URALKALI GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008

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INDEPENDENT AUDITOR`S REPORT

To the Shareholders and Board of Directors of OJSC "Uralkali":

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Uralkali" (the "Company") and its subsidiaries (the "Group") which comprise the consolidated 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 to 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.

/s/ ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
April 27, 2009

	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 asset	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

/s/ ______________ /s/ ______________
Chief Executive Officer Finance Vice-President

	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 on pages 5 to 35 are an integral part of these consolidated financial statements.

	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 amortization 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 subsidiary		(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		-	(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**

	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**

1 The Uralkali Group and its operations

JSC "Uralkali" (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both 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 potassium 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 licenses, issued by authorities of Perm region, for the extraction of potassium, magnesium and sodium salts on "Bereznikovskiy", "Durimanskiy" and "Bigelsko-Troizkiy" plots of "Verhnekamskoe" field. All the licenses expire in 2013, however based on the statutory license regulation and prior experience the management of the Company believes that licenses will be prolonged without any significant cost. The Company also has the license for "Ust'-Yaivinskiy" plot of "Verhnekamskoe" 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 "Belorussian 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).

2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. 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 Belorussian Roubles ("BYR") and in accordance with Belorussian 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 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);

2 Basis of preparation and significant accounting policies (continued)

2.3 Reclassifications (continued)

- 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 statement of cash flows 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 unrealized gains on transactions between group companies are eliminated. Unrealized 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 recognized 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 entities are accounted for by the equity method of accounting. Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; unrealized 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 recognized 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 recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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.

2 Basis of preparation and significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

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

	Useful lives in years
Buildings	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 Basis of preparation and significant accounting policies (continued)

2.12 Other intangible assets

Expenditure on software, patents, trademarks, mineral and non-mineral licenses 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 can be reclassified out of this category 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 recognized 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 recognized 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 Basis of preparation and significant accounting policies (continued)

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) Ltd.", in the USA for "UKT Chicago" and in Belorussia for "Belorussian 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 incurs in distributing goods from its factory to sea ports, vessels and overseas warehouses as these are costs incurred in bringing the inventory to its present location. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.19 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 includes 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 Basis of preparation and significant accounting policies (continued)

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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.

At December 31, 2008, the official rate of exchange, as determined by 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 Basis of preparation and significant accounting policies (continued)

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 recognized 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 fertilizers 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 recognized 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 recognized 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.

3 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.

4 New accounting pronouncements

The following new standards, amendments to standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 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 on 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.

4 New accounting pronouncements (continued)

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 Payment, 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 affect significantly the Group's consolidated financial statements.

5 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the 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:

License for Ust-Yaivinsky plot. The Company has a license to develop the Ust-Yaivinsky field of the Verkhnekamskoye deposit until 2024. During 2007 and 2008 the Company has 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 license 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 licensed 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 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 license and on December 12, 2008, the Company 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 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 requirements 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 licenses will be renewed in due order. However if the licenses 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 at 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.

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

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 OAO «Russian Railways» and other companies;
- budget expenses;
- losses of mineral resources;
- other expenses,

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

Actually 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 in 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 construction of a 53-kilomener railway bypass.

Thereby the Company has accrued a provision as at December 31, 2008 for future expenses, which could be reliably valued at the date of authorization 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 construction of a 53-kilomener 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 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.

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".

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

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 authorization 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. At 31 December 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 potassium 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 recognize 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 value in use calculations whereby cash flow projections approved by management covering a five-year period and analysis of synergies performed by an 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 recognize any impairment.

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.

6 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 caption	Relationship	2008	2007
Dividends declared	Parent company	8,225	-

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

6 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 years ended December 31, 2008 and 2007, respectively.

7 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 the customers located in the Russian Federation, exports to developing countries are to the customers mainly located in China, Brazil, South Eastern Asia and India and exports to developed countries are mainly to the customers located in USA and European countries.

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

	Potash				**Other sales**	**Unallocated**	**Total**
	Export in developing countries	**Export in developed countries**	**Domestic**	**Total potash sales**			
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**

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

	Potash				**Other sales**	**Unallocated**	**Total**
	Export in developing countries	**Export in developed countries**	**Domestic**	**Total potash sales**			
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**

7 Segment reporting (continued)

Primary reporting format – geographical segments (continued)

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

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
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**

The segment assets and liabilities as at 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 credit 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 credit 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

At December 31, 2008 and December 31, 2007 the Group is organized in one operating segment: extraction, manufacture and sale of potassium fertilizers.

The segment assets and capital expenditure for the 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**

8 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**

8 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**

8 Property, plant and equipment (continued)

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 capitalized 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.

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.

9 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 fertilizers 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 at January 1, 2007	**327**	**20**	**347**
Accumulated amortization	**(176)**	**-**	**(176)**
Carrying amount at January 1, 2007	**151**	**20**	**171**
Additions	47	-	47
Amortization charge	(71)	-	(71)
Cost at December 31, 2007	**374**	**20**	**394**
Accumulated amortization	**(247)**	**-**	**(247)**
Carrying amount at December 31, 2007	**127**	**20**	**147**
Additions	85	-	85
Amortization charge	(71)	-	(71)
Cost at December 31, 2008	**459**	**20**	**479**
Accumulated amortization	**(318)**	**-**	**(318)**
Carrying amount at December 31, 2008	**141**	**20**	**161**

The balances of intangible assets reported in these consolidated financial statements at 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 amortized over the period not exceeding 5 years. Other intangible assets are mainly represented by licenses (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**

At 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.

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.

12 Trade and other receivables (continued)

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% p.a. to 11.8% p.a. (2007: from 8.5% p.a. 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 at December 31, 2008 and December 31, 2007 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
At January 1, 2007	2,124	648	(9)	**639**
Treasury shares purchased	-	-	(3)	**(3)**
At December 31, 2007	2,124	648	(12)	**636**
At January 1, 2008	2,124	648	(12)	**636**
Treasury shares purchased	-	-	-	**-**
At 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. At 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.

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 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). 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).

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
Utilization of provision for brine injection	25	(23)	(353)
Accrual of provision for compensations	5, 25	7,804	-
Release of provision for brine injection	25	-	(370)
Balance as of December 31		**7,804**	**23**

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

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 at 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.

16 Borrowings (continued)

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 at 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)
Amortization of syndication fees	26	30
Currency translation difference	2,366	(556)
Balance at December 31	**13,987**	**10,600**

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

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 1 month Libor +1.6% to 1 month Libor +1.95% (2007: from 1 month Libor +1.95% to 1 month 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 1 month Libor +1.6% to 1 month Libor +1.95% (2007: 1 month 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 at 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**

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: nil).

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**

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
Amortization 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**

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 "Beloruskali" goods through "Uralkali Trading SA" in 2008 and 2007, respectively, to overcome certain drawbacks in Belorussian 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**

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 Belorussian 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 for a reduction 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%.

26 Income tax expense (continued)

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)**		

	December 31, 2008	December 31, 2007
Reflected in the balance sheet as follows:		
Deferred income tax asset	197	-
Deferred income tax liability	(232)	(396)
Deferred income tax asset/ (liability), net	**35**	**(396)**

The Group has not recognized 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 at 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**

27 Post employment benefits obligations (continued)

The amount of net expense for the defined benefit pension plans recognized 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
Amortization of past service cost	9	4
Immediate recognition of vested prior service cost	-	106
Other	-	35
Post employment benefits	**61**	**232**

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 at December 31, 2008 and 2007, respectively, the principle 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

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.

29 Contingencies, commitments and operating risks (continued)

i Legal proceedings (continued)

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 U.S. 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 managment 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 to 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 relating to Company's assets situated above and under ground, risks relating 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 recognized as an expense for the year ended December 31, 2008 (for the year ended December 31, 2007: RR 181) (Note 21).

29 Contingencies, commitments and operating risks (continued)

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 organizations 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 world mineral fertilizers markets experienced a slowdown and the Group decided to curtail its production of potassium fertilizers by 500 thousand tonnes in the fourth quarter 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 of 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

At 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).

29 Contingencies, commitments and operating risks (continued)

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 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 fertilizers 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: RR 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 managing credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist 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.

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(b) Credit risk (continued)

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 analyzed 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 analisys (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:

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

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 sum of long-term and short-term bank borrowings divided by total equity.

30 Financial risk management (continued)

30.2 Capital risk management (continued)

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 at 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).