URALKALI GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

Contents

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INDEPENDENT AUDITOR`S REPORT

To the Shareholders and Board of Directors of Uralkali Group

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, 2007 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows 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, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

/s/ ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
April 14, 2007

(in millions of Russian Roubles unless otherwise stated)

	Note	December 31, 2007	December 31, 2006
ASSETS			
Non-current assets:			
Property, plant and equipment	8	24,205	20,162
Goodwill	10	366	366
Intangible assets	11	147	171
Restricted cash	14	-	80
Related parties loans	6	-	2,659
Financial assets		223	248
Total non-current assets		**24,941**	**23,686**
Current assets:			
Inventories	12	1,522	1,481
Trade and other receivables	13	5,875	4,375
Current income tax prepayments		6	253
Related parties loans	6	-	431
Cash and cash equivalents	14	7,291	2,812
Total current assets		**14,694**	**9,352**
Total assets		**39,635**	**33,038**
Equity:			
Share capital	15	648	648
Treasury shares	15	(12)	(9)
Share premium/(discount)		(849)	(514)
Revaluation reserve		150	150
Cumulative translation reserve		(478)	(195)
Retained earnings		25,591	17,549
Equity attributable to the Company's equity holders		**25,050**	**17,629**
Minority interest		**24**	**21**
Total equity		**25,074**	**17,650**
LIABILITIES			
Non-current liabilities:			
Borrowings	17	6,444	3,555
Post employment benefits obligations	28	247	28
Mine flooding provision	16	23	679
Deferred income tax liability	27	396	423
Total non-current liabilities		**7,110**	**4,685**
Current liabilities:			
Borrowings	17	4,621	8,040
Trade and other payables	18	2,400	2,487
Current income tax payable		252	10
Other taxes payable		178	166
Total current liabilities		**7,451**	**10,703**
Total liabilities		**14,561**	**15,388**
Total liabilities and equity		**39,635**	**33,038**

Approved on behalf of the Board of Directors
April 11, 2007

/s/______________________ /s/______________________
President Finance Vice-President

(in millions of Russian Roubles unless otherwise stated)

	Note	2007	2006
Revenues	19	29,499	22,290
Cost of sales	20	(7,108)	(6,307)
Gross profit		**22,391**	**15,983**
Distribution costs	21	(7,957)	(6,691)
General and administrative expenses	22	(3,473)	(2,058)
Taxes other than income tax		(283)	(258)
Other operating expenses	24	(556)	(426)
Operating profit		**10,122**	**6,550**
Mine flooding costs	26	274	(2,054)
Finance income	25	1,251	914
Finance expense	25	(1,524)	(1,084)
Profit before income tax		**10,123**	**4,326**
Income tax expense	27	(2,078)	(832)
Profit for the year		**8,045**	**3,494**
Profit is attributable to:			
Equity holders of the Company		8,042	3,494
Minority interest		3	-
Net profit for the year		**8,045**	**3,494**
Earnings per share – basic and diluted (in RR)	29	**3.83**	**1.66**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements

(in millions of Russian Roubles unless otherwise sta

	Note	2007	2006
Cash flows from operating activities			
Profit before income tax and minority interest		10,123	4,326
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets		1,976	2,008
Net loss/(gain) on disposal of property, plant and equipment	24	215	(2)
Loss on fixed assets disposed on mine flooding	26	64	1,208
Impairment of trade and other receivables	24	13	20
Net change in provision for earth replacement and mine flooding		(656)	483
Finance income and expense, net		523	317
Foreign exchange gains	25	(498)	(286)
Operating cash flows before working capital changes		**11,760**	**8,074**
(Increase)/decrease in trade and other receivables		(1,740)	9
Increase in inventories		(41)	(48)
Increase in accounts payable, accrued expenses and other creditors		538	128
Increase/(decrease) in other taxes payable		12	(18)
Cash generated from operations		**10,529**	**8,145**
Interest paid	17	(725)	(521)
Income taxes paid		(1,610)	(998)
Net cash generated from operating activities		**8,194**	**6,626**
Cash flows from investing activities			
Purchase of intangible assets	11	(47)	(23)
Purchase of property, plant and equipment		(6,073)	(5,232)
Proceeds from sales of property, plant and equipment		22	351
Sale of investments, net		16	27
Decrease/(increase) in restricted cash balances	14	27	(125)
Loans issued to related party		(753)	(4,034)
Repayment of loans issued to related party		3,575	1,194
Dividends and interest received		261	196
Net cash used in investing activities		**(2,972)**	**(7,646)**
Cash flows from financing activities			
Repayments of borrowings	17	(8,257)	(3,808)
Proceeds from borrowings	17	8,188	11,891
Acquisition of treasury shares	15	(79)	(234)
Finance lease payments	17	(38)	(38)
Dividends paid to shareholders		(552)	(7,959)
Net cash used in financing activities		**(738)**	**(148)**
Effect of foreign exchange rate changes on cash and cash equivalents		(58)	(141)
Net increase/(decrease) in cash and cash equivalents		**4,426**	**(1,309)**
Cash and cash equivalents at the beginning of the year, net of restricted cash	14	**2,767**	**4,076**
Cash and cash equivalents at the end of the year, net of restricted cash	14	**7,193**	**2,767**

(in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital (Note 15)	**Treasury shares (Note 15)**	**Share premium/ (discount)**	**Revaluation reserve**	**Cumulative translation reserve**	**Retained earnings**	**Total attributable to equity holders**	**Minority interest**	**Total equity**
Balance at January 1, 2006	**648**	**(6)**	**(288)**	**150**	**45**	**17,409**	**17,958**	**21**	**17,979**
Translation movement	-	-	-	-	(240)	-	(240)	-	(240)
Net income recognised directly in equity	-	-	-	-	(240)	-	(240)	-	(240)
Net income for the year	-	-	-	-	-	3,494	3,494	-	3,494
Total recognised income for the year	-	-	-	-	(240)	3,494	3,254	-	3,254
Dividends declared (Note 15)	-	-	-	-	-	(3,354)	(3,354)	-	(3,354)
Acquisition of treasury shares (Note 15)	-	(3)	(226)	-	-	-	(229)	-	(229)
Balance at December 31, 2006	**648**	**(9)**	**(514)**	**150**	**(195)**	**17,549**	**17,629**	**21**	**17,650**
Balance at January 1, 2007	**648**	**(9)**	**(514)**	**150**	**(195)**	**17,549**	**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	-	-	-	-	(283)	8,042	7,759	3	7,762
Acquisition of treasury shares (Note 15)	-	(3)	(335)	-	-	-	(338)	-	(338)
Balance at December 31, 2007	**648**	**(12)**	**(849)**	**150**	**(478)**	**25,591**	**25,050**	**24**	**25,074**

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 9.2% (for the year ended December 31, 2006: 8.3%) 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, 2007 approximately 91% (for the year ended December 31, 2006: 90%) of potash fertiliser production is exported.

The Company holds operating licenses for the extraction of potassium, magnesium and sodium salts issued by authorities of Perm region. All the licenses expire in 2013 except for the “Verhnekamskoe” mine “Ust’-Yaivinskoe” license, which expires in 2024, 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 was incorporated as an open joint stock company in the Russian Federation on October 14, 1992. The principal subsidiaries and joint-ventures are disclosed in Note 9. All the companies of the Group are incorporated under the Laws of the Russian Federation with the exception of LLC “SP Terminal”, a company incorporated under the Laws of the Ukraine, “Uralkali Trading SA”, a company incorporated in Switzerland, “Uralkali Trading (Gibraltar) Ltd.”, a company incorporated in Gibraltar. JSC “Belorussian Potash Company“ (“”BPC”) is a company incorporated in Belorussia.

As of December 31, 2007 “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. All of the Group’s productive capacities and all long-term assets are located in the Russian Federation.

As of December 31, 2007 the Group employed approximately 11.8 thousand employees (December 31, 2006: 11.5 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.”, “SP Terminal”. “Uralkali Trading SA” and “Uralkali Trading (Gibraltar) Ltd”. maintain its accounting records in US Dollars (“US$”) and prepare their financial statements in accordance with IFRS. “SP Terminal” maintains its accounting records in “Ukrainian hryvnya” (“UAH”) and in accordance with Ukraine Laws and Regulations. “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.

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.

2 Basis of preparation and significant accounting policies (continued)

2.4 Consolidated financial statements (continued)

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 joint ventures 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.

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.

(in millions of Russian Roubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

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, or groups of cash-generating units, 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 cash-generating unit which is retained.

2.12 Other intangible assets

Expenditure on software, patents, trademarks, mineral and non-mineral licences is capitalised and amortised using the straight-line method over their useful lives.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2 Basis of preparation and significant accounting policies (continued)

2.13 Classification of financial assets

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

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

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

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

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

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

2.14 Initial recognition of financial instruments

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

Change in fair value is 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.

2.17 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislations enacted or substantively enacted by the balance sheet date in the Russian Federation for entities incorporated in the Russian Federation, in Switzerland for "Uralkali Trading SA", in Gibraltar for "Uralkali Trading (Gibraltar) Limited", in Ukraine for "SP Terminal" 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.

2 Basis of preparation and significant accounting policies (continued)

2.17 Income taxes (continued)

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. 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.

2.22 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 Basis of preparation and significant accounting policies (continued)

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.

Earth replacement costs were accrued specifically in relation to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities (Note 5).

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, 2007, the official rate of exchange, as determined by the The Central Bank of the Russian Federation (CBRF), was US dollar 1 = Rouble 24.55 (December 31, 2006: US dollar 1 = Rouble 26.33). The official Euro to RR exchange rate at December 31, 2007, as determined by the CBRF, was Euro 1= Rouble 35.93 (December 31, 2006: Euro 1 = Rouble 34.69).

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 and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

2 Basis of preparation and significant accounting policies (continued)

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 lives 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 IFRSs became effective for the Group from January 1, 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group’s operations and the nature of their impact on the Group’s accounting policies.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity’s key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity’s capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

3 Adoption of new or revised standards and interpretations (continued)

Other new standards or interpretations. The following revised and issued standards were adopted in accordance with their transitional provisions and effective date and have no material impact on these consolidated financial statements:

- IFRIC 7, Applying the Restatement Approach under IAS 29 "Financial Reporting in Hiperinflationary Economies" (effective for periods beginning on or after March 1, 2006, that is from January 1, 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after May 1, 2006, that is from January 1, 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006).
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).

4 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods and which the entity 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 disclosures in the consolidated financial statements.

***Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from January 1, 2009*).** The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after January 1, 2009). The revised IAS 23 was issued in March 2007. 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 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)

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 3, 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 on the same basis as US GAAP (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, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. 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.

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, 2008). 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. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

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

- 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).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect 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:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on future cash flow projections. These calculations require the use of estimates (Note 10).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 30).

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 expiry date of the 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 482 (December 31, 2006: RR 471) should be assessed for impairment in 2013.

Land. All facilities of JSC "BBT" 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 2,870 (December 31, 2006: RR 3,084) should be assessed for impairment.

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

Provisions for earth replacement and mine flooding. From 2002 to the end of October 2006 the Group accrued for site restoration and reclamation costs specifically related to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities (Note 16). The provision was estimated as the present value of the present obligation based on future additional cash outflows relating to the Group's earth replacement operations under the town of Berezniki. At the end of each year the provision was reassessed to account for earth replaced during the year, changes in the estimates of future cash outflows and passage of time. The change in provision was charged to the statement of income in the year when it occurs. The discount rate used by the Group in determining the fair value of the earth replacement reserve in 2006 was 9.99%. The provision for earth replacement contains "change in estimates" as a component of calculation. The "change in estimates" consists of changes in anticipated volume and timing of the earth replacement work and changes in the associated costs.

On October 28, 2006 the Group stopped production operations in Mine 1 due to natural groundwater inflow increase to the level when it can not be controlled by the Group. According to the act of a governmental commission, the cause of flooding was a previously unknown anomaly of geological structure and has consequently been determined to be beyond the control of the Group (force majeure).

Following the closure of the Mine 1 on October 28, 2006, the Group ceased the earth replacement operations. However, 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 in 2006. Most of the cavities in Mine 1 were expected to be filled with water during the next 3 years given expected natural groundwater inflow volume of 3,000 cubic metres per hour. A technical plan for brine injection operations prepared in 2006 for 2007 was based on the Group's maximum brine production capacity and was expected to be updated annually. Based on this 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 (Note 16).

In 2007 the Group performed brine injection operations pursuant to the above mentioned plan. However starting from October 2007 the volume of natural groundwater inflow increased to 7000-8000 cubic metres per hour. In December 2007 the Institute of Geological Sciences issued an expert opinion, that further brine injection operation would be impractical. In December 2007 the management of the Group agreed with the state authorities to cease brine injection operations and released remaining balance of the mine flooding provision (Note 16). The brine injection operations were stoped on January 12, 2008.

Management believes that no obligation exists at the year end other than disclosed in these consolidated financial statements and therefore no new provision has been made. Management will continue to assess mine flooding risks, consequences and costs the Group can incur in the future from subsidence within the town Berezniki and contiguous areas. Due to the complexity of the risks, management could not reasonably assess at December 31, 2007 the amount of expenses the Group can incur in the future in relation to mine flooding risks, however the amount could be significant for the Group.

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.

Trade and other receivables. 100% impairment provision is accrued for trade and other receivables overdue over 90 days, receivables overdue for more than 45 days, but less than 90 days are provided for 50% of its carrying amount.

(in millions of Russian Roubles unless otherwise stated)

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, 2007 and 2006, respectively, are detailed below.

Balance sheet caption	**Relationship**	**December 31, 2007**	**December 31, 2006**
Other payables	Entities under common control	25	26
Loans to related parties	Entities under common control	-	431
Loans to related parties	Parent company	-	2,659
Financial assets	Entities under common control	-	19
Shareholder’s equity caption		**2007**	**2006**
Dividends declared	Parent company	-	2,701
Statement of income caption	**Relationship**	**2007**	**2006**
Interest income	Parent company	109	122
Interest income	Entities under common control	19	18

Loans to related parties

In December 2007 LLC “Permgeologodobycha” repaid to the Group RR denominated, unsecured, 4% to 6% annual interest loans which were outstanding at December 31, 2006.

Loans to parent company

In November 2007 Madura Holdings Limited, parent company, repaid to the Group US$ denominated, unsecured, 5% loan which was outstanding at December 31, 2006 in the amount of RR 2,659 and US$ denominated, unsecured, 5% loan received in 2007 in the amount of RR 753.

Financial assets

In December 2007 LLC “Permgeologodobycha” repaid to the Group RR denominated, interest free promissory notes which were outstanding at December 31, 2006.

Cross shareholding

At December 31, 2007 LLC “Kama”, a 100% owned subsidiary of the Group, owned 1.16% of the ordinary shares of the Company (December 31, 2006: 0.85%). Shares owned by LLC “Kama” are accounted for as treasury shares, but retain their voting rights and rights to dividends.

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 650 and RR 163 for the periods ended December 31, 2007and 2006, 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 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.

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

Primary reporting format – geographical segments (continued)

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

	Export			Domestic			Unallocated	Total
	Developing countries	Developed countries	Total export	Potash sales	Other sales	Total domestic		
Tons (thousands)	4,177	398	**4,575**	485	-	**485**	-	**5,060**
Revenues	24,424	2,266	**26,690**	1,705	1,104	**2,809**	-	**29,499**
Segment result/operating profit	8,293	962	**9,255**	648	421	**1,069**	(202)	**10,122**
Finance income and expense, net	-	-	-	-	-	**-**	(273)	**(273)**
Mine flooding costs (Note 26)	-	-	**-**	-	-	**-**	274	**274**
Profit before income tax							-	**10,123**
Income tax expense							(2,078)	**(2,078)**
Net profit								**8,045**

The segments results for the year ended December 31, 2006 were as follows:

	Export			Domestic			Unallocated	Total
	Developing countries	Developed countries	Total export	Potash sales	Other sales	Total domestic		
Tons (thousands)	3,369	536	**3,905**	438	-	**438**	-	**4,343**
Revenues	17,456	2,574	**20,030**	1,304	956	**2,260**	-	**22,290**
Segment result/operating profit	5,222	836	**6,058**	381	104	**485**	7	**6,550**
Finance income and expense, net	-	-	-	-	-	**-**	(170)	**(170)**
Mine flooding costs (Note 26)	-	-	-	-	-	**-**	(2,054)	**(2,054)**
Profit before income tax							-	**4,326**
Income tax expense							(832)	**(832)**
Net profit								**3,494**

The total depreciation and amortization costs included in the statement of income for the year ended December 31, 2007 and December 31, 2006 were as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Year ended December 31, 2007	1,671	159	**1,830**	194	-	**2,024**
Year ended December 31, 2006	1,576	250	**1,826**	204	-	**2,030**

The total loss on disposal of fixed assets at nil consideration included in the statement of income for the year ended December 31, 2007 and December 31, 2006 was as follows:

	Export	Domestic	Unallocated	Total
Year ended December 31, 2007	-	-	279	**279**
Year ended December 31, 2006	-	-	1,367	**1,367**

The segment assets and liabilities as at December 31, 2007 and December 31, 2006 and capital expenditure for the year ended December 31, 2007 and December 31, 2006 were as follows:

December 31, 2007	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	2,974	1,093	35,339	229	**39,635**
Liabilities	-	(905)	(1,943)	(11,713)	**(14,561)**
Capital expenditure	-	269	6,047	-	**6,316**

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

Primary reporting format – geographical segments (continued)

December 31, 2006	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	1,440	3,276	24,731	3,591	**33,038**
Liabilities	(35)	(724)	(2,601)	(12,028)	**(15,388)**
Capital expenditure	-	74	5,124	-	**5,198**

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, goodwill, intangible assets, investments accounted for using the equity method, inventories, receivables and cash. Capital expenditure comprises additions to 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, 2007 and December 31, 2006 the Group is organized in one operating segment: extraction, manufacture and sale of potassium fertilizers.

The segment assets and capital expenditure for years ended December 31, 2007 and December 31, 2006 can be presented based on the location of the assets as follows:

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

December 31, 2006	Russia	Switzerland	Unallocated	Total
Assets	25,013	4,434	3,591	**33,038**
Capital expenditure	5,124	74	-	**5,198**

(in millions of Russian Roubles unless otherwise stated)

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, 2006	8,036	5,284	11,379	3,876	6,952	437	179	**36,143**
Additions	-	-	-	363	5,953	-	-	**6,316**
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**	**9,858**	**500**	**179**	**41,284**
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**	**6,952**	**191**	**179**	**20,162**
Balance as of December 31, 2007	**4,445**	**716**	**5,991**	**2,792**	**9,858**	**224**	**179**	**24,205**

(in millions of Russian Roubles unless otherwise stated)

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, 2005	8,476	5,962	12,632	3,454	4,580	457	174	**35,735**
Additions	-	-	-	931	4,259	-	8	**5,198**
Transfers	14	62	1,474	-	(1,563)	13	-	**-**
Disposals	(454)	(740)	(2,727)	(509)	(324)	(33)	(3)	**(4,790)**
Balance as of December 31, 2006	**8,036**	**5,284**	**11,379**	**3,876**	**6,952**	**437**	**179**	**36,143**
Accumulated Depreciation								
Balance as of December 31, 2005	3,443	4,967	7,422	1,144	-	230	-	**17,206**
Depreciation charge	262	194	1,224	298	-	35	-	**2,013**
Disposals	(296)	(579)	(1,996)	(348)	-	(19)	-	**(3,238)**
Balance as of December 31, 2006	**3,409**	**4,582**	**6,650**	**1,094**	**-**	**246**	**-**	**15,981**
Net Book Value								
Balance as of December 31, 2005	**5,033**	**995**	**5,210**	**2,310**	**4,580**	**227**	**174**	**18,529**
Balance as of December 31, 2006	**4,627**	**702**	**4,729**	**2,782**	**6,952**	**191**	**179**	**20,162**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

Depreciation

For the year ended December 31, 2007 and 2006, respectively, the depreciation was allocated to statement of income as follows:

	2007	2006
Cost of sales	1,399	1,441
Distribution costs (including transhipment activities – Note 2.30)	328	320
General and administrative expenses	178	183
Loss on disposal of fixed assets and brine injection costs (Note 26)	48	22
Total depreciation expense	**1,953**	**1,966**

In 2007 the Group incurred depreciation amounting to RR 19 (2006: RR 47) 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, 2007 and December 31, 2006 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 6,737 and RR 6,752, respectively.

Assets pledged under loan agreements

As of December 31, 2007 and December 31, 2006 the carrying value of property, plant and equipment pledged under bank loans was RR 8,197 and RR 8,142 (Note 17), respectively.

9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	December 31, 2007 % share	December 31, 2006 % share
Subsidiaries				
"Uralkali Trading SA"	Switzerland	Trading	100	100
"Uralkali Trading (Gibraltar) Limited"	Gibraltar	Administrative services	100	100
LLC "Kama"	Russia	Finance services and leasing	100	100
LLC "BshSU"	Russia	Construction	100	100
LLC "Uralkali-Technology"	Russia	Research and development	100	100
JSC "BBT"	Russia	Maritime terminal	100	100
LLC "Autotranskali"	Russia	Transportation	100	100
LLC "Vagonnoe Depo Balakhonzi"	Russia	Repairs	100	100
LLC "Novaya Nedvizhimost'"	Russia	Repair and maintenance	100	100
"SP Terminal"	Ukraine	Dormant	98	98
LLC "Depo"	Russia	Repairs	75	75
LLC "Satellit-Service"	Russia	IT services	51	51
LLC "Uralkali Engineering"	Russia	Research and development	51	51
Joint-ventures				
JSC "Belorussian Potash Company"	Belorussia	Trading	50	50

In October 2005, the Company acquired a 50% interest in "BPC", the remaining 50% of which is owned by "Belaruskali". The principal activity of "BPC" is marketing and exporting as agent potash fertilizers produced by its two 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 shared 50:50. 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 fully consolidated in these 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.

(in millions of Russian Roubles unless otherwise stated)

10 Goodwill

	2007	2006
Carrying amount at January 1	366	336
Impairment loss	-	-
Carrying amount at December 31	**366**	**366**
Gross book value at December 31	366	366
Accumulated impairment losses at December 31	-	-
Carrying amount at December 31	**366**	**366**

Goodwill Impairment Test

The goodwill primary relates to expected reduction of transportation costs to be incurred from synergies with the Company when exporting potash by the Baltic Sea. Therefore the goodwill is allocated to cash generated unit JSC "Uralkali":

	2007	2006
JSC "Uralkali"	366	366
Total carrying amount of goodwill	**366**	**366**

The recoverable amount of the goodwill is determined based on cash flow projections approved by management covering a five-year period and analysis of synergies performed by independent appraiser. Cash flows beyond that five-year period have been extrapolated using a steady 4% growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Group operates (Note 7).

Pre-tax discount rate of 10.5% that reflects risks relating to JSC "Uralkali" was used in the calculation of the recoverable value.

11 Intangible assets

	Software	Other	Total
Cost at January 1, 2006	**304**	**20**	**324**
Accumulated amortization	**(112)**	**-**	**(112)**
Carrying amount at January 1, 2006	192	20	**212**
Additions	23	-	23
Amortization charge	(64)	-	(64)
Cost at December 31, 2006	**327**	**20**	**347**
Accumulated amortization	**(176)**	**-**	**(176)**
Carrying amount at December 31, 2006	**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**

The balances of intangible assets reported in these consolidated financial statements at December 31, 2007 and 2006 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).

12 Inventories

Inventories consist of the following:

	2007	2006
Raw materials	964	1,063
Finished products	525	398
Work in progress	33	20
Total inventories	**1,522**	**1,481**

At December 31, 2007 and 2006, respectively, the balance of finished goods includes inventories bought for resale. As of December 31, 2007 the value of circulating finished goods valued at market prices pledged as security for bank loans was RR 4 (December 31, 2006: RR 1,322) (Note 17).

(in millions of Russian Roubles unless otherwise stated)

13 Trade and other receivables

	2007	2006
Trade receivables	3,391	1,752
Other accounts receivables	206	421
Less: provision for impairment of trade and other receivables	(90)	(106)
Total financial receivables	**3,507**	**2,067**
VAT recoverable	1,145	1,330
Other taxes receivables	692	536
Advances to suppliers	339	354
Insurance expenses prepaid	112	32
Other prepayments	80	56
Total trade and other receivables	**5,875**	**4,375**

At December 31, 2007 trade receivables of RR 3,340 (December 31, 2006: RR 1,732) net of provision for impairment of trade and other receivables denominated in foreign currency, mainly 71% in US$ (December 31, 2006: 74%), 21% in Euro (December 31, 2006: 21%). 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:

	2007		2006	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
As of January 1	**(20)**	**(86)**	**(35)**	**(64)**
Provision accrued	(35)	(30)	(10)	(30)
Provision reversed	4	48	16	4
Provision written off	-	29	9	4
As of December 31	**(51)**	**(39)**	**(20)**	**(86)**

The accrual and reversal of provision for impaired receivables have been included in other operating expenses in the consolidated statement of income (Note 24). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

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

	2007		2006	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Current and not impaired				
Customers from developed countries	464	6	440	-
Customers from developing countries	2,557	-	1,212	-
Domestic customers	264	161	41	332
Total current and not impaired	**3,285**	**167**	**1,693**	**332**
Past due but not impaired				
less than 45 days overdue	8	-	34	-
60 to 90 days overdue	13	-	-	-
over 90 days overdue	22	-	-	-
Total past due but not impaired	**43**	**-**	**34**	**-**
Determined to be impaired (gross)				
45 to 90 days overdue	24	-	10	6
over 90 days overdue	39	39	15	83
Total gross amount of impaired accounts receivables	**63**	**39**	**25**	**89**
Total financial receivables (gross)	**3,391**	**206**	**1,752**	**421**
Less impairment provision	(51)	(39)	(20)	(86)
Total financial receivables	**3,340**	**167**	**1,732**	**335**

As of December 31, 2007 no trade and other receivables were pledged as collateral (December 31, 2006: nil).

14 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2007	2006
RR denominated cash on hand and bank balances (interest rate: from 1.25 % p.a. to 6.0 % p.a. (2006: from 0.5 % p.a. to 6.2 % p.a.))	260	1,404
US$ denominated bank balances	306	607
Other currencies denominated balances	719	26
US$ term deposits (interest rate: from 4.3% p.a. to 5.21% p.a. (2006: from 2,5% p.a. to 4.95% p.a.))	388	430
RR term deposits (interest rate: from 8.5% to 9% p.a. (2006: 8 % p.a))	5,520	300
Cash and cash equivalents, net of restricted cash	**7,193**	**2,767**
Restricted cash		
Limited guarantee deposit	78	80
Three month bank deposits (interest rate: 6.77% p.a. (2006: from 4.8% p.a. to 6.19% p.a.))	20	45
Total restricted cash	**98**	**125**
Total cash and cash equivalents	**7,291**	**2,892**

Term deposits have original maturities of less than three months.

15 Shareholders' equity

	Number of ordinary shares (in millions)	Ordinary shares	Treasury shares	Total
At January 1, 2006	2,124	648	(6)	**642**
Treasury shares purchased	-	-	(3)	**(3)**
At December 31, 2006	2,124	648	(9)	**639**
At January 1, 2007	2,124	648	(9)	**639**
Treasury shares purchased	-	-	(3)	**(3)**
At December 31, 2007	2,124	648	(12)	**636**

The number of unissued authorised ordinary shares is 1,500 mln. (December 31, 2006: 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, 2007 treasury shares comprise 24,601,344 ordinary shares of the Company (December 31, 2006: 17,966,905) with a nominal value per share of 0.5 Roubles owned by LLC "Kama", wholly owned subsidiary of the Group (Note 6). Purchase price of shares acquired during the year ended December 31, 2007 amounted to RR 338 (for the year ended December 31, 2006: RR 229), comprised consideration paid in cash of RR 79 and non-cash of RR 259 (for the year ended December 31, 2006: all shares have been fully paid in cash). 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, 2007, the current period net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 6,013 (for the year ended December 31, 2006: RR 3,706) and the closing balance of the accumulated profit including the current period net statutory profit totalled RR 18,449 (December 31, 2006: RR 12,440). 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 December 2006 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the first nine months of 2006) amounting to RR 3,378 (1.59 Roubles per share).

(in millions of Russian Roubles unless otherwise stated)

16 Mining provisions

Earth replacement provision

	Note	2007	2006
Balance as of January 1		**-**	**196**
Reduction of provision for cavities filled during the year		-	(146)
Change in estimate		-	(69)
Increase in provision as a result of passage of time	25	-	19
Balance as of December 31		**-**	**-**

During the year ended December 31, 2006 the local authorities in Berezniki and regional authorities in Perm reimbursed a part of the operating costs incurred by the Group in filling-up cavities under the city of Berezniki (Note 2.26) pursuant to the Law of the Perm Region W381-69 passed on October 25, 2002. The reimbursement amounted to RR 55 (December 31, 2006: RR 57).

Due to mine flooding which occurred in October 2006 the Group ceased its earth replacement activities (Note 5).

Mine flooding provision

	Note	2007	2006
Balance as of January 1		**679**	**-**
Increase in provision as a result of passage of time	25	67	-
Reduction of provision for cavities filled during the year	26	(353)	-
Accrual of provision	26	-	679
Release of provision	26	(370)	-
Balance as of December 31		**23**	**679**

The Group stoped brine injection operations on January 12, 2008 (Note 5) and released corresponding provision. Balance of provision as of December 31, 2007 relates to present obligation based on expenses actually incurred by the Group in connection with brine injection operations in 2008.

17 Borrowings

	2007	2006
Bank loans	10,600	11,088
Company loans	137	179
Finance lease payable	328	328
Total borrowings	**11,065**	**11,595**

As at December 31, 2007 and December 31, 2006 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.

Company loans are represented by a short-term unsecured, interest-free loan from JSC “St. Petersburg Sea Port” in the amount of RR 45 (December 31, 2006: RR 45) and 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 92 (December 31, 2006: RR nil). The loan is repayable in September 2008. The loan was oblained to postpone the downpayments under capital construction agreement between “Dessault Aviation S.A” and the Group in the non-cash form. In 2007 the Group reconsidered repayment schedule for the loan from JSC “St. Petersburg Sea Port” from December 31, 2007 to December 31, 2008.

Company loan from “Ermina Ventures Limited” of RR 134 which was outstanding at December 31, 2006 was repaid in 2007.

JSC “BBT” leases a berth No. 107 from FGUP “Rosmorport” under a finance lease for 49 years. As of December 31, 2007 the leased dock was included in buildings, with a net book value of RR 280 (December 31, 2006: RR 286) (Note 8).

	2007	2006
Balance at January 1	**11,088**	**3,484**
Bank loans received, denominated in US$	8,112	11,664
Bank loans received, denominated in RR	94	270
Bank loans repaid, denominated in US$	(7,884)	(3,688)
Bank loans repaid, denominated in RR	(239)	(120)
Interest accrued	698	560
Interest paid	(725)	(521)
Recognition of syndication fees	(18)	(43)
Amortization of syndication fees	30	10
Currency translation difference	(556)	(528)
Balance at December 31	**10,600**	**11,088**

(in millions of Russian Roubles unless otherwise stated)

17 Borrowings (continued)

Table below provides interest rates at December 31, 2007 and December 31, 2006 and split of the bank loans between short-term and long-term.

Short-term borrowings

	Interest rates	2007	2006
Bank loans in US$ – fixed interest	7.5% (2006: from 7.6% to 8%)	1,759	1,781
Bank loans in US$ – floating interest	from Libor +1.95% to Libor +2.5% (2006: from Libor +2% to Libor +3%)	2,720	5,930
Bank loans in RR – fixed interest	13% (2006: 9.60%)	5	150
Total short-term bank loans		**4,484**	**7,861**

Long-term borrowings

	Interest rates	2007	2006
Bank loans in US$ – floating interest	Libor +1.95% (2006: from Libor +2.25% to Libor +3%)	6,116	3,227
Total long-term bank loans		**6,116**	**3,227**

US$ denominated bank loans bear a weighted average interest of 7.12% (December 31, 2006: 7.81%).

During the year ended December 31, 2007 the Group received borrowings from the following banks:

Lender	Maturity date	Amount, RR
International Moscow Bank	May-November 2010	6,265
Sberbank	April-May 2008	1,908
Bank Ural FD	March 2008	33
Total bank loans received		**8,206**

During the year ended December 31, 2007 the Group repaid the following loans:

Lender	Maturity date	Amount, RR
ABN AMRO Bank	March 2008	1,298
International Moscow Bank	February-September 2007, March 2008	2,514
Sberbank	March-May 2007, April 2008	1,953
Bank of Moscow	July 2007	2,331
Bank Ural FD	March 2008	27
Total bank loans repaid		**8,123**

As at December 31, 2007 and December 31, 2006 loans, including short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 12).

The Group's bank borrowings mature as follows:

	2007	2006
- within 1 year	4,484	7,861
- between 2 and 5 years	6,116	3,227
Total bank loans	**10,600**	**11,088**

Minimum lease payments under finance leases and their present values are as follows:

	2007	2006
- within 1 year	38	38
- between 2 and 5 years	152	152
- after 5 years	1,485	1,523
Minimum lease payments at the end of the year	**1,675**	**1,713**
Less future finance charges	(1,347)	(1,385)
Present value of minimum lease payments	**328**	**328**

18 Trade and other payables

	2007	2006
Trade payables	1,181	695
Accrued liabilities	593	781
Dividends payable	80	632
Other payables	306	198
Total financial payables	**2,160**	**2,306**
Advances received	106	38
Deferred consideration of subsidiary acquisition	134	143
Total trade and other payables	**2,400**	**2,487**

(in millions of Russian Roubles unless otherwise stated)

19 Revenues

	2007	2006
Export		
Potassium chloride	18,559	14,949
Potassium chloride (granular)	8,131	5,081
Domestic		
Potassium chloride	1,705	1,304
Karnalite	-	303
Other	122	154
Transportation and other revenues	982	499
Total revenues	**29,499**	**22,290**

During the year ended December 31, 2007 and 2006, respectively, the Group's export sales were primarily on Cost and Freight (CFR), Free on Board (FOB) or Delivered At Frontier (DAF) terms. All domestic sales were carried out on FCA Berezniki terms.

20 Cost of sales

	Note	2007	2006
Labour costs		1,898	1,665
Fuel and energy		1,473	1,307
Depreciation		1,399	1,441
Materials and components used		1,385	1,301
Repairs and maintenance		746	312
Transportation between mines		306	174
Utilities		28	25
Change in earth replacement provision	16	-	(137)
Change in work in progress, finished goods and goods in transit	12	(140)	188
Other costs		13	31
Total cost of sales		**7,108**	**6,307**

21 Distribution costs

	2007	2006
Railway tariff	3,553	3,050
Freight	2,986	2,218
Transport repairs and maintenance	417	251
Transhipment	287	349
Depreciation	246	215
Travel expenses	99	110
Labor costs	105	100
Commissions	21	37
Other	243	361
Total distribution costs	**7,957**	**6,691**

22 General and administrative expenses

	2007	2006
Labour costs	1,929	774
Consulting, audit and legal services	329	269
Depreciation and amortization	249	247
Insurance	181	177
Communication and IS services	88	84
Security	85	85
Mine-rescue crew	81	72
Bank charges	29	34
Other	502	316
Total general and administrative expenses	**3,473**	**2,058**

(in millions of Russian Roubles unless otherwise stated)

23 Labor costs

	Note	2007	2006
Labor costs - Cost of sales		**1,898**	**1,665**
Wages, salaries, bonuses and other compensations		1,487	1,351
Unified social tax		343	317
Post employment benefits	28	68	(3)
Labor costs - Distribution costs		**105**	**100**
Wages, salaries, bonuses and other compensations		105	100
Labor costs - General and administrative expenses		**1,929**	**774**
Wages, salaries, bonuses and other compensations		1,601	651
Unified social tax		164	123
Post employment benefits	28	164	-
Total labor costs		**3,932**	**2,539**

24 Other operating expenses

	2007	2006
Loss/(gain) on disposal of fixed assets	215	(2)
Social cost and charity	289	236
Provision for impairment of receivables	13	20
Net result on sale of Belaruskali goods	(14)	(5)
Other expenses	53	177
Total other operating expenses	**556**	**426**

The Group entered in sales agreement with “BPC” for processing of sales of “Beloruskali” goods through “Uralkali Trading SA” in 2007 and 2006, respectively, to overcome certain drawbacks in Belorussian export legislation.

25 Finance income and expense

The components of finance income and expense were as follows:

	Note	2007	2006
Interest income		223	215
Fair value gains on investments		20	131
Foreign exchange gain		1,008	568
Finance income		**1,251**	**914**

	Note	2007	2006
Interest expense		728	576
Change in provision as a result of passage of time	16	67	19
Finance lease expense		38	38
Foreign exchange loss		510	282
Fair value losses on investments		-	49
Letters of credit fees		181	120
Finance expense		**1,524**	**1,084**

26 Mine flooding costs

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

	Note	2007	2006
Dismantling costs		87	-
Loss on disposal of fixed assets		64	1,300
State financing		(55)	-
Brine injection costs		353	153
Change in provision for mine flooding	16	(723)	601
Total mine flooding costs		**(274)**	**2,054**

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

At December 31, 2006 loss on disposal of fixed assets included VAT reversed of RR 92.

(in millions of Russian Roubles unless otherwise stated)

27 Income tax expense

	2007	2006
Current income tax expense	2,105	1,284
Deferred tax	(27)	(452)
Income tax expense	**2,078**	**832**

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

	2007	2006
Profit before income tax	10,123	4,326
Theoretical tax charge at effective statutory rates	2,430	1,038
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-deductible expenses	289	185
- non-taxable income	-	(5)
Difference in tax rates*	(327)	(161)
Regional tax allowance	(314)	(225)
Consolidated tax charge	**2,078**	**832**

* Profit before taxation on Switzerland, Gibraltar and Belorussian operations is assessed based on effective rate of 7% (December 31, 2006: 8%).

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 reduced to 20% income tax rate for companies with average number of personnel exceeding 10 persons and income, calculated in accordance with the statutory Tax Code exceeding RR 0,1. Previously reduced income tax rate was allowed to the companies with capital expenditures of more than 20% of annual taxable net income.

In 2007 and 2006 the Company met all requirements specified above that qualifies for reduced to 20% income tax rate approved by the parliament of the Perm region.

As the Company qualified for the above amendments it was taxed during the year ended December 31, 2007 and 2006, respectively, at a rate 20% instead of standard rate of 24%. Deferred tax has been computed in these consolidated financial statements using the standard rate applicable for future periods (i.e. 24%) as it is not certain whether the Company will meet the requirements established by the statutory law to qualify for reduced rates in future years.

	December 31, 2006	Charged/(credited) to profit or loss	December 31, 2007
Tax effects of taxable temporary differences:			
Property, plant and equipment	(659)	121	(538)
Investments	(54)	(1)	(55)
Inventories	(59)	(1)	(60)
Borrowings	(25)	20	(5)
	(797)	139	(658)
Tax effects of deductible temporary differences:			
Finance lease	79	-	79
Mine flooding reserve	163	(158)	5
Accounts receivable	10	-	10
Accounts payable	57	51	108
Other	65	(5)	60
	374	(112)	262
Total net deferred tax liability	**(423)**	**27**	**(396)**

(in millions of Russian Roubles unless otherwise stated)

27 Income tax expense (continued)

	December 31, 2005	Charged/(credited) to profit or loss	December 31, 2006
Tax effects of taxable temporary differences:			
Property, plant and equipment	(909)	250	(659)
Investments	(15)	(39)	(54)
Inventories	(87)	28	(59)
Borrowings	(28)	3	(25)
	(1,039)	242	(797)
Tax effects of deductible temporary differences:			
Finance lease	79	-	79
Earth replacement reserve	47	(47)	-
Mine flooding reserve	-	163	163
Accounts receivable	8	2	10
Accounts payable	-	57	57
Other	30	35	65
	164	210	374
Total net deferred tax liability	**(875)**	**452**	**(423)**

The Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 39 (December 31, 2006: RR 39). The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

28 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, 2007 and December 31, 2006 the net liabilities of defined benefit plan and other post-employment benefit plans comprised the following:

	2007	2006
Present value of defined benefit obligations (DBO)	**324**	**28**
Present value of unfunded obligations	324	28
Unrecognised past service cost	(77)	-
Post employment benefits obligations	**247**	**28**

The amount of net expense for the defined benefit pension plans recognized in the consolidated statement of income (Note 23) was as follows:

	2007	2006
Current service cost	9	4
Interest cost	15	2
Net actuarial losses/(gains) recognised during the year	63	(9)
Amortization of past service cost	4	-
Immediate recognition of vested prior service cost	106	-
Other	35	-
Post employment benefits	**232**	**(3)**

(in millions of Russian Roubles unless otherwise stated)

28 Post employment benefits obligations (continued)

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

	2007	2006
Present value of defined benefit obligations (DBO) as of January 1	**28**	**37**
Service cost	9	4
Interest cost	15	2
Actuarial loss/(gain)	63	(9)
Past service cost	187	-
Benefits paid	(13)	(6)
Other	35	-
Present value of defined benefit obligations (DBO) as of December 31	**324**	**28**

As at December 31, 2007 and 2006, respectively, the principle actuarial assumptions for the post-employment benefit plans were as follows:

	2007	2006
Discount rate	6.60%	6.80%
Salary increase	8.12%	7.10%
Inflation	6.00%	5.00%
Benefits increase (fix-amounted)	6.00%	5.00%
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, 2007 and 2006, respectively, were as follows:

	2007	2006
Present value of defined benefit obligations (DBO)	324	28
Deficit in plan	**324**	**28**
Losses/(gains) arising of experience adjustments on plan liabilities	5	(9)

29 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 15). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2007	2006
Net profit	8,045	3,494
Weighted average number of ordinary shares in issue (millions)	2,102	2,110
Basic and diluted earnings per share (expressed in RR per share)	**3.83**	**1.66**

30 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. In March 2006, the prosecutor's office of St.-Petersburg filed a claim with the Arbitration Court of St.-Petersburg and Leningrad Region seeking to render nul and void an agreement between JSC "BBT" and FGUP "Rosmorport", pursuant to which JSC "BBT" currently leases one of its berths, on the grounds that this lease agreement was executed without appropriate consent of state authorities and in violation of established procedures. At court hearing held on August 21, 2007 the Arbitration Court of St.-Peterburg and Leningrad region dismissed the prosecutor's claim. The court decision came into force in February 2008 after the prosecutor's appeal was defeated.

In April 2007 the Federal Antimonopoly Service concluded that the Group breached the Federal Law "On defence of competition" law by abusing its dominant position and establishing monopolistically high domestic potash prices in 2007. Based on these findings, the FAS sought to set a maximum average weighted domestic potash price for 2007 and required "Uralkali" to pay approximately RUR 62 million to the federal budget for the first quarter of 2007. The FAS findings, prescriptions and penalties were invalidated by the Russian arbitration court in October 2007. However, the FAS appealed this decision and the parties have agreed to sign a settlement agreement to resolve the dispute. According to the settlement agreement, which was approved by the Russian arbitration court on March 12, 2008, the Group has agreed to pay RUR 49 million to the federal budget in respect of domestic potash prices for the nine months ended September 30, 2007. The FAS has acknowledged in the agreement that Group's domestic potash prices for the fourth quarter of 2007 were compliant with Russian anti-monopoly law. In addition, the Group and the FAS have agreed a formula for determining Group's domestic potash prices going forward. The formula links domestic prices to certain minimum export market prices (currently - FOB China), while adjusting for certain export costs. According to the agreement, this formula will be effective for five years, subject to an automatic extension for a further five years if neither party objects to the extension.

30 Contingencies, commitments and operating risks (continued)

i Legal proceedings (continued)

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, 2007 and December 31, 2006 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 181 was recognized as an expense for the year ended December 31, 2007 (for the year ended December 31, 2006: RR 177) (Note 22).

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. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in the existing regulations, civil litigation or legislation, cannot be estimated.

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. Provision for site restoration and reclamation costs was created for the constructive obligation attributable to earth replacement and brine injection activities under the town of Berezniki. No provision is recognized for cavities excavated in other areas, not located under the town of Berezniki.

30 Contingencies, commitments and operating risks (continued)

iv Environmental matters (continued)

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. The Company has no claims from state organisations and others against it, nor expects any, but can not estimate the likelihood or amount of the economic outflows arising from subsidence, which could be significant.

v Operating environment of the Group

Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

vi Capital expenditure commitments

At December 31, 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 1,390 (December 31, 2006: RR 879).

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, 2007 the Group issued guarantees in favour of third parties in the amount of RR 25 (December 31, 2006: RR 12).

viii Registration of rights for berth No. 106

JSC “BBT” has no registered rights in respect of berth No. 106, which is essential for its operations. Effective operation of JSC “BBT” depends on its access to berths No. 107 and No. 106, the only two berths available to JSC “BBT” for loading mineral fertilisers to sea vessels. Both berths are owned by the Russian Federation. 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 under the so-called “regime of experimental operation,” the legal status of which is not regulated by Russian law and remains highly uncertain. JSC “BBT” intends to enter into a lease agreement in respect of berth No. 106 but the conclusion of the lease agreement was complicated because FGUP “Rosmorport” has not completed in time the necessary formalities to register the berth as a real estate unit and perform market valuation of this asset. Registration of the berth as a real estate was obtained by FGUP “Rosmorport” only in 2007 and its valuation is expected to be completed in 2008. JSC “BBT” is now negotiating with FGUP “Rosmorport” with respect to entering into a lease agreement on berth No. 106 and expects it to be concluded in 2008.

31 Financial risk management

31.1 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

The Group operates internationally and exports approximately 91% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Export sales are denominated in hard currency and settlements are made primarily in US$.

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. Management of the Group believes that the exposure to the foreign exchange risk is partially mitigated by the fact that both most of the Group’s borrowings (Note 17) and most of the Group’s export revenue proceeds are denominated in US$. In addition from March 2007 the Group has certain arrangements with banks to hedge the Group’s foreign exchange risk exposure covering mainly future export revenue exercisable during the period ending February 2008.

(in millions of Russian Roubles unless otherwise stated)

31 Financial risk management (continued)

31.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As of December 31, 2007, if the RR had weakened/strengthened by 5% against US$ with all other variables held constant, post-tax profit for the year would have been RR 366 lower/higher (December 31, 2006: 370 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$ denominated trade receivables, cash in bank, deposits and foreign exchange losses/gains on translation of US$ denominated borrowings. Equity would have been RR 218 (December 31, 2006: RR 151) lower/higher, due to change in translation reserve arising from Group companies, which functional currency is US$.

(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 (Note 17). The Group has interest-bearing assets which are at fixed interest rates (Note 6, 14).

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, 2007, if LIBOR rates on US$ denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RR 75 (December 31, 2006: RR 56) 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. The Group has no other significant concentrations of credit risk.

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.

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 other 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 13). Most of the customers from developing countries are supplied on prepayment basis 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. Only 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 13).

The table below shows the credit quality of cash and cash equivalents balances on the balance sheet date:

Banks	Agency	Rating	2007	2006
Sberbank	Moody`s	Aaa.ru	2,251	1,271
Vneshtorgbank	S&P	ruAA+	2,020	78
Ural FD	Moody`s	Baa2.ru	1,027	330
Hypovereinsbank	Moody`s	A1	630	254
Unrated			1,363	959
Total			**7,291**	**2,892**

(in millions of Russian Roubles unless otherwise stated)

31 Financial risk management (continued)

31.1 Financial risk factors (continued)

(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 continuesly 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, 2007				
Trade and other payables	18	2,160	-	-
Borrowings		5,163	6,744	-
Finance leasing	17	38	152	1,485
As of December 31, 2006				
Trade and other payables	18	2,306	-	-
Borrowings		8,622	3,251	-
Finance leasing	17	38	152	1,523

31.2 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.

The debt to equity ratios as of December 31, 2007 and December 31, 2006 were as follows:

	December 31, 2007	December 31, 2006
Total bank borrowings (Note 17)	10,600	11,088
Total equity	25,074	17,650
Debt to equity ratio	**42%**	**63%**

As of December 31, 2007 management has set a level of 30% D/E ratio as strategic goal. Ratios as at December 31, 2007 and 2006, respectively, exceed the strategic goal level due to the considerably high dividend payout in 2006 and preceeding periods.

32 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.

32 Fair value of financial instruments (continued)

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 17.

33 Events after balance sheet date

Results of the auction for rights to develop "Verkhnekamskoe Potash Deposit"

The auction for licenses to develop "Verkhnekamskoe Potash Deposit" in Perm Region took place on March 12, 2008. Three licences, two of which were for "Talitski" and "Polovodovski" sections of the "Verkhnekamskoe Potash Deposit", were auctioned. Given the Group's positioning to develop the fields, the Company saw them as potentially interesting. Group's unique position and ability to explore these fields encouraged it to take part in the auction and the Group was ready to offer a premium. However, none of these licences were acquired by the Group during the auctions.

Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of potassium chloride destined for countries outside the CIS members of the customs union with the Russian Federation. The duty applicable to Uralkali's potassium chloride is 5% of the declared customs value, which the Group expects to be charged on almost all of the Group's potassium chloride exports.

The Group does not expect the Export Duties Resolution to have a materially adverse impact on its business, prospects, financial condition or strategy. However, the Group expects the Export Duties Resolution to be an additional factor affecting prices of potassium chloride in the international market.

Borrowings

In January-February 2008 the Group entered into two short-term loan agreements with "Sberbank" for approximately RR 2,450 (US$ 100 million).

In January 2008 the Group has also entered into renewable credit line agreement with "Sberbank" for RR 2,450, of which RR 2,400 is repayable in January 2009 and the rest progressively until January 2011.

Social commitments

In February 2008 the Company commited to finance the construction of a health center and a kindergarten in Berezniki and signed a cooresponding agreement with the authorities of the town. Currently the construction price estimate is being prepared by the subcontractors of the Company. Basing on preliminary estimation the construction cost could amount to RR 300.