For the Cycle of Life

Annual Report 2008

URALKALI®

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Introduction

01
Uralkali at a Glance

- Uralkali is one of the world's largest potash producers.
- Uralkali's production facilities are located in the city of Berezniki, Perm region.
- Uralkali has offices in Moscow, Perm, Minsk and port facilities in St. Petersburg.
- The company was founded in 1930 as a state-owned enterprise, and was transformed into a privately-held joint-stock company in 1992.
- Uralkali ordinary shares and global depository receipts are traded on RTS; MICEX; LSE.

Entire value chain – from reserve base to end customer

Potash production

Existing assets – 2 mines, 4 plants

Motorway

- **Production unit 1:** plant
  Products: standard MOP
- **Production unit 2:** mine and plant
  Resources: 343 Mt of ore [1]
  Products: granular and standard MOP

Railway

- **Production unit 3:** plant
  Products: granular and standard MOP
- **Production unit 4:** mine and plant
  Resources: 1,866 Mt of ore [2]
  Products: standard MOP

Potash trading

Uralkali
Domestic sales
One of the biggest special railcar park
Warehouses: 160 kt

Baltic Bulk Terminal
Shortest transp. leg
(from UK mines to St. Petersburg)
Capacity: 6,2 Mt
Warehouses: 240 kt

Belarusian Potash Company / Uralkali Trading
Leading export platform

Production Assets

Uralkali is a vertically integrated enterprise, controlling the entire value chain from the potash-magnesium reserve base to end customer. This allows the company to manage its business efficiently and control logistics costs.

- 2 mines, developing the world's second largest known deposit of potassium and magnesium salts – Verkhnekamskoye deposit.
- 6 processing plants:
  - 4 plants produce potash;
  - 1 plant processes carnallite ore to produce enriched carnallite;
  - 1 plant produces salt solution for the needs of Berezniki sodium plant.
- Uralkali is the sole shareholder of the JSC Baltic Bulk Terminal (BBT).
- Uralkali owns 50% of Belarusian Potash Company (BPC), the largest potash export trading company in the world with 31% [3] of the world export market. [4]

[1], [2] JORC as of January 1, 2009.
[3] Calculated as the total export volume deliveries from Belaruskali and Uralkali (including railway deliveries to China).
[4] The other shareholders of BPC are RUE PO Belaruskali (45% of the BPC's shares), and Belarusian Rail Road (5% of the BPC's shares).

- Uralkali has long-term contracts with its 100% subsidiary – Uralkali Trading (UKT), Switzerland, through which the company sells part of its products all over the world.
- Uralkali has a large private fleet of railcars and fully-owned port facilities in Russia, as well as its own warehouses.
- In 2004, Uralkali obtained a licence to develop the reserves of the Ust-Yaivinsky field of the Verkhnekamskoye deposit. Due to a number of obstacles beyond its control, the company was not able to prepare the design documentation for the new mine construction by the relevant deadline, and thus did not fulfill one of the conditions of the licence, infringement of which leads to termination of the licence in accordance with its terms. In December 2008, the Uralkali Board of Directors made a decision to develop the Ust-Yaivinsky field by linking it to the company's Mine-2 rather than through the creation of a new mine as originally envisaged. Uralkali applied to the Federal Agency for Subsoil Use (Rosnedra), asking to amend the licence agreement and extend the deadline for filing the relevant development design documentation by a further 18 months. The company is currently negotiating an acceptable approach to the development of the Ust-Yaivinsky field with authorised governmental bodies.

Operations

- Uralkali production capacities in 2008 amounted to 5.4 million tonnes. However, due to the decline of demand in the world fertiliser market in Q4 2008 production output was curtailed to 4.8 million tonnes which accounts for 9% [5] of the world's market.
- Uralkali's production capacities are planned to reach 7 million tonnes through brownfield expansion. The company is expected to have the capability to produce the stated capacity starting from 2011.
- Uralkali produces two types of potash fertiliser – granular and standard potassium chloride.
- Uralkali exports about 89% of its products, mainly to the markets of China, India, Brazil, USA and Southeast Asia.
- Sales in Russia make up about 11% of total output.

2008 key financial data [6]	
Production	4.8 mln t
Net sales [7]	54,353
EBITDA [8]	41,349
Margin [9]	76%
Net profit	21,943
Operating cash flow	32,604
Capex [10]	14,341

2007 macro highlights	
CPI (December 2008 / December 2007)	13.3% [11]
PPI (December 2008 / December 2007)	2.7% [12]
RUR/USD (2008 average)	24.86 [13]
RUR/USD (2008 year-end)	29.38 [14]

[5] Fertecon.
[6] All financial indicators are based on IFRS Consolidated Financial Statements and are given in million RUR unless otherwise stated.
[7] Based on adjusted sales (sales net of freight, railway tariff and transhipment costs).
[8] Adjusted EBITDA does not include mine flooding costs.
[9] Adjusted EBITDA Margin is calculated as Adj. EBITDA divided by Net Sales.
[10] CAPEX includes additions to property, plant and equipment adjusted on change in balances of letters of credit and prepayments for acquisition of property, plant and equipment.
[11] Federal State Statistics Service statistical review on social and economic situation in Russian Federation for 2008.
[12] For mining industry (except for energy resources).
[13] Average exchange rate of Central Bank of the Russian Federation from January 1, 2008, to December 31, 2008.
[14] Official exchange rate set by Central Bank of the Russian Federation as of December 31, 2008.

Dmitry Rybolovlev
Chairman of the Board of Directors

02 From the Chairman

Dear Shareholders,

By and large, 2008 was a year of growth and development for our company. Throughout the first nine months global demand for potash grew steadily and sales volumes and prices continued to rise, more than doubling in some markets over the previous year. All this allowed the company to achieve strong financial results, increasing revenues and profits for our shareholders.

It also confirmed our belief in the industry's robust fundamentals.

At the same time, the year was challenging and complex both for our company and the global potash market as a whole. In the autumn our steady progress was impeded by obstacles beyond our control.

The economic turmoil in the financial capitals of the world rapidly affected even the most remote corners of Asia and Latin America – Uralkali's largest sales markets, whilst the subsequent downturn in the world economy has resulted in a significant drop of demand for fertilisers. Foreign banks have virtually stopped financing the real economy, forcing agricultural producers to cut spending on literally everything, which includes our products too. To add to the challenges, as oil prices slumped, biofuel production became less profitable, and prices for major crops decreased considerably.

This is not the first time Uralkali has faced challenging markets. However, in the past our problems concerned specific situations in specific markets and we coped with them easily. This global financial crisis has become a severe test for all markets, all industries, all companies and all nations without exception.

Confronted by the current challenge, the management and the employees of Uralkali have braced themselves to overcome the difficulties. We have to be prepared to endure the pressures that are going to linger in the global economy for a while and I believe we are well positioned to do this.

The present market environment has been an unprecedentedly tough test of self-control and ability to rationalise the occurring events for us all. The time when companies could earn "easy money" has come to an end. Now most of them are facing financial difficulties. The economic situation in all markets is going to remain tough for a while. Therefore we all have to be patient and learn to economise. Like other large industrial companies, Uralkali is determined to keep tight control on its costs. Yet this should not affect our people. In the time of devaluation of money, goods and even natural resources it is critical to comprehend the value of each employee and promote their well-being. We believe that the survival of the real economy in Russia is impossible without preserving jobs and treating people fairly. The business community and the Russian government are unanimous in this. The employees of Uralkali remain the foundation of our company and its principal assets, the preservation of which will help us survive this crisis and prosper in future.

Our industry has a number of advantages which position it well to overcome the difficulties and recover soon. The task of increasing crop yield and therefore, the efficiency of agriculture has never been more urgent. And it is impossible to accomplish this task without application of fertilisers, first and foremost, without potash fertilisers. Thus, I believe that due to its fundamental strength the potash industry remains well-positioned for future growth. In all other respects the future of Uralkali depends on us. With self-confidence and well-defined goals, we will undoubtedly succeed.

Vladislav Baumgertner
CEO

03
From the CEO

Dear Shareholders,

Much was achieved in 2008.

In line with our growth strategy, we have implemented the earlier declared projects to expand and modernise production capacities. We have successfully carried out the programme aimed at boosting output from existing capacities, reduced unscheduled downtime by half and improved the quality of maintenance.

During the first three quarters of the year, Uralkali surpassed the levels of output envisaged by the annual production plan and was heading to set a new production record. However, the world financial crisis dramatically changed the market environment, thereby having an impact on our production plans. Due to the liquidity crisis foreign banks largely ceased to provide loans to agricultural producers and some agricultural producers were unable to pay the interest on loans outstanding. As a result, we witnessed a considerable drop in global demand for potash, and had to significantly reduce the production of potash fertilisers in the fourth quarter of 2008.

The challenges facing many Russian industrial companies were exacerbated by the level of foreign debt they were carrying. By contrast, Uralkali's balance sheet remained conservatively positioned. In addition, the company refrained from making major investments during the year, thereby minimising the need for additional money.

In 2008, the Russian government devalued the rouble, softening the impact of the economic downturn on Uralkali and other exporting companies and allowing them to preserve social stability. Although Uralkali introduced an austerity programme including cancelling employee overtime, optimising schedules and reducing variable costs, all measures were implemented in strict accordance with the Russian labour regulations and did not affect the majority of the company's social programmes.

In line with the efforts of the Russian government to support the agricultural sector, Uralkali helped to develop the domestic market by expanding its programme of supplying potash fertilisers to Russian consumers at a discount. This initiative, started by the company at the beginning of the year, has become one of our key objectives in this global economic environment and we strongly believe that Russian domestic market of fertilisers will prove to be very promising in future. We expect that it is Russian agricultural producers who should benefit most from Uralkali's pricing policy, rather than complex fertilisers producers, who export considerable part of their output.

In 2009, we will embark on a thorough programme of enhancing efficiency of business processes. This project will affect each and every division of the company as well as subsidiaries, and will stimulate the growth of labour productivity in Uralkali. The crisis has also given us a unique opportunity to repair and modernise our facilities, raise the level of automation and carry out a number of other measures which we could not implement when the facilities were used at their full capacity.

The economic downturn has significantly impacted all agricultural producers, but the potential demand for potash remains great, and as we can see from the financial results of the first half of 2008, the world needs considerably more potash fertilisers than the industry can supply. Whilst we refrain from making overoptimistic prognoses that the industry will soon return to its pre-crisis level, we do believe that the potash market will be one of the first to recover as we emerge from the economic challenges we face.

Major Events Calendar

2008 – 2009

2008

March
April
June
July

September
October
December

2008–2009

February
March

April

18 March
Imposition of Export Duties
The Government of the Russian Federation published Resolution No. 159: "On approval of export duty rates for certain types of fertilisers, exported to the countries outside the states of Customs Union." According to this document, the duty on exports of potassium chloride amounts to 5% of the declared customs value and became effective on April 18, 2008. It will be applicable until April 30, 2009.

20 March
An Agreement with an Indian Importer
BPC has reached an agreement with IPL, India's largest importer of mineral fertilisers, on the price and volume for the supply of potassium chloride from May 2008 till March 2009. The price for sales to IPL was set at USD 625 per tonne of MOP, which was USD 355 per tonne higher than the price for sales to IPL set in June 2007.

16 April
An Agreement with China
BPC reached an agreement with Uralkali's Chinese partners on the price and volume for the supply of potassium chloride in 2008 on April 16, 2008. The price of potash shipped from June/July 2008 until December 2008, increased by USD 400 per tonne of MOP compared to the price set in 2007.

22 April
Price Increases for July Shipments to Asian and Latin American Markets
New prices were announced to Asian and Latin American spot markets. BPC set the new price of potash in Asian markets at USD 1,000 per tonne of MOP. The price in Brazil was set at USD 1,000 and USD 1,010 per tonne of MOP for large and small importers respectively. The new prices were effective for shipments from July 1, 2008, onwards.

18 June
Annual General Shareholders' Meeting
At the Annual General Shareholders' Meeting Uralkali shareholders approved the 2007 Annual Report, Annual Accounting Statements, dividend payments and elected the Board of Directors of the company, including four independent directors – Ilya Yuzhanov, Hans Jochum Horn, Vladimir Ruga, Andrey Konogorov.

1 July
Setting the Price for Russian Industrial Consumers
Uralkali has increased the price for potassium chloride for Russian industrial consumers to 12,000 RUR per tonne. This step was taken according to an agreement between Uralkali and the Federal Antimonopoly Service of the Russian Federation (FAS), signed in March 2008. By the terms of the agreement, the prices for Russian industrial consumers were set according to a specific formula – on the basis of a certain minimum export market price, after the deduction of transportation costs. Following the increase of the price for potassium chloride in China, Uralkali's domestic price was adjusted. However, the company decided to provide direct supplies of potassium chloride for Russian agricultural producers at 3000 RUR per tonne till the end of 2008. For producers of complex fertilisers (selling to Russian agricultural producers) the price for potassium chloride was set at 3,500 RUR per tonne.

September
A Suit Brought Against Potash Producers
Minn-Chem Inc., a US potash consumer, brought a civil antitrust complaint in the US District Court of Minnesota against Uralkali and BPC, as well as other potash producers, including Belaruskali, Potash Corp, Mosaic, Agrium and Silvinit. The company, however, has not received a summons yet.

17 October
Setting the Upper Price Limit for Supplies to Russian Agricultural Producers
The Russian Association of Fertiliser Producers and the Russian Agro-Industrial Union signed a Cooperation Agreement on supplying mineral fertilisers to Russian agricultural producers from 2008 to 2012. According to this agreement, Uralkali set the upper price limit for potash fertiliser supplies for Russian agricultural producers in H1 2009 at 3,700 RUR per tonne without packaging.

29 October
Commission Established to Re-investigate the Causes of the Accident at Uralkali's Mine-1 in 2006
Deputy Prime Minister Igor Sechin delegated Rostekhnadzor to establish a commission to re-investigate the causes of the accident at Mine-1 in October 2006.

30 October
Q4 2008 Production Adjustment Due to Changes in the Global Economy
Uralkali announced its decision to curtail potash production in Q4 2008 by 500 thousand tonnes as a result of a decrease in potash fertiliser demand, due to the global economic downturn.

12 December
Revising Plans for the Development of Ust-Yaivinsky Field
Uralkali's Board of Directors decided to revise its plans for the development of the Ust-Yaivinsky field of the Verkhnekamskoye deposit by linking it to the company's Mine-2 rather than through the construction of a new mine (Mine-5) as was originally planned.
Uralkali applied to Rosnedra, asking to amend the licence agreement and extend the deadline for filing the relevant development design documentation by a further 18 months. The company is currently negotiating an acceptable approach to the development of the Ust-Yaivinsky field with authorised governmental bodies.

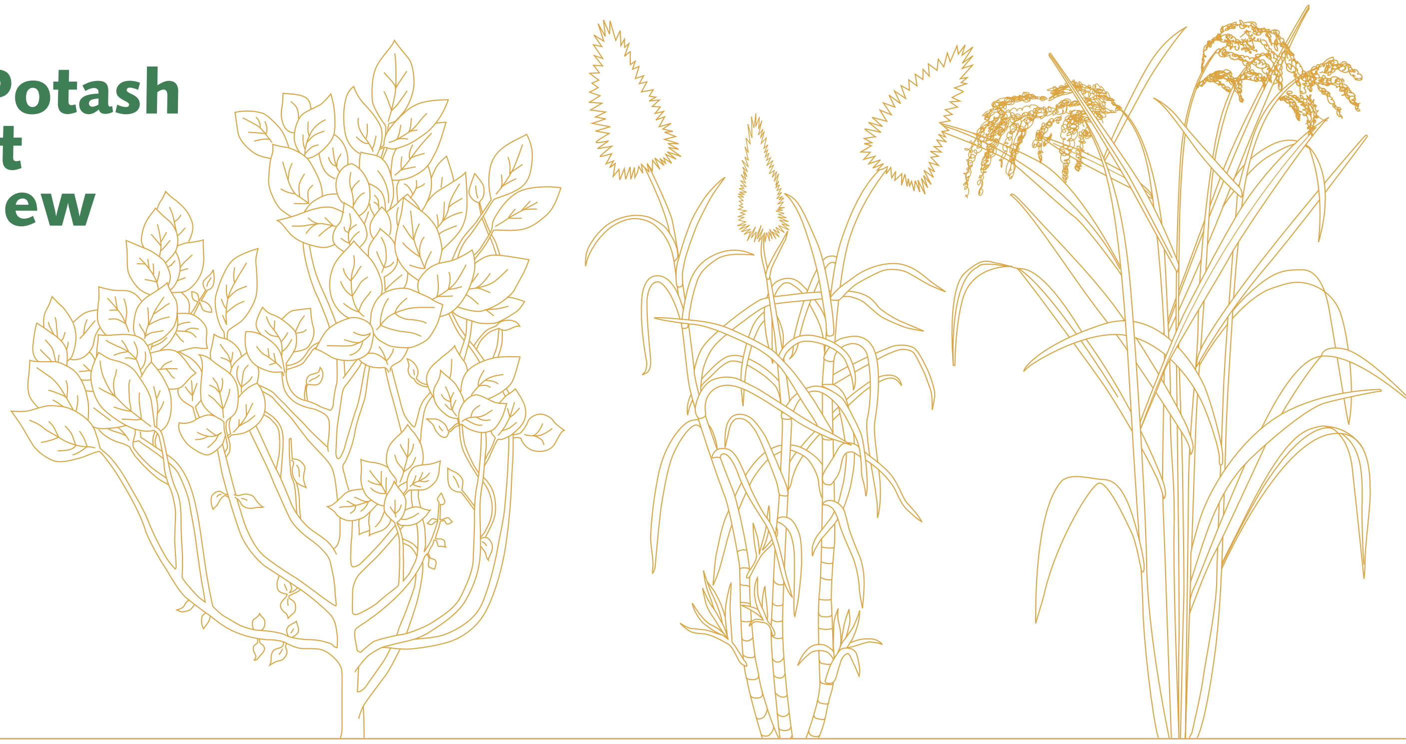
4 February
Commission Reports on Re-opened Investigation
Uralkali has received the report of the re-opened investigation into the causes of the accident that occurred at Uralkali Mine-1 in October 2006. The commission concluded that the cause of the accident was a combination of geological and technological factors. The commission confirmed that the accident was caused by an anomaly of geological structure, however pointing to the fact that the abnormal structure of the water-resistant section in the area of the accident could have been detected earlier. The total amount of expenses related to managing the consequences of the accident listed in the report was estimated at about 3.1 billion roubles as at the time of the investigation. Although there was no judicial decision requiring Uralkali to reimburse the expenses listed in the report, the company cannot give any assurance that claims will not arise for such reimbursements, which could exceed 3.1 billion roubles.
At the same time, in line with the company's strong commitment to social responsibility, Uralkali reiterated its proposal to voluntarily compensate expenses incurred by all levels of the government to manage the consequences of the accident, including the costs of relocating 850-meter and 6-kilometer railway routes.
(For further development please see events dated 10 March, 2009, and 23 April, 2009.)

4 March
New Prices for Brazilian Market
Belarusian Potash Company (BPC) set new prices for granular potassium chloride for the Brazilian market.
The new prices of BPC for the Brazilian market for March – May 2009 amounted to USD 750 per tonne for large importers, and USD 765 per tonne for small importers (the prices set by BPC earlier became effective on July 1, 2008 and equalled to USD 1,000 and USD 1,010 per tonne respectively). BPC's decision to change prices for the Brazilian importers was made on the basis of thorough analysis of agricultural and potash fertiliser markets. According to BPC, the new prices for the Brazilian market will help to achieve the balance between the supply and demand nowadays.

10 March
Establishing Compensation Costs for Managing the Consequences of the Accident at Mine-1 (BKPRU-1)
During the meeting chaired by the Deputy Chairman of the Russian government – the Minister of Finance Aleksey Kudrin, the issues of financing the expenses incurred by the accident at Mine-1 were discussed, and Uralkali voluntarily agreed to provide 5 billion roubles for the construction of 53-kilometer railway route from Yaiva to Solikamsk.
Total costs of construction of the railway route from Yaiva to Solikamsk will be 12.33 billion roubles. The necessary amount will be provided by the federal budget (2.79 billion roubles), by JSC RZD (3.54 billion roubles), by JSC Silvinit (1 billion roubles), and JSC Uralkali (5 billion roubles).
Uralkali has also reiterated the company's proposal to compensate expenses incurred by all levels of the government to manage the consequences of the accident at Mine-1. According to the adjusted data approved by the participants of the meeting, these expenses amounted to 2.767 billion roubles. This sum includes the following: the costs covered by the federal budget (1.819 billion roubles), JSC RZD spending on the relocation of the 6-kilometer railway route (0.454 billion roubles), and the expenses covered by the budget of Perm region (0.494 billion roubles).
Uralkali is also going to compensate the expenses of the city of Berezniki, estimated at 36 million roubles. Thus, the total amount which the company voluntarily allocates for compensating the expenses incurred as a result of the accident will be about 7.8 billion roubles.

23 April
Uralkali, in line with prior agreements, paid 2.3 billion roubles to the government of Perm region
This amount includes over 1.8 billion roubles to reimburse the expenses of the federal government to manage the consequences of the accident and around 494 million roubles to compensate the costs incurred by the Perm region in regards to the Mine-1 accident.
Apart from 2.3 billion roubles that have already been paid, Uralkali will pay 5 billion roubles directly to the federal budget to finance the deficit of a 53-kilometer railroad construction. Uralkali will also pay 454 million roubles directly to the federal budget to reimburse the funds, directed to the Russian Railways for the construction of a 6-kilometer bypass railway link. Uralkali will also pay 36 million roubles directly to the Berezniki municipal budget to reimburse the costs related to the Mine-1 accident.

2008 Potash Market Overview



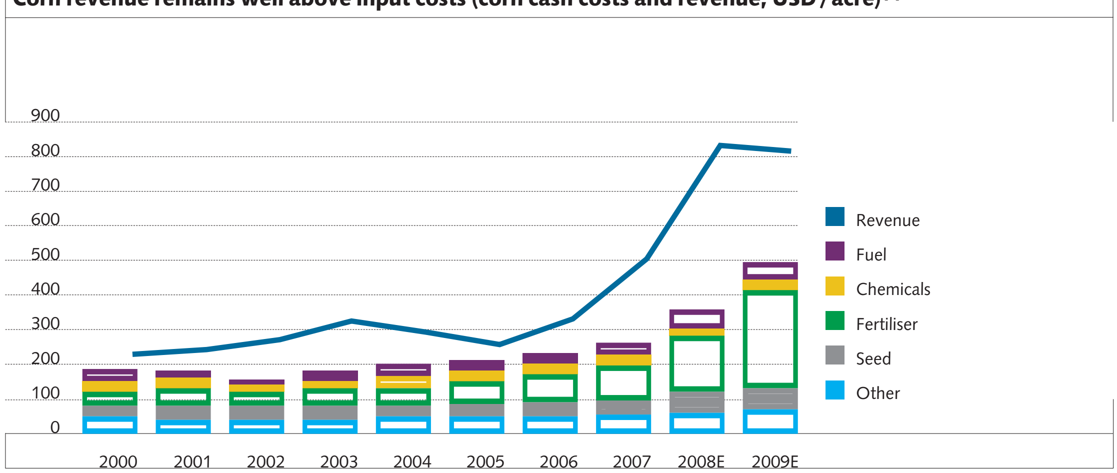
For the potash fertiliser market, 2008 consisted of two distinct periods: rapid growth in the first half and a dramatic downturn beginning in the third quarter.

The first half for international fertiliser markets was characterised by a high level of demand, resulting in increased prices for agricultural products. From January to June, the price of the most potash-dependent crops went up. For example, the price of soybeans grew by 35% (from USD 11.6 to USD 15.7 per bushel); corn, 64% (from USD 4.9 to USD 8.03 per bushel).[1] Food price growth encouraged farmers to increase crop yield and raise the efficiency of agriculture by intensifying their use of fertilisers.

In the first half of 2008, total world potash exports increased by 4.1% year-on-year.[2] MOP exports to Brazil, India, Malaysia and Indonesia grew by 14.5%, 76.6%, 71.2% and 31% respectively.[3] Due to the late completion of the supply contract with China (June 2008), total potash exports to this region in the first half of 2008 dropped by 62.3%.[4] In general, the industry was characterised by demand exceeding possible supply in the first half of the year.

The situation in both global agriculture and the potash industry caused price growth in the international potash

Corn revenue remains well above input costs (corn cash costs and revenue, USD / acre)[5]



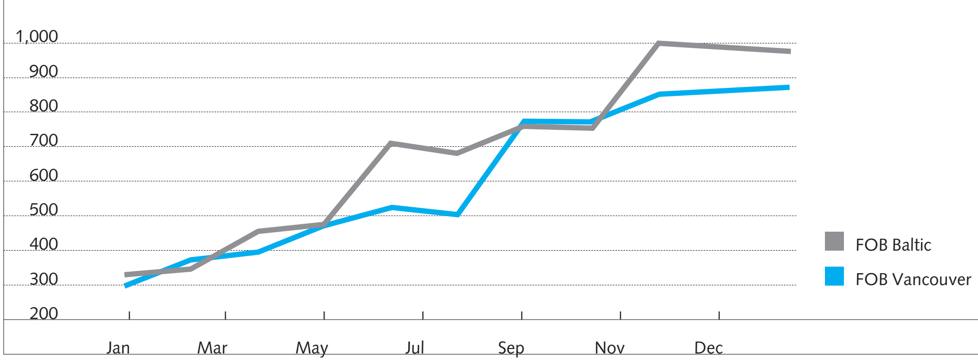
[1] Bloomberg.
[2], [3], [4] IFA.
[5] Doane Advisory Services, USDA, Merrill Lynch.

market. For example, from January to June, the MOP price per tonne grew from USD 350 to USD 690 (FOB the Baltic Sea).[6] In April 2008, Belarusian Potash Company announced a record high price of USD 1,000 for MOP for the spot markets of Asia and Latin America.
In the third quarter of 2008, the situation changed due to the global economic recession. The price of primary energy resources plummeted. In just a few months, the oil price fell from USD 140 (June) to USD 45.6[7] per barrel by mid-December. World GDP growth fell from 5% in 2007 to 3.7% in 2008 and is forecast to be 2.2% or less in 2009.[8]
Economic instability led to the quick disposal of financial assets and the liquidity crisis, causing agricultural products to plummet in price. As a result, the agricultural industry found itself in a state of uncertainty, namely:

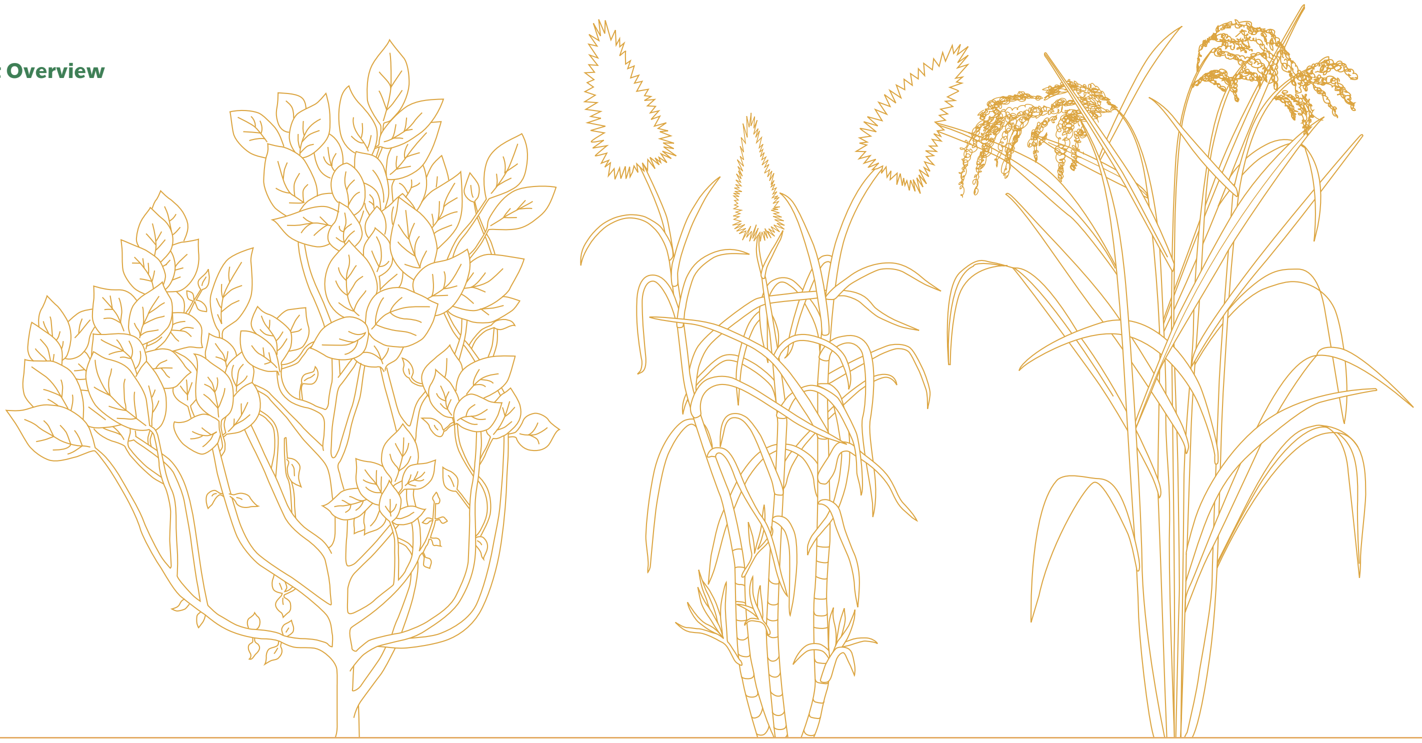
- In the second half of 2008, the price of most agricultural crops dropped significantly, causing a notable decline in farmers' margins.
- The US dollar considerably strengthened against the currencies of most importers of potash fertilisers.
- Loan resources became less available and more costly, thus limiting the financing options of agricultural producers.

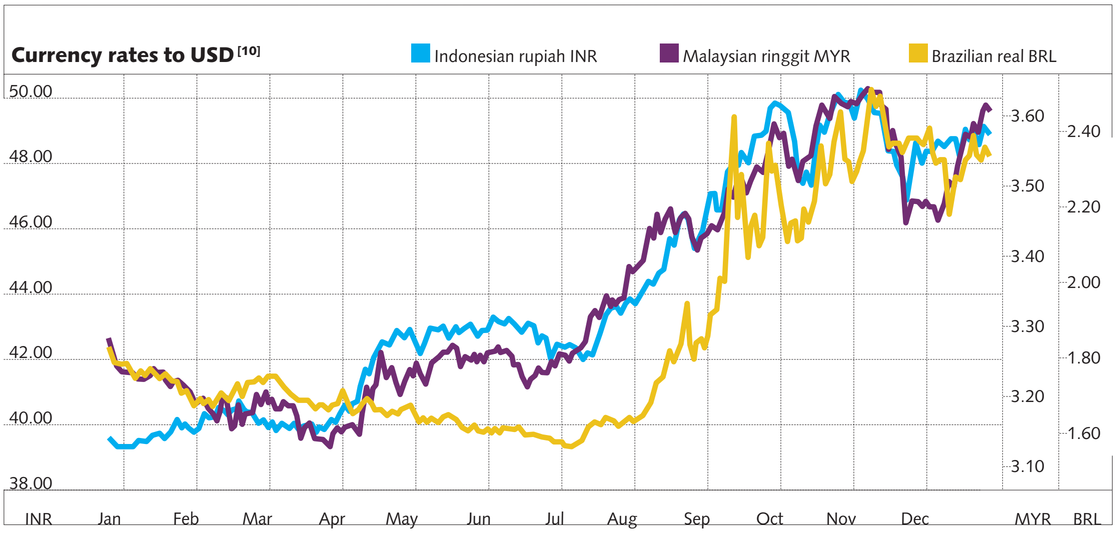
Since the global financial crisis led to a lower demand for food, many agricultural producers were unable to purchase previously planned volumes of fertilisers. As a result, demand for the company's products in some markets declined. In the fourth quarter of 2008, Uralkali was forced to reduce its output, compared to its initial plans, due to lower demand for fertilisers.
It should be noted that adverse events in the world economy resulted in lower prices for nitrogen and phosphate fertilisers, whereas the price of potash fertilisers remains

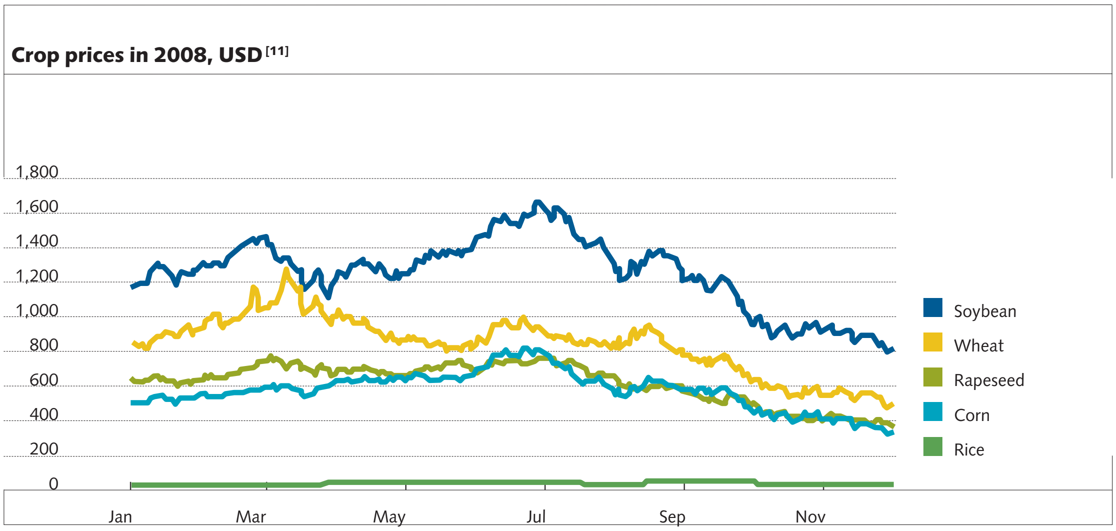
World market prices, USD / tonne spot in bulk [9]



[6] FMB.
[7], [8] Bloomberg.
[9] Fertecon.







[10], [11] Bloomberg.

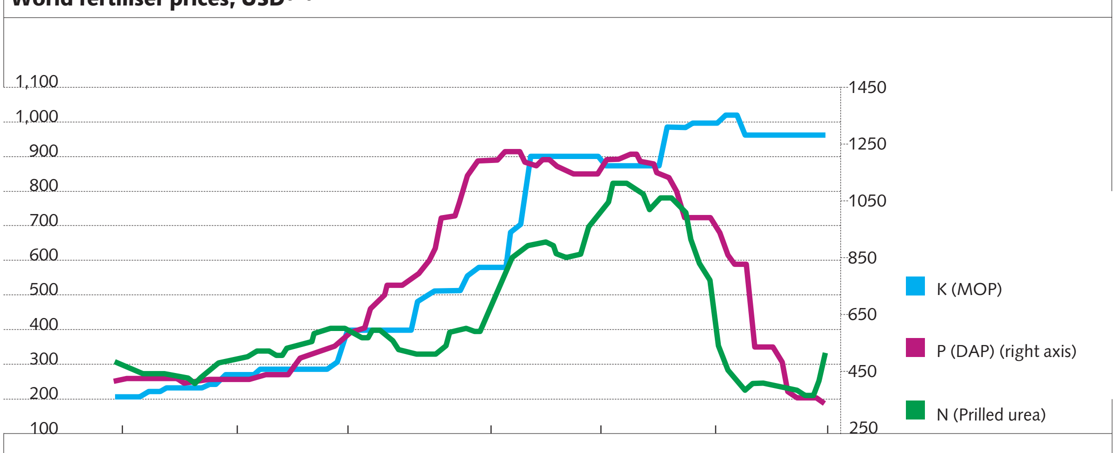
stable, thus reflecting the unique characteristics of the potash industry. We believe that the lower demand for potash will not last long.

Given that potash is essential for plants, that its function cannot be performed by any other nutrients and that the industry enjoys strong fundamental characteristics, the long-term prospects for the potash market are still attractive. Even despite demand reduction in the second half of the year, total world consumption of MOP in 2008 was 50.96 million tonnes, which is 6.3% lower than potash consumption in 2007.[12]

In the principal target regions for potash fertilisers (BRIC countries), soils do not contain sufficient potash for normal plant growth. In late 2008, agricultural producers sharply reduced potash application, thus threatening future crops in 2009. The stable application of potash fertilisers is expected to restart in the next planting season. Otherwise, soil quality and fertility will decline substantially. The lack of potash may reduce crop yield by 20% for the first rice harvest in China; 22%, for corn harvest in the USA; 37%, for paddy rice in India.[13]

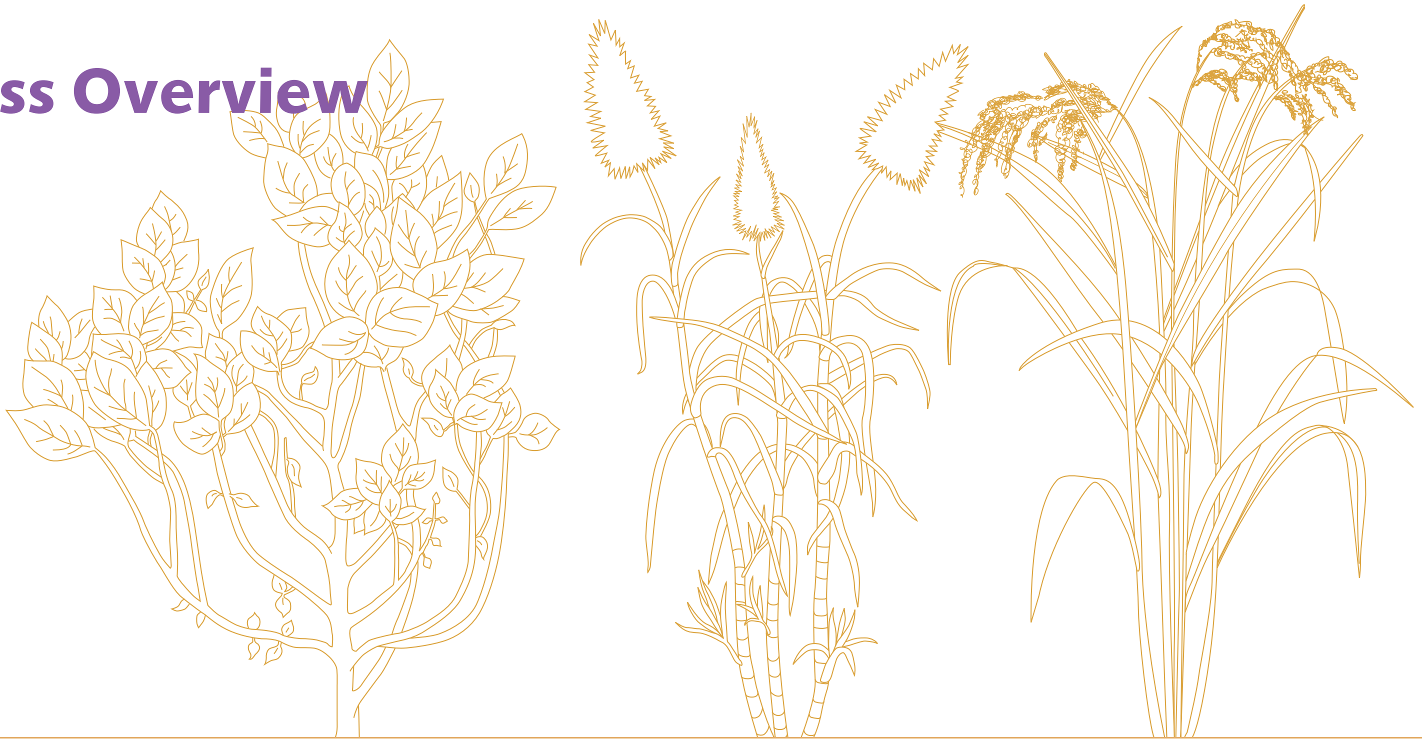
We are convinced that the prospects for the potash industry are exclusively favorable and it will revive as soon as negative sentiment in the global financial market disappears.

World fertiliser prices, USD [14]



[12] Fertecon.
[13] IPNI.
[14] FMB.

Business Overview



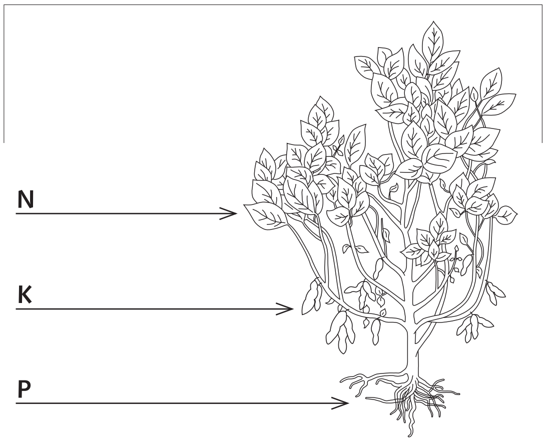
01
What is Potash?

Potassium chloride (KCl) is a natural compound which is essential for plant growth and development.
The use of potassium chloride as potash fertiliser in agriculture accounts for 95% of global potash consumption.
Potassium (K) fertiliser helps build a larger and healthier root system, stimulates water and nutrient movement, builds up tolerance to winter hardiness, crop pests and diseases, improves the taste of fruit and vegetables and extends their shelf life. Potash deficiency in soil results in the loss of germination power of seeds, weak stalks and poor yield quality. For example, if the supply of potash is adequate, the fruit will be bigger and sweeter than fruit grown under potassium deficiency.

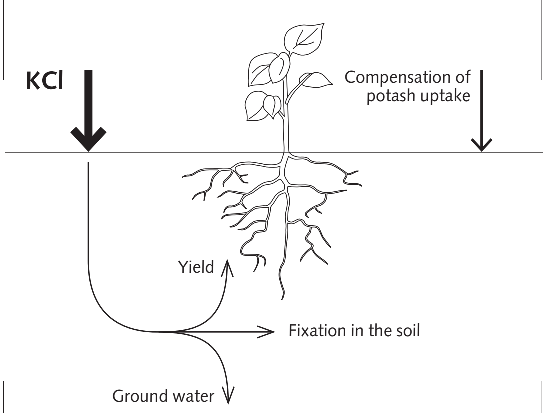
02
Potash Industry Advantages

The potash industry is characterised by growing demand, as well as high predictability and stability.
The reasons for this are as follows:

- Potash is an essential plant food nutrient. It is unique and irreplaceable.
- The potash business is not cyclical.



N, P and K cannot replace each other.
Potash is a plant nutrient that cannot be replaced by other elements.



- Scarcity of deposits, highly concentrated industry as well as significant barriers to entry make K fertiliser production more attractive compared to other types of fertilisers. Potash fertiliser should be applied every year, as it is constantly removed from the soil by ground water and yield.

03
Focus on BRIC Countries

Uralkali considers BRIC countries as its key markets. Brazil, Russia, India and China are characterised by high populations, income growth rates and the importance of agriculture for the economy and the society of these countries, which, in turn, stimulate the increase of potash demand.

Uralkali already holds leading positions in the markets of these countries through the BPC and UKT, thus ensuring the potential to increase its market share faster than producers with less exposure.

Uralkali's costs to ship its production to BRIC countries are very competitive compared to other producers of potassium chloride. The company also has the exceptional advantage of being able to deliver potash to China by rail.

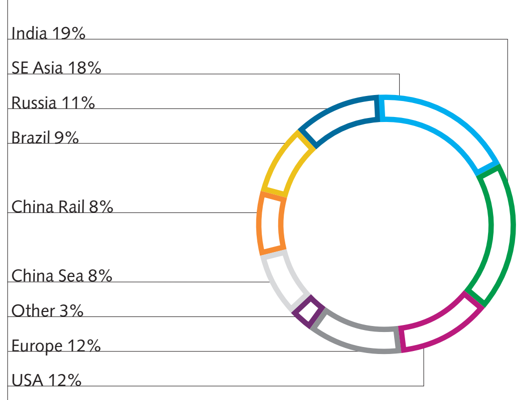
Uralkali does its best to ensure the timely supply of full volume mineral fertilisers to the domestic market. In order to support Russian agricultural producers, the company set a price level for them at 3,000 roubles per tonne and maintained it throughout 2008. Complex fertiliser producers, who supply their products to Russian farmers, received potash for 3,500 RUR per tonne. It should be noted that in 2008 the prices for Uralkali's potash fertilisers exceeded USD 1,000 per tonne in some markets.

In 2009, Uralkali continued to support Russian agricultural producers by establishing reduced prices for whom the prices in H1 2009 were set at 3,700 RUR per tonne without packaging. Uralkali has decided to set the price of potassium chloride at 3,995 RUR per tonne for the whole volume of product supplies to Russian complex fertiliser producers Phosagro and Eurochem for H1 2009. We believe that this temporary measure to combat the economic downturn will contribute to the development of Russia's agricultural sector and the mineral fertiliser industry as a whole.

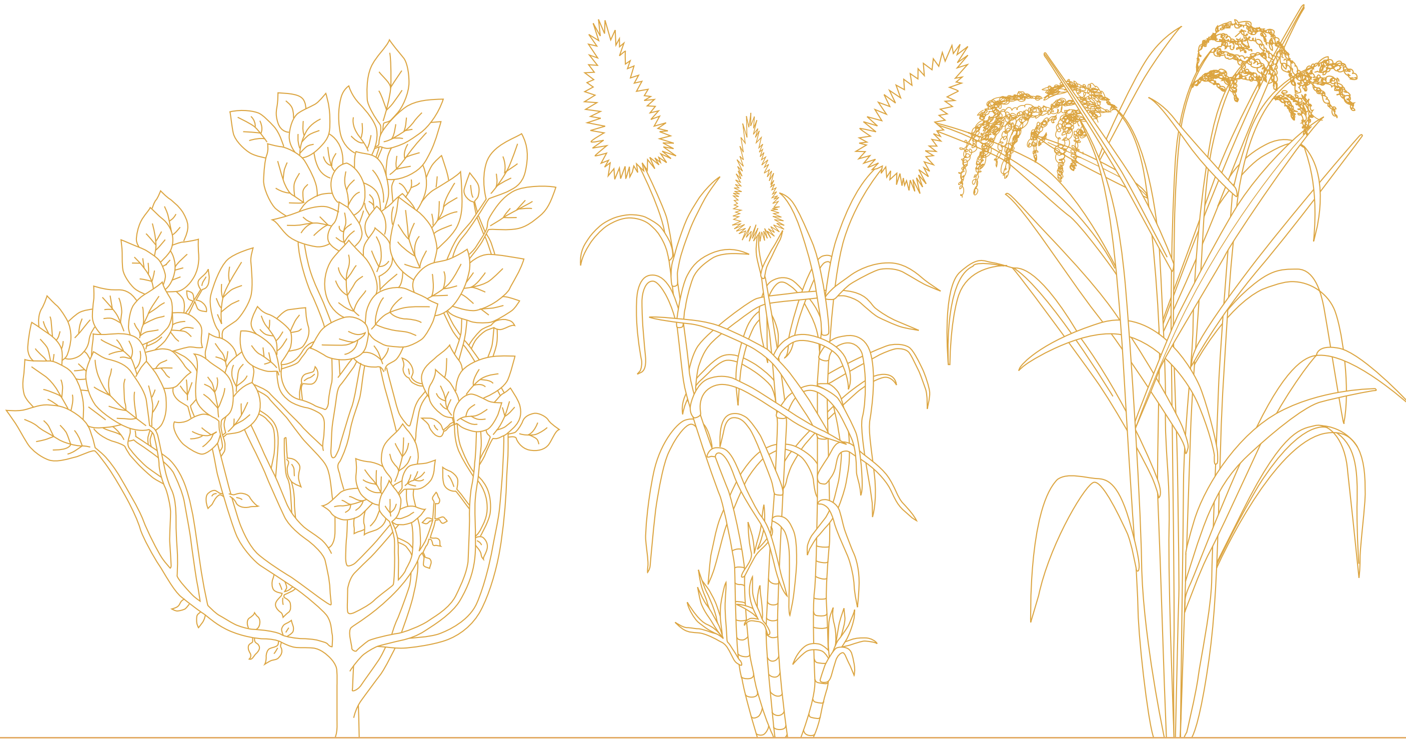
The indicated price corresponds to potassium chloride production expenses forecasted for the relevant group of consumers for 2009.

- **BRIC countries consume more than half of the world's potash, and the demand in these markets is growing above the average industry level.**
- **They will account for more than 56% [1] of market growth over the next five years**
- **Russia has immense potential in agriculture: the total area of its arable land amounts to 118 million hectares. [2] Russia is one of the major grain exporters, the production growth of which was 14.25% in the past five years. [3]**
- **Sales to BRIC countries accounted for 54% of Uralkali volumes in 2008.**
- **Uralkali has leading positions in BRIC markets through the BPC and UKT.**

Uralkali 2008 sales portfolio



[1] Fertecon.
[2] IPNI.
[3] USDA.



04
Production today and tomorrow

Uralkali's production capacity in 2008 amounted to 5.4 million tonnes. However, due to the decline of demand in the global fertiliser market in Q4 2008 production output was curtailed to 4.8 million tonnes. Through the modernisation of production and debottlenecking, Uralkali is planning to increase its capacity up to 7 million tonnes during the next three years.

- In 2010, the company will launch the second production line with capacity of 1.5 million tonnes of potassium chloride at the Fourth Mine Division Chemical Plant (BKPRU-4). After the launch of the second line, the first line with capacity of 1.5 million tonnes that has been in operation since 1992 will be stopped for 1 year for repairs. As a result of these arrangements in 2011 the highest possible production volume will be 7 million tonnes of potassium chloride.

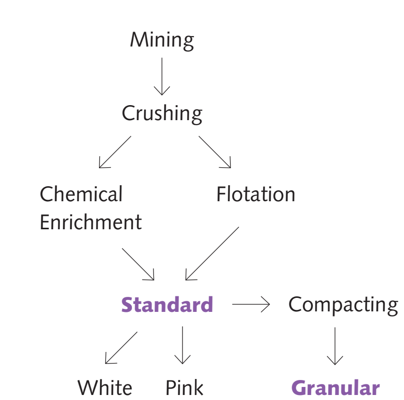
05
Logistics

Uralkali has its own fleet of railcars, warehouses and port facilities in St. Petersburg, providing the company fully controls its logistics costs, and allowing it to adjust to changes in demand, and guarantee a consistent supply to customers.

JSC Baltic Bulk Terminal

Baltic Bulk Terminal, specially designed for handling fertilisers, is a fully automated state-of-the-art seaport facility. BBT is located in the sea port of St. Petersburg. It is the closest terminal to the company's

Production chain



production facilities and is solely owned by Uralkali.
In 2008, Uralkali's shipment volume of potash fertilisers amounted to 3.8 million tonnes out of a 6.2 million tonnes capacity at the BBT. The excess capacity was used for the shipment of nitrogen and phosphate fertilisers of other Russian producers. In future the reserve capacity of fertiliser shipment is expected to be in great demand due to increase of production output by Uralkali.

Rail

Uralkali has one of Russia's largest private railcar fleets – more than 4,600 units, which are specially designed to transport fertilisers. Rail transportation is the most important component of the company's production chain: ensuring the delivery of Uralkali's products to the BBT, guaranteeing the reliability of supplies, and serving as a key competitive advantage – the capability to deliver potash to North China.

Warehousing

Warehouses are essential for ensuring stable and uninterrupted supplies. In addition to the 240 thousand tonnes warehouse capacity at BBT, Uralkali owns warehouses in Berezniki that can hold up to 160 thousand tonnes of potash with separate sections for different products. Each of the warehouses is connected to the rail freight terminal by a conveyor belt system, which is fully protected from exposure to the elements.

06 Trading and Pricing

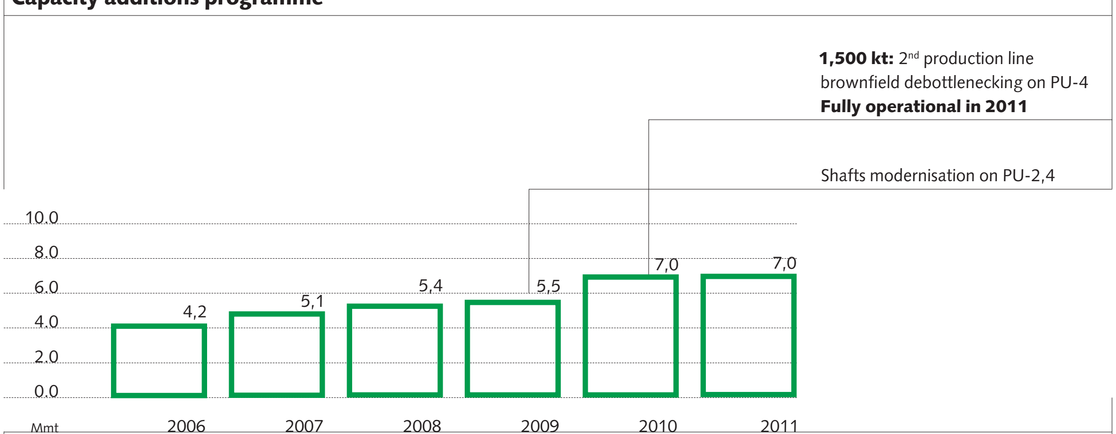
Trading

Uralkali together with RUP PO Belaruskali [4] owns Belarusian Potash Company (BPC).
BPC is a world leader in the global potash export market. BPC has sales offices in six countries, and supplies its products to partners in 60 countries. BPC gives Uralkali an opportunity to achieve sales and distribution cost efficiency.

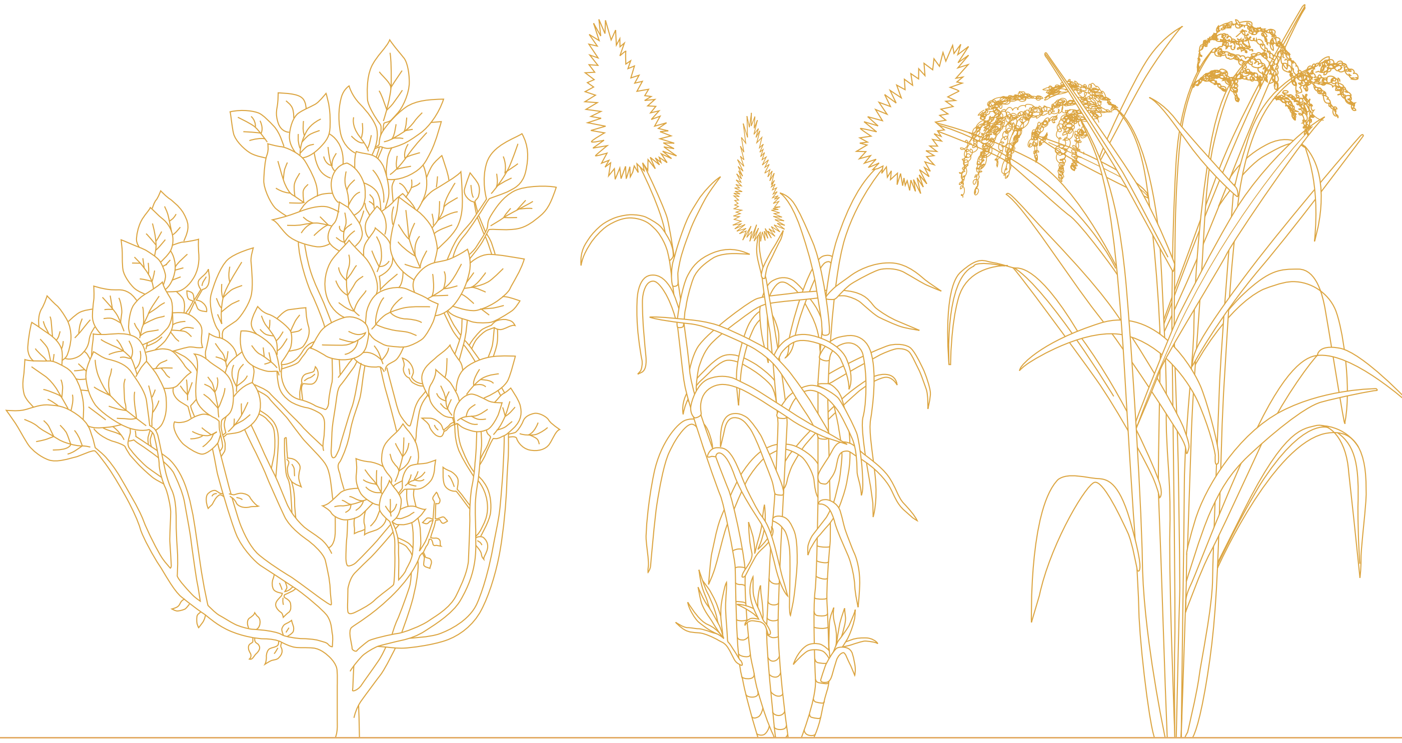
Pricing

Our strategy is to maintain balance between spot markets and contract markets. Spot prices are determined by producers and are subject to market fluctuations, whereas contract prices are determined through negotiations, mostly annually or biannually. The largest contract markets are India and China (supplies

Capacity additions programme



[4] Belarusian Railway owns 5% of the BPC.



by sea). Uralkali's 2008 sales ratio of contract/spot amounted to 44/56. Spot prices rise in relation to a growth in demand: they allow the company to realise profit gains as illustrated in H1 2008. Long-term contracts secure large volume supplies at fixed prices and, consequently, play an important role in maintaining stability for the company if there is a decrease in demand in the spot markets, as happened in the autumn of 2008. Thus, keeping the balance between spot sales and long-term contracts allows the company to react swiftly to any changes in the market. This has proved to be an effective strategy over time, and Uralkali will continue to adhere to it in future.

07
Employees

Highly skilled employees are Uralkali's most important asset and the foundation of its sustainable development. It is vital that the company's projects are managed and executed by professionals with the skills to cope with challenges. Uralkali recognises the competition in the industrial sector for highly skilled individuals and is committed to paying competitive salaries, offering career development opportunities, and providing comfortable working and living conditions.

Headcount and Wages

Uralkali employed some 8,600 people in 2008.

The average monthly wage was approximately 23,700 RUR in 2008, a 33% increase on 2007. The company increased wages under the Collective Bargaining Agreement, taking into account labour market analysis, the company's demand for skilled personnel, and the rise in consumer prices for goods and services.

The unified system of grade based pay rates was introduced in 2008. Clear, well-defined, uniform evaluation criteria were developed to assess the significance and complexity of work at each position. This served to strengthen the transparency and fairness of the company's remuneration policy.

All employees of the company received annual bonuses according to 2008 annual results. Bonuses were also paid to the winners of the Working Millions and Labour Culture contests.

Employee Training and Development

In 2008, the company invested

37.4 million roubles in the training and development of its staff. Out of the allocated funds, nearly 2,400 workers received professional training and retraining, about 2,300 managers and specialists received advanced training, around 100 employees graduated from higher education institutions and technical secondary schools, and 23 executives finished their first year of the corporate MBA programme.

Corporate Culture Development

In 2008, Uralkali has further strengthened its corporate culture and identity: corporate values were reviewed and articulated at the conference of employees, allowing for the revision of our core competences model and the development of a code of corporate culture.

HR Reserve Preparation

The HR Reserve programme has been underway since 2003. It is aimed at strengthening the company's executive potential through testing, development and promotion of the best employees. Since the inception of this programme about 100 candidates have been appointed to senior positions, and many of them have been promoted further. In 2008, more than 600 employees took part in the HR Reserve. New Wave programme. Following an assessment at the beginning of 2009, a pool of executive and technical candidates has been formed and approved.

08
Social Responsibility

In its mission to be the most attractive employer in the region, Uralkali offers a comprehensive package of employee benefits. The company's remuneration package, which is 10% increase over the average wages in the company, is considered to be one of the most attractive. A network of corporate and social support for Uralkali's employees improves operating efficiency and company performance whilst the company's social responsibility projects tackle key issues facing the local community.

Corporate Meals

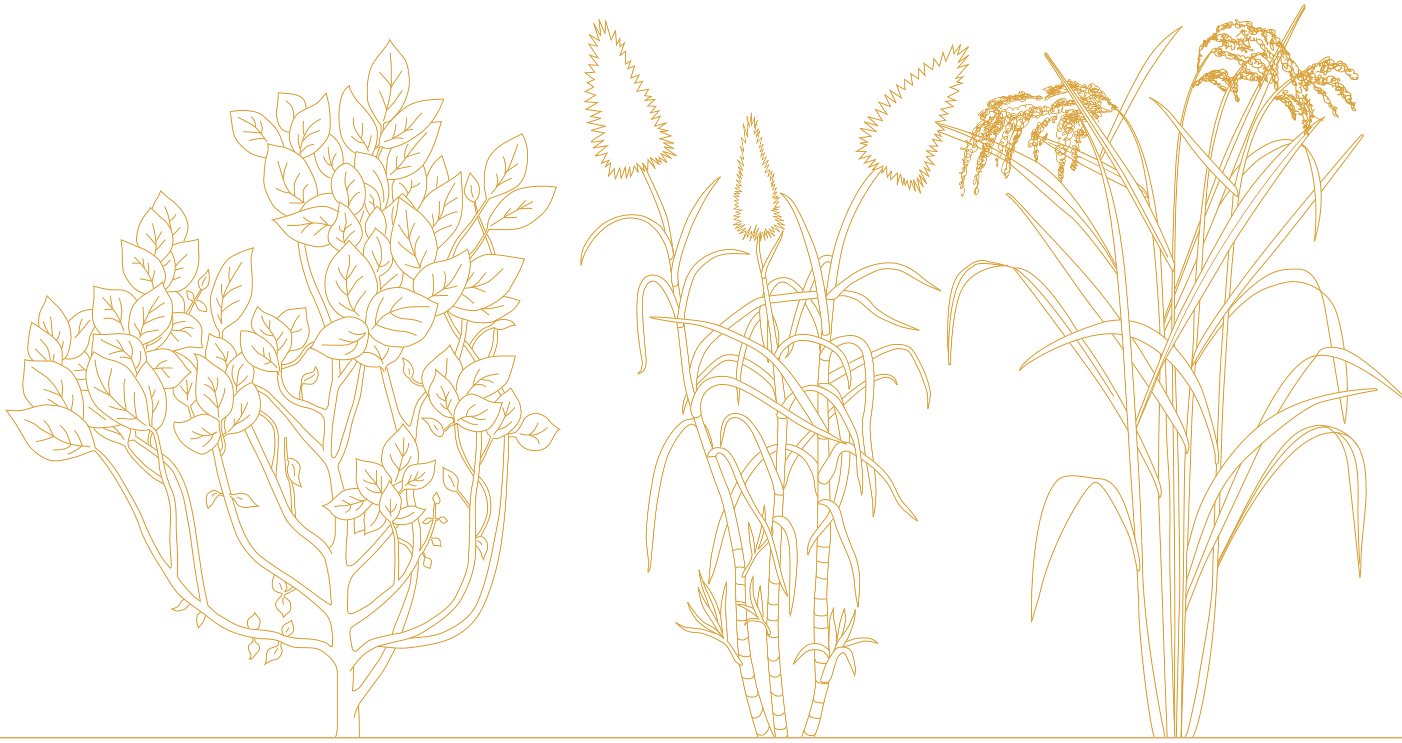
The Corporate Meals programme was started in April 2008, and is directed at providing Uralkali's employees with a 70% rebate for meals in the company's canteens. The systematic monitoring of food quality, range of meals and level of service is carried out as part of this programme. In 2008, 41.9 million roubles were spent on organizing a system of meal plans for the company's employees.

Housing Programme

The implementation of Uralkali's housing programme was continued in 2008. The company subsidised the payment of interest on housing loans, granted to its employees. The programme is aimed, first and foremost, at recruitment and retention of highly skilled professionals. More than 70 employees of Uralkali took advantage of the opportunity to use the corporate housing programme in 2008. A total of 11.9 million roubles was invested in the implementation of the programme.

Health Care

Our Uralkali Med Polyclinic subsidiary was founded in the autumn of 2008 and represents an important step towards improving the quality of health care for Uralkali's employees. A voluntary medical insurance (VMI) plan allows the company's employees to receive outpatient services and immunisation along with



necessary check-ups and treatment as part of the programme aimed at preventing occupational diseases. 160 employees were reimbursed for costly medical treatment and medicines during the year. A total of 43.1 million roubles was invested in the programme of VMI in 2008.

Recreation

Around 400 adults and more than 1,000 children were able to take a holiday and improve their health as part of the Uralkali recreation programme in 2008: Over 870 children spent their holidays in the company's Uralskoye Razdolye health centre, more than 160 children visited the camp on the Black Sea coast. The company spent 15.4 million roubles on recreation, while about 4.4 million roubles were provided out of social insurance fund.

Veteran Council Support

At the beginning of 2008, Uralkali's Veteran Council (founded in 1994 and consisting of 4,600 people), moved to a newly renovated building, financed by the company. Uralkali provided more than 19.7 million roubles to its veteran assistance programme. The money was primarily spent on paying cash grants, carrying out festive activities, providing health care, housing renovation, and funeral expenses. 240 veterans were able to make use of the treatment facilities in the Uralskoye Razdolye health centre.

Children's Educational Institutions

Since 2007, Uralkali has been implementing a comprehensive programme of developing children's educational institutions in Berezniki; namely, Secondary School No. 9 and kindergarten No. 88. The programme involves not only the improvement of facilities, but also the creation of innovative educational institutions that employ progressive teaching techniques and improved curricula. Due to the company's support, in the autumn of 2008 School No. 9 was granted the status of Gymnasium – the first in Berezniki. In 2008, the company allocated 41.3 million roubles to support these institutions. The funds provided by Uralkali were used to renovate and equip facilities and to buy new equipment and furniture. In the Usolsky residential district the company is financing the construction of a new health care centre and a kindergarten.

City Social Projects

Uralkali participates in several

city social projects. In particular, the company funds the Safe Town project, aimed at tackling street crime, and the Bereznikovsky Kharakter social foundation, that carries out various projects intended to support art, culture, education and sports.

09
Environment

In addition to its social programmes, Uralkali has undertaken to protect the environment and to support sustainability projects. Every year the company approves and implements an Environmental Protection Programme. The 2008 Programme consisted of 17 different projects, aimed at reducing air pollution, water conservation, waste management and raising environmental awareness among employees. Uralkali's environmental protection activities conform to international standards. The ecological management system of the company is fully integrated with the corporate quality system. Job descriptions of Uralkali's employees necessarily include responsibilities in environmental protection.

Air Pollution Prevention

In 2008, sulfur dioxide emissions in the atmosphere were reduced by the change of drying units at Mine-3 and Mine-4 from fuel oil to gas power. To detect unaccounted sources of air pollution, the Department of Research and Testing together with the Department of Storage Distribution conducted an investigation of mine gas emissions at Mine-2 (BKPRU-2) and compiled an inventory of air pollution sources at Mine-2 (BKPRU-2) which will be used to determine future air quality improvement measures.

Water Conservation

To control the quality of surface and ground water resources, Uralkali specialists and researchers from various scientific institutes conduct regular geological and hydrogeological monitoring. On the basis of their findings, decisions are made on environmental projects that reduce the impact of industry on water bodies. In 2008, Uralkali completed the construction of aerated spillways and a return system of filtering brine on the Lenva river, which improved the river's water quality. Furthermore, a sewage collector was built at Mine-1 (BKPRU-1). There are plans to replace a similar construction which stopped working due to the mine accident.

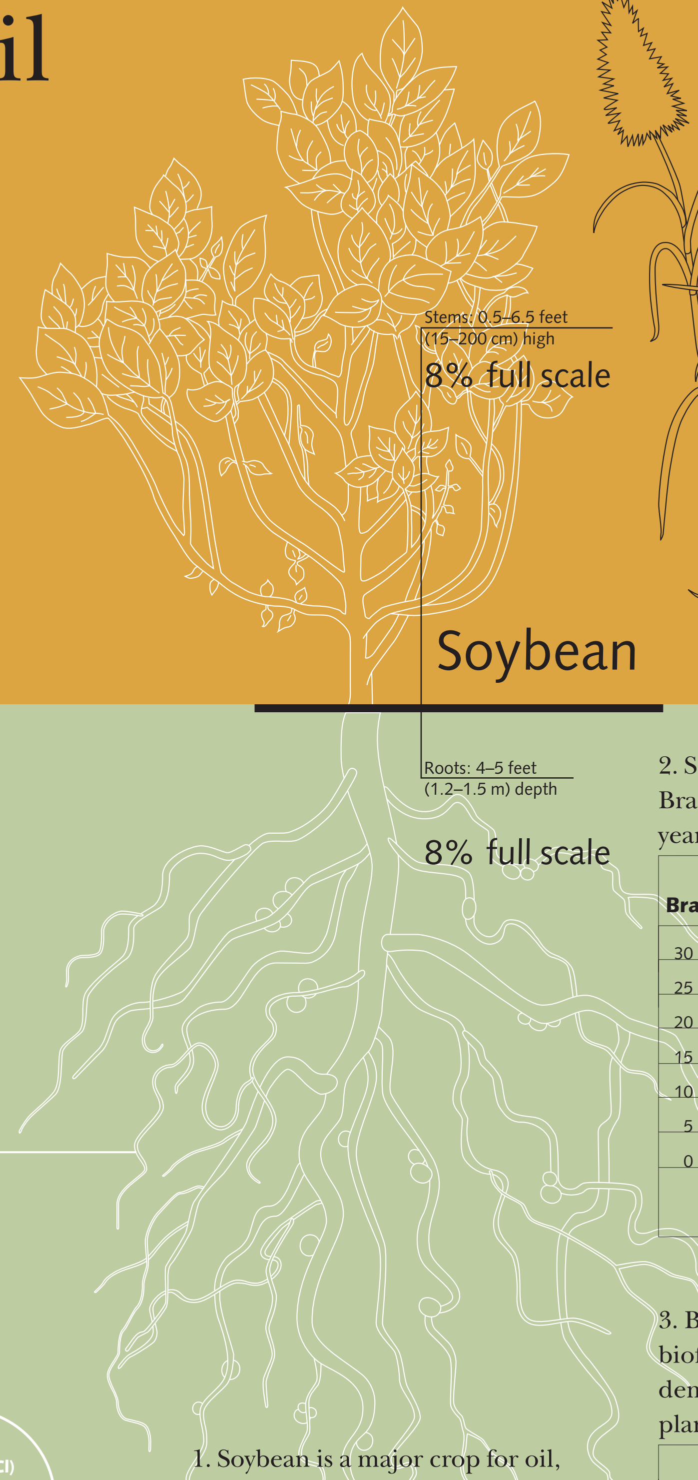
Land Protection

The fuel-oil pump and fuel-oil reserve at Mine-2 (BKPRU-2) have been dismantled to prevent possible oil pollution of adjacent areas. Land reclamation of the 907 sq m area has been carried out.
Soil monitoring in the buffer zones of the mine divisions is conducted on a regular basis, in order to determine the impact of industry on the land.

Waste Management

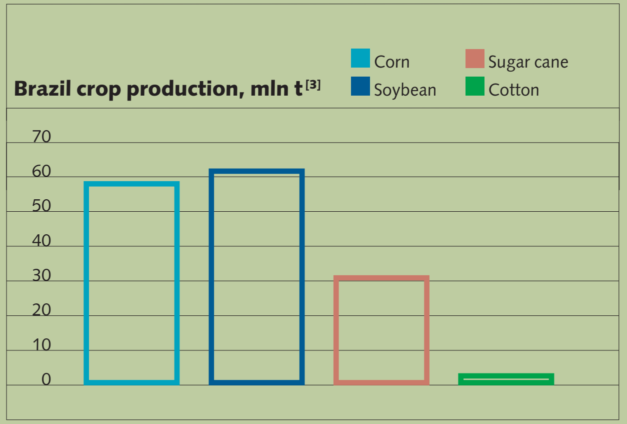
Uralkali continues to carry out a programme of reducing the volume of surface industrial waste dumps. As part of this process, production of salt brine out of halite waste at Mine-1 (BKPRU-1) reduced surface waste disposal by more than 1 million tonnes. Returning clay and salt tailings to mined areas underground at Mine-4 (BKPRU-4) is another important environmental measure undertaken by the company with 178.6 thousand tonnes of industrial waste disposed underground in 2008.

Brazil

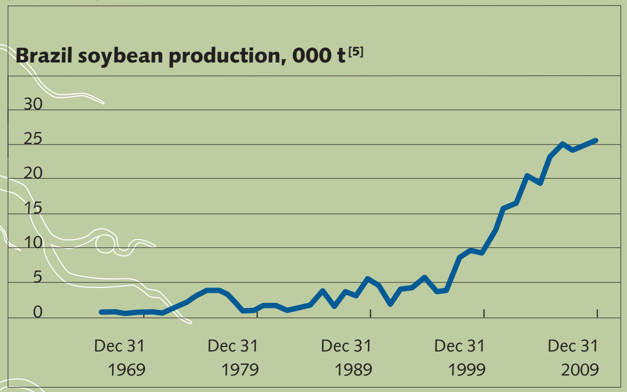


Potash (KCl) uptake by soybean reaches 0.91 kg per bu. [1]

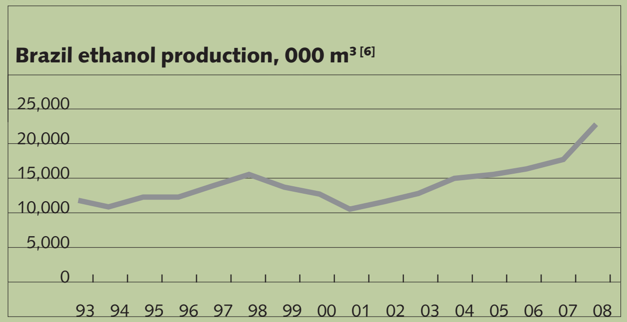
1. Soybean is a major crop for oil, food and fuel, and about 40% of soybeans in Brazil are exported. [2] To generate good yields and ensure quality large amounts of potash need to be applied.



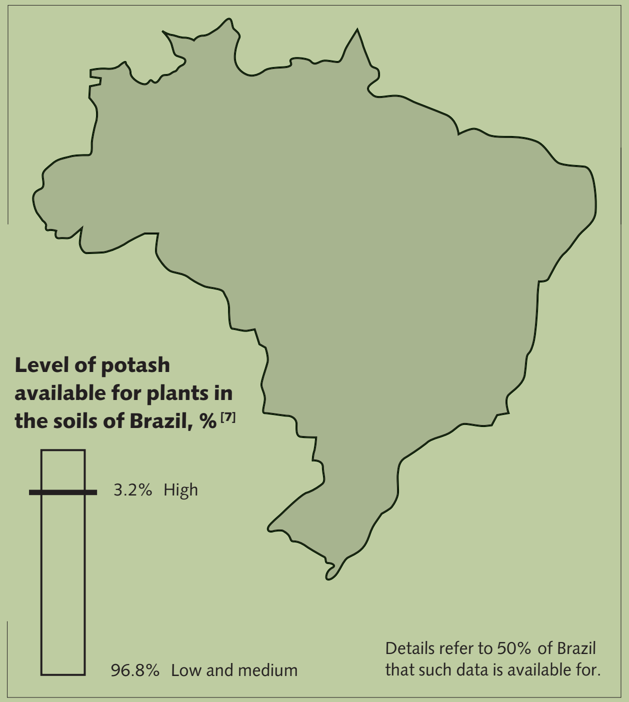
2. Soybean revenue represents 5% of Brazil's total exports, and is growing year on year. [4]



3. Brazil's main source of energy is biofuel. To satisfy the growing local demand more soybeans need to be planted.

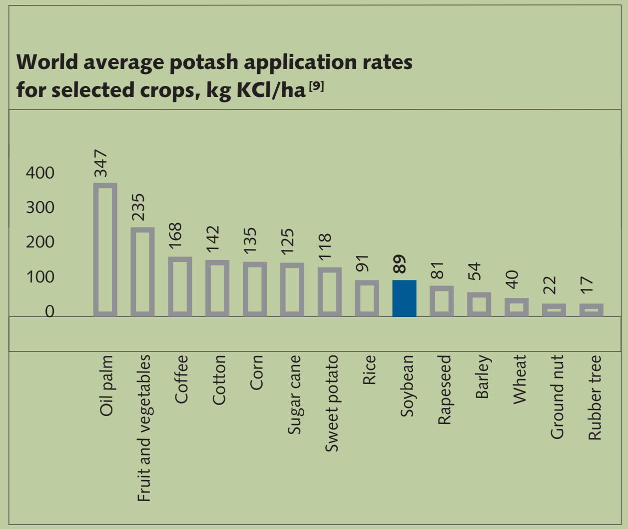


[1] IPNI.
[2] ADM.
[3] USDA.
[4], [5], [6] Bloomberg.

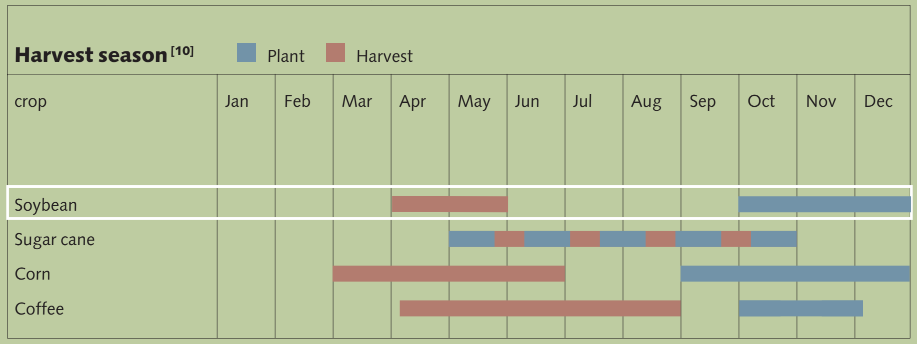


4. Low soil fertility means farmers cannot reduce the potash consumption without significantly harming their soybean yield, which can be reduced by as much as **39.4%**. [8]

5.



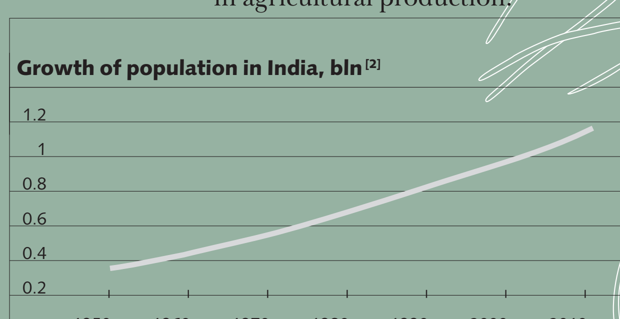
6. Brazil can be affected by heavy rain, causing leaching of potash from the soils. In addition, soils are generally acidic so potash application is extremely important for soil fertility.



[7], [9], [10] IPNI.
[8] Data based on long-term average yield, compared to the yield when optimum NPK is applied to the soil in Mato Grosso region (based on IPNI data).

India

1. India's population is growing rapidly, and young people make up 63.3% of the population. 58% of the population is involved in agricultural production.[1]



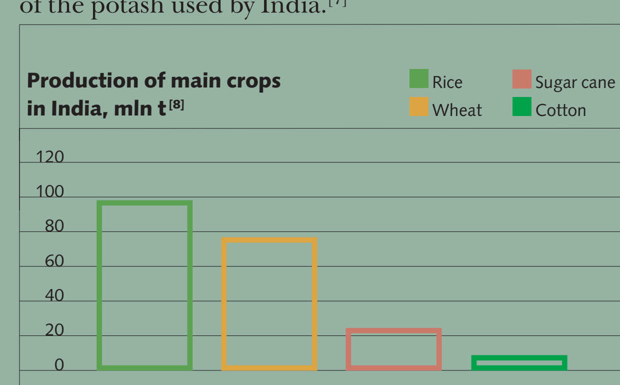
The middle class is predicted to grow from 50 million in 2008 to 580 million by 2025.[5]

Export of agricultural products makes up 14% of India's total exports.[6]

2. The economy of India is the twelfth largest in the world. It recorded a GDP growth rate of 9.1% for the fiscal year 2007–2008, the second fastest among the world's emerging economies.[3]

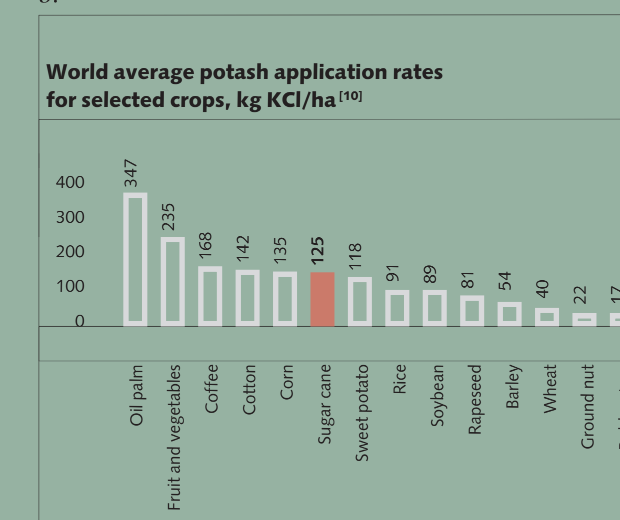
3. Of all countries, India is the most in need of food and fertiliser. Agriculture accounted for 17.5% of GDP in 2007–2008.[4] Indian crop production is intensive and requires potash to ensure high yields and maintain export quality.

4. Sugar cane is a very potash intensive crop, needing 11% of the potash used by India.[7]



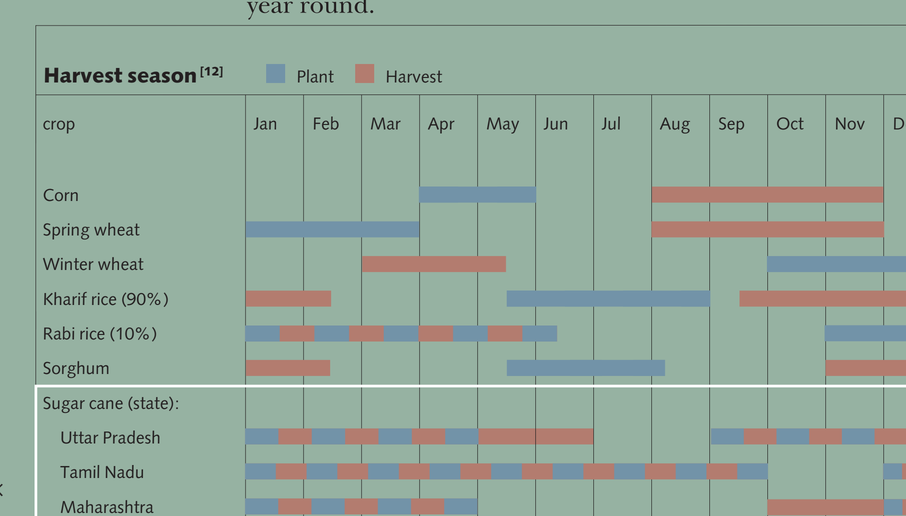
[1], [3], [4] http://indiabudget.nic.in
[2], [6] Bloomberg.
[5] BMO Capital Markets.
[7] IFA.
[8] USDA.

5.



Depriving the soil of mineral fertilisers is likely to cause up to a 37% decrease in annual paddy rice yield.[11]

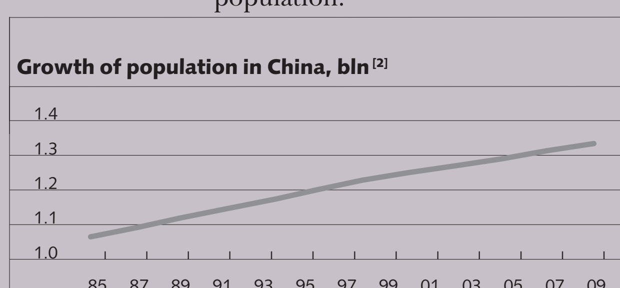
6. Different crops are planted all year round.



[9], [10], [12] IPNI.
[11] Data based on long-term average yield, compared to the yield when optimum NPK is applied to the soil (based on IPNI data).

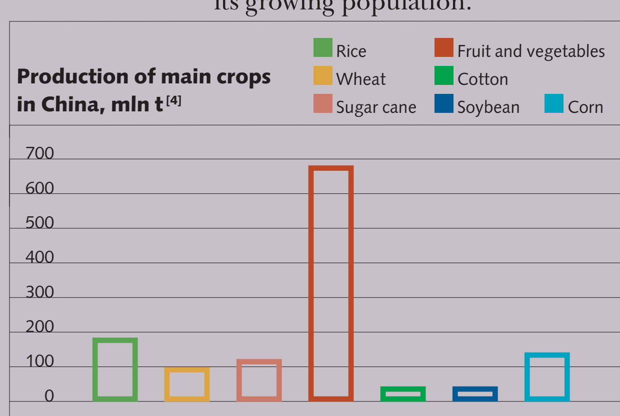
China

1. Constantly growing population. With only 7% of the world's arable land, China is responsible for feeding 22% of the global population.[1]



It is anticipated that China's middle class will grow from 130 million to 690 million by 2025.[3]

2. China grows a lot of crops to feed its growing population.



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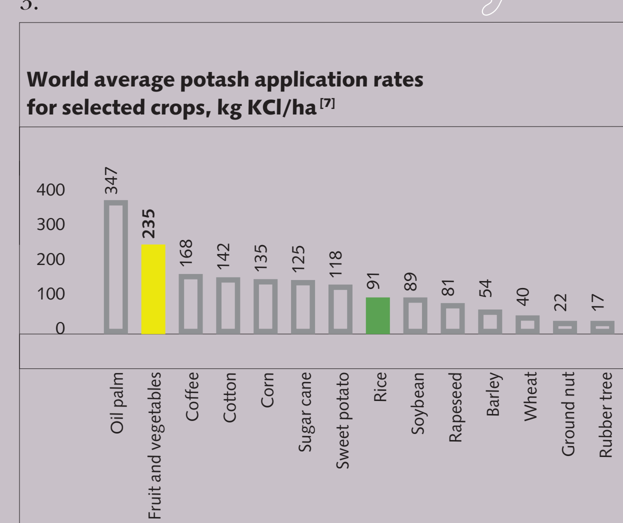
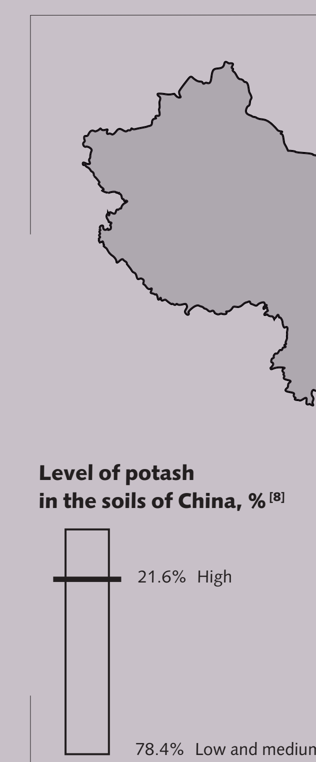
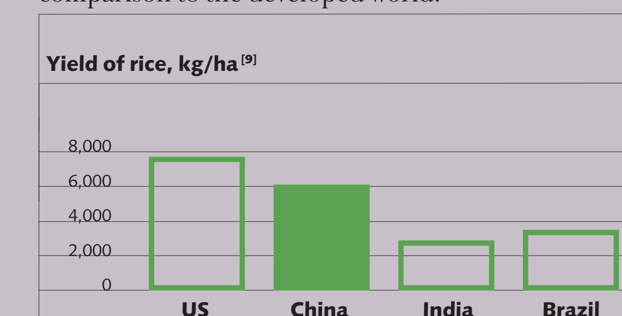


[1] HSBC.
[2] Bloomberg.
[3] BMO Capital Markets.
[4] USDA.
[5] Fertecon.
[6] http://www.chinaview.cn
[7] IPNI.



The research was made on behalf of the Chinese government in 1980. Since then, there has been no new information on a national scale about K status of the soil. We assume that the K balance in the soil/crop system has remained negative from the 1980s to date. This means that the K removal by crops is higher than the K input by fertiliser application. However, in some regions, with continuous K application for several years the soil's K status could have been improved.

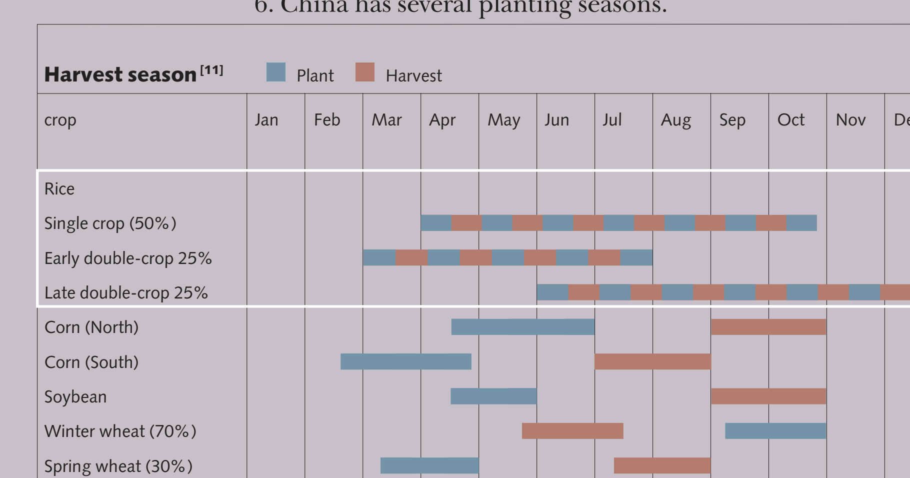
4. China's rice yield is still low by comparison to the developed world.



5. Damaging yield

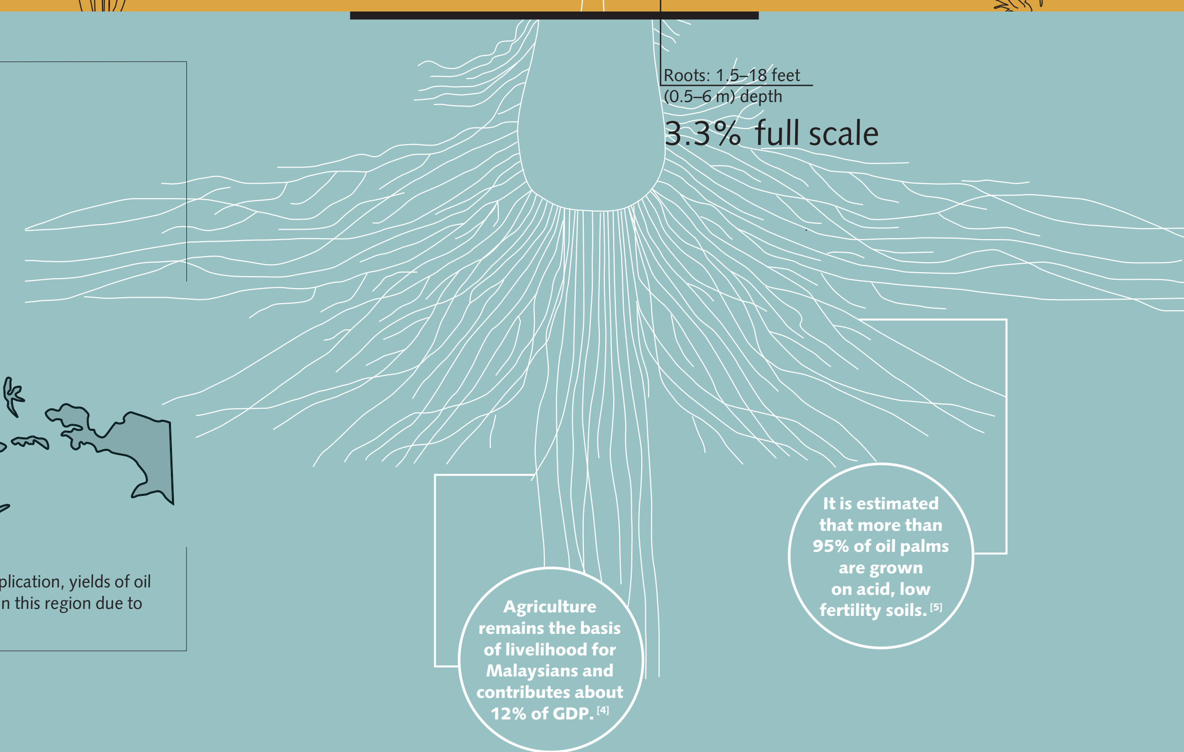
China's farmers (Southeast and Southwest) can have 2–3 harvests a year. As a result of taking "potash holidays," the yields of rice might be reduced by **12–20%** in the first rotation. The yield reduction for the second crop can reach **40%**.[10]

6. China has several planting seasons.



[8], [10], [11] IPNI.
[9] FAO.

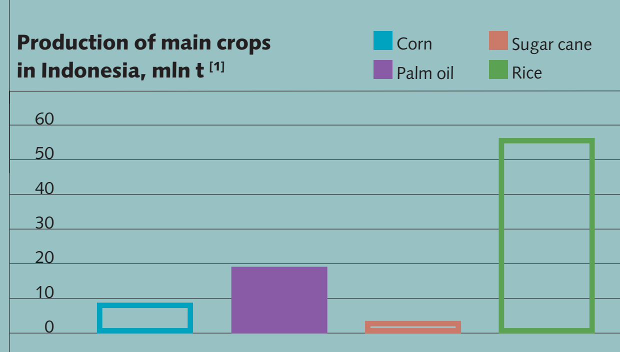
SE Asia



1. The agriculture sector forms the basis of the region's economy and the main source of employment. More than 50% of the economically active population is involved in agriculture.

2. The soils of SE Asia cannot store potash and need regular application to maintain fertility. Potash is required in similar amounts as nitrogen and is particularly important for the development of oil palm fruit.

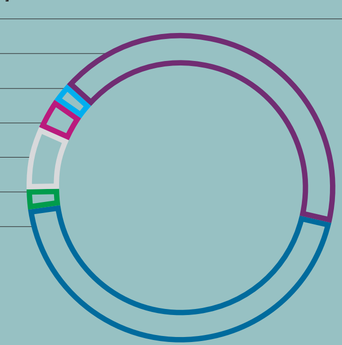
Production of main crops in Indonesia, mln t [1]



Without the correct potash application, yields of oil palm, corn and rice will suffer in this region due to poor soil fertility.

3. Malaysia and Indonesia are among the world's leading producers of palm oil.[2]

Worldwide palm oil production (total 36.4 mln t) [3]



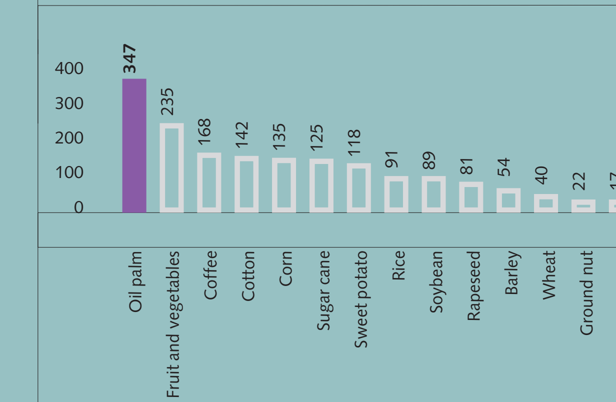
[1], [3] USDA.
[2] Federation of International Trade Associations.

4. Palm oil production in Malaysia and Indonesia has doubled since 2000. It's one of the most affordable oils and has a wide range of uses.

Production of palm oil in Malaysia and Indonesia, 000 t [6]

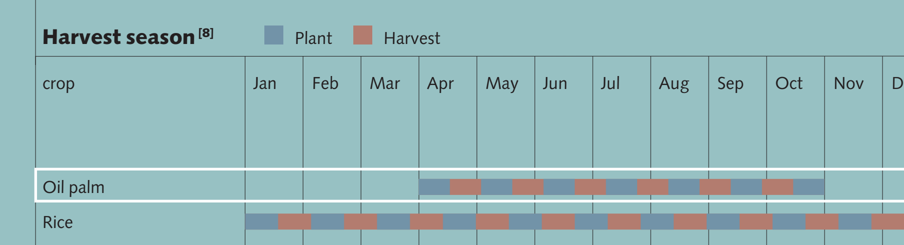
5.

World average potash application rates for selected crops, kg KCl/ha [7]



6. Oil palm is harvested continuously throughout the year, but fertiliser application should occur regularly due to rainy seasons.

Harvest season [8]



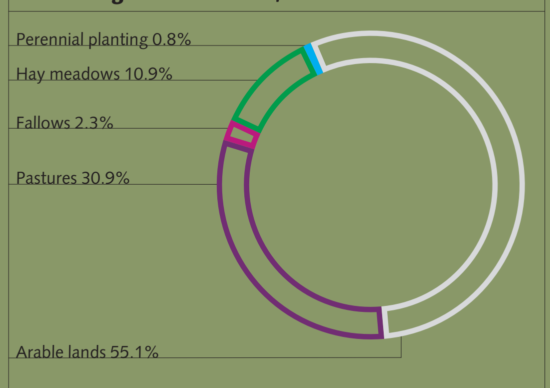
[4], [5], [7], [8] IPNI.
[6] Integer.

Russia

Level of available potash in the arable lands of Russia, % [1]

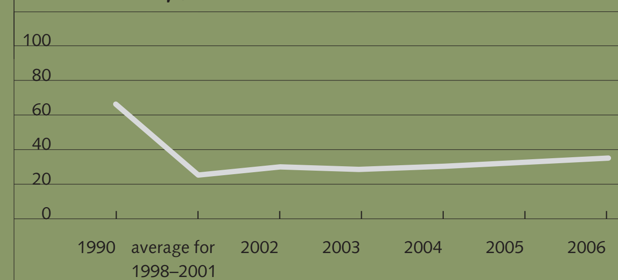
1. Russia has great potential in the world mineral fertilisers market. The country has 194 mln ha of agricultural land, including 118 mln ha of arable lands. [2]

Russia's agricultural lands, % [3]



2. Fertiliser application in Russia has decreased since Soviet times.

Fertilised area, % of total sown area [4]



3. In 2008, the government of the Russian Federation launched an agricultural development programme and forecast an annual increase rate of fertiliser consumption of 10–11% within 2008–2012.[5]

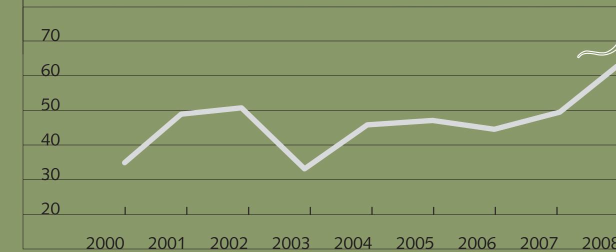
4. Russia is a major grain exporter, with exports in 2008 estimated at 14 mln t.

Major wheat exporters in 2008, mln t [6]

[1], [2], [4] IPNI.
[3] Federal Agency of Cadastre of Real Estate Objects.
[5] IFA.
[6] USDA.

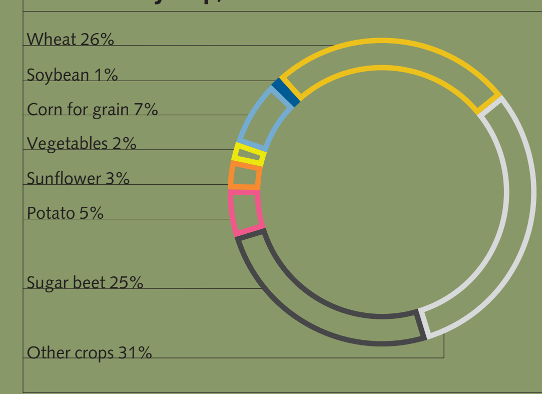
5. 2008 was a strong year for Russian agricultural production. Grain production amounted to 102 mln t, the highest since 1992/93. Wheat production reached 61 mln t as a result of a larger area being harvested (+1.5 mln ha) and an increase in yields.[7]

Wheat production, mln t [8]



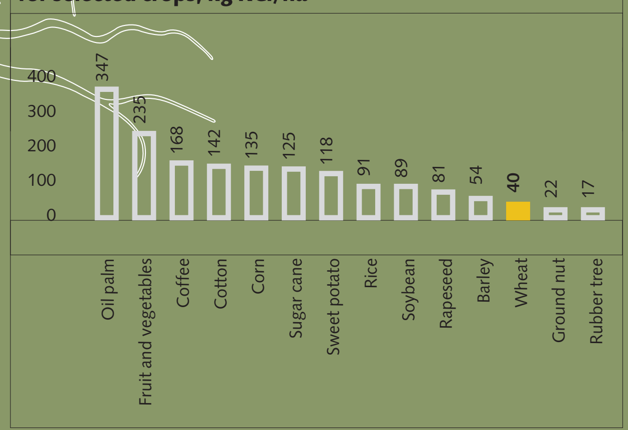
6. Wheat accounts for more than a quarter of potash application in Russia.

Potash use by crop, % [9]



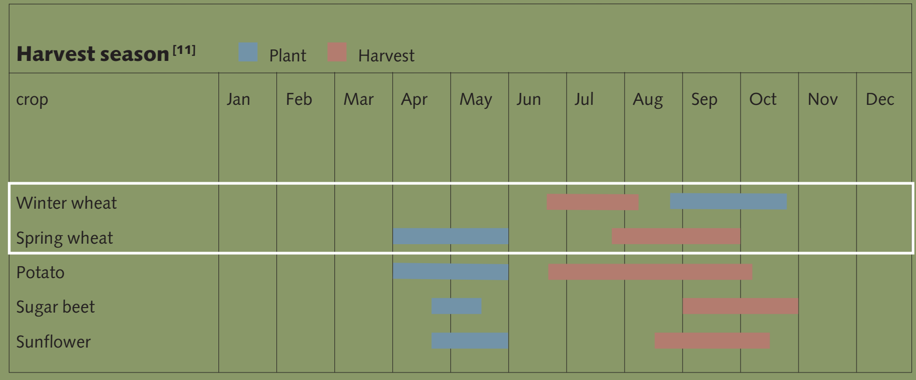
7.

World average potash application rates for selected crops, kg KCl/ha [10]



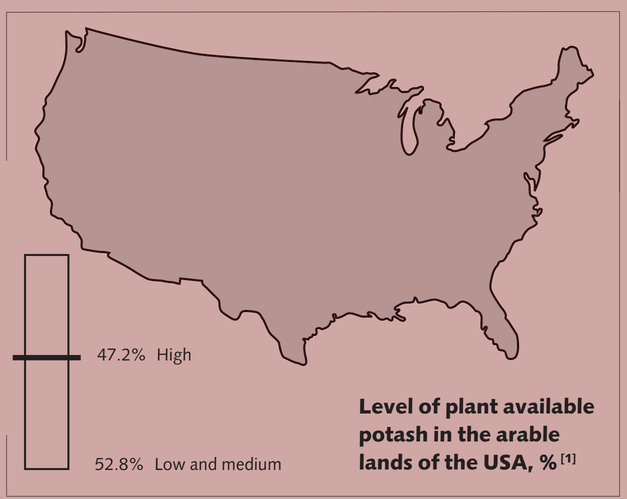
8. Russian farmers traditionally plant crops in spring and in autumn.

Harvest season [11]

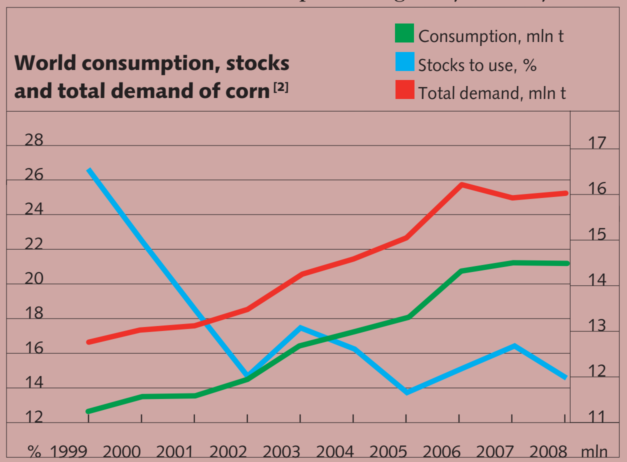


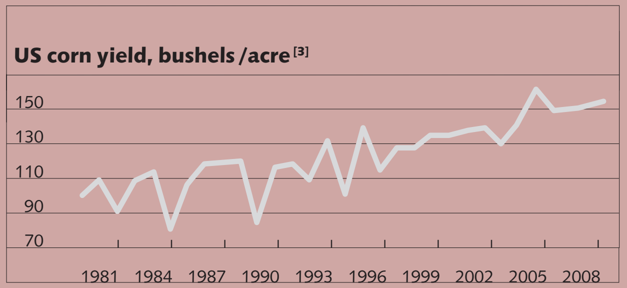
[7] IFA.
[8], [9] FAO, USDA.
[10], [11] IPNI.

USA

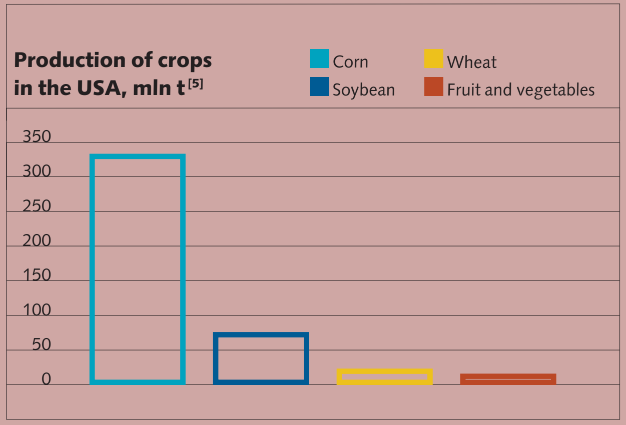


1. Corn is the USA's main crop, and the trend is for demand and consumption to grow year on year.

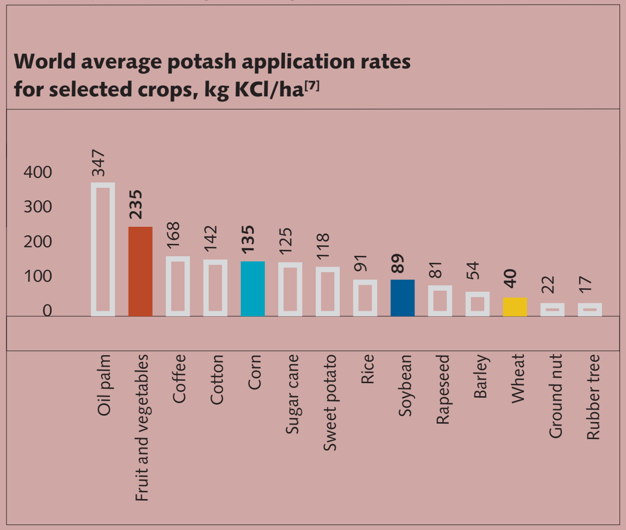




2. 86.0 million acres are planted with corn.[4]



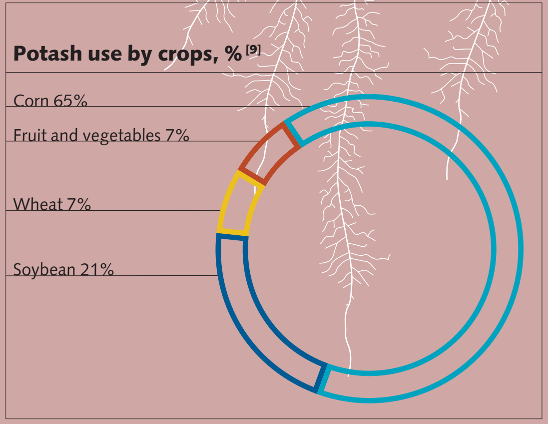
3. Corn is a very potash intensive crop, annually requiring 0.22 kg per bushel.[6]



[1] IPNI.
[2] Bloomberg.
[3], [4] USDA.
[5] FAOStat, IFA, USDA.
[6], [7] IPNI.

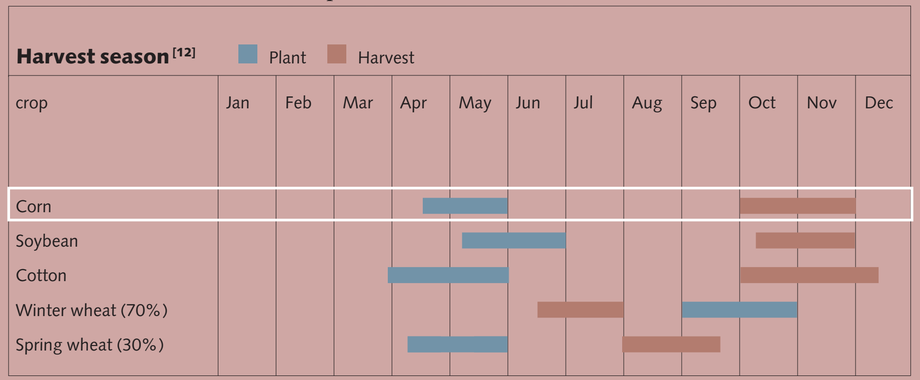
4. In states such as California, where 44% of soils test medium or below in potash, harvesting over several decades with limited nutrient addition has significantly reduced soil potash levels.[8]

5. Potash used for corn represents 65% of the country's potash use.



Potash holidays can lead to a 22% reduction in corn yields.[11]

6. The US farmers apply potash in April – June (spring crops) and September – October (winter crops)



[8], [12] IPNI.
[9] IFA.
[10] Bloomberg.
[11] The experiment was held in Ohio to show that applying potash fertiliser increases corn yields with 0–400 lb/acre K_2O rates and corn grain yield from 146 to 188 bu/acre (Better Crops / Vol / 82, 1998 / No. 3, http://www.ipni.net).

EU[1]

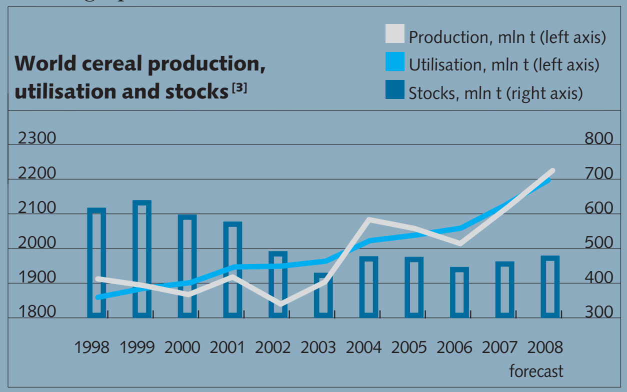
Land in Europe is mostly fertilised with potash to maintain the soil fertility and increase crop yields.

1. To ensure high crop yields, the EU farmers apply fertilisers in the recommended ratio of 1:0.5:0.5 (N:P:K).[2]

2. Factors favouring fertiliser use:

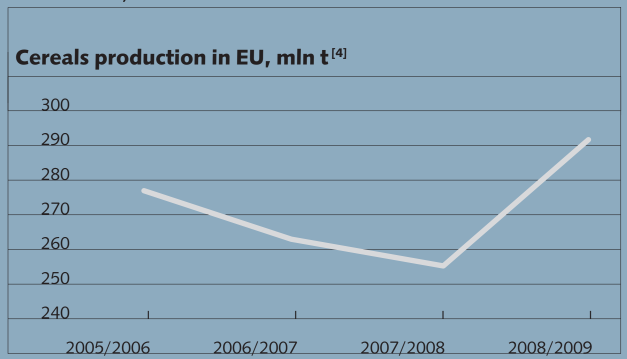
- **High quality production targets**
- **Maintain optimum yields**

3. Farmers aim for optimum yields to bring optimum revenue.



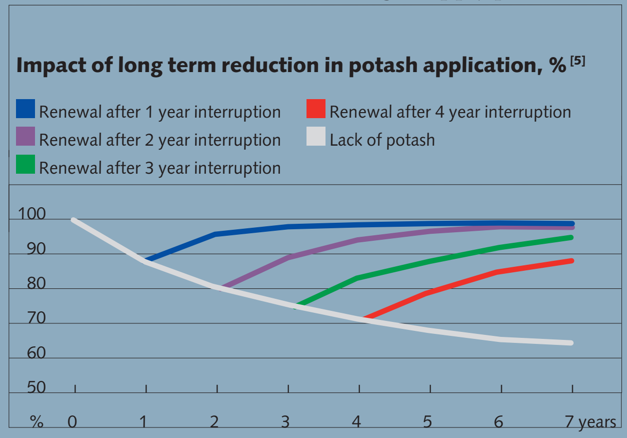
Stock-to-use ratio is at historical lows.

4. The EU is one of the largest cereal exporters and a reduction in yields could damage the region's economy. Farmers therefore cannot take risks with their yields.



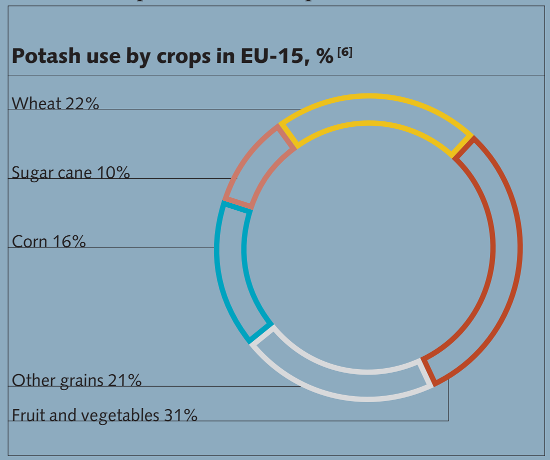
[1] Here and further EU is meant EU-27.
[2] BPC.
[3] FAO.
[4] Stratégie grains.

5. Reduction of potash content available to plants may happen in case of failing to apply potash.

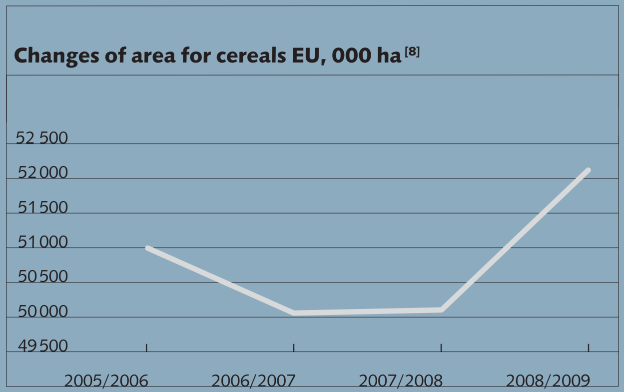


Due to the economic downturn, many European farmers didn't apply potash in autumn 2008, and will need to compensate in autumn 2009 to prevent significant losses in yield and quality of crops. If they fail productivity can be impacted for 5–7 years.

6. Cereals account for 43% of total potash consumption in EU-15.



7. Land in cereal production in the EU countries in 2008 was 58.8 million ha compared to 56.2 in 2007. Land used for coarse grains increased most in Germany, France, UK and Poland.[7]



[5] World average (BPC data).
[6] IFA.
[7], [8] Stratégie grains.

Financial Management Discussion and Analysis Section

01
Gross sales

In 2008, gross sales volumes were influenced by two main trends – during the first three quarters world potash prices increased as a result of a rise in prices for agricultural products and the demand for potash, which exceeded the available supply in the market.

Since the fourth quarter of 2008, the global financial crisis, which has affected agriculture as well as other industries, has led to a decrease in demand for agricultural products, resulting in a lower-than-anticipated volume of fertiliser sales to agricultural producers. There has therefore been a fall in demand for the company's products in a number of markets. However, Uralkali's well-balanced portfolio of long-term and spot contracts has allowed the company to avoid a drop in prices for its products in 2008. (Further discussion of market environment issues as well as of sales and pricing strategy can be found in the 2008 Potash Market Overview, Trading and Pricing sections.)

In 2008, gross sales increased by 113% to 62.8 billion RUR (2,526 million dollars). Sales are presented net of export duties, which amounted to 1.9 billion RUR (76 million dollars) in 2008.

Other sales were 2.2% of gross sales or 1.4 billion RUR (56 million US$). The major components of such sales include sales of non-core products and services, mainly sodium chloride (NaCl) solution, and services of carnallite processing, which made up 1.5% of total sales, as well as the transhipment services rendered by the Baltic Bulk Terminal to complex fertiliser producers (0.7% of total sales).

02
Transportation

Almost 90% of export sales in 2008 were shipped by sea through the Company's fully-owned terminal in St. Petersburg port. Distribution costs for sea export include the railway tariff from Berezniki to St. Petersburg, transhipment and freight costs (except for deliveries on FOB basis). About 9% of export sales was carried out to China by rail and approximately 3% comprises other transhipment which includes deliveries to European and CIS customers by rail. Distribution costs for these deliveries include railway tariff costs to China, Europe and the CIS, respectively.

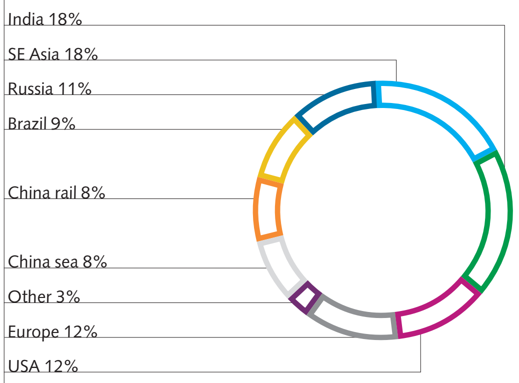
Freight

In 2008, the average freight rate increased by 30% on 2007 to 1,551 RUR per tonne of product shipped by sea on a CFR basis. The growth rate was influenced by the following factors:

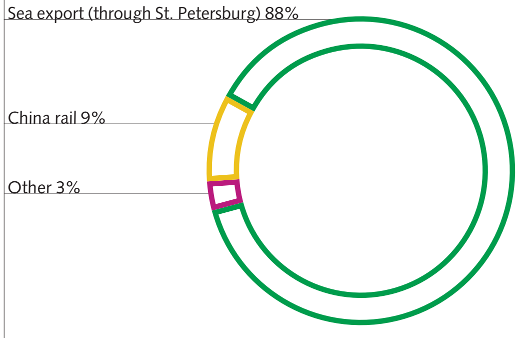
- an increase of BDI [1] from 5,615 (its minimum value in January 2008) to 11,689 (its maximum value in June 2008). During this period Uralkali delivered more than 60% of supplies by sea. In H2 2008, BDI was decreasing steadily. The value of the index was 774 points on 24/12/2008.
- an increase of sea shipping volumes by more than 600 thousand tonnes in 2007 to India and Southeast Asia.

[1] Baltic Dry Index. Source – Bloomberg.

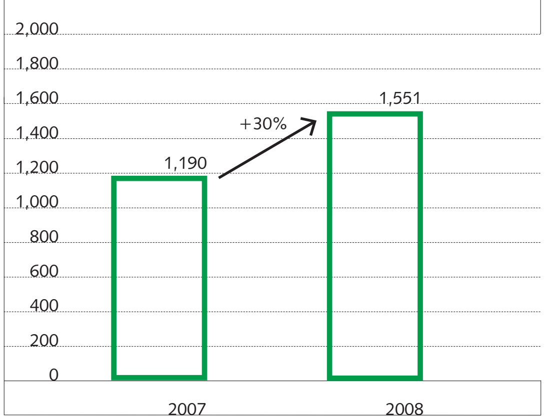
Potash sales structure, 2008



Export structure, 2008



Effective freight rate, RUR per tonne



Average freight to these regions is higher than the freight to other regions.
Uralkali's policy rests on hedging sea shipping costs with the help of long-term freight contracts. In 2008, more than 60% of sea deliveries were carried out with the use of freight contracts. The total benefit of using long-term contracts was more than 60 million dollars in 2008.

Railway tariffs

Uralkali mainly uses railway transportation to deliver its products to the terminal in St. Petersburg, which are then exported via the port. The company also carries out direct deliveries by rail to customers in North China, Europe, and the CIS. Railway tariffs for all destinations are regulated by the State. The State has increased the tariff to St. Petersburg three times throughout the year (the increase of effective tariff was 24%) and once the tariff to China (the increase of effective tariff was 13%). As a whole, the expenses for railway transportation have fallen by 0.35 billion RUR due to a decrease in export volumes to China by rail from 1.2 million tonnes in 2007 to 333 thousand tonnes in 2008.

03
Net sales

Net sales are defined as the gross sales for the period net of certain distribution costs – freight costs, railway tariffs and transhipment costs. Net sales increased in 2008 by 140% to 54.3 billion RUR.

04
Total expenses of potash segment

Total expenses [2] of potash segment amounted to 4,861 RUR per tonne in 2008. Total expenses of potash sales on the domestic market amounted to 3,676 RUR per tonne. [3]

05
Cash cost of goods sold [4]

In 2008, cash COGS was influenced by the following factors:

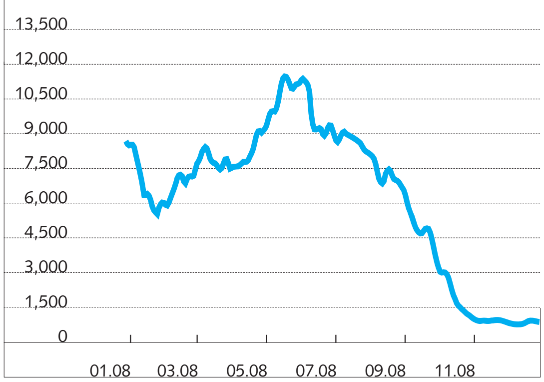
- in RUR per tonne – a reduction of sales volumes by 500 thousand tonnes (9% of annual plan) due to the fact that more than 60% of cash cost accounts for fixed costs;
- in US$ per tonne – a decrease in the average annual exchange rate of dollar to rouble from 25.6 in 2007 to 24.8 in 2008.

In Q4 2008, the rouble was devalued and its exchange rate to dollar rose from 25.2 at the beginning of the quarter to 29.4 as of December 31, 2008. Therefore, the cash cost of a tonne of products sold in 2008 was 1,607 RUR (65 US$) per tonne.

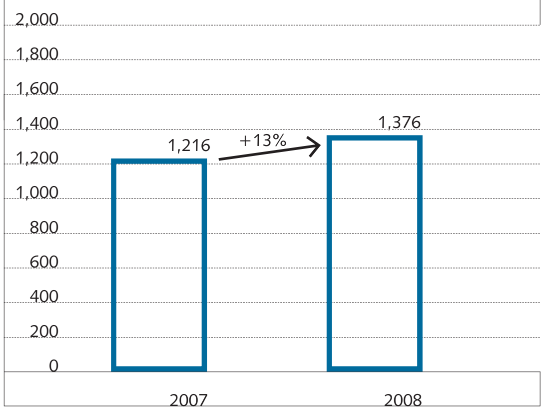
Labour

In 2008, Uralkali has made some indexations of average monthly salary in order to align it with the market level. As a result, the average monthly salary was increased by 42% on 2007 to 24,300 RUR (about 1 thousand RUR a month). Labour compensation costs are fixed as a result of social responsibility policy, meaning the company cannot

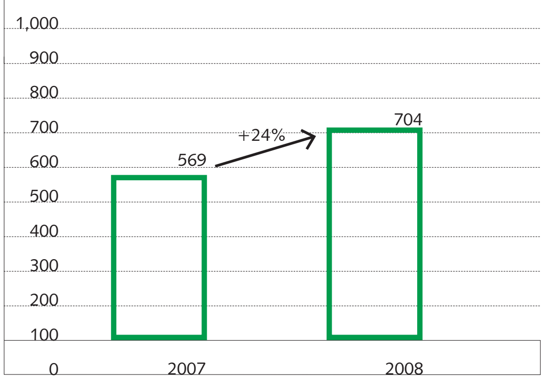
Baltic dry index



China railway tariff, RUR per tonne



St. Petersburg railway tariff, RUR per tonne



[2] Total expenses of potash segment are calculated according to IFRS and include costs of sales, distribution, general and administrative, other operating expenses and taxes other than income tax for potash segment (see Note 7 of the Consolidated Financial Statement for the year ended December 31, 2008).

[3] Total expenses of potash sales on the domestic market are calculated in accordance with Uralkali's accounting policy and include expenses in lines No. 020, 030, 040, 070, 100, 141, 142, 143, 149, 152, 153 of form No. 2 (See profit and loss statement within the Accounting reporting of Uralkali of 2008, prepared in line with the Russian accounting standards).

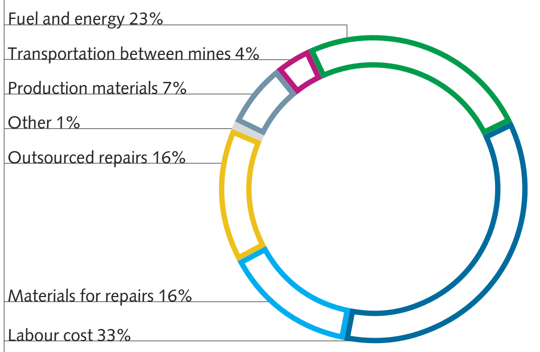
[4] Cash cost of goods sold = Cost of goods sold less depreciation.

reduce headcount during a period of temporary reduction in production volume. The salary is paid in roubles and is subject to devaluation in line with the fall in the rouble exchange rate. As of 1.01.08 the exchange rate of the rouble was 24.6 RUR per dollar, as of 31.12.08 – 29.4 RUR per dollar. Since the beginning of Q1 2008, indexation has not been carried out. Since January 1, 2009, remuneration and benefits plans have been suspended until the renewal of full production volumes. Bonuses usually amount to 30% of labour costs.
The plan for increasing productivity is covered in the Cost Reduction section of this report.

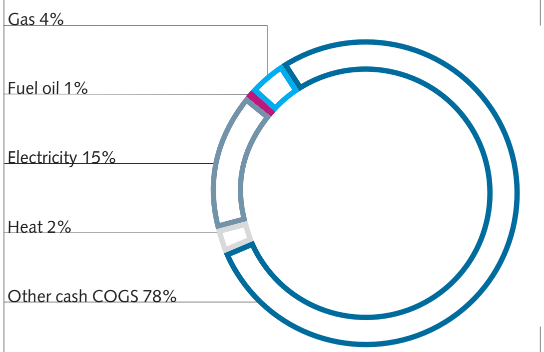
Fuel and energy

The potash production process requires significant amounts of energy. Fuel and energy-related expenses, for the most part, are variable costs and set in roubles. In 2008, tariffs on some three quarters of supplied electricity and gas were regulated by the state. The rest of the gas and electricity consumed was either purchased on the open market, or (electricity) was produced by the company. In 2008, the share of electricity produced by the company amounted to 1% of the total volume of electricity consumed (for more information see the Cost Reduction section – power generation programme). The cost of gas and electricity on the open market in 2008 was greater than the regulated prices for gas and electricity by 20% and 25%, respectively.

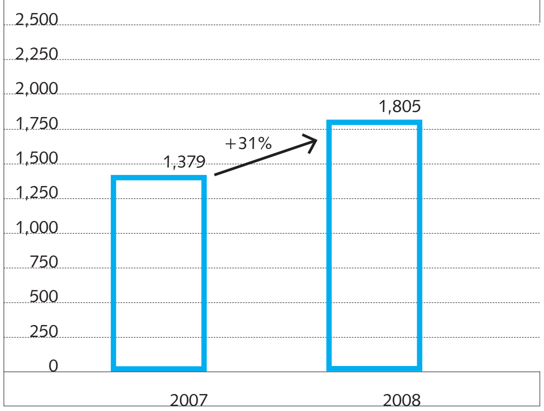
Cash COGS structure, 2008



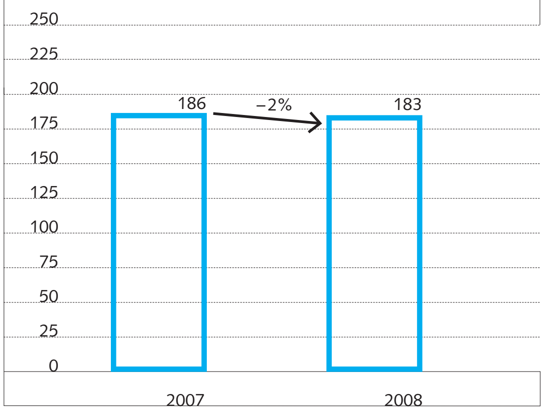
Energy costs structure, 2008



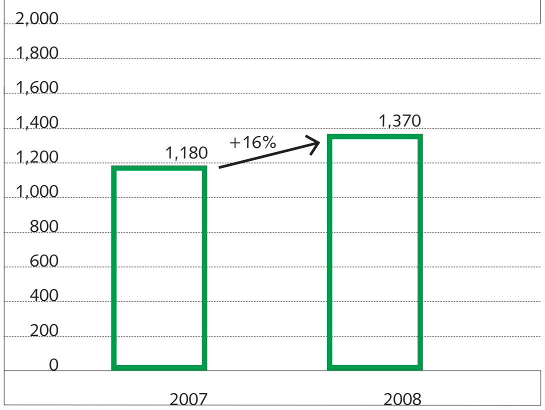
Effective gas tariff, RUR for 1,000 m³



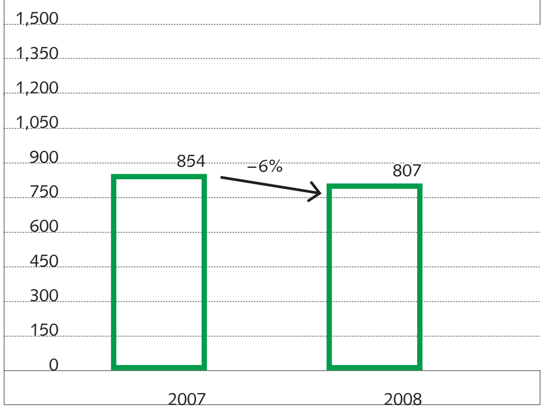
Gas consumption, mln m³



Effective electricity tariff, RUR for 1,000 kWh



Electricity consumption, mln kWh



As a result, the effective tariff on gas in 2008 increased by 31% in 2007 to 1,805 RUR (73 US$) per one thousand cubic meters. The effective tariff on electricity in 2008 rose by 16% on 2007 to 1,370 RUR (55 US$) per one thousand kWh.

Other cash costs

Other cash costs include variable costs (expenses for production materials and transportation between mines) and fixed costs (costs related to outsourcing of repairs and maintenance, materials for repairs and utilities). More than 90% of other cash costs are set in roubles (RUR).

06
General and administrative expenses

Average cash general and administrative expenses[5] per tonne of product did not change in 2008 and were 629 RUR (25 US$) per tonne. The increase in the monthly payroll of administrative personnel by 16% up to 36,300 RUR (approximately 1,460 US$) in 2008 as compared with 2007 was compensated for by a reduction in consulting costs.

07
Cost reduction programmes

Programme to increase productivity

At the end of 2008, about 8.7 thousand people were employed at Uralkali's main production unit. The company has in place a programme to increase the productivity of labour by 40% and reduce headcount to 6 thousand in the main production unit by way of optimisation and automation of principal production processes.

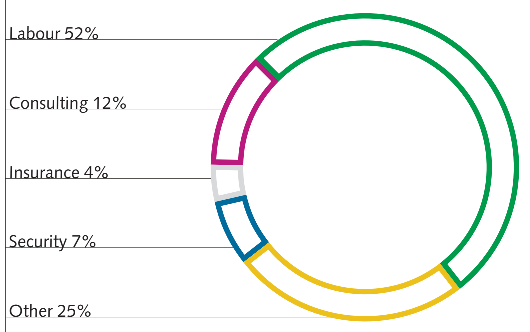
By 2009, we are planning to complete the process of separating service divisions from the main production unit. The difference between the number of people employed in the main production unit and the number of people employed in the Group will be presented by the staff, who are involved in services divisions (mainly repairs, construction, motor freight, IT services and medical services). The headcount of these divisions is determined by various factors, the main of which are the situation on the market of services in the region and the possibility to outsource services. The average number of the Group employees in 2008 was 12,500 people.

Power generation programme

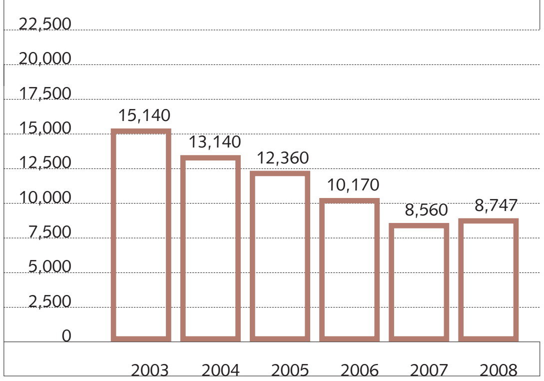
Uralkali has been implementing a power generation programme for several years, which is expected to be fully operational by 2009.

In Q1 2008, we launched the first two electricity generation turbines at Production Unit 4 and we are planning to launch two more by the end of 2009. We expect to obtain a licence in mid-2010 to allow the turbines to work in conjunction with federal electricity supply network. Once the power generation programme reaches its full capacity, it will ensure the energy costs savings of approximately 50 RUR per tonne of potash production.[6]

General and administrative costs, 2008



Average number of main production unit employees



08
EBITDA

In 2008, adjusted EBITDA[7] increased by 242% to 41.3 billion RUR. The level of adjusted EBITDA[8] margin in 2008 rose to 76% as compared to 53% the year before.

09
Mine flooding costs

In the IFRS financial statements for 2008 we accrued a provision for future cash outflows related

[5] Cash general and administrative expenses = General and administrative expenses less depreciation and amortisation.

[6] We see the effect of the programme as the difference between the costs of purchased electricity and the cash costs of generated electricity given the gas prices increase by 28% and 40%, and electricity by 18% and 22% in 2010 and 2011, respectively (MEDT forecasts of August, 2008).

[7] Adjusted EBITDA represents operating profit plus depreciation and amortisation. Adjusted EBITDA does not reflect the impact of finance income and expenses and mine flooding costs.

[8] Adjusted EBITDA margin is calculated as adjusted EBITDA divided by Net Sales.

to mine flooding, which likelihood was assessed as "probable," in the amount of 7.8 billion RUR. The provision includes: a voluntary compensation of the expenses of the government related to resettlement of citizens in Berezniki in the amount of 2.3 billion RUR; expenses of JSC RZD to build a 6-kilometer bypass line costing 0.5 billion RUR; and the partial compensation to JSC RZD of the deficit of financing related to construction of a 53-kilometer railway bypass in the amount of RR 5,000. (For more details see Note 5 to the Consolidated Financial Statements for the year ended December 31, 2008.)

10
CAPEX

In 2008 total CAPEX amounted to 14.3[9] billion RUR, half of which contributed toward expansion and cost reduction. The main projects, connected with expansion and cost reduction, included investment into increasing production at BKPRU-4 by 1.5 million tonnes (modernisation of the second production line); a programme for the development of the company's own power generating capacities; and infrastructure development. More than 90% of capital expenditures aimed at the maintenance of production capacities are set in roubles.

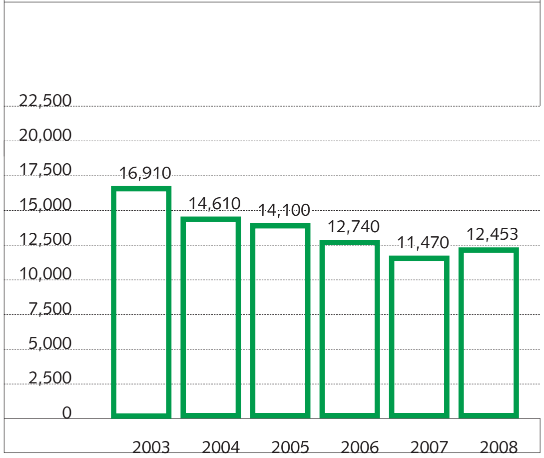
11
Cash flow

Net cash generated from operations increased in 2008 by 300% (in comparison to 2007) to 32.6 billion RUR. In recent years, the company has shown strong cash-generating capabilities and has financed its CAPEX programme by operating cash flow. As of the end of 2008, Uralkali had a net cash balance of 2.2 billion RUR (74 million US$), while the cash balance amounted to 16.2 billion RUR, and the bank debt accounted for 14 billion RUR. More than 90% of the debt is set in US$, and the average interest rate is about Libor +1.75%.

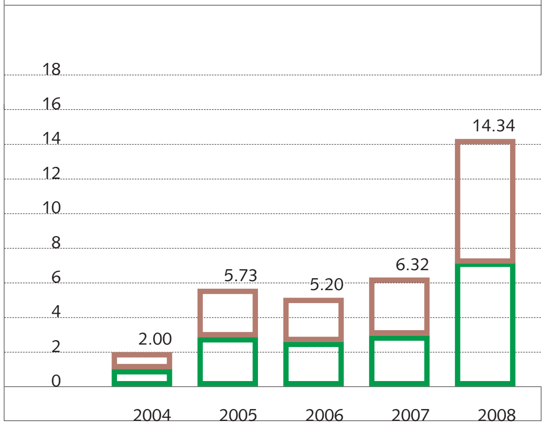
12
Dividends

Since 2006, Uralkali has adopted a policy of declaring and paying annual dividends of not less than 15% of IFRS net income. In August 2008, the Annual General Meeting of Shareholders approved interim dividends of 8.5 billion RUR or 40% of the company's net profits for FY 2008. Dividends for FY 2008 will be determined at the Annual General Meeting of Shareholders that will take place in June 2009.

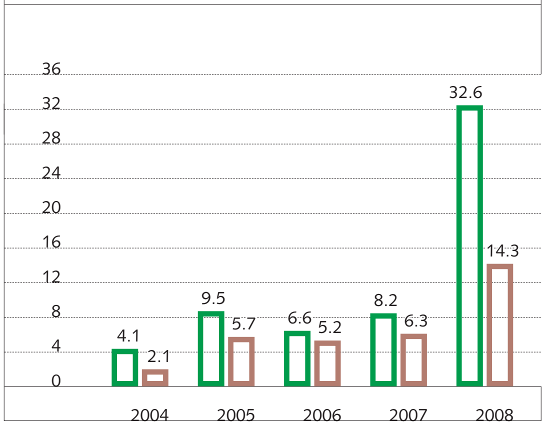
Average number of the Group employees



Capital expenditure, bln RUR



Operating cash flow vs. CAPEX, bln RUR



[9] CAPEX for the period includes additions to property, plant and equipment for the period, adjusted for the changes in balances of letters of credit and prepayments for acquisition of PPE.

Uralkali Group International Financial Reporting Standards, Consolidated Financial Statements and Auditor's Report for the year ended December 31, 2008

Independent Auditor's Report

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Russia
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Facsimile +7 (495) 967 6001
www.pwc.ru

To the Shareholders and Board of Directors of OJSC Uralkali

1. We have audited the accompanying consolidated financial statements of the Open Joint-Stock Company Uralkali" (the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of December 31, 2008 and the consolidated statement of income, consolidated statement of cashflows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

7. Without qualifying our opinion we draw attention to Note 5 of the consolidated financial statements. On January 29, 2009, the Group received a second act of government commission in relation to its investigation of causes of flooding in Mine-1 that occurred on October 28, 2006. The act includes estimates of expenses incurred by different government authorities and other third parties in relation to damages caused by the flood. As of December 31, 2008, the Group recognized a provision of RR 7,804 million in relation to anticipated probable cash outflows. The ultimate outcome of the matter cannot presently be determined and costs in excess of the amounts provided for could be significant for the Group in the future.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
April 27, 2009

Uralkali Group Consolidated Balance Sheet

as of December 31, 2008 (in millions of Russian Roubles unless otherwise stated)

	Note	December 31, 2008	December 31, 2007
Assets			
Non-current assets:			
Property, plant and equipment	8	30,642	23,118
Prepayments for acquisition of property, plant and equipment		1,345	471
Letters of credit for acquisition of property, plant and equipment		3,513	616
Goodwill		366	366
Intangible assets	10	161	147
Deferred income tax assets	26	197	–
Financial assets		70	223
VAT recoverable		225	–
Total non-current assets		**36,519**	**24,941**
Current assets:			
Inventories	11	2,965	1,522
Trade and other receivables	12	6,616	5,875
Current income tax prepayments		49	6
Cash and cash equivalents	13	16,174	7,291
Total current assets		**25,804**	**14,694**
Total assets		**62,323**	**39,635**
Equity:			
Share capital	14	648	648
Treasury shares	14	(12)	(12)
Share premium/(discount)		(849)	(849)
Revaluation reserve		150	150
Retained earnings		34,662	25,113
Equity attributable to the Company's equity holders		**34,599**	**25,050**
Minority interest		**21**	**24**
Total equity		**34,620**	**25,074**
Liabilities			
Non-current liabilities:			
Borrowings	16	10,192	6,444
Post employment benefits obligations	27	284	247
Deferred income tax liability	26	232	396
Total non-current liabilities		**10,708**	**7,087**
Current liabilities:			
Borrowings	16	4,606	4,621
Trade and other payables	17	4,159	2,400
Mine flooding provisions	5, 15	7,804	23
Current income tax payable		136	252
Other taxes payable		290	178
Total current liabilities		**16,995**	**7,474**
Total liabilities		**27,703**	**14,561**
Total liabilities and equity		**62,323**	**39,635**

Approved on behalf of the Board of Directors
April 27, 2009

Chief Executive Officer

Finance Vice-President

The accompanying notes form an integral part of these consolidated financial statements.

Uralkali Group
Consolidated Statement of Income

for the year ended December 31, 2008 (in millions of Russian Roubles unless otherwise stated)

	Note	2008	2007
Revenues	18	62,798	29,499
Cost of sales	19	(9,410)	(7,108)
Gross profit		**53,388**	**22,391**
Distribution costs	20	(9,840)	(7,957)
General and administrative expenses	21	(3,204)	(3,473)
Taxes other than income tax		(402)	(283)
Other operating expenses, net	23	(1,109)	(556)
Operating profit		**38,833**	**10,122**
Mine flooding costs	25	(8,294)	274
Finance income	24	856	741
Finance expense	24	(1,860)	(1,014)
Profit before income tax		**29,535**	**10,123**
Income tax expense	26	(7,592)	(2,078)
Profit for the year		**21,943**	**8,045**
Profit is attributable to:			
Equity holders of the Company		21,937	8,042
Minority interest		6	3
Net profit for the year		**21,943**	**8,045**
Earnings per share – basic and diluted (in Roubles)	**28**	**10.45**	**3.83**

The accompanying notes form an integral part of these consolidated financial statements.

Uralkali Group
Consolidated Statement of Cash Flows

for the year ended December 31, 2008 (in millions of Russian Roubles unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit before income tax and minority interest		29,535	10,123
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	8, 10	2,516	1,976
Net loss on disposal of property, plant and equipment	23	157	215
Loss on fixed assets disposed on mine flooding	25	336	64
Provision for impairment of receivables	23	148	13
Net change in mine flooding provisions	15	7,781	(656)
Finance income and expense, net		35	523
Foreign exchange losses/(gains)	24	737	(498)
Operating cash flows before working capital changes		**41,245**	**11,760**
Decrease/(increase) in trade and other receivables		191	(1,740)
Increase in inventories	11	(1,443)	(41)
Increase in accounts payable, accrued expenses and other creditors		1,334	538
(Decrease)/increase in other taxes payable		(14)	12
Cash generated from operations		**41,313**	**10,529**
Interest paid	16	(723)	(725)
Income taxes paid		(7,986)	(1,610)
Net cash generated from operating activities		**32,604**	**8,194**
Cash flows from investing activities			
Purchase of intangible assets	10	(85)	(47)
Purchase of property, plant and equipment including prepayments		(10,608)	(5,598)
Increase in letters of credit for acquisition of property, plant and equipment		(2,897)	(475)
Proceeds from sales of property, plant and equipment		53	22
Sale of investments, net		(4)	16
Acquisition of additional interest in subsidiaries		(9)	–
Decrease in restricted cash balances	13	98	27
Loans issued to related party		–	(753)
Repayment of loans issued to related party		–	3,575
Dividends and interest received		542	261
Net cash used in investing activities		**(12,910)**	**(2,972)**
Cash flows from financing activities			
Repayments of borrowings	16	(10,446)	(8,257)
Proceeds from borrowings	16	11,488	8,188
Acquisition of treasury shares	14	–	(79)
Finance lease payments	16	(38)	(38)
Dividends paid to shareholders		(12,361)	(552)
Net cash used in financing activities		**(11,357)**	**(738)**
Effect of foreign exchange rate changes on cash and cash equivalents		644	(58)
Net increase in cash and cash equivalents		**8,981**	**4,426**
Cash and cash equivalents at the beginning of the year, net of restricted cash	13	**7,193**	**2,767**
Cash and cash equivalents at the end of the year, net of restricted cash	13	**16,174**	**7,193**

The accompanying notes form an integral part of these consolidated financial statements.

Uralkali Group
Consolidated Statement of Changes in Equity

for the year ended December 31, 2008 (in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital (Note 14)	Treasury shares (Note 14)	Share premium/ (discount)	Revaluation reserve	Retained earnings	Total attributable to equity holders	**Minority interest**	**Total equity**
Balance at January 1, 2007	**648**	**(9)**	**(514)**	**150**	**17,354**	**17,629**	**21**	**17,650**
Translation movement	–	–	–	–	(283)	(283)	–	(283)
Net income recognised directly in equity	–	–	–	–	(283)	(283)	–	(283)
Net income for the year	–	–	–	–	8,042	8,042	3	8,045
Total recognised income for the year	–	–	–	–	7,759	7,759	3	7,762
Acquisition of treasury shares (Note 14)	–	(3)	(335)	–	–	(338)	–	(338)
Balance at December 31, 2007	**648**	**(12)**	**(849)**	**150**	**25,113**	**25,050**	**24**	**25,074**
Balance at January 1, 2008	**648**	**(12)**	**(849)**	**150**	**25,113**	**25,050**	**24**	**25,074**
Net income for the year					21,937	21,937	6	21,943
Total recognised income for the year					21,937	21,937	6	21,943
Dividends declared (Note 14)	–	–	–	–	(12,388)	(12,388)	–	(12,388)
Acquisition of additional interest in subsidiary	–	–	–	–	–	–	(9)	(9)
Balance at December 31, 2008	**648**	**(12)**	**(849)**	**150**	**34,662**	**34,599**	**21**	**34,620**

The accompanying notes form an integral part of these consolidated financial statements.

01
The Uralkali Group and its operations
JSC Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilisers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both in domestic and foreign markets. The Group manufactures around 10 types of products, the most significant of which is a wide range of potassium salts. The Group produces approximately 9% (for the year ended December 31, 2007: 9.2%) of the global volumes of potash fertilisers and is one of two major potash manufacturers in the Russian Federation. For the year ended December 31, 2008 approximately 89% (for the year ended December 31, 2007: 91%) of potash fertiliser production is exported.

The Company holds operating licences, issued by authorities of Perm region, for the extraction of potassium, magnesium and sodium salts on Bereznikovsky, Durimansky and Bigelsko-Troizky plots of Verkhnekamskoye field. All the licences expire in 2013, however, based on the statutory licence regulation and prior experience, the management of the Company believes that licences will be prolonged without any significant cost. The Company also has the licence for Ust-Yaivinsky plot of Verkhnekamskoye field, which expires in 2024 (Note 5).

The Company was incorporated as an open joint stock company in the Russian Federation on October 14, 1992. All the companies of the Group are incorporated under the Laws of the Russian Federation with the exception of Uralkali Trading SA, a company incorporated in Switzerland, Uralkali Trading (Gibraltar) Ltd., a company incorporated in Gibraltar, UKT Chicago, a company incorporated in the USA. JSC Belarusian Potash Company (BPC) is a company incorporated in Belorussia.

As of December 31, 2008, Madura Holdings Limited, registered in Cyprus, was a parent company of the Group. The Group is ultimately controlled by Dmitry Rybolovlev.

The registered office of the Company is 63 Pyatiletki, Berezniki, Perm region, Russian Federation. Almost all of the Group's productive capacities and all long-term assets are located in the Russian Federation.

As of December 31, 2008, the Group employed approximately 12.9 thousand employees (December 31, 2007: 11.8 thousand).

02
Basis of preparation and significant accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for certain financial instruments that are presented at fair value as described in Note 2.14.

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

2.2 Accounting for the effect of inflation

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

2.3 Reclassifications

Certain reclassifications have been made to prior year balances in the consolidated balance sheet, statement of income and cash flows to conform to the current period presentation. The reclassifications related to the following amounts:

- prepayments, given to third parties for acquisition of property, plant and equipment, were reclassified from the line "Property, plant and equipment" to the line "Prepayments for acquisition of property, plant and equipment" in the balance sheet in the amount of RR 1,345 (2007: RR 471);

- letters of credit, placed in banks for acquisition of property, plant and equipment, were reclassified from the line "Property, plant and equipment" to the line "Letters of credit for acquisition of property, plant and equipment" in the balance sheet in the amount of RR 3,513 (2007: RR 616);

- letters of credit, placed in banks for acquisition of property, plant and equipment, were reclassified from the line "Purchase of property, plant and equipment including prepayments" to the line "Increase in letters of credit for acquisition of property, plant and equipment" in the cash flow in the amount of RR 2,897 (2007: RR 475).

2.4 Consolidated financial statements

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

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

2.5 Minority interest

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

Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire the relevant share is recognised as goodwill.

Disposals to minority interests result in gains and losses for the Group that are recorded in statement of income.

2.6 Joint ventures

Jointly controlled entities

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

2.7 Investments in associates

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

(in millions of Russian Roubles unless otherwise stated)

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

2.8 Property, plant and equipment

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

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

At each reporting date management asseses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use and fair value less costs to sell.

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

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

	Useful lives in years
Buildings	30 to 45
Mine development costs	10 to 30
Plant and equipment	4 to 15
Transport	5 to 15
Others	5 to 15
Land	Not depreciated

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

2.9 Operating leases

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

2.10 Finance lease liabilities

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

2.11 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment.

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

2.12 Other intangible assets

Expenditure on software, patents, trademarks, mineral and non-mineral licences is capitalised and amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2.13 Classification of financial assets

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

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

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

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

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

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

2.14 Initial recognition of financial instruments

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

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

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

2.15 Derecognition of financial assets

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

2.16 Available-for-sale investments

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

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

2.17 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislations enacted or substantively enacted by the balance sheet date in the Russian Federation for entities incorporated in the Russian Federation, in Switzerland for Uralkali Trading SA, in Gibraltar for Uralkali Trading (Gibraltar) Limited, in the USA for UKT Chicago and in Belarusia for Belarusian Potash Company. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

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

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

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

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

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

2.18 Inventories

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

2.19 Trade and other receivables

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

2.20 Cash and cash equivalents

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

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

2.21 Share capital

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

2.22 Treasury shares

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

2.23 Dividends

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

2.24 Value added tax

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

2.25 Borrowings

Borrowings are initially recognised at fair value less transactions costs. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time proportion basis using the effective interest method. The Group does not capitalise borrowing costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.26 Provisions

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

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

2.27 Trade and other payables

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

2.28 Foreign currency transactions

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

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

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(iii) all resulting exchange differences are recognised as a separate component of equity.

As of December 31, 2008, the official rate of exchange, as determined by the The Central Bank of the Russian Federation (CBRF), was US$ 1 = Rouble 29.38 (December 31, 2007: US$ 1 = Rouble 24.55). The official Euro to RR exchange rate at December 31, 2008, as determined by the CBRF, was Euro 1= Rouble 41.44 (December 31, 2007: Euro 1 = Rouble 35.93).

2.29 Revenue recognition

Revenues are recognised on the date of risks transfer under appropriate INCOTERMS specified in the sales contracts, as this is the date when the risks and rewards of ownership are transferred to the customers. For "Free On Board" (FOB) transactions title to goods transfers as soon as the goods are loaded on the ship. For "Delivery At Frontier" (DAF) transactions title to goods transfers only when goods cross the Russian border. For "Free Carrier" (FCA) terms title transfers when goods are loaded on the first carrier (railway carriages). For "Cost and Freight" (CFR) terms title transfers when goods pass the rail of the ship in the port of shipment.

Sales of services are recognised in the accounting period in which the services are rendered. Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

2.30 Transhipment costs

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

2.31 Employee benefits

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

2.32 Social costs

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

2.33 Pension costs

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

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

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in the consolidated statement of income.

2.34 Earnings per share

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

2.35 Segment reporting

A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments.

2.36 Research and development costs

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

03

Adoption of new or revised standards and interpretations

Certain new interpretations became effective for the Group from January 1, 2008:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007);

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 2008);

- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008).

Listed above interpretations are mandatory for the first time, but are not currently relevant for the Group.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from July 1, 2008 for any reclassifications made before November 1, 2008; the reclassifications allowed by the amendments may not be applied before July 1, 2008 and retrospective reclassifications are only allowed if made prior to November 1, 2008. Any reclassification of a financial asset made on or after November 1, 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

04
New accounting pronouncements

The following new standards, amendments to standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2009 or later periods, and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosure in the consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after January 1, 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009. The Group is currently assessing what impact the standard will have for the consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after January 1, 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after January 1, 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Amendment to IFRS 2, Share-based Payments is not currently applicable to the Group as it has no such payments.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Improving Disclosure about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after January 1, 2009). The amendment requires enhanced disclosures about fair value management and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if the information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after January 1, 2009);

- IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after July 1, 2008);

- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009);

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008);

- Improvements to International Financial Reporting Standards (issued in May 2008);

- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after January 1, 2009);

- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after July 1, 2009);

- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009);

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after July 1, 2009);

- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after July 1, 2009);

- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after June 30, 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

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

05
Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Licence for Ust-Yaivinsky plot. The Company has a licence to develop the Ust-Yaivinsky field of the Verkhnekamskoye deposit until 2024. During 2007 and 2008 the Company had been preparing a feasibility study for the construction of a new mine. This feasibility study was estimated to be completed by the end of 2008.

One of the conditions of the Ust-Yaivinsky field licence states that by December 15, 2008 the Company was required to prepare design documentation for the construction of a new mining facility to develop a licenced field and have that design documentation approved by the relevant authorities in due course.

While preparing the feasibility study and the design documentation for the new mine construction, the Company faced a number of obstacles beyond its control. After obtaining the local authorities' approvals on the borders of the land plots, necessary to design and construct the new mine, in August 2008, the Company applied to the Environmental Management Agency of the Perm region to acquire the right to rent these land plots. However, since the plots are located in protected forests ("green zones"), in September 2008, the Environmental Management Agency had to refer the issue to the Federal Forestry Agency for clarification. In October 2008, the Forestry Agency concluded that under the provisions of the Forest Code, the protected forest areas "could not be let for the development of mineral deposits." Consequently, the Company was not able to meet the deadline for the required filing of design documentation and thus has not fulfilled one of significant conditions of the license, infringement of which leads to termination of the license in accordance with its terms.

The management of the Company has taken all possible measures to prevent the withdrawal of the licence and on December 12, 2008, the Company has applied to the Federal Agency for Subsoil Use (Rosnedra) to extend the deadline for the filing of the required plot development documentation by a further 1.5 years. In March 2009, the regional agency of Rosnedra requested some additional documents and information. The preparation of the conclusion will be postponed until all requested documents and information are submitted by the Company to Rosnedra. Currently the Company is preparing a new set of documentation necessary for approval of the new concept of plot exploration in accordance with requirement of regional agency of Rosnedra.

Although the Company has the right to apply for revision of the terms of the license, Rosnedra may refuse to approve such an application, and the license may be withdrawn in accordance with its terms. In this case the Company will have to assess for impairment of RR 309 of assets.

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to the Group (Note 8). The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the relevant operating licenses (Note 1). The management believes that the licences will be renewed in due order. However if the licences are not renewed, property, plant and equipment with net book value of RR 689 (December 31, 2007: RR 584) should be assessed for impairment in 2013.

Provisions for mine flooding. On October 28, 2006 the Group stopped production operations in Mine-1 due to natural groundwater inflow increasing to a level at which it cannot be appropriately controlled by the Group.

On November 1, 2006, commission of Rostekhnadzor issued an act of technical investigation of the causes of flooding on Mine-1. According to the act, the cause of flooding was a "new kind of previously unknown anomaly of geological structure" and "development of two sylvinite layers AB (1964–1965) and Kr II (1976–1977)." The combination of circumstances preceding the accident, in terms of the source, scope and strength was classified as "being extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved."

Following the closure of the Mine-1 on October 28, 2006, in order to substantially reduce the risk of subsidence within the town Berezniki, the Group, as advised by the governmental commission and Institute of Geological Sciences, started injection of brine into the cavities. Based on its technical plan and its best estimates, the management as of December 31, 2006 estimated a provision for present value of cash outflows to be incurred in connection with brine injection operations. In December 2007, the Institute of Geological Sciences issued an expert opinion, that further brine injection operation would be impractical due to increased volume of natural groundwater flow. In December 2007, the management of the Group agreed with the state authorities to cease brine injection operations and released the remaining balance of the mine flooding provision (Note 15). The brine injection operations were stopped on January 12, 2008.

In November 2008, a new commission for a second investigation of the causes of flooding occurred on Mine-1 in October 2006 was established by Rostekhnadzor, following the order of the Russian Deputy Prime Minister Igor Sechin.

In accordance with the act of the second commission, issued on January 29, 2009, the flooding was caused by "combination of geological and technological factors." Geological factors include "geological anomaly in salt and over-salt layers." Technological factors imply "the mining technology formerly used by the subsoil user, including development of two sylvinite layers with increased stress on pillars; lack of cushioning zones near the borders of mining works, lack of protective pillar under the railway track and delays in earth-replacement operations."

The act also includes estimates of expenses related to managing the consequences of the accident as at the time of the investigation. These are the expenses incurred by the different levels of the government, including expenses related to the resettlement of Berezniki residents and the construction of a 6-kilometer railroad bypass. Moreover the commission points out that the future expenses, including:

- expenses associated with the resettlement of residents;
- expenses related to the utilities relocation;
- expenses incurred by JSC Russian Railways and other companies;
- budget expenses;

- losses of mineral resources;
- other expenses,

as well as the damage caused by the accident should be subject to reimbursement in accordance with the procedure established by the current legislation.

Actually the expenses incurred by different levels of government related to the resettlement of Berezniki residents amounted to RR 2,350, expenses related to the construction of a 6-kilometer railroad bypass amounted to RR 454. Additional expenses, which could be incurred by the government for resettlement purposes in 2009, are estimated at the amount of RR 184, additional expenses to be incurred by Russian Railways for the construction of a 53-kilometer bypass are estimated in the amount of RR 12,330.

In appendices to the act of the second commission there is a calculation of the value of lost mineral resources (from RR 25,380 to RR 84,602) and the calculation of the damage from mineral extraction tax not received by the government due to flooding (from RR 964 to RR 3,215).

Also in the appendices to the act of the second commission there is a calculation of the damage incurred by OJSC TGK-9 caused by the mine flooding, which amounted to RR 2,979.

To date there have been no judicial claims to Company to reimburse the expenses listed in the report.

In February 2009, the Company decided voluntarily, within its corporate social responsibility, to compensate the expenses incurred by different levels of the government for liquidation of flooding consequences including expenses for resettlement of citizens, construction of a 6-kilometer railway bypass and partial compensation of the deficit of financing related to the construction of a 53-kilometer railway bypass.

Thereby the Company has accrued a provision as of December 31, 2008 for future expenses, which could be reliably valued at the date of authorisation of these financial accounts and whose likelihood is estimated as "probable". The provision amounted to RR 7,804 and includes following expenses:

- On February 19, 2009, the Company has signed an agreement with the authorities of Perm region regarding the compensation of expenses related to liquidation of flooding consequences incurred by federal and regional budgets. The compensation amounted to RR 2,314.

- The Company is currently negotiating an agreement for partial compensation of the deficit of financing related to the construction of a 53-kilometer railway bypass in the amount of RR 5,000.

- The Company evaluates other probable compensations in the amount of RR 490, including expenses related to the construction of a 6-kilometer railway bypass RR 454, and expenses incurred by the budget of Berezniki for resettlement of citizens RR 36.

Additional expenses, which could be incurred by the government for resettlement purposes in 2009, are estimated in the amount of RR 184. The Company estimates the probability that it will agree to compensate these expenses as "possible" and does not include this amount in the abovementioned provision.

05 Critical accounting estimates and judgements in applying accounting policies (continued)

Currently the Company estimates the probability of compensation of the damage to OJSC TGK-9 amounting to RR 2,979 from "remote" to "possible" and does not include this amount in the abovementioned provision.

Procedure for calculation and compensation of losses of mineral deposit caused by mine flooding is not established by the current legislation of the Russian Federation. However, the Company evaluates the risk that such claims could arise as "possible." The Company analysed the calculations provided in the appendices to the act of second commission and evaluated the risk of compensation of the damage from lost mineral deposit in the stated amount (from RR 25,380 to RR 84,602) and compensation of mineral extraction tax not received by the government in the stated amount (from RR 964 to RR 3,215) as "remote."

The Company performed its own calculations of the amount of potential compensation of the damage from lost mineral deposit and the amount of mineral extraction tax not received by the government due to mine flooding basing on current methodology of the tax calculation. According to these calculations the amounts may total from RR 521 to RR 942. The Company estimates the probability of compensation of damages from lost mineral deposit and from not received mineral extraction tax in this amount from "remote" to "possible" and does not include this compensation in the abovementioned provision.

Due to the lack of information at the date of authorisation of these financial statements the management of the Company could not reliably estimate total amount of future cash outflows related to the mine flooding and corresponding claims of third parties, however the amount could be significant and substantially exceeds the provision accrued as at December 31, 2008.

Land. All facilities of JSC BBT are situated on land occupied on an annual lease basis, but the management plans to purchase the land under the right provided by statutory legislation or to secure the assets by long-term rent agreement with municipal authorities. If the Group can not secure long-term use of this land, non-current assets of RR 2,781 (December 31, 2007: RR 2,870) should be assessed for impairment.

Impairment test of property, plant and equipment. As of December 31, 2008, the Group performed an impairment test of property, plant and equipment. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a four-year period for JSC Uralkali and five-year period for JSC BBT and the expected market prices for potash fertilisers and transhipment services for the same period according to the leading industry publications, which are broadly in line with 2008 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used of 17% is pre-tax and reflects specific risks relating to the relevant CGUs. The Group did not recognise any impairment.

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The goodwill primarily relates to expected reduction of transportation costs to be incurred from synergies with the Company when exporting potash by the Baltic Sea and is allocated to CGU JSC Uralkali. The recoverable amount of the goodwill is determined based on cash flow projections approved by management covering a five-year period and analysis of synergies performed by independent appraiser. Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the business sector of the economy in which the Company operates. Pre-tax discount rate of 17% that reflects risks relating to JSC Uralkali was used in the calculation of the recoverable value. The Group did not recognise any impairment.

(in millions of Russian Roubles unless otherwise stated)

Inventory. The Group engages an independent surveyor to verify the physical quantity of finished products at the reporting dates. In accordance with the surveyor's guidance and technical characteristics of the devices used, the possible valuation error can be ±4–6%. At the reporting date the carrying amount of finished products can vary within this range.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 29).

Trade and other receivables. The management of the Company analyses overdue trade and other accounts receivables at each reporting date. Overdue accounts receivables are not provided if management has certain evidence of its recoverability. If the management has no reliable information about recoverability of overdue receivables 100% impairment provision is accrued for trade and other receivables overdue by more than 90 days, receivables overdue for more than 45 days, but less than 90 days are provided for at 50% of their carrying amount.

06
Related parties

Related parties are defined in IAS 24 "Related Party Disclosures." Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Key management and close family members are also related parties.

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2008 and 2007, respectively, are detailed below.

Balance sheet caption	Relationship	December 31, 2008	December 31, 2007
Other payables	Entities under common control	–	25

Shareholder's equity		2008	2007
Dividends declared	Parent company	8,225	–

Statement of income	Relationship	2008	2007
Interest income	Parent company	–	109
Interest income	Entities under common control	–	19

(in millions of Russian Roubles unless otherwise stated)

06 Related parties (continued)

Cross shareholding

At December 31, 2008 and December 31, 2007 LLC Kama, a 100% owned subsidiary of the Group, owned 1.16% of the ordinary shares of the Company (Note 14).

Managements' compensation

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

Total key management personnel's compensation is represented by short-term employee benefits and included in general and administrative expenses in the consolidated statement of income amounted to RR 375 and RR 650 for the periods ended December 31, 2008 and 2007, respectively.

07
Segment reporting

Primary reporting format – geographical segments

The Group sells its products to customers located in three main geographical segments: domestic, export to developing and export to developed countries that are summarised in the table below. Revenues in the domestic market are to customers located in the Russian Federation, exports to developing countries are to the customers mainly located in China, Brazil, Southeast Asia and India and exports to developed countries are mainly to the customers located in the USA and European countries.

The segments' results for year ended December 31, 2008 were as follows:

	Potash						
	Export in developing countries	Export in developed countries	Domestic	Total potash sales	**Other sales**	**Unallocated**	**Total**
Tonnes (thousands)	**3,012**	**1,129**	**527**	**4,668**	**–**	**–**	**4,668**
Revenues	**39,438**	**18,784**	**3,190**	**61,412**	**1,386**	**–**	**62,798**
Cost of sales	(5,573)	(2,089)	(975)	**(8,637)**	(773)	–	**(9,410)**
Distribution, general and administrative, other operating expenses and taxes other than income tax	(10,185)	(3,271)	(596)	**(14,052)**	(398)	(105)	**(14,555)**
Segment result/operating profit	**23,680**	**13,424**	**1,619**	**38,723**	**215**	**(105)**	**38,833**
Mine flooding costs (Note 25)						(8,294)	**(8,294)**
Finance income and expense, net						**(1,004)**	**(1,004)**
Profit before income tax							**29,535**
Income tax expense						(7,592)	**(7,592)**
Net profit							**21,943**

(in millions of Russian Roubles unless otherwise stated)

07 Segment reporting (continued)

The segments results for the year ended December 31, 2007, were as follows:

	Potash						
	Export in developing countries	Export in developed countries	Domestic	Total potash sales	**Other sales**	**Unallocated**	**Total**
Tonnes (thousands)	**4,177**	**398**	**485**	**5,060**	–	–	**5,060**
Revenues	**24,424**	**2,266**	**1,705**	**28,395**	**1,104**	–	**29,499**
Cost of sales	(5,481)	(522)	(637)	**(6,640)**	(468)	–	**(7,108)**
Distribution, general and administrative, other operating expenses and taxes other than income tax	(10,677)	(785)	(423)	**(11,885)**	(184)	(200)	**(12,269)**
Segment result/operating profit	**8,266**	**959**	**645**	**9,870**	**452**	**(200)**	**10,122**
Mine flooding costs (Note 25)						274	**274**
Finance income and expense, net						(273)	**(273)**
Profit before income tax							**10,123**
Income tax expense						(2,078)	**(2,078)**
Net profit							**8,045**

The total depreciation and amortisation costs included in the statement of income for the year ended December 31, 2008, and December 31, 2007, were as follows:

	Export					
	Developing countries	Developed countries	Total export	**Domestic**	**Unallocated**	**Total**
Year ended December 31, 2008	1,629	611	**2,240**	284	–	**2,524**
Year ended December 31, 2007	1,671	159	**1,830**	194	–	**2,024**

The total loss on disposal of fixed assets at nil consideration included in the statement of income for the year ended December 31, 2008, and December 31, 2007, was as follows:

	Export	**Domestic**	**Unallocated**	**Total**
Year ended December 31, 2008	–	–	493	**493**
Year ended December 31, 2007	–	–	279	**279**

(in millions of Russian Roubles unless otherwise stated)

07 Segment reporting (continued)

The segment assets and liabilities as of December 31, 2008, and December 31, 2007, and capital expenditure for the year ended December 31, 2008, and December 31, 2007, were as follows:

December 31, 2008	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	2,654	2,796	56,557	316	**62,323**
Liabilities	(1,090)	(2,221)	(9,227)	(15,165)	**(27,703)**
Capital expenditure	–	322	14,019	–	**14,341**

December 31, 2007	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	2,974	1,093	35,339	229	**39,635**
Liabilities	(272)	(1,108)	(1,468)	(11,713)	**(14,561)**
Capital expenditure	–	269	6,047	–	**6,316**

Certain assets and liabilities were allocated to geographical segments on the basis of revenues. Property, plant and equipment and capital expenditures are allocated to Russia where the assets are physically located and are not allocated to geographical segments as such allocation could be made only on an arbitrary basis.

Segment assets consist primarily of property, plant and equipment, letters of credits and prepayments for acquisition of property, plant and equipment goodwill, intangible assets, investments accounted for using the equity method, inventories, receivables and cash. Capital expenditure comprises additions to property, plant and equipment adjusted for changes in letters of credits and prepayments for property, plant and equipment. Segment liabilities comprise operating liabilities. Financial assets, related parties' loans, deferred and current income taxes, borrowings (including finance lease payable) and finance costs are unallocated components.

Secondary reporting format – business segments

As of December 31, 2008, and December 31, 2007, the Group is organised in one operating segment: extraction, manufacture and sale of potash fertilisers.

The segment assets and capital expenditure for years ended December 31, 2008, and December 31, 2007, can be presented based on the location of the assets as follows:

December 31, 2008	Russia	Europe	Unallocated	Total
Assets	57,837	4,170	316	**62,323**
Capital expenditure	14,019	322	–	**14,341**

December 31, 2007	Russia	Europe	Unallocated	Total
Assets	35,726	3,680	229	**39,635**
Capital expenditure	6,047	269	–	**6,316**

(in millions of Russian Roubles unless otherwise stated)

08
Property, plant and equipment

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

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of December 31, 2007	8,049	5,317	13,285	4,096	8,771	500	179	**40,197**
Additions	–	–	–	710	9,860	–	–	**10,570**
Transfers	701	524	4,048	–	(5,325)	52	–	**-**
Disposals	(203)	(56)	(684)	(73)	(295)	(9)	–	**(1,320)**
Balance as of December 31, 2008	**8,547**	**5,785**	**16,649**	**4,733**	**13,011**	**543**	**179**	**49,447**
Accumulated Depreciation								
Balance as of December 31, 2007	3,604	4,601	7,294	1,304	–	276	–	**17,079**
Depreciation charge	239	144	1,725	345	–	48	–	**2,501**
Disposals	(97)	(29)	(587)	(53)	–	(9)	–	**(775)**
Balance as of December 31, 2008	**3,746**	**4,716**	**8,432**	**1,596**	**–**	**315**	**–**	**18,805**
Net Book Value								
Balance as of December 31, 2007	**4,445**	**716**	**5,991**	**2,792**	**8,771**	**224**	**179**	**23,118**
Balance as of December 31, 2008	**4,801**	**1,069**	**8,217**	**3,137**	**13,011**	**228**	**179**	**30,642**

(in millions of Russian Roubles unless otherwise stated)

08 Property, plant and equipment (continued)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of December 31, 2006	8,036	5,284	11,379	3,876	6,286	437	179	**35,477**
Additions	–	–	–	363	5,532	–	–	**5,895**
Transfers	95	185	2,578	–	(2,932)	74	–	**-**
Disposals	(82)	(152)	(672)	(143)	(115)	(11)	–	**(1,175)**
Balance as of December 31, 2007	**8,049**	**5,317**	**13,285**	**4,096**	**8,771**	**500**	**179**	**40,197**
Accumulated Depreciation								
Balance as of December 31, 2006	3,409	4,582	6,650	1,094	–	246	–	**15,981**
Depreciation charge	252	141	1,225	318	–	36	–	**1,972**
Disposals	(57)	(122)	(581)	(108)	–	(6)	–	**(874)**
Balance as of December 31, 2007	**3,604**	**4,601**	**7,294**	**1,304**	**–**	**276**	**–**	**17,079**
Net Book Value								
Balance as of December 31, 2006	**4,627**	**702**	**4,729**	**2,782**	**6,286**	**191**	**179**	**19,496**
Balance as of December 31, 2007	**4,445**	**716**	**5,991**	**2,792**	**8,771**	**224**	**179**	**23,118**

Depreciation

For the year ended December 31, 2008 and 2007, respectively, the depreciation was allocated to statement of income as follows:

	2008	2007
Cost of sales	1,908	1,399
Distribution costs (including transhipment activities – Note 2.30)	341	328
General and administrative expenses	196	178
Loss on disposal of fixed assets and brine injection costs (Note 25)	8	48
Total depreciation expense	**2,453**	**1,953**

In 2008, the Group incurred depreciation amounting to RR 48 (2007: RR 19) directly related to construction of new fixed assets. These expenses were capitalised on the consolidated balance sheet in accordance with the Group accounting policy and included in assets under construction.

Fully depreciated assets still in use

As of December 31, 2008, and December 31, 2007, the gross carrying value of fully depreciated property, plant and equipment still in use was RR 6,434 and RR 6,737, respectively.

(in millions of Russian Roubles unless otherwise stated)

Assets pledged under loan agreements

As of December 31, 2008, and December 31, 2007, the carrying value of property, plant and equipment pledged under bank loans was RR 4,582 and RR 8,197 (Note 16), respectively.

09

Investment in jointly controlled entities

In October 2005, the Company acquired a 50% interest in JSC Belarusian Potash Company ("BPC"), the remaining 50% of which was owned by Belaruskali. In May 2008 Belaruskali sold a 5% share in BPC to Belorussian Railways. Since, according to the amended BPC charter all decisions on shareholders meeting could be taken only by a majority of 75%, the BPC operations are still under joint control of Belaruskali and the Company (herein after "participants"). The principal activity of BPC is marketing and exporting as agent potash fertilisers produced by its participants.

The BPC charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants' goods and related cost of sale and distribution costs. Administrative expenses incurred by BPC are currently allocated as follows: not more than 69% to the operations of Belaruskali and not less than 31% to the Group's operations (for the year ended December 31, 2007: administrative expenses incurred by BPC were shared 50:50). Actual proportion depends on the volume of goods sold by each participant through BPC. Distribution of net income to each participant is on the basis of their relevant results, after administrative costs unless both participants decide not to distribute. Operations of the Group through BPC, assets and liabilities of the Group located in BPC in which the Group has direct interest are included in these consolidated financial statements.The statement of income reflects the revenue from sales by BPC of Uralkali's products, together with the related costs of sale and distribution and administrative costs.

10

Intangible assets

	Software	Other	Total
Cost as of January 1, 2007	**327**	**20**	**347**
Accumulated amortisation	**(176)**	**–**	**(176)**
Carrying amount as of January 1, 2007	**151**	**20**	**171**
Additions	47	–	47
Amortisation charge	(71)	–	(71)
Cost as of December 31, 2007	**374**	**20**	**394**
Accumulated amortisation	**(247)**	**–**	**(247)**
Carrying amount as of December 31, 2007	**127**	**20**	**147**
Additions	85	–	85
Amortisation charge	(71)	–	(71)
Cost as of December 31, 2008	**459**	**20**	**479**
Accumulated amortisation	**(318)**	**–**	**(318)**
Carrying amount as of December 31, 2008	**141**	**20**	**161**

(in millions of Russian Roubles unless otherwise stated)

The balances of intangible assets reported in these consolidated financial statements as of December 31, 2008 and 2007, respectively mainly represent management information and accounting system costs and fees charged by an external consultant for the installation of this software. The costs of the software are amortised over the period not exceeding 5 years. Other intangible assets are mainly represented by licences (Note 1).

11
Inventories

Inventories consist of the following:

	2008	2007
Raw materials	1,557	1,025
Finished products	1,324	464
Work in progress	84	33
Total inventories	**2,965**	**1,522**

As of December 31, 2008 there were no finished goods pledged as security for bank loans (December 31, 2007: RR 4) (Note 16).

12
Trade and other receivables

	2008	2007
Trade receivables	3,033	3,391
Other accounts receivables	922	206
Less: provision for impairment of trade and other receivables	(233)	(90)
Total financial receivables	**3,722**	**3,507**
VAT recoverable	1,880	1,145
Other taxes receivables	473	692
Advances to suppliers	435	339
Insurance expenses prepaid	40	112
Other prepayments	66	80
Total trade and other receivables	**6,616**	**5,875**

As of December 31, 2008, trade receivables of RR 2,907 (December 31, 2007: RR 3,071) net of provision for impairment were denominated in foreign currencies. 63% of this balance was denominated in US$ (December 31, 2007: 77%) and 37% was denominated in Euro (December 31, 2007: 23%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

(in millions of Russian Roubles unless otherwise stated)

12 Trade and other receivables (continued)

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

	2008		2007	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As of January 1	**(51)**	**(39)**	**(20)**	**(86)**
Provision accrued	(32)	(137)	(35)	(30)
Provision reversed	4	17	4	48
Provision written off	–	5	–	29
As of December 31	**(79)**	**(154)**	**(51)**	**(39)**

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

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

	2008		2007	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Customers from developed countries	827	41	464	6
Customers from developing countries	1,793	–	2,557	–
Domestic customers	30	628	264	161
Total current and not impaired	**2,650**	**669**	**3,285**	**167**
Past due but not impaired				
less than 45 days overdue	153	55	8	–
45 to 90 days overdue	141	–	13	–
over 90 days overdue	–	–	22	–
Total past due but not impaired	**294**	**55**	**43**	**–**
Determined to be impaired (gross)				
45 to 90 days overdue	20	88	24	–
over 90 days overdue	69	110	39	39
Total gross amount of impaired accounts receivables	**89**	**198**	**63**	**39**
Total financial receivables (gross)	**3,033**	**922**	**3,391**	**206**
Less impairment provision	(79)	(154)	(51)	(39)
Total financial receivables	**2,954**	**768**	**3,340**	**167**

As of December 31, 2008, no trade and other receivables were pledged as collateral (December 31, 2007: nil).

13
Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2008	2007
RR denominated cash on hand and bank balances (interest rate: from 0.5 % p.a. to 5.0 % p.a. (2007: from 1.25 % p.a. to 6.0 % p.a.))	1,570	260
US$ denominated bank balances	300	306
EUR denominated bank balances	1,933	649
Other currencies denominated balances	9	70
US$ term deposits (interest rate: 1.2 % p.a. (2007: from 4.3% p.a. to 5.21% p.a.))	1,598	388
EUR term deposits (interest rate: 3% p.a.)	2,031	–
RR term deposits (interest rate: from 4.0 % to 11.8 % p.a. (2007: from 8.5% to 9% p.a.))	8,733	5,520
Cash and cash equivalents, net of restricted cash	**16,174**	**7,193**
Restricted cash		
Limited guarantee deposit	–	78
Three-month bank deposits (2007: 6.77% p.a.)	–	20
Total restricted cash	**–**	**98**
Total cash and cash equivalents	**16,174**	**7,291**

Term deposits as of December 31, 2008, have various original maturities but could be withdrawn at request without any restrictions.

14
Shareholders' equity

	Number of ordinary shares (in millions)	Ordinary shares	Treasury shares	Total
As of January 1, 2007	2,124	648	(9)	**639**
Treasury shares purchased	–	–	(3)	**(3)**
As of December 31, 2007	**2,124**	**648**	**(12)**	**636**
As of January 1, 2008	2,124	648	(12)	**636**
Treasury shares purchased	–	–	–	**–**
As of December 31, 2008	**2,124**	**648**	**(12)**	**636**

The number of unissued authorised ordinary shares is 1,500 mln. (December 31, 2007: 1,500 mln.) with a nominal value per share of 0.5 Roubles. All shares stated in the table above have been issued and fully paid.

Treasury shares. As of December 31, 2008, treasury shares comprise 24,601,344 ordinary shares of the Company (December 31, 2007: 24,601,344) with a nominal value per share of 0.5 Roubles owned by LLC Kama, wholly owned subsidiary of the Group (Note 6). These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

(in millions of Russian Roubles unless otherwise stated)

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

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended December 31, 2008, the current period net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 29,480 (for the year ended December 31, 2007: RR 6,013) and the closing balance of the accumulated profit including the current period net statutory profit totalled RR 32,480 (December 31, 2007: RR 18,449). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these consolidated financial statements.

Dividends. In June 2008, the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended December 31, 2007) amounting to RR 4,036 (1.90 Roubles per share). In September 2008 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the six months ended June 30, 2008) amounting to RR 8,498 (4.00 Roubles per share).

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

15
Mine flooding provisions

	Note	2008	2007
Balance as of January 1		**23**	**679**
Increase in provision as a result of passage of time	24	–	67
Utilisation of provision for brine injection	25	(23)	(353)
Accrual of provision for compensations	25, 5	7,804	–
Release of provision for brine injection	25	–	(370)
Balance as of December 31		**7,804**	**23**

The Group stopped brine injection operations on January 12, 2008 (Note 5). As of December 31, 2008, the Group has accrued a provision for compensations related to the consequences of the mine flooding (Note 5).

(in millions of Russian Roubles unless otherwise stated)

16
Borrowings

	2008	2007
Bank loans	**13,987**	**10,600**
Short–term company loans	439	137
Long–term company loans	45	–
Finance lease payable	327	328
Total borrowings	**14,798**	**11,065**

As of December 31, 2008, and December 31, 2007, the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

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

The Company loans are mainly represented by a short-term US$ denominated, unsecured, LIBOR six months plus 1% per annum interest bearing bridge loan from Dessault Aviation S.A. in the amount of RR 439 (December 31, 2007: RR 92). The loan represents restructing of liability due to Dessault Aviation S.A. in 2008 and is repayable in 2009

	2008	2007
Balance as of January 1	**10,600**	**11,088**
Bank loans received, denominated in US$	7,297	8,112
Bank loans received, denominated in RR	4,229	94
Bank loans repaid, denominated in US$	(6,212)	(7,884)
Bank loans repaid, denominated in RR	(4,234)	(239)
Interest accrued	676	698
Interest paid	(723)	(725)
Recognition of syndication fees	(38)	(18)
Amortisation of syndication fees	26	30
Currency translation difference	2,366	(556)
Balance as of December 31	**13,987**	**10,600**

Table below provides interest rates as of December 31, 2008, and December 31, 2007, and split of the bank loans between short-term and long-term.

(in millions of Russian Roubles unless otherwise stated)

16 Borrowings (continued)

Short-term borrowings

	Interest rates	2008	2007
Bank loans in US$ – fixed interest	8.75% (2007: 7.5%)	1,075	1,759
Bank loans in US$ – floating interest	From 1m Libor +1.6% to 1m Libor +1.95% (2007: from 1m Libor +1.95% to 1m Libor +2.5%)	3,092	2,720
Bank loans in RR – fixed interest	2007: 13%	–	5
Total short-term bank loans		**4,167**	**4,484**

Long-term borrowings

	Interest rates	2008	2007
Bank loans in US$ – floating interest	From 1m Libor +1.6% to 1m Libor +1.95% (2007: 1m Libor +1.95%)	9,820	6,116
Total long-term bank loans		**9,820**	**6,116**

US$ denominated bank loans bear a weighted average interest of 5.63% (December 31, 2007: 7.12%).
As as of December 31, 2008, and December 31, 2007, loans, including short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 11).

Bank loans of RR 2,627 (December 31, 2007: nil) were collateralized by future export proceeds of the Group under sales contracts with certain customers acceptable to the banks.

The Group's bank borrowings mature as follows:

	2008	2007
– within 1 year	4,167	4,484
– between 2 and 3 years	9,820	6,116
Total bank loans	**13,987**	**10,600**

JSC BBT leases a berth No. 107 from FSUE Rosmorport under a finance lease for 49 years. As of December 31, 2008, the leased dock was included in buildings, with a net book value of RR 276 (December 31, 2007: RR 280) (Note 8). Minimum lease payments under finance leases and their present values are as follows:

	2008	2007
– within 1 year	38	38
– between 2 and 5 years	152	152
– after 5 years	1,447	1,485
Minimum lease payments at the end of the year	**1,637**	**1,675**
Less future finance charges	(1,310)	(1,347)
Present value of minimum lease payments	**327**	**328**

(in millions of Russian Roubles unless otherwise stated)

17
Trade and other payables

	2008	2007
Trade payables	2,570	1,181
Accrued liabilities	237	292
Dividends payable	94	80
Other payables	307	82
Total financial payables	**3,208**	**1,635**
Accrued liabilities	449	301
Advances received	103	106
Deferred consideration of subsidiary acquisition	132	134
Other payables	267	224
Total trade and other payables	**4,159**	**2,400**

18
Revenues

	2008	2007
Export		
Potassium chloride	41,613	18,559
Potassium chloride (granular)	16,609	8,131
Domestic		
Potassium chloride	3,190	1,705
Other	249	122
Transportation and other revenues	1,137	982
Total revenues	**62,798**	**29,499**

In March 2008, the Government of the Russian Federation introduced duties, effective from April 2008 until April 2009, on exports of potassium chloride destined for countries outside the CIS members of the customs union of the Russian Federation. The duty applicable to Uralkali's potassium chloride is 5% of the declared customs value, which the Group charged on almost all of the Group's potassium chloride exports. Export revenues are shown net of abovementioned duties, which amounted during the year ended December 31, 2008, to RR 1,886 (for the year ended December 31, 2007: RR nil).

(in millions of Russian Roubles unless otherwise stated)

19
Cost of sales

	Note	2008	2007
Labour costs		2,622	1,898
Depreciation		1,908	1,399
Fuel and energy		1,864	1,473
Materials and components used		1,820	1,385
Repairs and maintenance		1,282	746
Transportation between mines by railway		348	306
Utilities		25	28
Change in work in progress, finished goods and goods in transit	11	(479)	(140)
Other costs		20	13
Total cost of sales		**9,410**	**7,108**

Expenses related to transportation of ore between mines by automotive transport in the amount of RR 95 (for the year ended December 31, 2007: RR 89) were incurred by CJSC Autotranskali, 100% subsidiary of the Group, and mainly included in labour costs, materials and components used and fuel and energy costs.

20
Distribution costs

	2008	2007
Freight	4,960	2,986
Railway tariff	3,203	3,553
Transport repairs and maintenance	572	417
Transhipment	282	287
Depreciation	259	246
Travel expenses	158	99
Labour costs	137	105
Commissions	22	21
Other costs	247	243
Total distribution costs	**9,840**	**7,957**

(in millions of Russian Roubles unless otherwise stated)

21
General and administrative expenses

	2008	2007
Labour costs	1,532	1,929
Consulting, audit and legal services	362	329
Depreciation	196	178
Insurance	116	181
Security	113	85
Mine-rescue crew	93	81
Repairs and maintenance	92	105
Amortisation of intangible assets	71	71
Bank charges	69	29
Travel expenses	67	36
Communication and information system services	67	88
Other expenses	426	361
Total general and administrative expenses	**3,204**	**3,473**

22
Labour costs

	Note	2008	2007
Labour costs – Cost of sales		**2,622**	**1,898**
Wages, salaries, bonuses and other compensations		2,128	1,487
Unified social tax		465	343
Post employment benefits	27	29	68
Labour costs – Distribution costs		**137**	**105**
Wages, salaries, bonuses and other compensations		137	105
Labour costs – General and administrative expenses		**1,532**	**1,929**
Wages, salaries, bonuses and other compensations		1,295	1,601
Unified social tax		205	164
Post employment benefits	27	32	164
Total labour costs		**4,291**	**3,932**

(in millions of Russian Roubles unless otherwise stated)

23
Other operating expenses, net

	2008	2007
Social cost and charity	565	289
Loss on disposal of fixed assets	157	215
Provision for impairment of receivables	148	13
Net result on sale of Belaruskali goods	(52)	(14)
Other expenses, net	291	53
Total other operating expenses, net	**1,109**	**556**

The Group entered in sales agreement with BPC for processing of sales of Belaruskali goods through Uralkali Trading SA in 2008 and 2007, respectively, to overcome certain drawbacks in Belarusian export legislation.

24
Finance income and expense

The components of finance income and expense were as follows:

	Note	2008	2007
Interest income		852	223
Dividend income		4	–
Fair value gains on investments		–	20
Foreign exchange gain, net		–	498
Finance income		**856**	**741**

	Note	2008	2007
Interest expense		702	728
Change in provision as a result of passage of time	15	–	67
Finance lease expense		38	38
Foreign exchange loss, net		737	–
Fair value losses on investments		151	–
Letters of credit fees		232	181
Finance expense		**1,860**	**1,014**

(in millions of Russian Roubles unless otherwise stated)

25
Mine flooding costs

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

	Note	2008	2007
Dismantling costs		111	87
Loss on disposal of fixed assets		336	64
State financing		(16)	(55)
Brine injection costs		47	303
Monitoring costs		35	50
Change in provision for mine flooding	5, 15	(23)	(723)
Change in provision for compensations	5, 15	7,804	–
Total mine flooding costs		**8,294**	**(274)**

Dismantling costs are mainly represented by labour costs, depreciation expenses and costs paid to service organisations for dismantling of equipment on Mine-1.

26
Income tax expense

	2008	2007
Current income tax expense	7,953	2,105
Deferred income tax	(343)	(27)
Effect of change in tax rates	(18)	–
Income tax expense	**7,592**	**2,078**

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

	2008	2007
Profit before income tax	**29,535**	**10,123**
Theoretical tax charge at effective statutory rates	5,907	2,116
Tax effect of items which are not deductible or assessable for taxation purposes	1,691	289
Difference in tax rates*	(15)	(327)
Effect of change in tax rates	(18)	–
Other	27	–
Consolidated tax charge	**7,592**	**2,078**

* Profit before taxation on Switzerland, Gibraltar and Belarusian operations is assessed based on effective rate of 6% (December 31, 2007: 7%).

In March 2006, the parliament of the Perm region in the Russian Federation, where the Company is located, approved an amendment to the regional law on Perm regional part of the income tax. The amendment provides a reduction

(in millions of Russian Roubles unless otherwise stated)

26 Income tax expense (continued)

of 4% in the income tax rate for companies located in Perm region with average number of personnel exceeding 10 persons and income calculated in accordance with the statutory Tax Code, exceeding RR 0.1. In November 2008, new amendments to the Tax Code of the Russian Federation were adopted. Starting from 2009 the federal part of corporate income tax will also be reduced by 4%.

In 2008 and 2007, the Company met all requirements specified above necessary to qualify for an income tax rate reduced to 20% instead of the standard rate of 24%. Taking into account the abovementioned amendments to the Tax Code regarding federal part in income tax and regional income tax allowance the Company expects income tax rate applicable for future periods will be 16%.

Deferred income tax has been computed in these consolidated financial statements using the rate expected to be applicable in future periods (i.e., 16%).

	December 31, 2008	December 31, 2007	Charged/ (credited) to profit or loss 2008	Charged/ (credited) to profit or loss 2007
Tax effects of taxable temporary differences:				
Property, plant and equipment	(342)	(538)	196	121
Investments	(7)	(55)	48	(1)
Inventories	–	(60)	60	(1)
Borrowings	(5)	(5)	–	20
Other	(12)	–	(12)	–
	(366)	(658)	292	139
Tax effects of deductible temporary differences:				
Finance lease	65	79	(14)	–
Mine flooding reserve	–	5	(5)	(158)
Accounts receivable	22	10	12	–
Accounts payable	113	108	5	51
Inventories	131	–	131	–
Other	–	60	(60)	(5)
	331	262	69	(112)
Deffered income tax expense/ (income)			**361**	**27**
Total net deferred income tax asset/(liability)	**35**	**(396)**		
Reflected in the balance sheet as follows:				
Deffered income tax asset	197	–		
Deffered income tax liability	(232)	(396)		
Deferred income tax asset/(liability), net	**35**	**(396)**		

(in millions of Russian Roubles unless otherwise stated)

26 Income tax expense (continued)

The Group has not recognised a deferred income tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 9,358 (December 31, 2007: RR 4,220). The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

27
Post employment benefits obligations

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

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

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

As of December 31, 2008, and December 31, 2007, the net liabilities of defined benefit plan and other post-employment benefit plans comprised the following:

	2008	2007
Present value of defined benefit obligations (DBO)	361	324
Present value of unfunded obligations	361	324
Unrecognised past service cost	(77)	(77)
Post employment benefits obligations	**284**	**247**

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

	2008	2007
Current service cost	17	9
Interest cost	21	15
Net actuarial losses recognised during the year	14	63
Amortisation of past service cost	9	4
Immediate recognition of vested prior service cost	–	106
Other	–	35
Post employment benefits	**61**	**232**

(in millions of Russian Roubles unless otherwise stated)

27 Post employment benefits obligations (continued)

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

	2008	2007
Present value of defined benefit obligations (DBO) as of January 1	324	28
Service cost	17	9
Interest cost	21	15
Actuarial loss	14	63
Past service cost	10	187
Benefits paid	(25)	(13)
Other	–	35
Present value of defined benefit obligations (DBO) as of December 31	**361**	**324**

As of December 31, 2008 and 2007, respectively, the principal actuarial assumptions for the post-employment benefit plans were as follows:

	2008	2007
Discount rate	9.30%	6.60%
Salary increase	10.16%	8.12%
Inflation	8.00%	6.00%
Benefits increase (fix-amounted)	8.00%	6.00%
Mortality tables	Russia (1986–87)	Russia (1986–87)

Net deficit on the post-employment benefit plans and the amount of experience adjustments for the years ended December 31, 2008 and 2007, respectively, were as follows:

	2008	2007
Present value of defined benefit obligations (DBO)	361	324
Deficit in plan	**361**	**324**
(Gains)/losses arising of experience adjustments on plan liabilities	(22)	5

(in millions of Russian Roubles unless otherwise stated)

28
Earnings per share

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

	2008	2007
Net profit	21,937	8,042
Weighted average number of ordinary shares in issue (millions)	2,100	2,102
Basic and diluted earnings per share (expressed in RR per share)	**10.45**	**3.83**

29
Contingencies, commitments and operating risks

(i) Legal proceedings

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

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

On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

(ii) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing rules, which were introduced from January 1, 1999, provide the possibility for the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of certain controllable transactions, provided that the tax authorities prove that the transaction price established by the parties differs from the market price by more than 20%.

The controllable transactions include transactions with interdependent parties under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The form of the Uralkali Group intercompany and related party (Note 6) transactions would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of the Russian transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such past transactions could potentially be challenged in the future by relevant local and federal tax authorities. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reasonably estimated, however it may be significant. The management believes that the tax position taken by the Group in respect of such transactions complies with the relevant legislation and therefore is defensible in the event of a challenge by the tax authorities. The management believes that no significant additional taxes, penalties, and interest would be imposed by the tax authorities.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at December 31, 2008, and December 31, 2007, no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.

(iii) Insurance policies

The Company holds an insurance policy with CJSC AIG Russia Insurance Company and JSC Russia Insurance Company. These agreements cover main risks related to Company's assets situated above and under ground, risks related to suspension of production and risks related to civil responsibility. However risks reflected in Note 5 are not covered, therefore no losses from the flooding of the Mine-1 are expected to be compensated.

The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities.

The total insurance premium related to abovementioned agreements of RR 116 was recognised as an expense for the year ended December 31, 2008 (for the year ended December 31, 2007: RR 181) (Note 21).

(iv) Environmental matters

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

(v) Operating environment of the Group

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the Credit Crunch) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Since October 2008, the world mineral fertilisers markets experienced a slowdown and the Group decided to curtail its production of potash fertilisers by 500 thousand tonnes in the Q4 2008. In March 2009, the Group concluded agreements with Brazilian customers for potash deliveries effective from March to May 2009. The prices have been set at US$ 750 per tonne of potash for large importers (previous price was US$ 1,000 per tonne effective from July 1, 2008) and US$ 765 per tonne of potash for small importers (previous price was US$ 1,100 per tonne effective from July 1, 2008). Currently, the Company is in process of price negotiation on key markets, which could be affected by the global economic crisis.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flow and assess the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the RR has depreciated significantly against some major currencies. The official US$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at October 1, 2008, to RR 29.38 at December 31, 2008, and RR 33.39 at April 15, 2009.

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

(vi) Capital expenditure commitments

As of December 31, 2008, the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 6,123 (December 31, 2007: RR 1,390).

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

(vii) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. At December 31, 2008 the Group issued guarantees in favour of third parties in the amount of RR 9 (December 31, 2007: RR 25).

(viii) Registration of rights for berth No. 106

From August 2005, JSC BBT has been operating berth No. 106 without having any right to such berth registered and without a clear legal background to utilise such berth. Registration of the berth as a real estate was obtained by the Federal State Unitary Enterprise Rosmorport (FSUE Rosmorport) only in 2007 and its valuation was completed in 2008. JSC BBT is now negotiating with FSUE Rosmorport with respect to entering into a lease agreement on berth No. 106 and expects it to be concluded in 2009.

30
Financial risk management

30.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The Group operates internationally and exports approximately 89% of potash fertilisers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are denominated in hard currency namely in US$ or Euro. The Group maintains a balance between US$ and EUR sales in order to mitigate the risk of US$/EUR exchange rate fluctuations. The Company is exposed to the risk of RR/US$ and RR/EUR exchange rates fluctuations, however currently the Company is benefiting from weak exchange rate of Rouble towards US$ and Euro, since all major expenses of the Company are denominated in Roubles.

As of December 31, 2008, if the RR had weakened/strengthened by 30% against US$ and Euro with all other variables held constant, post-tax profit for the year would have been RR 1,142 lower/higher (December 31, 2007: 1,561 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$ and Euro denominated trade receivables, cash in bank, deposits and foreign exchange losses/gains on translation of US$ denominated borrowings.

(ii) Price risk

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

(iii) Interest rate risk

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

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

At December 31, 2008, if LIBOR rates on US$ denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RR 96 (December 31, 2007: RR 75) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of the management of credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets RR 23,409 (December 31, 2007: RR 11,414).

The Group is exposed to concentrations of credit risk. At December 31, 2008, the Group had nine counterparties (December 31, 2007: eleven counterparties) with aggregated receivables balances above RR 100. The total aggregate amount of these balances was RR 2,856 (December 31, 2007: RR 2,252) or 72% of the gross amount of the trade and other receivables (December 31, 2007: 63%). Cash and short-term deposits are placed in banks and financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has no other significant concentrations of credit risk.

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

The effective monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. The management believes that the country of origin is one of the major factors affecting credit quality of the customer and makes corresponding analysis (Note 12). Most of the customers from developing countries are supplied on the secured payment terms. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers. Primarily customers from developed countries with high reputation are supplied on credit basis.

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

The table below shows the credit quality of cash, cash equivalents and letters of credit balances on the balance sheet date, basing on credit ratings of independent agency Moody's Investor Services as at 31 December 2008:

(in millions of Russian Roubles unless otherwise stated)

30 Financial risk management (continued)
30.1 Financial risk factors (continued)
(b) Credit risk (continued)

Rating	2008	2007
Baa1.ru	5,818	4,271
Aa3	8,679	616
B3.ru	1,672	1,027
A1	1,666	630
Unrated *	1,852	1,363
Total	**19,687**	**7,907**

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

(c) Liquidity risk

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

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

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

	Note	Less than 1 year	Between 2 and 5 years	Over 5 years
As of December 31, 2008				
Trade and other payables	17	3,208	–	–
Borrowings		4,905	10,145	–
Finance leasing	16	38	152	1,447
As of December 31, 2007				
Trade and other payables	17	1,635	–	–
Borrowings		5,163	6,744	–
Finance leasing	16	38	152	1,485

(in millions of Russian Roubles unless otherwise stated)

30.2 Capital risk management

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

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

The debt to equity ratios as of December 31, 2008 and December 31, 2007 were as follows:

	December 31, 2008	December 31, 2007
Total bank borrowings (Note 16)	13,987	10,600
Total equity	34,620	25,074
Debt to equity ratio	**40%**	**42%**

As of December 31, 2008, management has set a level of 30% debt to equity ratio as strategic goal. Ratios as of December 31, 2008 and 2007, respectively, exceed the strategic goal level.

31 Fair value of financial instruments

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

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

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

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

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

32
Events after balance sheet date

Subsequent to the year end the Group entered into a number of agreements to compensate expenses incurred by third parties in relation to liquidation of mine flooding consequences (Note 5).

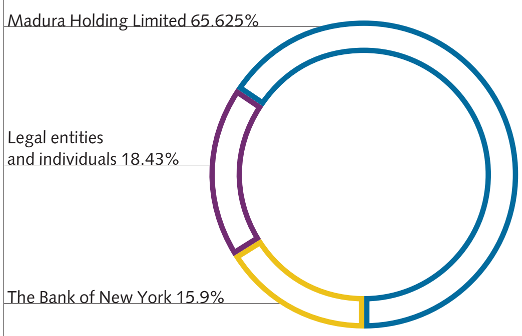
Other sections

Uralkali Shareholder and Capital Structure

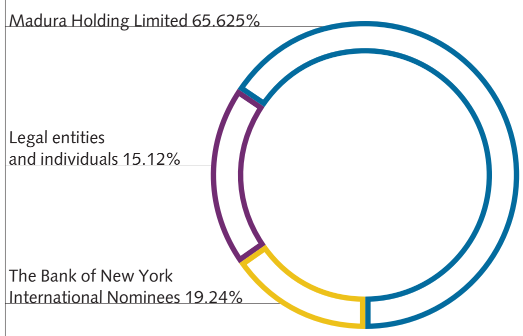
The authorised capital of Uralkali remained unchanged in 2008 and as of December 31, 2008, was 1,062,195,000 RUR. The authorised capital of Uralkali comprises 2,124,390,000 registered ordinary shares with a par value of 0.5 RUR each.
A Directive of the **Federal Commission for the Securities Market of Russia** No. 04-81/r, dated January 16, 2004, united the additional issuances of securities of Uralkali. As a result, the state registration number 1-01-00296A was assigned to the issuances of registered ordinary uncertificated shares of Uralkali.
As of January 1, 2008, there were 9,942 holders of record [1] in the shareholder register of Uralkali.
As of December 31, 2008, there were 9,881 holders of record [2] in the shareholder register of Uralkali.

Trading Floors:
As of December 31, 2008, the ordinary shares in Uralkali and global depositary receipts certifying the rights in respect of the ordinary shares in Uralkali are traded on the following trading floors: RTS; MICEX; LSE.

Equity Structure as of January 1, 2008



Equity Structure as of December 31, 2008



The Bank of New York is a nominee holder of depositary receipts for investors represented by more than 200 investment funds.

[1], [2] The term "holders of record" encompasses both registered shareholders of the company and nominee shareholders.

Report on Payment of Declared (Accrued) Share Dividends

Dividend Policy of Uralkali stipulates that in the development of recommendations to the General Meeting of Shareholders concerning the amount of dividend for a certain period, the Board of Directors of Uralkali relies on the following rule: the funds used for such purposes should be at least 15 percent of net profit determined based on the financial statements of the Company prepared in accordance with the International Financial Reporting Standards (IFRS) for the period concerned in respect of which a recommendation is made.

Period	Date of Preparation of the List of Persons Entitled to Receive Dividends	Date of Adoption of Decision on Dividend Payment	Amount of Dividend per Ordinary Share/GDR, RUR	Amount of Accrued Dividends, RUR in Thousands
2007	13.05.2008	18.06.2008	1.90/9.5	4,036,341.0
6 months of 2008	13.08.2008	19.09.2008	4.0/20.0	8,497,560.0

Dividend payment obligations were fulfilled by the Joint-Stock Company Uralkali at the stated time in accordance with the Federal Law "On Joint-Stock Companies," with the exception of those when the company did not have sufficient information on the procedure and manner of dividend payment to the shareholders of the company. The Company discloses all relevant information concerning the amount of dividends, paid at the end of a certain period in the quarterly issuer reports. This information is available on the Company's website.

Board of Directors [1]

Dmitry Rybolovlev
Chairman of the Board of Directors since 1996.

Dmitry Rybolovlev was born in 1966. He studied at the Perm Medical Institute, where he graduated with a degree in General Medicine.
Dmitry Rybolovlev is a member of Uralkali's Committee on Staff and Compensations. He is a Board Member of the Russian Union of Industrialists and Entrepreneurs.

Anatoly Lebedev
Member of the Board of Directors since 2004. Deputy Chairman of the Board of Directors since 2006. President of Uralkali since 2008.

Anatoly Lebedev was born in 1974. He graduated from the Moscow State University with a degree in Law in 1996.
Anatoly Lebedev is a member of Uralkali's Committee on Information Disclosure.

Vladislav Baumgertner
Member of the Board of Directors since 2004. General Director and Chairman of the Executive Committee since 2005.

Vladislav Baumgertner was born in 1972. He received a degree in Electrical Engineering and Power Plants from the Urals State Technical University in 1994. In 2000, Mr. Baumgertner was awarded an MBA degree from Kingston Business School (Uk); and in 2003, a MSc degree in Financial Management from the University of London.

Yury Gavrilov
Member of the Board of Directors since 2000.

Yury Gavrilov was born in 1969. He graduated from the Perm State Technical University with a degree in Mechanical Engineering and Research.
Yury Gavrilov is a member of Uralkali's Audit Committee and the Committee on Staff and Compensations. Since 1999, he has served as General Director of CJSC Investment Company Finansovy Dom.

Andrey Konogorov
Member of the Board of Directors in 1996–1998, 2000–2004, and since 2008.

Andrey Konogorov was born in 1964. He graduated from Perm Polytechnical Institute in 1986 with a degree in mining engineering. In 2003, Mr. Konogorov received a degree in strategic management and business from The Academy of National Economy under the Government of the Russian Federation.
Andrey Konogorov is the Chairman of Uralkali's Committee on Staff and Compensations and a member of the Committee on Information Disclosure. Since 2004, he has served as the Chairman of the board of AKB Uralski Finansovy Dom.

Kuzma Marchuk
Member of the Board of Directors since 2007.
Vice President of Finance since 2004.

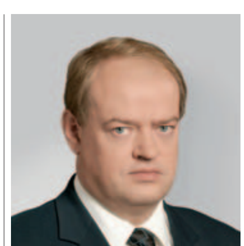
Kuzma Marchuk was born in 1973. He graduated from Plekhanov Russian Academy of Economics in 1995 with a degree in Foreign Economic Activities of Enterprises and Organizations. Kuzma Marchuk received a degree in Physics from Moscow State University in 1996.

Vladimir Ruga
Member of the Board of Directors since 2008.

Vladimir Ruga was born in 1970. He graduated from the Lenin Moscow State Pedagogical University with a degree in history in 1993.
Vladimir Ruga is a member of Uralkali's Committee on Information Disclosure. Since 2003, he has served as Vice President of Mass Media and Public Relations at TNK-BP Management Company.

Hans Jochum Horn
Member of the Board of Directors since 2008.

Hans Jochum Horn was born in 1948. He graduated from the University of Mannheim (Germany) with a degree in commerce in 1974. Mr. Horn graduated from Bergen University as a State Authorized Public Accountant in 1977.
Hans Jochum Horn is the Chairman of Uralkali's Audit Committee. Since 2005, Mr. Horn has been the Managing Director and the Deputy Chairman of the Board of Directors of Renaissance Group.



Ilya Yuzhanov
Member of the Board of Directors since 2006.

Ilya Yuzhanov was born in 1960. He graduated from Zhdanov Leningrad State University with a degree in economics in 1982. Mr. Yuzhanov has a Ph.D. in economics.
Ilya Yuzhanov is a member of Uralkali's Audit Committee and the Committee on Staff and Compensations. He has been a member of the Supervisory Board of Nomos-Bank CJSC since 2004, has served on the Board of Directors of Novatek OJSC and JSC Kirovski Zavod since 2006. Since 2008, he has served as the Chairman of the Board of Directors of JCS Polymetal.

[1] Place of employment and work status of the persons are quoted as of December 31, 2008.

Note: The Composition of the Board of Directors was reapproved by a resolution adopted at the Annual General Shareholders' Meeting on June 18, 2008. The Board of Directors, approved in June 2007, included: D. Rybolovlev (Chairman), V. Baumgertner, Yu. Gavrilov, A. Zuev, A. Lebedev, K. Marchuk, A. Starkov, V. Shevtsov, I. Yuzhanov.

Holding of Uralkali Shares by the Members of the Company's Board of Directors

Name	Position	Number of shares, pcs., as of January 1, 2008	Share in the authorised capital, % as of January 1, 2008	Number of shares, pcs., as of August 13, 2008 (Date of Preparation of the List of Persons Entitled to Participate in the Annual General Meeting of Shareholders)	Share in the authorised capital, % as of August 13, 2008 (Date of Preparation of the List of Persons Entitled to Participate in the Annual General Meeting of Shareholders)	Number of shares, pcs., as of December 31, 2008	Share in the authorised capital, % as of December 31, 2008
Konogorov A. R.	Doesn't hold office in Uralkali	0	0	9 002	0.00042	0	0

Shares purchase and alienation transactions were completed on:
– April 24, 2008. 1,450 shares were purchased;
– June 24, 2008. 1,450 shares were alienated;
– in the period from July 1, 2008, until August 5, 2008, 17,402 shares were purchased;
– in the period from August 6, 2008, until August 14, 2008, 9,740 shares were alienated;
– in the period from September 11, 2008, until September 29, 2008, 14,250 shares were purchased;
– in the period from October 30, 2008, until November 11, 2008, 21,912 were alienated.

Review of the Mineral Resources and Ore Reserves of the Uralkali Joint-Stock Company located in the Russian Federation

SRK has not independently re-calculated Mineral Resource and Ore Reserve estimates for Uralkali's operations but has, rather, reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by Uralkali and made an opinion on these estimates including the tonnes, grade and quality of the potash planned to be exploited in the current mine plan, based on this review. SRK has then used this knowledge to derive audited resource and reserve statements according to the guidelines and terminology proposed in the JORC Code.

This report presents both the existing Uralkali resource estimates according to Russian standard reporting terminology and guidelines and SRK's audited JORC Code statements. All of these estimates are dated as of January 1, 2009. SRK has restricted its assessment to the resources and reserves at Mine-2, Mine-4 and Mine-5. Mine-1 and Mine-3 have been excluded as these have no realistic potential to be re-opened in the foreseeable future. The resources to the south of Mine-5 have not been included as these licences have not yet been made available for acquisition.

01

Quantity and quality of data

The resource and reserve estimates derived by Uralkali are primarily based on exploration drilling undertaken between 1972 and 1989. There is no exploration drilling currently being undertaken from surface. A specially laid out drilling programme was developed for each mine with the aim of enabling 10% of the contained resources to be assigned to the A category of resources as defined by the Russian Reporting Code, 20% to the B category and 70% to the C1 category.

The A category is the highest category in the Russian Reporting Code and only used where the stated tonnage and grade estimates are considered to be known to a very high degree of accuracy. The B, C1 and C2 categories are lower confidence categories, with C2 denoting the least level of confidence in the three categories. All of these categories, apart from C2, are acceptable for use in supporting mining plans and feasibility studies. In the case of Uralkali, blocks are assigned to the A category where the drillhole spacing is less than 1 km, to the B category where the drillhole spacing is between 1 and 2 km and to the C1 category where the drillhole spacing is 2 km. Areas drilled at a larger spacing than this, up to a 4 km spacing, are assigned to the C2 category, though only a very small proportion of Uralkali's resources have been categorised as such.

As a result of the above process, each mine is drilled on a 2 km by 2 km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring 400 m by 200 m. Uralkali does not upgrade the categorisation of its resources based on this drilling but rather uses this to optimise the mining layouts.

The drillholes, whether drilled from surface or underground, are sampled at intervals of at least 16 cm and the samples are crushed and milled under the control of the geology department to produce an approximate 100 g sample prior to submission to the laboratory.

Assaying is carried out at an in-house laboratory. No samples are sent to any independent laboratories but there is an internal system of check assaying and repeat assaying. Approximately 5% of samples are repeat assayed. All assaying is by classical wet chemistry techniques.

SRK considers that the exploration approach followed by Uralkali has been appropriate and specifically aimed at collecting the data appropriate to the estimation of potash resources and that sufficient data of sufficient quality has been collected to support the resource estimates as derived by Uralkali and as presented here.

02
Resource Estimation

02.1 Introduction

The most up to date resource statements produced by Uralkali are those derived for the annual 5GR reports produced earlier this year which give the status as of January 1, 2009. The completion of 5GR reports is a statutory requirement. These estimates were produced using standard classical Russian techniques and are essentially based on calculations made in previous years adjusted for mining during 2008. This section therefore comments primarily on these statements.

02.2 Uralkali estimation methodology

Each seam and each mine is treated separately in the resource estimation procedure. In each case the horizons are first divided into blocks soch that each sub-divided block has reasonably consistent borehole spacing within it; that is more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting "resource block" is then evaluated separately using the borehole intersections falling within that block only.

Specifically, composite K_2O and MgO grades are derived for each borehole that intersects each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting.

A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub block, and any areas where the seams are not sufficiently developed. The aerial coverage of each block is then used with the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block.

The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence of the estimated tonnes and grade.

02.3 Uralkali resource statements

Table 1 below summarises SRK's understanding of the resource statements prepared by Uralkali to reflect the status of its assets as of January 1, 2009. Uralkali's statements are based on a minimum mining width of 2 m and a minimum block grade of 13% K_2O.

Table 1: Uralkali sylvinite mineral resource statement as of January 1, 2009

Category	Tonnage, Mt	K_2O, %	K_2O, Mt
Mine 2			
A	10.4	31.1	3.2
B	47.9	22.7	10.9
C1	284.3	24.7	70.2
C2	–	–	–
A+B+C1	**342.6**	**24.6**	**84.3**

Category	Tonnage, Mt	K_2O, %	K_2O, Mt
Mine 4			
A	406.9	21.6	87.9
B	441.7	22.6	99.8
C1	1,017.3	20.6	209.7
C2	310.3	26.8	83.3
A+B+C1	**1,865.8**	**21.3**	**397.4**
Mine 5			
A	173.5	19.1	33.1
B	311.5	19.8	61.8
C1	816.3	19.8	161.6
C2	–	–	–
A+B+C1	**1,301.4**	**19.7**	**256.5**
All Mines			
A	590.8	21.0	124.3
B	801.0	21.5	172.4
C1	2,117.8	20.8	441.5
C2	310.3	26.8	83.3
Grand Total A+B+C1	**3,509.8**	**21.0**	**738.2**

SRK comments

SRK has reviewed the estimation methodology used by Uralkali to derive the above estimates and the geological assumptions made and considers these to be reasonable given the information available. SRK has also undertaken various re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions and has replicated the estimates derived by Uralkali to within 5%.

Overall, SRK considers the resource estimates reported by Uralkali to be a reasonable reflection of the total quantity and quality of material demonstrated to be present at the three assets as of January 1, 2009.

02.4 SRK audited mineral resource statements

Table 2 below presents SRK's audited resource statement. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. In doing this, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to this.

SRK has not attempted to optimise Uralkali's Business Plan. Consequently, SRK's audited resource statements are confined to those seams that both have the potential to be mined economically and which are currently being considered for mining only.

Table 2: SRK audited sylvinite mineral resource statement as of January 1, 2009

Category	Tonnage, Mt	K_2O, %	K_2O, Mt
Mine 2			
Measured	58.3	24.2	14.1
Indicated	284.3	24.7	70.2
Inferred	–	–	–
Measured + Indicated	**342.6**	**24.6**	**84.3**
Mine 4			
Measured	848.6	22.1	187.7
Indicated	1,017.3	20.6	209.7
Inferred	310.3	26.8	83.3
Measured + Indicated	**1,865.8**	**21.3**	**397.4**
Mine 5			
Measured	485.0	19.6	94.9
Indicated	816.3	19.8	161.6
Inferred	–	–	
Measured + Indicated	**1,301.4**	**19.7**	**256.5**
All Mines			
Measured	1,391.9	21.3	296.7
Indicated	2,117.8	20.8	441.5
Inferred	310.3	26.8	83.3
Total Measured + Indicated	**3,509.8**	**21.0**	**738.2**

SRK comments

The audited Mineral Resource statement as of January 1, 2009, presented above is different to that presented as of January 1, 2008, as a function of mining activity during 2008.

SRK understands that the feasibility study being prepared for Mine-5 which was focussed on establishing a new mine with a dedicated shaft system has now been brought to a halt due to a number of issues beyond Uralkali's control and the recent changes in the global economic status. Instead a new feasibility study has now been commissioned investigating the potential for accessing the Mineral Resource reported for this from Mine-2 infrastructure. This will be a technically easier proposition and, given that the Mine-2 infrastructure is largely in place, both less expensive and quicker to develop.

There is, however, some uncertainty as to the legal consequences of Uralkali's non-compliance with the previously agreed terms for the preparation of the feasibility study and design documentation for Mine-5. Notably there is a possibility that this proposal may not be accepted by the relevant authorities and that Uralkali's licence may then be revoked. While at the present time this licence remains with Uralkali and the material still has good potential to be mined and therefore reported as a Mineral Resource, this uncertainty should be considered if any reliance is placed on the statement above.

03
Ore Reserve Estimation

03.1 Introduction

Uralkali does not report reserves as these are typically defined by reporting guidelines and terminology developed in Europe, North America and Australia; that is, estimates of the tonnage and grade of total material that is planned to be delivered to the various processing plants over the life of the mine. SRK has therefore derived estimates of such using historical information gained during its site visits regarding the mining losses and dilution experienced during mining to date. SRK has also restricted the resulting estimates to those areas planned to be mined by Uralkali's Business Plan during the next 17 years. This Business Plan assumes that Uralkali will successfully re-negotiate its Mining Licences in 2013 and the Ore Reserve Statements therefore also assume this will be the case.

03.2 Modifying factors

The Modifying Factors applicable to the derivation of reserves comprise estimates for ore losses and dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected.

The Modifying Factors considered by SRK to be appropriate for the sylvinite being mined at each of the assets is shown in Table 3 below. The ore losses primarily comprise material left behind in pillars while the grade factor represents the relationship between the grade of the ore delivered to the plant and the in-situ grade.

Uralkali undertakes an annual reconciliation to compare the ore tonnes mined each year with the resource that has been sterilised by this mining and it is these figures that SRK has reviewed to derive the ore loss factors. Similarly Uralkali keeps a record of the in situ grade of the material sterilised by mining each year and SRK has compared these with the grade of material reported to have been fed to the plants to derive the grade factors. Given this SRK is confident that the Modifying Factors used reflect the geometry of the orebodies being mined and the mining methods currently being used.

Table 3. SRK modifying Factors

Description	Units	Mine-2	Mine-4
Ore Loss	(%)	65	63
Extraction Rate	(%)	35	37
Grade Factor	(%)	85	85

03.3 SRK audited ore reserve statements

As with its audited Mineral Resource statements, SRK's Ore Reserve statements have been reclassified using the terminology and guidelines proposed in the JORC Code. SRK has not been provided with an updated Business Plan and has therefore based its review on the Business Plan it audited in October 2007. In addition to this SRK has also been provided with actual production and operating cost data for 2008, a revised production forecast for 2009 to 2011 reflecting Uralkali's current plans regarding the refurbishment of some existing processing facilities and also the installation of additional facilities and information regarding sales agreements and price forecasts.

Notwithstanding this, SRK's audited Ore Reserve statement is confined to those seams that are currently being considered for mining within the next 17 years only. Specifically, for the operating mines, SRK has classed that material reported in the tables above as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported in the tables above as an Indicated Mineral Resource, and which is planned to be exploited within the Business Plan, and also that material reported above as a Measured Mineral Resource, but which is planned to be mined during the following 7 years of the Business Plan, as a Probable Ore Reserve. SRK has been informed by Uralkali that no material events have occurred during 2008 which would change Uralkali's mining and processing plans and has confirmed that the mining and processing performance during 2008 reasonably matched that assumed by the Business plan for this period in all material respects.

SRK's Ore Reserve statement does not include any material from Mine-5, as the updated feasibility study for this has only recently been commissioned and SRK did not have the opportunity to audit the previous study. In addition no Inferred Mineral Resources have been converted to Ore Reserve. SRK can confirm that the Ore Reserve defined in Table 4 below has been derived from the resource blocks provided to SRK and incorporates sufficient estimates for ore losses and dilution based on actual historical data.

The large difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed. It is also partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by the remaining 17 years of Uralkali's Business Plan.

Table 4. SRK audited sylvinite ore reserve statement as of January 1, 2009

Category	Tonnage, Mt	K_2O, %	K_2O, Mt
Mine 2			
Proved	20.4	20.6	4.2
Probable	100.3	21.0	21.0
Total	120.7	20.9	25.2
Mine 4			
Proved	176.9	18.8	33.3
Probable	132.9	18.8	25.0
Total	309.8	18.8	58.2
All Mines			
Proved	197.3	19.0	37.5
Probable	233.2	19.7	46.0
Grand Total	**430.5**	**19.4**	**83.5**

SRK comments

The audited Ore Reserve statement as of January 1, 2009, presented above is different to that presented as of January 1, 2008, as a result of mining during 2008.

04

Concluding Remarks

In SRK's opinion the Mineral Resource and Ore Reserve statements as included herein are materially compliant with the JORC Code and are valid as of January 1, 2007. SRK considers that should the Ore Reserves as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this letter, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

Yours faithfully
Dr. Mike Armitage
Managing Director
SRK Consulting (UK) Ltd

Risk Factors

This section only describes the principal risks (in addition to those risks inherent to the jurisdictions in which Uralkali operates) that could have a significant effect on Uralkali's business, financial condition and results of operations. All estimates and forecasts presented in this annual report should be considered in connection with the risk factors described in this section. Other risks that Uralkali is currently not aware of or believes to be immaterial, could become material in future and could also have a material adverse effect on Uralkali's business, financial condition and results of operations.

This annual report does not constitute an exhaustive exposition of all risks facing the Company. Uralkali will make further disclosures of pertinent developments on an ongoing basis as required by the Disclosure and Transparency Rules of the UK Listing Authority.

Risk		**Description**
General economic	Global financial crisis	Exposure to negative consequences of the global financial crisis, including reduced sales, credit recalls and shortage of liquidity, as well as related challenges to making planned or required investments. The state of the economy also exacerbates exposure to currency fluctuations.
	High inflation	Russia has experienced high levels of inflation since the early 1990s. Further sustained periods of high inflation could increase costs and decrease operating margins.
Reduction of demand for potash		Macroeconomic factors, including changes in world population, availability of arable land per capita, pressure on income and lack of finance for potash consumers, could result in reduced demand for potash.
Oversupply of potash		Increases in global potash production, capacity and inventory levels at our customers could create downwards pressure on potash prices, which could reduce profitability.
Production capacity and output		Uralkali's potash production may be diminished by various internal factors, such as emergency downtime and deterioration of physical infrastructure, and external factors, such as deterioration of ore quality and reduced capacity owing to technological changes prescribed by regulatory authorities.
Production costs		Uralkali may fail to implement cost reduction programmes. Moreover, Uralkali's costs of production could increase.
Suppliers		Uralkali relies on several key suppliers whose loss, for example through bankruptcy, or monopolistic price increase could adversely affect Uralkali's business.
Mining and natural risks		Uralkali's mining and production operations are subject to hazards and risks associated with the exploration, development and processing of natural resources, including potential flooding, fires and other accidents.
Mine-1 risks		The flooding of Uralkali's Mine-1 in October 2006 had a significant impact on Uralkali's potash reserves and may result in additional costs, losses and liabilities.

Risk		Description
Regulatory and competitive environment	Regulatory reviews	Uralkali's activity is subject to various reviews by tax authorities, the mining safety executive (Rostechnadzor) and other relevant regulatory bodies, the results of which may lead to an imposition of additional obligations, costs and restrictions on Uralkali (for example, if governmental authorities take a more assertive position in their interpretation of the legislation and assessments).
	Failure to obtain the required licences	Uralkali's business depends on the continuing validity of its licences (see, for example, the Mine-5 licence discussed on page 3 of this report), and compliance with their terms. The withdrawal or restriction of any such licences by regulatory bodies could impose additional costs and burdens on Uralkali's business.
	Competition laws and regulations	Uralkali is subject to antitrust legislation in Russia and other countries. Antitrust claims could result in additional costs on Uralkali.
	International distribution	Uralkali is subject to regulatory and legal risks associated with its international distribution, which could have an adverse effect on its export sales and business, including Uralkali's revenues and margins.
Health, safety and environment		Uralkali's operations and properties are subject to various complex environmental, health and safety and similar laws and regulations (which can be unclear in their interpretation), compliance with which can impose additional costs and obligations on Uralkali.
Mineral reserves and resources		Uralkali's estimations of its reserves and resources may be materially different from mineral quantities that are actually recovered and certain ore reserves or mineral deposits may become uneconomical to mine.
Employees		Uralkali may fail to attract high quality employees and may lose existing key employees that could further impair Uralkali's ability to achieve its business objectives.
Subsidiaries and joint ventures		Risks associated with Uralkali's key subsidiaries and joint ventures (such as BPC and BBT) could adversely affect Uralkali's business, including its distribution network.

Responsibility Statement

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- this annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board, which approved the making of the responsibility statement for the Company at a Board Meeting on April 27, 2009.

CEO
V. A. Baumgertner

This Uralkali annual report has been approved by the Uralkali Board of Directors on April 27, 2009 (Minutes of Board of Directors No. 217 from April 27, 2009).
The Uralkali Audit commission has confirmed the accuracy of the data included in this annual report.

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