accounts payable.

THE COMPANY

OJSC “PhosAgro”
Leninsky prospekt 55/1, building 1
Moscow 119333
Russian Federation

SELLING SHAREHOLDERS

Adorabella Limited
Michalakis Makrides, 2
P.C. 3075
Limassol
Cyprus

Miles Ahead Management Limited
Kythnou, 14
P.C. 4044
Limassol
Cyprus

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Renaissance Securities (Cyprus) Limited
2-4 Arch. Makarios
III Avenue
Capital Center
9th Floor
Nicosia 1065
Cyprus

CJSC “Investment Company “Troika Dialog””
4 Romanov Pereulok
Moscow 125009
Russian Federation

TD Investments Limited
2-4 Arch. Makarios
III Avenue
Capital Center
9th Floor
Nicosia 1065
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JOINT BOOKRUNNERS

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