



**Merger of Uralkaly and Silvinit.
Infringement on rights of minority shareholders**

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in Russia

IPA

THE INVESTOR PROTECTION ASSOCIATION

On December 20, 2010, the Board of Directors of Silvinit announced that conversion ratios for swap of Silvinit shares for shares of Uralkaly were adopted.

To calculate the conversion ratios the Board of Directors engaged appraisers from the Bureau of Business Appraisal and the Financial Consulting Group.

By results of 2009 the Bureau of Business Consulting took up the 57th line in the ranking of appraisal companies and the 71st line in the rating of business potential of appraisal companies <http://www.raexpert.ru/database/companies/buro7/>.

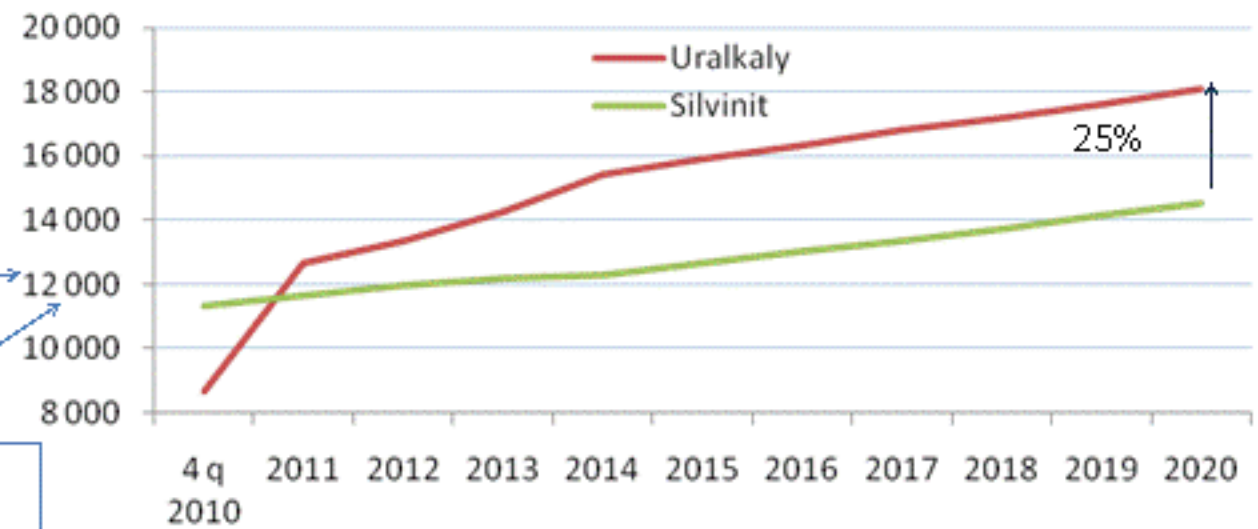
By results of 2009 the Financial Consulting Group was placed on the 134th line in the rating of consulting companies http://www.raexpert.ru/database/companies/financial_consulting/.

It is a common practice to engage one of top 4 appraisers for large-scale transactions with world significance, like the one concerning Uralkaly-Silvinit merger.

It took one week to prepare the appraisal report.

Appraisers applied income and comparative approaches to evaluate shares of both companies. Silvinit: weight of the income approach in the resulting figure – 70%, of the comparative approach – 30%.
 Uralkaly: income approach – 80%, comparative approach – 20%.

Forecast export prices for potassium chloride according to the appraisal reports, rub./t



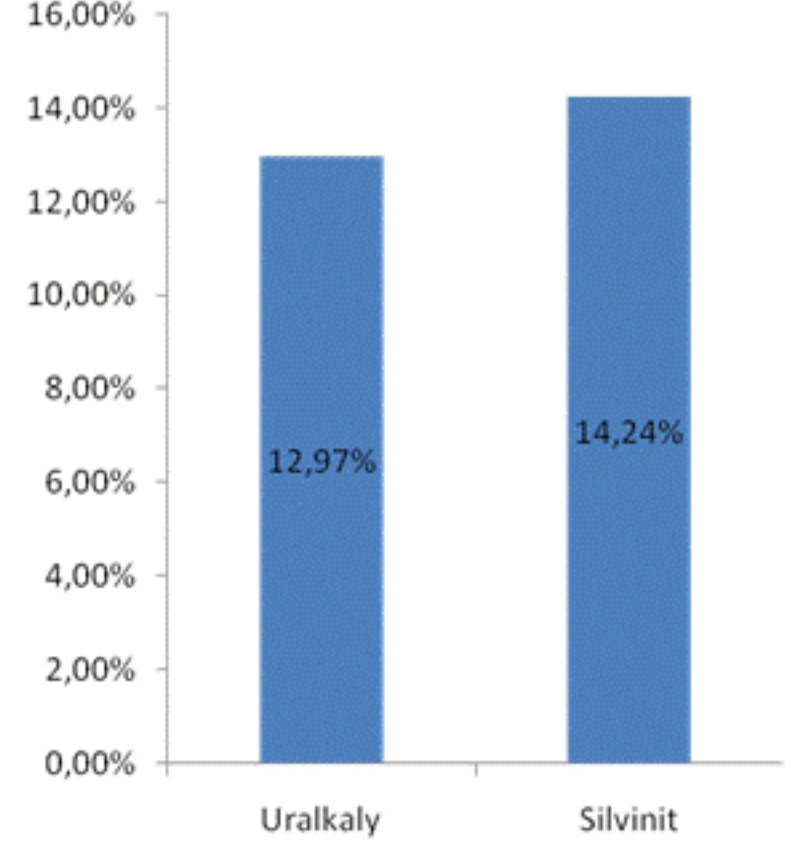
The prices for potassium chloride shall not differ in a long-term perspective for the two companies

The difference in forecast prices results in relative undervaluation of Silvinit according to income approach by 46%.

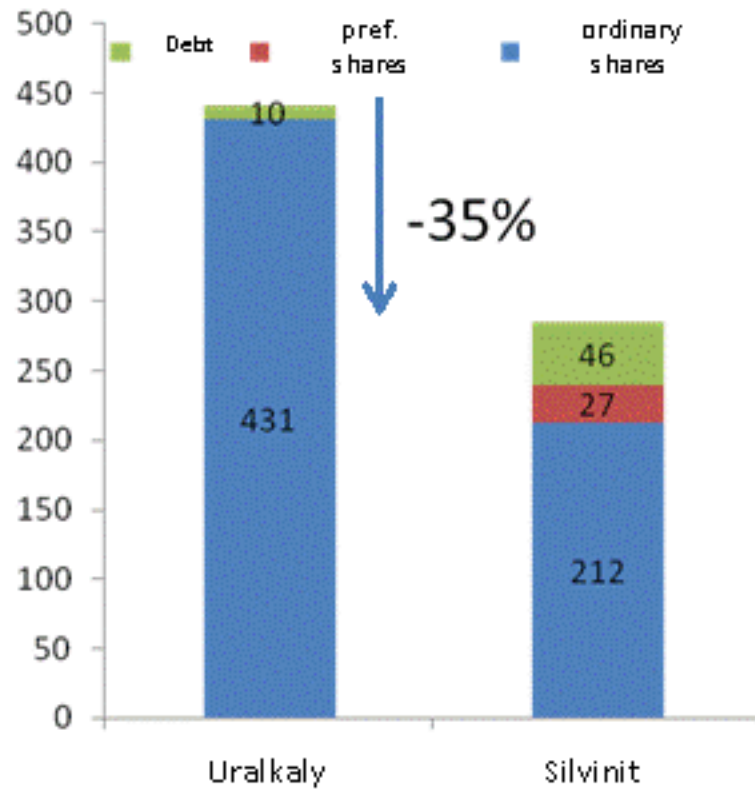
The input data used in the income approach for the two companies were quite different, which resulted in underestimation of Silvinit by 58%.

The difference in the used WACC resulted in relative underestimation of Silvinit by 12%.

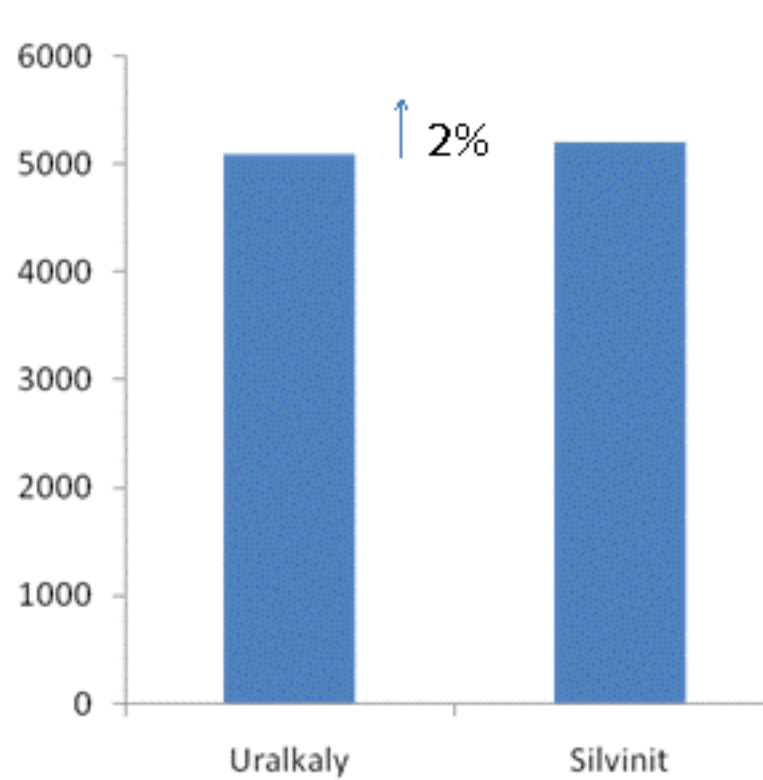
Weighted average cost of capital according to the appraisal reports



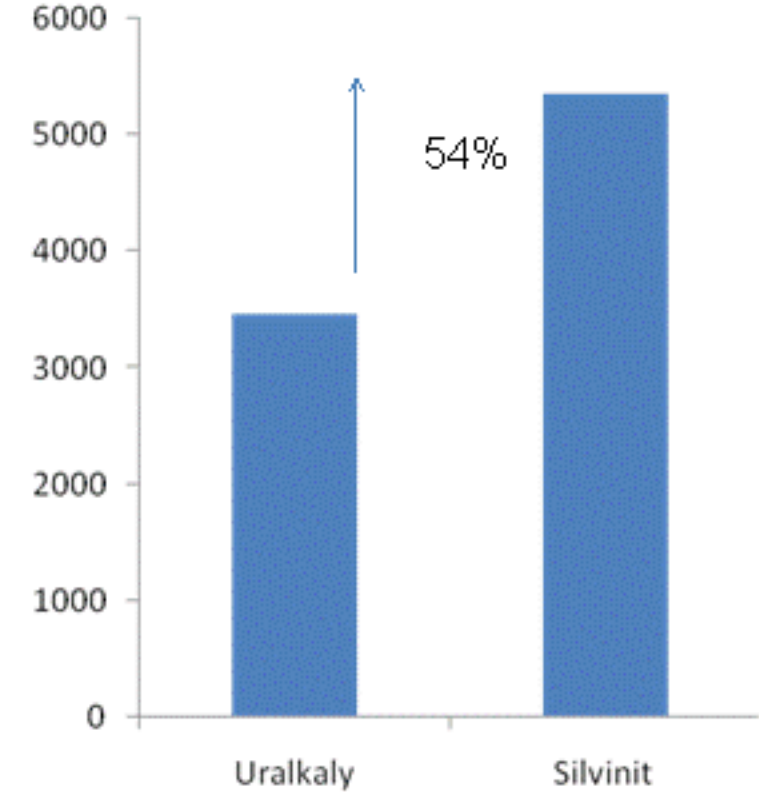
Valuation of the companies for purposes of the merger, bln. rubles



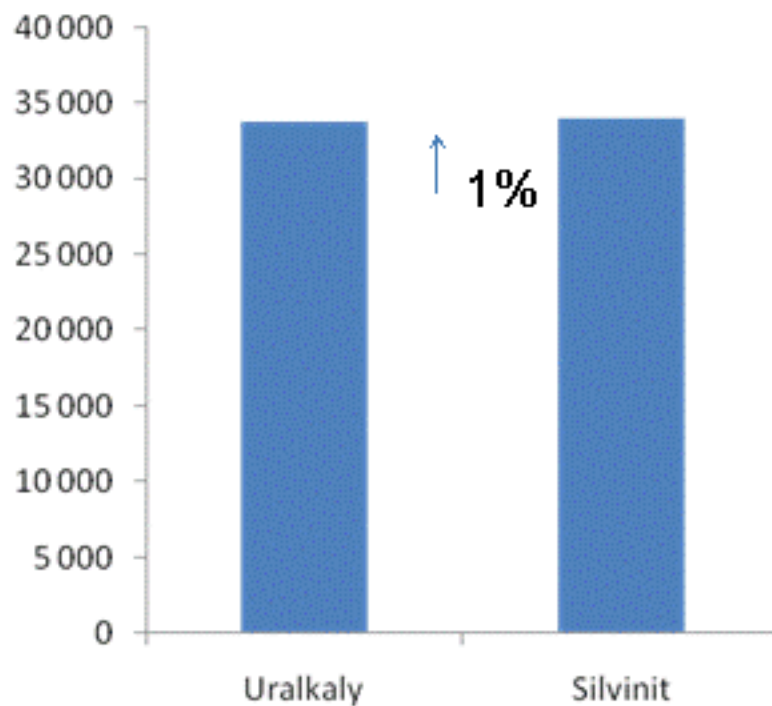
Production of potassium chloride in 2010, thousand tons



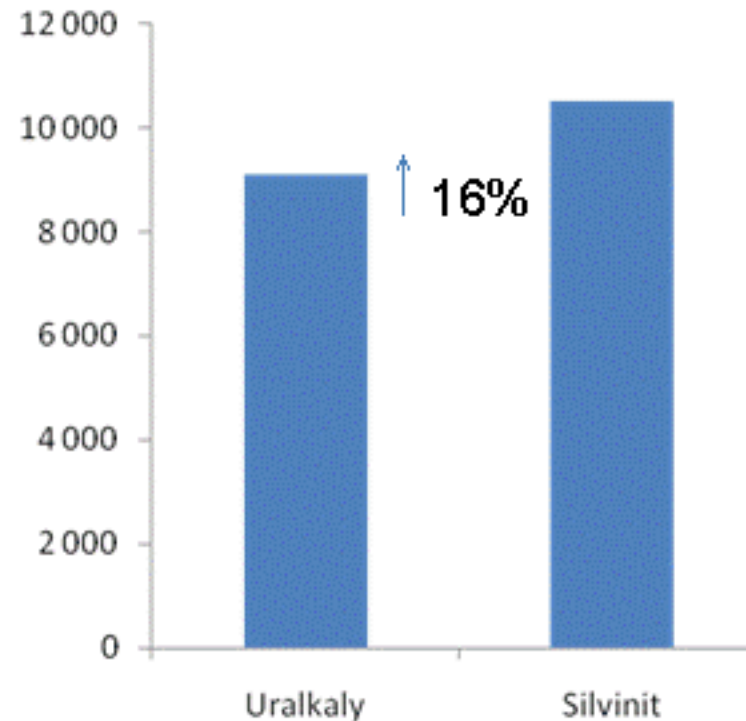
Stock of potassium chloride, mln. tons



Revenues for 2009, mln. rubles, IAS



Net profit for 2009, mln. rubles, IAS



Production and financial figures of Silvinit are better than those of Uralkaly.

Silvinit was unfairly evaluated with a discount of 35% to Uralkaly.

Comparison of Silvinit and Uralkaly indicators

			Silvinit	Uralkaly	Silvinit*	Uralkaly*
Estimated value of 100% of shares		mln. rubles	239 832	432 037	36%	64%
Minerals reserves		mln. tons	5 342	3 459	61%	39%
Production of potassium chloride	2010	mln. tons	5,2	5,1	50%	50%
	2009	mln. tons	3,5	2,6	57%	43%
	2008	mln. tons	5,1	4,8	51%	49%
Net profit	9 M 2010	mln. rubles	12 835	9 985	56%	44%
	2009	mln. rubles	16 641	1 153	94%	6%
	2008	mln. rubles	29 194	29 480	50%	50%
Sales profit	9 M 2010	mln. rubles	16 468	14 345	53%	47%
	2009	mln. rubles	21 462	13 184	62%	38%
	2008	mln. rubles	37 628	39 934	49%	51%
Revenues	9 M 2010	mln. rubles	29 101	31 750	48%	52%
	2009	mln. rubles	33 390	27 843	55%	45%
	2008	mln. rubles	53 184	57 426	48%	52%

Note:

*the given percentage shows the ratio of indicators of the companies;

**reserves of Silvinit are given, including reserves of the subsidiary company OJSC "Kamskaya mining company";

*** Data according to the RAS

The appraiser applied a discount of 61.16% to preferred shares of Silvinit, notwithstanding the fact that :

- A. from the economical perspective preferred shares grant wider rights pursuant to the charter of the company;**
- B. historically dividend payments for preferred shares have exceeded those for ordinary shares;**
- C. such a discount has never been applied in transactions in the Russian market so far.**

=> The discount is ungrounded and unprecedented

A. Preferred shares of Silvinit grant better economical rights than ordinary shares:

1

- The Charter of OJSC “Silvinit” (par. 10.5) stipulates an obligation of OJSC “Silvinit” to allocate 10% of net profit by results of the last reporting financial year for dividend payments on preferred shares of OJSC “Silvinit”. Holders of ordinary shares of OJSC “Silvinit” enjoy no similar guarantees.

2

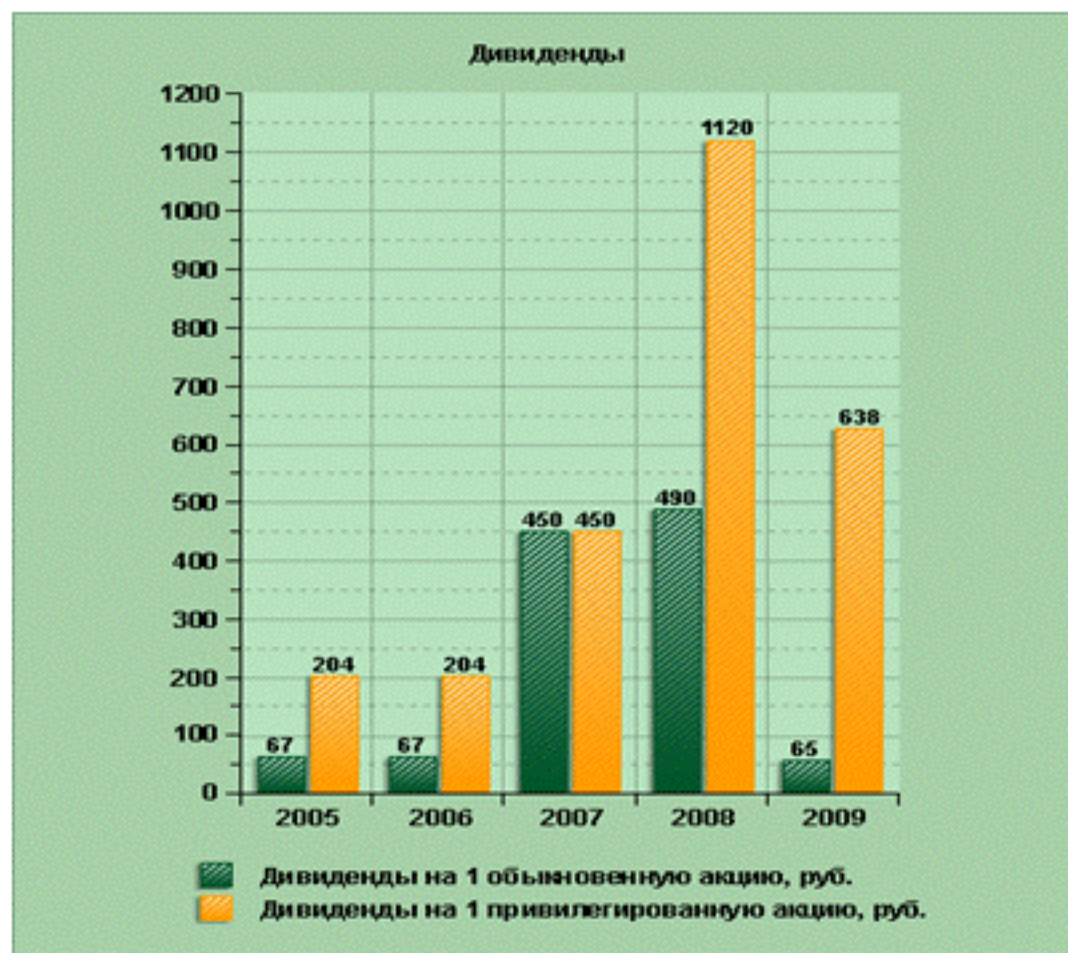
- Pursuant to the said paragraph of the Charter of OJSC “Silvinit” *“if the amount of dividends to be paid by the Company on each ordinary share in any year exceeds the amount to be paid as dividends on each preferred share class A, the dividends to be paid on preferred shares type A shall be increased so that they equal the dividends to be paid on ordinary shares”*. Therefore, dividends to be paid on one preferred share of the company cannot be lower than dividends paid on one ordinary share of the company.

3

- Dividends on preferred shares of OJSC “Silvinit” are paid in preference to dividends on ordinary shares of OJSC “Silvinit”. According to paragraph 2 article 43 of the Federal Law “On joint stock companies”, the company has the right to decide on paying out dividends on ordinary shares only on condition that a decision is made to pay out in full dividends on all classes of preferred shares, the size of which is to be determined as stipulated by the charter of the company.

B. Historically dividends for preferred shares of Silvinit exceeded dividends for ordinary shares

C. The applied discount is unprecedented



Source: www.silvinit.ru

Date	Corporate event	Discount applied to valuation of preferred shares
2005	Conversion of preferred shares of MMK into ordinary shares	0%
2007	Restructuring of RAO UES	10.8%
2010	Merger of regional telecommunication operators with Rostelecom	21.4%
2010	Appraisal of companies for purposes of swap for shares of Inter RAO	0%

Source: data of the companies

Before the merger

Each share of Silvinit (ordinary and preferred) correlates with **498 kilos** of potassium chloride.



Silvinit produced 5252 thousand tons of potassium chloride in 2010.

The merger

The unified company would have produced 10300 thousand tons in 2010, or 3.3 kilos per share.

The holder of one preferred share of Silvinit will receive 51.8 shares of the "big Uralkaly.

After the merger

Each preferred share of Silvinit correlates with **172 kilos** of potassium chloride.



Thus, as a result of the merger a holder of one preferred share loses 65% of the produce correlating with his/her share.

Opinions of the self-regulated appraisal organization

In the opinion of the expert appraiser, proceeding from the aforementioned comments, the Report No. 2010-12/171 on appraisal of one ordinary share and one preferred share of OJSC "Silvinit" as of December 01, 2010, for purposes of calculating conversion ratios, compiled by OOO "Bureau of Business Appraisal":

- is not in line with Article 11 of the Federal law "On appraisal in the Russian Federation" No. 135-FZ dated July 29, 1998;
- contradicts the STANDARDS;
- conclusions made by the Appraiser concerning the market value of the object to be appraised shall be recognized as unjustified.

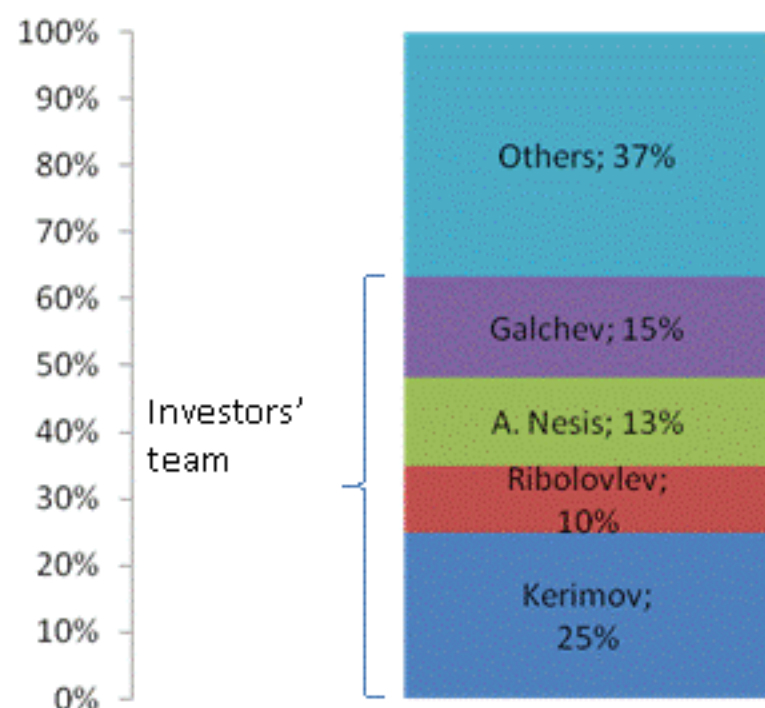


EXPERT COUNCIL



June 14, 2010. Uralkaly announces change of shareholders

Shareholder structure of Uralkaly after 14.06.2010



Sources of the information:

http://www.silvinit.ru/press/news/details_200.html

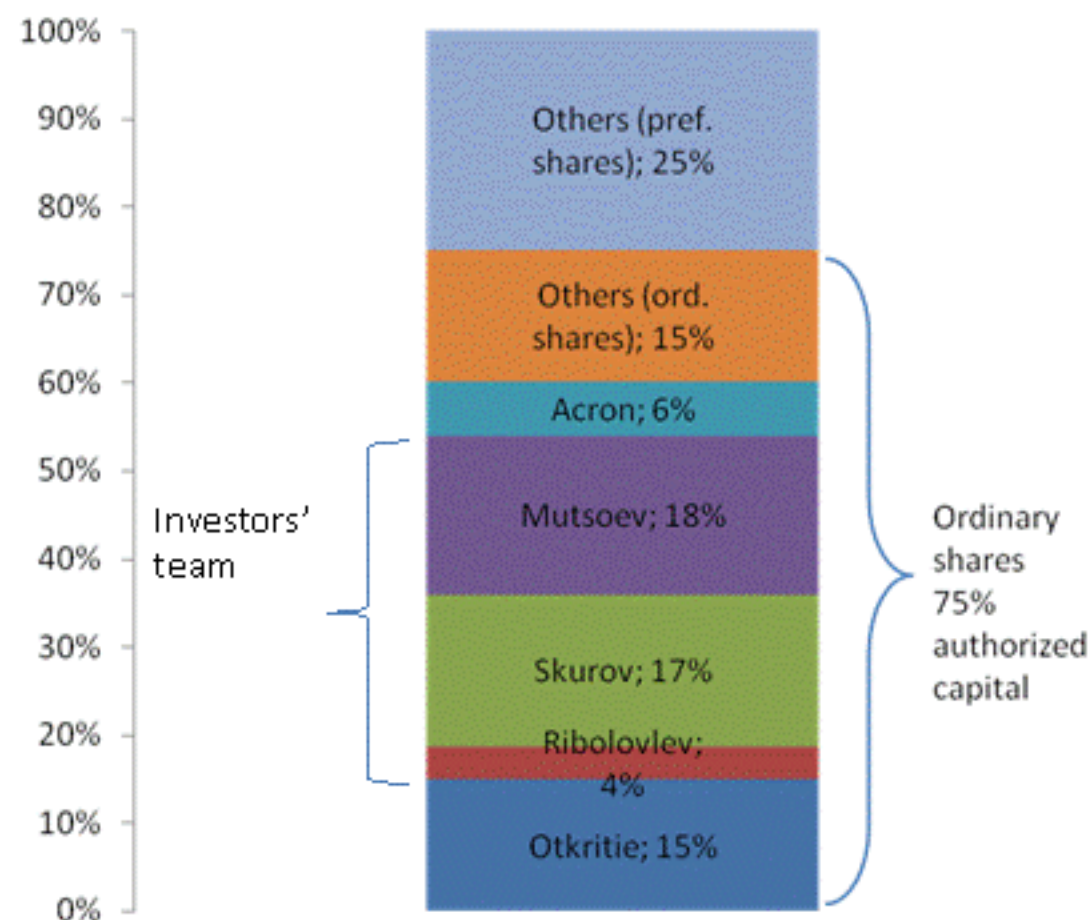
<http://www.kommersant.ru/doc.aspx?DocsID=1488505>

http://uralkaly.com/press_center/news/detail.php?ID=1263

<http://www.kommersant.ru/doc.aspx?DocsID=1386189>

August 14, 2010. Silvinit announces change of shareholders

Shareholder structure of Silvinit after 14.08.2010



«Mutsoev and Skurov are partners of Kerimov, a source close to new owners of Silvinit said. Their other acquaintance added: «Mursoev and Kerimov are friends».

http://www.vedomosti.ru/newspaper/article/243675/chetvero_druzej_kerimova

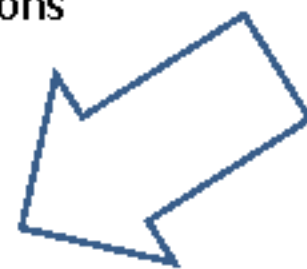
Stage 1

Share of the Group in the charter capital of Uralkaly 63%
Share in production, thousand tons 3,213
Share in the charter capital of Silvinit 39%
Share in production, thousand tons 2,028
Total share of the Group in production, thousand tons 5,241



Stage 2 – Uralkaly buys 15% of the charter capital (or 20% of ordinary shares) from Otkritie

Share of the Group in the charter capital of Uralkaly 63%
Share in production, thousand tons 3,993
Share in the charter capital of Silvinit 39%
Share in production, thousand tons 2,028
Total share of the Group in production, thousand tons 6,021



Stage 3 – merger with Silvinit

Share of the Group in the “Big Uralkaly” 61%
Share of the Group in production, thousand tons 6,283
Total as compared with Stage 1 +20%

As follows from the above, the group of majority shareholders benefits from the transaction in general due to dilution of the share of Silvinit minority shareholders in production.

Merger of Silvinit with Uralkaly based on the suggested ratios means infringement of rights of Silvinit minority shareholders and significant loss in value they suffer to the benefit of Uralkaly shareholders.

Especial attention is to be paid to infringement upon rights of holders of Silvinit preferred shares.

It is obvious that

- interests of the majority group of shareholders of Silvinit and Uralkaly contradict interests of minority shareholders of Silvinit. As a result, the transaction is approved in the guise of ensuring “access of Silvinit shareholders to liquidity and London listing of Uralkaly”, while in reality in our opinion it goes about transfer of value from minority shareholders of Silvinit to shareholders of Uralkaly;

- at the same time as a result of the merger holders of preferred shares of Silvinit will lose 2/3 of value of their shares to the benefit of shareholders of Uralkaly.

Event calendar

Date	Event
Dec 20 2010	Approval of the merger details by the boards of directors
Jan 31 2011	<i>Filing the law suit on recognizing the resolution of the Silvinit board of directors invalid and applying for injunction to be granted in connection with voting at the extraordinary shareholders meeting</i>
Feb 3 2011	<i>The application for injunction was dismissed by the court</i>
Feb 4 2011	Shareholders meetings of Uralkaly and Silvinit approve of the merger
Feb 24 2011	Filing the law suit on recognizing the resolution of the EGSM of Silvinit and the merger agreement invalid; applying for the injunction to be granted in connection with execution of the resolution of the EGSM and the merger agreement
Feb 25 2011	The court granted the injunction (it is forbidden for Silvinit to execute the resolution of the EGSM; a ban is imposed on the merger agreement between Silvinit and Uralkaly; the FSFM is not allowed to register the issue and report on results of the issue of shares of Uralkaly; the tax authorities are not allowed to make an entry on termination of Silvinit in the Unified State Register of Legal Entities)
5 days after the date of filing the law suit to court	The court hears the application of Silvinit / Uralkaly on lifting the injunction
March 11 2011	<i>Preliminary court hearing of the case on recognizing the resolution of the Silvinit board of directors as invalid</i>
First half of April 2011	Hearing of the appeal of Silvinit / Uralkaly on the ruling for granting injunction (in case of filing in early March)
April 12 2011	Preliminary court hearing of the case on recognizing resolutions of the EGSM of Silvinit and the merger agreement as violating the rights of minority shareholders
Second half of April 2011	<i>Hearing on the merits of the law suit on recognizing the resolution of the Silvinit board of directors as invalid</i>
Second half of May 2011	Hearing on the merits of the law suit on recognizing the resolutions of the EGSM of Silvinit and the merger agreement as invalid
Not known	Obtaining the permission for the merger from the RF FAS
Not known	Registration of the issue prospectus of Uralkaly with the FSFM

Contact details

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The Investor Protection Association is a non-profit organization established in April 2000 on the basis of the Coordination Center for protection of investors rights for purposes of uniting efforts of investors aimed at protection of their rights and improving corporate governance in Russia. Members of the Association include Russian and foreign investors with significant investments and wide experience in the Russian market.

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