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IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "Prospectus") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the company described herein (the "Company") as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS PERMITTED BY REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of Your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be (i) a person that is outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Company that you are outside the United States for the purposes of Regulation S under the Securities Act or that you are a QIB and that you consent to delivery of such Prospectus by electronic transmission. You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

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

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Company.

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the Federal Service for the Financial Markets of the Russian Federation. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation or to or for the benefit of any Russian person or entity.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Renaissance Securities (Cyprus) Limited or UBS Limited, any person who controls any of them, nor any director, officer, employee or agent of Citigroup Global Markets Limited, Renaissance Securities (Cyprus) Limited or UBS Limited nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited, Renaissance Securities (Cyprus) Limited or UBS Limited.

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Financial Services Authority
UK Listing Authority
Document approved
Date: 12th October 2007
Signed: 1

JSC Uralkali

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

Global Offering of 270,847,953 Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts at an offer price of US$3.50 per Ordinary Share and US$17.50 per Global Depositary Receipt

This document (the "Prospectus") relates to an offering (the "Offering") of 270,847,953 ordinary shares, each with a nominal value of RUR 0.50 per share (the "Shares"), of JSC Uralkali (the "Company"), an open joint stock company organised under the laws of Russia, consisting of a simultaneous offering of Shares and global depositary receipts representing interests in Shares ("GDRs"), each without nominal value and each representing an interest in 5 Shares, by Madura Holding Limited (the "Selling Shareholder").

The Shares are listed on the Russian Trading System ("RTS"). Prices for Shares traded on the RTS may not reflect the underlying value of the GDRs. Prior to the closing date of the Offering (the "Closing Date"), there has not been any public market for the GDRs.

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the UK Financial Services Authority (the "FSA") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This document will be made available to the public in accordance with the Prospectus Rules.

Neither the Shares nor the GDRs have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and neither the Shares nor the GDRs may be offered or sold in the United States absent registration or an exemption from registration under the Securities Act. All the Shares in the Offering will be offered through a Russian licensed broker. The GDRs and Shares will be offered to qualified institutional buyers ("QIBs") in the United States under Rule 144A under the Securities Act ("Rule 144A") and to institutional investors outside the United States and Russia under Regulation S under the Securities Act ("Regulation S"), and Shares will be offered to investors in Russia under Regulation S. Prospective purchasers of the GDRs and Shares in the United States are hereby notified that the sellers may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Shares and the GDRs are subject to selling and transfer restrictions in certain jurisdictions. Prospective purchasers should read the restrictions described under "Selling restrictions" and "Plan of distribution." On 11 October 2007, RUR 1.00 was equal to CAD 0.03915, based on the Canadian Noon Rate (as defined herein).

The Selling Shareholder has granted the stabilising manager named herein (the "Stabilising Manager") an option (the "Over-Allotment Option"), exercisable in the period during which stabilising transactions may take place, to purchase up to 34,533,110 additional Shares in the form of GDRs solely to cover over-allotments, if any, in the Offering. See "Plan of distribution."

AN INVESTMENT IN THE SHARES AND GDRs INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS." The GDRs are of a specialist nature and should normally only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied to the FSA for a block listing of up to 424,878,000 GDRs (of which 46,044,152 will be issued on the Closing Date of the Offering, of which 6,906,622 may be issued pursuant to the Over-Allotment Option, if exercised, and of which 371,927,226 may be issued from time to time against the deposit of Shares with The Bank of New York, as depositary (the "Depositary")) to its official list (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading under the symbol URKL on its main market for listed securities (the "Main Market") through its International Order Book (regulated market segment) (the "IOB"). The IOB is a regulated market for purposes of Markets in Financial Instruments Directive 2004/39/EC. Admission to the Official List, together with admission to the Main Market, ("Admission") constitutes listing on a stock exchange. Application has been made for the Rule 144A GDRs (as defined below) to be designated as eligible for trading in The PORTAL Market of The Nasdaq Stock Market, Inc. ("PORTAL"). The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB and in the Rule 144A GDRs on PORTAL will commence on a "when and if issued" basis on or about 15 October 2007 and that unconditional trading in the GDRs on the London Stock Exchange through the IOB and in the Rule 144A GDRs on PORTAL will commence on or about 19 October 2007. **All dealings in the GDRs prior to the commencement of the unconditional dealings will be of no effect if the Admission does not take place and will be at the sole risk of the parties concerned.**

The GDRs offered and sold outside the United States (the "Regulation S GDRs") will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR") registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Euroclear and Clearstream, Luxembourg are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The GDRs offered and sold to QIBs in the United States (the "Rule 144A GDRs") will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. The Company expects that delivery of the GDRs will be made through the facilities of DTC, with respect to the Rule 144A GDRs, and Euroclear and Clearstream, Luxembourg, with respect to the Regulation S GDRs, on or about 18 October 2007. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream, Luxembourg and their direct and indirect participants, as applicable. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

Joint Global Co-ordinators and Joint Bookrunners

Citi **Renaissance Capital** **UBS Investment Bank**

The date of this Prospectus is 12 October 2007

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IMPORTANT INFORMATION ABOUT THIS DOCUMENT

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

This document is issued in compliance with the listing rules (the "Listing Rules") and the Prospectus Rules of the UK Listing Authority for the purpose of giving information with respect to the Company and its consolidated subsidiaries ("Uralkali" or the "Group") and the GDRs for the purposes of the listing on the London Stock Exchange. The Company accepts responsibility for the information provided in this document. Having taken all reasonable care to ensure that such is the case, the Company declares, to the best of its knowledge, that the information in this document is in accordance with the facts and contains no omission likely to affect its import.

SRK Consulting (UK) Limited ("SRK") accepts responsibility for the information provided in the SRK Report, attached as Annex A, and for the defined terms in the section entitled "Glossary of Technical Terms" marked with * (the "SRK Information"). Having taken all reasonable care to ensure that such is the case, SRK declares, to the best of its knowledge, that the SRK Information and the information in the SRK Report included in this document is in accordance with the facts and contains no omissions likely to affect its import.

ERCOSPLAN Ingenieurgesellschaft Geotechnik und Berghau mbH ("ERCOSPLAN") accepts responsibility for the information provided in the ERCOSPLAN Report, attached as Annex B, and for the defined terms in the section entitled "Glossary of Technical Terms" marked with † (the "ERCOSPLAN Information"). Having taken all reasonable care to ensure that such is the case, ERCOSPLAN declares, to the best of its knowledge, that the ERCOSPLAN Information and the information in the ERCOSPLAN Report included in this document is in accordance with the facts and contains no omissions likely to affect its import.

No prospective investor should consider any information in this document to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. Neither the Company, the Selling Shareholder nor any of Citigroup Global Markets Limited, Renaissance Securities (Cyprus) Limited and UBS Limited (collectively, the "Managers") makes any representation to any offeree or purchaser of the Shares or GDRs regarding the legality of an investment in the Shares or GDRs by such offeree or purchaser. Each of the Managers is acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protection afforded to their clients or for providing advice in relation to the Offering.

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

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

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Shares or GDRs other than as contained in this document, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Depositary or any of the Managers, unless given or made by such person directly. This document is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the Shares or GDRs. No representation or warranty, express or implied, is made by any Manager or any of its affiliates or advisers as to the accuracy or completeness of any information contained in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this document, in whole or in part, any disclosure of its contents, except to the extent that such contents are otherwise publicly available, and any use of any information herein for any purpose other than considering an investment in the Shares or GDRs in this

Offering, is prohibited. Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in Uralkali's affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this document, agrees to the foregoing.

This document does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Selling Shareholder, the Depositary or any Manager to any person to subscribe for or purchase any of the Shares or GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this document and the offering or sale of the GDRs in certain jurisdictions is restricted by law. Persons into whose possession this document may come are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Company, the Selling Shareholder or the Managers that would permit, otherwise than under the Offering, an offer of the Shares or GDRs, or possession or distribution of this document or any other offering material or application form relating to the Shares or GDRs in any jurisdiction where action for that purpose is required. This document may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Shares and GDRs is set forth below and under "Plan of distribution", "Selling restrictions" and "Transfer restrictions."

The Regulation S GDRs and the Rule 144A GDRs will be delivered by the Depositary, pursuant to the Deposit Agreement (the "Deposit Agreement"), dated 15 August 2006, between the Company and the Depositary. The Shares represented by the GDRs will be registered in the name of the Depositary or its nominee.

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

In connection with the Offering, the Stabilising Manager or any persons acting for it, may, for stabilisation purposes, over-allot GDRs up to a maximum of 20% of the total number of GDRs comprised in the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilising Manager during the Stabilisation Period, the Selling Shareholder has granted the Stabilising Manager the Over-Allotment Option pursuant to which the Stabilising Manager may require the Selling Shareholder to sell additional Shares, to be issued by the Depositary as GDRs, up to a maximum of 15% of the total number of GDRs comprised in the Offering, at the Offer Price. The Over-Allotment Option is exercisable in whole or in part, upon notice by the Stabilising Manager, at any time during the Stabilisation Period. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

In making an investment decision, prospective investors must rely on their own examination of the Group and the terms of this document, including the risks involved.

A copy of this document can be obtained for a limited time at the registered office of the Company. See "General Information." The information set forth in this document is only accurate as of the date on the front cover of this document. The Group's business and financial condition may have changed since that date.

NOTICES TO CERTAIN INVESTORS

Notice to investors in the European Economic Area

This document has been prepared on the basis that all offers of Shares or GDRs other than the offer(s) contemplated in the Prospectus in the United Kingdom once the Prospectus has been approved by the competent authority in such Member State and published in accordance with the Prospectus Directive (2003/71/EC) as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area ("EEA"), from the requirement to produce a prospectus for offers of Shares or GDRs. Accordingly, any person making or intending to make any offer within the EEA of Shares or GDRs which are the subject of the placement contemplated in this document should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of Shares or GDRs through any financial intermediary, other than offers made by Managers which constitute the final placement of Shares or GDRs contemplated in this document.

Notice to investors in the Russian Federation

This document should not be considered as a public offer or advertisement of GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them has been registered with the Federal Service for Financial Markets of the Russian Federation. Any information on the GDRs in this document is intended for, and addressed to, persons outside of the Russian Federation.

Notice to investors in the United Kingdom

This document is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); and (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons." The Shares and GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares or GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Notice to investors in the United States of America

The Shares and the GDRs (together, the "Securities") have not been and will not be registered under the Securities Act and are being offered and sold in the United States only to QIBs in reliance on Rule 144A. Prospective purchasers in this Offering are hereby notified that the seller of the Shares and GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Securities are not transferable except in accordance with the restrictions described under "Selling restrictions" and "Transfer restrictions."

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to New Hampshire residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW

HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to investors in Japan

Each of the Managers has represented and agreed that the Shares and GDRs have not been and will not be registered under the Financial Instruments and Exchange Law of Japan and that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Shares or GDRs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

Notice to investors in Canada

Neither the Shares nor the GDRs have been or will be qualified by a prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the Shares or the GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to "Selling restrictions — Canada." **The Financial Statements of the Company and certain other information in the Prospectus are presented in Russian roubles. On 11 October 2007, being the latest practicable date prior to the publication of this document, RUR1.00 was equal to CAD0.03915, based on the Bank of Canada noon exchange rate.**

FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements can be identified by the use of forward-looking terminology, including the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "could" or "should" or similar expressions or, in each case their negative or other variations or by discussion of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company and/or its management concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategy and dividend polling of the Company and the industry in which it operates including, without limitation, the development of the potash industry, including the price of potash, the Company's ability to develop its existing or planned resources, the success of the Company's joint venture Belarusian Potash Company, and the implementation of the Company's capacity expansion and power generation programmes. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Forward-looking statements are not guarantees of future performance. The important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include, among others: those discussed in "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and elsewhere in this document.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by the Listing Rules.

AVAILABLE INFORMATION

For so long as any Shares or GDRs representing such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such person pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of Russia. The Selling Shareholder is organised under the laws of Cyprus. See "Principal and selling shareholders." Certain persons referred to herein are residents of the Russian Federation and certain entities referred to herein are incorporated under the laws of the Russian Federation. All or a substantial portion of the Company's assets and the assets of such persons and entities and the Selling Shareholders are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or in the United Kingdom or to enforce against them or the Company judgements obtained in United States or the United Kingdom courts predicated upon the civil liability provisions of the respective securities laws. See "Risk factors — Risks relating to the Offering, Shares and GDRs — Investors may have limited recourse against the Selling Shareholder, the Company or the Company's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of its current directors and executive officers reside outside the United States and the United Kingdom."

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this document, the terms "Group" and "Uralkali" refer to the Company and its consolidated subsidiaries. Control by the Company is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Company's audited consolidated financial statements for the three years ended 31 December 2004, 2005 and 2006 (the "audited consolidated financial statements") included in this document have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 (the "unaudited condensed consolidated interim financial statements") included in this document have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") (collectively with the audited consolidated financial statements, the "Financial Statements"). The term "periods under review" means the periods for which Financial Statements have been included in this document.

Companies acquired or disposed of during the year are included in the Financial Statements from the date of acquisition to the date of disposal. Intercompany balances and transactions, including intercompany profits and losses, are eliminated. The Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Market data used in this document under the captions "Summary," "Risk factors," "Management's discussion and analysis of financial condition and results of operations," "Industry overview" and "Description of business" have been extracted from official and industry sources and other sources the Company believes to be reliable. Such information, data and statistics have been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading.

In this document all references to "RUR" and "rouble" are to the currency of the Russian Federation; all references to "€" and "Euro" are to the single currency of the participating member states in the Third

Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; all references to "£" are to the currency of the United Kingdom of Great Britain and Northern Ireland; all references to "US$" and "US dollar" are to the currency of the United States of America; and all references to "BYR" are to the currency of Belarus.

This document contains translations of certain amounts into US dollars at a specified rate solely for the purpose of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent US dollar amounts or could be, or could have been, converted into US dollars at the rate indicated as of the dates mentioned herein or at all. See "Exchange rate information."

Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

This document contains references to production capacity of Uralkali and also to other potash industry participants. With respect to Uralkali, these are references to "available production" and "structural capacity", as defined in the "Glossary of technical terms". References to production capacities of other industry participants are extracted from industry sources and those figures may not be prepared on a basis that is comparable with that of Uralkali. Unless otherwise stated, tonnage or production capacity relates to potash.

References to EBITDA mean Net profit adjusted for Income tax expense, Finance income, Finance expense, Share of net (loss)/profit of investments accounted for using the equity method, Depreciation and Amortisation expenses. Reference to Adjusted EBITDA means EBITDA plus the Mine flooding costs (net of depreciation charge). Depreciation is reported through Cost of sales, Distribution costs, Transhipment costs, General and administrative expenses and Mine flooding costs, depending on the function of the assets being depreciated. Amortisation is reported through General and administrative expenses.

Uralkali presents EBITDA and Adjusted EBITDA because its management considers them to be an important supplemental measure of Uralkali's operating performance, and EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in Uralkali's industry. EBITDA and Adjusted EBITDA have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of Uralkali's operating results as reported under IFRS. Some of these limitations are as follows:

- They do not reflect the impact of income taxes on Uralkali's operating performance;
- They do not reflect the impact of finance expenses, which can be significant and could further increase if Uralkali incurs more debt, on Uralkali's operating performance;
- They do not reflect finance income, which includes primarily foreign exchange gain and interest income, on Uralkali's operating performance;
- They do not reflect the impact of depreciation and amortisation on Uralkali's operating performance. The assets of Uralkali's businesses which are being depreciated will have to be replaced in the future and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA or Adjusted EBITDA, they do not reflect Uralkali's future cash requirements for these replacements; and
- Other companies in Uralkali's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than Uralkali does, limiting its usefulness as a comparative measure.

In addition, Adjusted EBITDA does not reflect the impact of Mine flooding costs and does not take into account the possible additional expenses that could ultimately be incurred in connection with the flooding. Uralkali compensates for the above-mentioned limitations by relying primarily on its IFRS operating results and using EBITDA and Adjusted EBITDA only supplementally. See Uralkali's consolidated statements of income and consolidated statements of cash flows included elsewhere in this document.

EBITDA and Adjusted EBITDA are measures of Uralkali's operating performance that are not required by, or presented in accordance with, IFRS. They are not measurements of Uralkali's operating performance under IFRS and should not be considered as an alternative to net income, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of Uralkali's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to Uralkali to invest in the growth of its business.

EBITDA margin means: (1) EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Adjusted EBITDA margin means (1) Adjusted EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Uralkali believes that these calculations give a better reflection of margins than dividing EBITDA or Adjusted EBITDA by Revenues, because the calculations endeavour to neutralise the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes them more comparable to the EBITDA margins expressed by many of Uralkali's competitors.

In this document all references to FOB, CFR, DAF and FCA are references to the Incoterms 2000. FOB, or Free on Board, refers to goods delivered free on board whereby risk passes to the buyer, including payment of all transportation and insurance cost, once the goods are delivered on board the ship by the seller. CFR, or Cost and Freight, refers to goods delivered whereby risk passes to the buyer including all insurance costs, when delivered on board the ship by the seller who pays the transportation cost to the destination port. DAF, or Delivered at Frontier, refers to goods delivered whereby risk passes to the buyer, including responsibility for import clearance, when delivered to a named border point by the seller who is responsible for export clearance and transportation costs, to the delivery point. FCA, or Free Carrier, refers to goods delivered whereby risk passes to the buyer, including transportation and insurance cost, when the seller delivers goods cleared for export to the carrier. The seller is obligated to load the goods on the buyer's collecting vehicle and it is the buyer's obligation to receive the seller's arriving vehicle unloaded.

The information about Uralkali's mineral resources (which are either Measured Mineral Resources, Indicated Mineral Resources or Inferred Mineral Resources) and Ore Reserves (which are either Proved Ore Reserves or Probable Ore Reserves) in accordance with international standards contained in this document are presented as follows. SRK has re-classified Uralkali's resource estimates which were prepared under Russian standards using the terminology and guidelines proposed in the JORC Code. Specifically, SRK has reported those blocks classified as A or B by Uralkali as Measured Mineral Resources, those blocks classified as C1 as Indicated Mineral Resources and those blocks classified as C2 as Inferred Mineral Resources. See "Description of business — Mineral Resource and Ore Reserve reporting — Mineral resources classification" for Uralkali's basis of classification as B, C1 and C2. With respect to Mines 2 and 4, SRK has classified: (i) Measured Mineral Resources that are planned to be exploited within the first 10 years of the business plan (as defined in "Description of business — Mineral Resource and Ore Reserve reporting") to be Proved Ore Reserves and (ii) Indicated Mineral Resources that are planned to be exploited within the 19-year period specified in Uralkali's business plan, and Measured Mineral Resource that are planned to be mined after the 10th year within the 19-year period specified in Uralkali's business plan, to be Probable Ore Reserves. SRK has not classified any Measured Mineral Resources or Indicated Mineral Resources with respect to Mine 5 as Ore Reserves since no decision has been made that those Mineral Resources can be or will be exploited. In addition, and in accordance with the JORC Code, no Inferred Mineral Resources have been classified as Ore Reserves. See "Description of business — Mineral Resource and Ore Reserve reporting — Mineral Resource classification," "Glossary of technical terms" and "SRK Report."

EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of Uralkali's assets is located, is the rouble. Uralkali's principal exchange rate risk involves fluctuations in the value of the rouble relative to the US dollar. In certain previous periods the Russian economy has been characterised by a high level of fluctuation and an unstable currency (see "Risk factors — Risks relating to operations — Fluctuations in the value of the rouble, or other currencies important to Uralkali, against the US dollar may have an adverse effect on Uralkali's business"). Moreover, as a result of legislation in force in Russia relating to investments by foreign companies, Russian regulators may impose from time to time certain currency control limitations on the ability of the Group's companies to convert roubles into US dollars or other hard currencies or to convert US dollars or other hard currencies into roubles. See "Risk factors — Risks relating to the Russian Federation — Restrictive currency regulations may adversely affect Uralkali's business and financial condition."

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the US dollar, based on the official exchange rate quoted by the Central Bank of Russia (the "CBR"). Fluctuations in the exchange rate between the rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the rates used by the Company to record the rouble amount of transactions denominated in US dollars in the preparation of the Financial Statements and other information presented in this document.

	High	Low	Period average(1)	Period end
	RUR per US$1.00			
Year ended 31 December				
2006	28.48	26.18	27.10	26.33
2005	29.00	27.46	28.32	28.78
2004	29.45	27.75	28.72	27.75
Month ended				
30 September 2007	25.70	24.95	25.81	24.95
31 August 2007	25.34	25.84	25.92	25.65
31 July 2007	25.73	25.39	25.96	25.60
30 June 2007	26.05	25.78	26.02	25.82
31 May 2007	25.92	25.73	26.06	25.90
30 April 2007	26.01	25.69	26.10	25.69

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods, and on each business day for which the CBR quotes the rouble to US dollar exchange rate for the relevant monthly period.

Solely for the convenience of the reader, and except as otherwise stated, this document contains translations of some rouble amounts into US dollars at a conversion rate of RUR 25.82 to US$1.00, which was the rate published by the CBR for 30 June 2007.

On 12 October 2007, the exchange rate quoted by the CBR between the US dollar and the rouble was RUR 24.92 to US$1.00.

The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the rouble. No representation is made that the rouble or US dollar amounts referred to herein could have been or could be converted into roubles or US dollars, as the case may be, at these rates, at any particular rate or at all. See "Risk factors — Risks relating to the Russian Federation — Restrictive currency regulations may adversely affect Uralkali's business and financial condition" for a description of Russian currency exchange controls.

SUMMARY

This summary must be read as an introduction to this document and any decision to invest in the Shares or GDRs should be based on a consideration of the Prospectus as a whole, including the Risk factors. No civil liability will attach to the Company solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court in a Member State of the EEA, the plaintiff investor may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

Uralkali is a dedicated potash producer with leading market penetration in the most significant developing markets for fertiliser consumption. Based on revenues in 2006 and in the first half of the 2007, the Company was the largest publicly-traded dedicated potash producer in the world and one of the fastest growing in the industry over the past several years, according to various industry sources. In 2006 and the first half of 2007, Uralkali accounted for approximately 8.3% and 8.8%, respectively, of global potash production with production of 4.2 million tonnes and 2.5 million tonnes, respectively. Uralkali has a major distribution platform including its joint venture interest in BPC. Uralkali and Belaruskali are joint venture partners in BPC, an export trader, which undertakes most of their respective exports. In 2006, Belaruskali and Uralkali together were the largest exporters in the world potash market with 34% (calculated as the total export volume of Uralkali and Belaruskali, including China Rail Sales) share of the global potash market. Uralkali's potash accounted for 13% of such worldwide sales. Over 90% of Uralkali's potash sales volumes was exported to more than 20 countries in the first half of 2007. The principal export markets for Uralkali's products are China, Brazil and India. Uralkali's products are also sold to mature markets in Europe and to Southeast Asia, Africa, the Middle East and domestically in Russia. The Company believes that it is one of the most profitable and the lowest cost producers of potash in the world, due mostly to its access to low-cost labour and energy.

Uralkali produces three main potash products: Granular, White and Pink MOP, each of which is derived from potash ores comprising potassium chloride ("KCl") mixed with other minerals. Each of Uralkali's potash products varies in terms of potassium content, consistency and production method.

Uralkali's total consolidated revenues for the six months ended 30 June 2007 and the year ended 31 December 2006 were RUR 13,323 million and RUR 22,290 million, respectively. Uralkali's net profit for the six months ended 30 June 2007 and for the year ended 31 December 2006 was RUR 3,824 million and RUR 3,494 million, respectively. Uralkali's Adjusted EBITDA for the six months ended 30 June 2007 and for the year ended 31 December 2006 was RUR 6,031 million and RUR 8,558 million, respectively. Uralkali's Adjusted EBITDA margin was 51% in the year ended 31 December 2006 and 60% in the first half of 2007.

Uralkali's principal assets are in the Perm region and in St. Petersburg in Russia. Uralkali's reserves are located in the Verkhnekamskoe Deposit, which is the second-largest known potash deposit in the world, reported to contain in excess of 3.8 billion tonnes of potash ore.

Uralkali's principal assets are:

- four production divisions with structural capacity of 7.0 million tonnes and available production of 5.0 million tonnes of potash: (i) Plant 1, which processes ore from the Bygelsko-Troitsky field, or Mine 4, (ii) Plant 2, which processes ore from the Durymansky field, or Mine 2, (iii) Plant 3 which processes ore transported from Mines 2 and 4 and (iv) Plant 4, which processes ore from Mine 4;
- mining licenses — consisting of three mining licenses (excluding a license relating to flooded Mine 1) for Durymansky and Bygelsko-Troitsky fields of the Verkhnekamskoe Deposit valid until April 2013 and for the Ust-Yaivinsky field valid until April 2024. The Company is currently conducting a feasibility study for the potential development of a new mine, Mine 5, at the Ust-Yaivinsky field. Results of the study are expected to be available by the end of 2008. See "— Mineral resources, ore reserves and mines;"
- trading assets — consisting of BPC (a joint venture with Belaruskali) and Uralkali Trading (a wholly-owned subsidiary of the Company). BPC has offices in key export markets: India, Brazil, China, Singapore and the United States; and

- logistics assets — including Baltic Bulk Terminal ("BBT") in the port of St. Petersburg, through which most of the exports of Uralkali products are handled, significant rail car assets and strategically located warehouses.

Competitive strengths

The Company is a key participant in an industry which it believes will help support its growth. The potash industry has enjoyed significant, stable growth in price and customer demand, particularly in Uralkali's key markets. Industry data on expected increases in structural capacity creates greater visibility on supply dynamics than is the case in other fertiliser industries. The industry has a limited number of significant participants with export trading led by two key players, including BPC, mainly as a result of the scarcity of mineral resources and their location in a limited number of countries. The Company believes it has the following key strengths:

- *Leading dedicated potash producer with access to a major global distribution and logistics platform.*
- *Strong platform to capture above industry growth.*
- *Low-cost producer with strong financial performance.*
- *Dynamic and experienced management team.*

Strategy

Uralkali's strategy is to enhance its global position as a leading low-cost dedicated supplier of potash, particularly for the high growth markets for potash consumption. The Company intends to pursue this strategy by endeavouring to enhance its margins, achieving superior growth and expanding its production platform, while pursuing a price over volume strategy, as set forth below.

- *Uralkali plans to maintain or improve further its leading positions in BRIC countries.*
- *Uralkali intends to increase its available production cost effectively to capture potential potash demand growth.*
- *Uralkali intends to maintain its operational excellence and implement cost savings initiatives.*

Risk Factors

An investment in the Shares and GDRs involves a degree of risk, including:

- Risks relating to operations
- Risks relating to regulations
- Risks relating to the Controlling Shareholder and management
- Risks relating to Uralkali's assets and business
- Risks relating to the Offering and Shares or GDRs
- Risks relating to the Russian Federation
- Economic risks
- Legislative and legal risks

Prospective investors should consider carefully the risks discussed under "Risk Factors" section, before investing in the Shares and GDRs.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The tables below present summary historical consolidated financial and operating information for Uralkali and must be read in conjunction with the Financial Statements for the Company and its subsidiaries (including the notes thereto) appearing in "Financial statements" as well as with "Management's discussion and analysis of financial condition and results of operations."

The following financial information (other than EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, Revenues less Railway tariff, Freight and Transhipment costs, Number of employees, Available production and Actual production) for the six months ended 30 June 2007 and 30 June 2006 has been extracted without adjustment from the unaudited condensed consolidated interim financial statements prepared in accordance with IAS 34 "Interim Financial Reporting" for the six months ended 30 June 2007 and the financial information (other than EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, Revenues less Railway tariff, Freight and Transhipment costs, Number of employees, Available production and Actual production) for the three years ended 31 December 2006 has been extracted without adjustment from the audited consolidated financial statements prepared in accordance with IFRS for the three years ended 31 December 2006.

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(RUR millions) (except where otherwise stated)				
Consolidated statement of income data					
Revenues	**13,323**	**8,925**	**22,290**	**27,976**	**12,095**
Cost of sales	(3,119)	(2,399)	(6,307)	(5,497)	(5,213)
Gross profit	**10,204**	**6,526**	**15,983**	**22,479**	**6,882**
Distribution costs	(3,741)	(2,633)	(6,691)	(8,544)	(2,045)
General and administrative expenses	(1,067)	(813)	(2,058)	(1,286)	(891)
Taxes other than income tax	(135)	(125)	(258)	(283)	(261)
Other operating expenses	(212)	(248)	(426)	(635)	(401)
Operating profit	**5,049**	**2,707**	**6,550**	**11,731**	**3,284**
Finance income	552	445	914	380	287
Finance expense	(764)	(509)	(1,084)	(771)	(270)
Mine flooding costs	(77)	—	(2,054)	—	—
Share of net (loss)/profit of investments accounted for using the equity method	—	—	—	(3)	8
Profit before income tax	**4,760**	**2,643**	**4,326**	**11,337**	**3,309**
Income tax expense	(936)	(557)	(832)	(1,908)	(763)
Profit for the period	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
Profit is attributable to:					
Equity holders of the Company	3,818	2,084	3,494	9,430	2,544
Minority interest	6	2	—	(1)	2
Net profit for the period	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
Earnings per share — basic and diluted (in RUR)[(1)]	**1.82**	**0.99**	**1.66**	**4.45**	**1.20**

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	(RUR millions)				
Net cash from operating activities	**4,184**	**1,290**	**6,616**	**9,464**	**4,080**
Net cash used in investing activities	**(3,272)**	**(4,662)**	**(7,646)**	**(7,174)**	**(2,295)**
Net cash (used in)/generated from financing activities	**(2,506)**	**(141)**	**(138)**	**1,087**	**(1,288)**

	As at 30 June 2007	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
		(RUR millions)		
Consolidated balance sheet data				
Total assets	**34,403**	**33,038**	**30,136**	**17,729**
Total current liabilities	9,304	10,731	8,323	1,394
Total non-current liabilities	4,028	4,657	3,834	1,582
Total liabilities	**13,332**	**15,388**	**12,157**	**2,976**
Minority interest	27	21	21	49
Total equity	**21,071**	**17,650**	**17,979**	**14,753**
Total liabilities and equity	**34,403**	**33,038**	**30,136**	**17,729**

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Selected Operating Data					
EBITDA[(2)] (RUR millions)	5,959	3,748	6,526	13,585	4,833
EBITDA margin[(3)]	59.0%	56.0%	39.1%	66.3%	45.8%
Adjusted EBITDA[(4)] (RUR millions)	6,031	3,748	8,558	13,585	4,833
Adjusted EBITDA margin[(5)]	59.7%	56.0%	51.3%	66.3%	45.8%
Capital expenditure (RUR millions)	2,591	1,853	5,198	5,728	2,064
Number of employees	11,393	12,943	12,740	14,097	14,606
Available Production (thousand tonnes)[(6)(7)]	—	—	5,400	5,379	4,990
Actual Productions (thousand tonnes)[(7)]	2,525	1,912	4,165	5,379	4,990

Notes:

(1) Earnings per share have been determined using the weighted average number of ordinary shares outstanding and not held by Uralkali as treasury shares during the years ended 31 December 2006, 2005 and 2004 and during the six months ended 30 June 2007 and 2006, respectively. On average, there were 2,102 million ordinary shares in the six months ended 30 June 2007 and 2,111 million ordinary shares in the six months ended 30 June 2006, and in the years ended 31 December 2006 and 2005, in each case excluding those held by Uralkali as treasury shares, on average, there were 2,110 million ordinary shares and 2,121 million ordinary shares.

(2) EBITDA means Net profit adjusted for Income tax expense, Finance income, Finance expense, Share of net (loss)/profit of investments accounted for using the equity method, Depreciation and Amortisation expenses. Depreciation is reported through Cost of sales, Distribution costs, Transhipment costs, General and administrative expenses and Mine flooding costs depending on the function of the assets being depreciated. Amortisation is reported through General and administrative expenses. See "Presentation of financial and other information."

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
			(RUR millions)		
Net profit	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
plus income tax expense	936	557	832	1,908	763
plus finance expense	764	509	1,084	771	270
less share of net (loss)/profit of investments accounted for using the equity method	—	—	—	3	(8)
plus depreciation	954	1,006	1,966	1,800	1,509
plus amortisation	33	35	64	54	40
less finance income	(552)	(445)	(914)	(380)	(287)
EBITDA	**5,959**	**3,748**	**6,526**	**13,585**	**4,833**

(3) EBITDA margin means (1) EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Uralkali believes that this calculation provides a better reflection of margins because it adjusts for the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the EBITDA margins expressed by many of Uralkali's competitors.

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(RUR millions)				
Revenues	**13,323**	**8,925**	**22,290**	**27,976**	**12,095**
less railway tariff	1,864	1,297	3,050	2,966	1,342
less freight costs	1,232	814	2,218	4,163	178
less transhipment costs	127	116	349	358	27
Revenues less railway tariff, freight and transhipment costs	**10,100**	**6,698**	**16,673**	**20,489**	**10,548**

(4) Adjusted EBITDA means EBITDA plus Mine flooding costs (net of depreciation expense). See "Presentation of financial and other information."

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(RUR millions)				
EBITDA	**5,959**	**3,748**	**6,526**	**13,585**	**4,833**
plus Mine flooding costs (net of depreciation charge)	72	—	2,032	—	—
Adjusted EBITDA	**6,031**	**3,748**	**8,558**	**13,585**	**4,833**

(5) Adjusted EBITDA margin means (1) Adjusted EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Uralkali believes that this calculation provides a better reflection of margins because it neutralises the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the Adjusted EBITDA margins expressed by many of Uralkali's competitors.

(6) Available production information can meaningfully be provided for full year periods only, since it takes into account estimates of stoppages or planned stoppages in the relevant annual period and those stoppages can be rescheduled to take place when production has been suspended as part of the application of the Company's price over volume strategy, as was the case in the first half of 2006 while there was a delay in agreeing the contracts with the main customers of Uralkali's potash in China. See "Description of business — Strategy" and "Management's discussion and analysis of financial condition and results of operations."

(7) Potash only.

THE OFFERING

The Company	JSC Uralkali, an open joint stock company organised under the laws of Russian Federation.
Selling Shareholder	Madura Holding Limited, a company organised under the laws of Cyprus. The Selling Shareholder currently owns 80% of the Company's issued share capital. Following the Offering, the Selling Shareholder will own approximately 67.25 of the Company's issued share capital (or approximately 65.63 assuming exercise in full of the Over-allotment Option). See "Principal and selling shareholders."
The Offering	The Offering consists of an offering of 270,847,953 ordinary shares in the form of ordinary shares and GDRs. All of the Shares in the Offering will be offered through a Russian licensed broker. The GDRs and Shares will be offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia under Regulation S, and Shares will be offered to institutional investors outside the United States and Russia and to investors in Russia under Regulation S.
Closing Date	On or about 18 October 2007.
Over-allotment Option	The Selling Shareholder has granted to the Managers an Over-allotment Option to acquire up to 34,533,110 additional Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder from UBS Limited on behalf of the Managers at any time during the Stabilisation Period. If UBS Limited on behalf of the Managers exercises this option, the Selling Shareholder will be obligated to sell, and each Manager will be severally obligated, subject to the conditions contained in the underwriting agreement among the Company, the Selling Shareholder and the Managers (the "Underwriting Agreement"), to purchase or procure purchasers for, a number of additional Shares in the form of GDRs proportionate to that Manager's initial underwriting commitment.
Offer Price	The Offer Price is US$17.50 per GDR and US$3.50 per Share (the "Offer Price").
GDRs	Each GDR will represent five Shares. The GDRs will be issued and delivered by the Depositary pursuant to the Deposit Agreement. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See "Summary of provisions relating to the GDRs while in master form." GDRs representing five Shares will initially be created for the purpose of the Offering. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held by ING Bank (Eurasia), as Custodian, for the benefit of the Depositary.
Depositary	The Bank of New York.
Lock-up	The Company, the Selling Shareholder, and certain of Uralkali's directors, managers and affiliates have agreed, as part of the Underwriting Agreement, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in the Company or securities convertible or exchangeable into or exercisable for any shares in the Company or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention

	to do any of the foregoing, for a period of 180 days after the Closing Date, without the prior written consent of the Managers.
Use of proceeds	The Company is not selling any Shares or GDRs in the Offering and will not receive any of the proceeds of the Offering. The Selling Shareholder has confirmed in writing that a reason for the Offering is to, and that it will, use a portion of the proceeds of the Offering to repay loans from Uralkali to the Selling Shareholder and LLC "Permgeologodobycha," a limited liability company of which Mr. Rybolovlev is the ultimate beneficial controlling shareholder with an aggregate principal balance, as of 31 August 2007, of RUR 3,638.6 million, plus accrued interest (based on the exchange rate quoted by the CBR on 31 August 2007 of RUR 25.65 to US$1.00). See "Related party transactions" and "Use of proceeds." Uralkali expects to use the funds it receives from the repayment of its loans to the Selling Shareholder for general corporate purposes.
Share capital	At the date of this document, the Company's authorised and issued share capital is RUR 1,062,195,000, which is equivalent to approximately US$41.1 million, and consists of 2,124,390,000 ordinary shares with a nominal value of RUR 0.50 per share. Except in the limited circumstances (see "Summary of provisions relating to GDRs while in master form"), definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR and vice versa.
Listing and trading	Application has been made (i) to the FSA for a block listing of up to 424,878,000 GDRs, consisting of up to 46,044,152 GDRs to be issued on or about the Closing Date, up to 6,906,622 additional GDRs to be issued pursuant to the Over-allotment Option, if exercised, and of which 371,927,226 additional GDRs may be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Prior to the Closing Date there has not been any public market for the GDRs. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 15 October 2007, and unconditional trading through the IOB will commence on or about 19 October 2007 All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. **Although the Shares have been admitted to trading on the "RTS," and are currently traded under the symbol "URKA," trading and liquidity levels to date have been relatively low.**
Payment and settlement	Application will be made to have the Rule 144A GDRs, evidenced by the Master Rule 144A GDR, accepted for clearance through DTC and the Regulation S GDRs, evidenced by a Master Regulation S GDR, accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. The Company expects that payment and delivery of the GDRs will be made through the facilities of DTC, with respect to the Rule 144A GDRs, and Euroclear and Clearstream, Luxembourg, with respect to the Regulation S GDRs, on or about 18 October 2007. Upon acceptance by DTC, a single Master Rule 144A

	GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of the Bank of New York Depository (Nominees) Limited, as nominee for the Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.
	Each purchaser of Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such purchasers on or about 7 November 2007. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by the Company. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with the Company's share registrar; however, directly held Shares are ineligible for trading on the RTS. In addition, in order to trade your Shares on the RTS, you may have to further transfer your Shares to an account at a different depositary.
GDR security numbers	The security identification numbers for the GDRs are as follows: Rule 144A GDRs ISIN: US91688E1073 CUSIP: 91688E107 Common Code: 026803446 PORTAL identification number: P91688E107 Regulation S GDRs ISIN: US91688E2063 CUSIP: 91688E206 Common Code: 026803543 London Stock Exchange trading symbol: URKA
Transfer restrictions	See "Selling restrictions" and "Transfer restrictions" for a detailed description of the restrictions on transfers of the GDRs.
Risk factors	Prospective investors should consider carefully certain risks discussed under "Risk factors."

RISK FACTORS

An investment in the GDRs or the Shares involves a high degree of risk. Potential investors should carefully consider the following information about these risks together with the information contained in this document before deciding to buy the GDRs or the Shares. If any of the following risks actually occur, this could have a material adverse effect on Uralkali's business, results of operations, financial condition and prospects. In that case, the value of the GDRs or the Shares could decline and potential investors could lose all or part of their investment.

This section describes the risks and uncertainties that Uralkali's management believes are material, but these risks and uncertainties may not be the only ones that Uralkali faces. Additional risks and uncertainties, including those that Uralkali currently does not know about or deems immaterial, may also result in decreased revenues, assets and cash inflows, increased expenses, liabilities or cash outflows, or other events that could result in a decline in the value of the GDRs or the Shares or could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations.

Risks Relating to Operations

Uralkali relies heavily on BPC for the generation of revenues, and any failure related to BPC could have an adverse effect on Uralkali's business.

In October 2005, Uralkali acquired a 50% interest in BPC, the remaining 50% of which is owned by Belaruskali. The principal goal of BPC, according to its charter, is to export potash fertilisers produced by its two shareholders. In 2006, Belaruskali and Uralkali together were the largest exporters in the world potash market with a 34% (calculated as the total export volume delivery from Uralkali and Belaruskali (including China Rail Sales) share of the global potash market), with exports to approximately 60 countries. BPC was established to undertake all of Uralkali's export sales (other than rail deliveries to China ("China Rail Sales") and sales in the EEA countries) and to undertake all of Belaruskali's export sales. However, in 2006, due to the Belorussian legal technicalities, approximately 32% of Uralkali's export sales volumes were undertaken through BPC, while Belaruskali sold 100% of its export sales of potash either as BPC Sales or as BPC/UKT Resales (each term as defined in "Description of business"). The legal technicalities were resolved in the beginning of 2007 and in the first six months of 2007, approximately 50% of Uralkali's export sales volumes were made through BPC.

Regardless of whether export sales are made through Uralkali Trading or BPC, negotiations relating to these sales (other than China Rail Sales and sales in the EEA countries) are undertaken, and the sales are effectively arranged, by BPC as the export trader for Uralkali and Belaruskali. Approximately 68% of Uralkali's export sales volumes in 2006 and approximately 50% of Uralkali's export sales volumes in the first half of 2007 were undertaken as UKT Sales, and 32% of Uralkali's export sales volumes in 2006, and approximately 50% of Uralkali's export sales volumes in the first half of 2007 were undertaken as BPC Sales. Uralkali believes that the strength of BPC's negotiating position, as the export trader for two large potash producers is key to Uralkali's growth strategy, including the creation of an attractive pricing environment for Uralkali and that any failure with respect to BPC could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares. Other risks relating to BPC include the following:

Reliance on relationships with customers. For BPC Sales, Uralkali relies heavily on BPC for the maintenance of relationships with its customers. For example, negotiation of the potash sales contracts with Sinochem and CNAMPGC in China (the "China Sea Contracts"), on which Uralkali's business is highly dependent, was undertaken by BPC as were the contracts with the customers in India. In the future, BPC could fail to conclude contracts with its customers on commercially reasonable terms or could mishandle relationships with customers. If BPC were to mishandle relationships with customers, even if the BPC joint venture is ultimately terminated, Uralkali may not be able to repair such relationships.

Absence of positive management control. BPC is a 50/50 joint venture between the Company and Belaruskali. Each of the shareholders can veto decisions that must be taken by the shareholders of BPC. In addition, each party's three nominees on BPC's board of directors could, if they were all to vote against a board resolution, veto any such resolution. Accordingly, the Company firmly believes that it is unable to cause BPC's management to affirmatively act in one way or another without the agreement of Belaruskali or its nominees, as the case may be. Under the BPC Charter, BPC's General Director (a Belaruskali nominee pursuant to the provisions of the BPC Charter) cannot be dismissed without the prior consent of the President of Belarus. The General Director of BPC, who is the chief executive officer, is appointed for a five-year period by Uralkali and Belaruskali with the consent of the President of Belarus. Uralkali is not able to veto management decisions made by the General Director. In addition, although there are a number of management staff at BPC who were previously employees of Uralkali, they could take actions that are harmful to Uralkali. These employees include Oleg Petrov, who has many years of experience and, as a potash trader, has a key relationship with many of the key customers for Uralkali's products, and on whom Uralkali has been reliant for many years. See "Description of business — Sales and marketing" and "Directors and management."

Deadlocks in decision-making may arise, which could render BPC impotent, or which could be resolved for the sake of preserving the joint venture in a manner that could be harmful or less than optimal for Uralkali. The BPC Charter contains no contingencies for the resolution of deadlocks in decision-making. If there is a disagreement between Uralkali and Belaruskali, export sales through BPC could be disrupted or ultimately result in the termination of the BPC joint venture. In particular, BPC's board of directors has set an annual budget for 2007 and intends to meet in October to agree the 2008 budget. Uralkali and Belaruskali plan to agree annual budgets going forward, which will specify the volumes and percentages of each potash product of each joint venture partner that should be sold for the year (whether through BPC or outside of BPC), for each month, and for each country, and, for sales through BPC, the margin that should be applied to sales by each joint venture partner to BPC. The margin is intended to cover general and administrative costs of BPC. The budget is currently determined by the historical sales record in each country of each joint venture partner, though in the future, the budget may be more heavily influenced by the locations in which each joint venture partner has logistical advantages. In 2006, for example, the apportionment of sales to the United States and Brazil was adjusted to give Belaruskali more sales to the United States and fewer sales to Brazil because of certain logistical advantages that Belaruskali currently has over Uralkali for deliveries to the United States. See "Management's discussion and analysis of financial condition and results of operations — Year ended 31 December 2006 compared to year ended 31 December 2005 — Revenues — Revenues from the export and domestic potash sales." Although Uralkali and Belaruskali have so far succeeded in agreeing the budget and in making adjustments to it, differences in views have arisen and could arise in the future, and may not be resolved as easily as they have been in the past. In the future, to the extent logistical advantages of each joint venture partner are more influential as a driver of the budget, it may become even more difficult to reach agreement since a party may be reluctant to lose markets that it considers to be attractive. Uralkali believes it has logistical advantages for deliveries to northern parts of Europe and Brazil, whereas Uralkali believes that Belaruskali has logistical advantages for deliveries to China by sea, India, Southeast Asia, Bangladesh and the United States. Uralkali might also decide to concede attractive markets to Belaruskali to reach agreement with Belaruskali.

Addition of new participants. If a new party, such as Open Joint Stock Company "Silvinit" ("Silvinit"), the Company's principal competitor in the Russian market, joins BPC, the issues with respect to management, control and deadlock may be exacerbated. If a new party joined BPC, such other party and Belaruskali might be able to outvote Uralkali or alliances could form between the shareholders, which could result in decisions that conflict with Uralkali's interests, and increase the chance of failure of BPC from Uralkali's perspective.

The Company may not be able to unilaterally withdraw from BPC. Under the terms of the BPC Charter and by virtue of BPC's status under Belorussian law as a joint stock company, the Company may not be able to withdraw unilaterally from BPC. There could be contractual or other adverse consequences for Uralkali if it were to try to cease selling its products for export through BPC.

Uralkali may nevertheless decide to effectively cease participation in the BPC joint venture. Notwithstanding the potential consequences referred to in the previous paragraph, the Company may decide to stop selling potash through BPC, after disposing of its shares in BPC or otherwise. Since the Company believes that BPC provides Uralkali with greater negotiating leverage with customers, and helps create a favourable pricing environment in the potash industry, the cessation of activities through BPC could have negative implications for the pricing environment in the potash industry.

Belaruskali could default on its obligations or not act in the best interests of BPC. Belaruskali may refuse to sell its potash through BPC, perhaps selling it at a different price outside of BPC. This would undermine Uralkali's fundamental objective in joining BPC and could result in the failure of BPC. Belaruskali might also exit from BPC at any time, thereby causing Uralkali's share of assets in BPC (to which Uralkali would otherwise be entitled to) to be used to satisfy Belaruskali's own liabilities instead of using its share of such assets only. This could result in the value of Uralkali's investment in BPC falling.

Belaruskali might refuse or fail to make further investments in the BPC, in which case Uralkali might have to invest more in BPC. This could increase the cost of BPC to Uralkali.

Belaruskali or BPC may fail to comply with laws, resulting in financial liabilities for BPC, or BPC may otherwise incur liabilities, which Uralkali may have to satisfy, or Uralkali may incur such liabilities directly as a result of BPC. Uralkali relies on BPC to comply with laws of jurisdictions that are applicable to it. BPC could engage in activities that are contrary to those laws. BPC might also incur other liabilities, as a result, for example, of being sued by a customer. These could result in sanctions or liabilities for BPC which would reduce the value of Uralkali's investment in BPC and which could ultimately result in the insolvency of BPC. In addition, since BPC takes title to the potash Uralkali sells to it, the potash or proceeds from its sale could be used in satisfaction of BPC's liabilities to its creditors. If injunctive or other remedies were to be imposed on BPC, such remedies could adversely affect its operations and perhaps result in the absolute cessation of its trading activities. Failure by BPC to comply with laws could also result in liability for its shareholders in some jurisdictions, and sanctions being imposed on Uralkali directly. In 2006, the Company received enquiries from the Federal Anti-monopoly Service of the Russian Federation ("FAS") in relation to BPC and the Company's participation in that joint venture. Although no further enquiries or other actions have been taken to date, there can be no assurance that FAS will not make any additional enquiries or undertake any investigation or enforcement action against Uralkali in the future. In addition, FAS may make further enquiries in relation to BPC and its operations, and there can be no assurance that such requests will not lead to, or that there will otherwise not be, an antimonopoly investigation with respect to Uralkali and/or BPC. See "— Risk related to Regulations — Competition regulation in numerous jurisdictions to which Uralkali and BPC are subject, may have an adverse effect on Uralkali's business."

In certain limited circumstances Uralkali may be liable for the unsatisfied debts of BPC. Uralkali enjoys limited liability from BPC and in the ordinary course of business it will not be held liable for any action, omission or liability of BPC. In certain limited circumstances, however, Uralkali may be held liable for its subsidiaries. For example, if BPC were declared insolvent and Uralkali could be shown to be directly responsible for such insolvency, Uralkali may be held liable for the unsatisfied debts of BPC.

BPC has a limited history of operation. In 2006, largely due to the Belorussian legal technicalities that made it more difficult for sales to be made by BPC directly in certain jurisdictions, Uralkali has made only 32% of its total export sales volumes as BPC Sales. In 2006, 68% of Uralkali's export sales volumes were undertaken as UKT Sales. Belaruskali sold 100% of its export sales of potash though BPC, either as BPC Sales or BPC/UKT Resales. The legal technicalities were eliminated at the beginning of 2007 and in the first six months of 2007, 50% of Uralkali's export sales volumes were made as BPC Sales. It is nevertheless difficult to determine the likelihood of BPC being a successful operation. Prior to trading through BPC, starting in December 2004 and continuing through the end of 2005, Uralkali brought all of its export trading in-house and began exporting potash exclusively through Uralkali Trading, its wholly owned subsidiary incorporated in Switzerland. In 2004, until December, Uralkali exported all its potash products, other than potash exported pursuant to the China Rail Sales, exclusively through Fertexim Ltd., a Cypriot company. As a result, Uralkali has limited experience in trading through BPC. Consequently, Uralkali's historical operating results and the financial data set forth in this document may be even less useful in assessing its likely future performance to the extent it relies on the operation of BPC.

BPC and Uralkali are subject to emerging market risk and governmental control because of their location. Uralkali is incorporated in the Russian Federation and BPC in Belarus. Each country is an emerging market that is potentially subject to rapid change and, consequently, the information set out in this document about Uralkali, BPC, the Russian Federation and Belarus may become outdated relatively quickly. Moreover, turmoil in either of those jurisdictions may adversely affect BPC's and Uralkali's business. The legal framework in Belarus and the Russian Federation is undeveloped and may result in either the Company or BPC not being able to operate as envisaged. BPC has faced such difficulties since the beginning of 2006. For example, the banking system in Belarus is such that it is not possible to cash letters of credit prior to their payment date at a discount to their face value. This is one of the reasons why the sales in 2006 that would otherwise have been made through BPC were instead made through Uralkali Trading. Such issues resulted in a change of the Belorussian law, pursuant to the Belorussian Presidential Decree No. 398. However, there can be no assurance that a new government would not in the future reverse the changes to Belorussian laws that have been made to the benefit of BPC, and Uralkali, or that other issues will not arise in the future and if they do, that they will be capable of being resolved. In addition, because of BPC's location, the Belorussian government could make changes to Belorussian corporate, tax or other laws that could be adverse to Uralkali's interests. The state of the political relationship between Belarus and Russia, and perhaps other countries where BPC conducts business, could also affect the decisions of the Belorussian government in relation to BPC. The decisions of BPC's or Uralkali's customers, or others that influence such customers, could also be affected by the state of the political relationship between Belarus and other countries, or their respective governments, which could affect demand for Urakali's products.

If any or all of the issues discussed above were to arise, they could have a material adverse effect on the price of potash Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperative and has exposed Uralkali to costs and potential liabilities.

In October 2006, the Company stopped production operations in Mine 1 due to a sudden, uncontrollable inflow of groundwater. The consequences of the flooding include the permanent loss of production and ore reserves at Mine 1 (which represented 13% of the pre-flooding reserves of Uralkali) and damage to property, both of the Company and third parties, and to the environment associated with an accelerated and increased ground subsidence exacerbated by the flooding. The technical investigation of causes of the flooding by an ad hoc commission with the participation of the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) has concluded that the main cause of the flooding was a "previously unknown anomaly of geological structure" and has classified the circumstances preceding the accident as being "extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved." The flooding has also been classified by the Federal Chamber of Commerce and Industry and the Perm Chamber of Commerce and Industry as an "unpredictable force majeure event". This is the second major flooding incident experienced by the Company. In 1986, Mine 3 was flooded, and it has not been operational since that time.

The accelerated and increased subsidence (vertical movement of the ground to a lower level) resulting from the flooding of Mine 1 consists of (i) general subsidence due to the existence of voids caused by mined-out workings, and (ii) a localized depression near the area of ground-water inflow, and possible additional localized depressions where the rising water level in the mine cause a dissolution of pillar material and locally decreased pillar stability. Either of these types of subsidence can cause serious damage to property and the environment. While some general subsidence is a risk characteristic to any mining of the sort that the Company undertakes, the flooding has made this risk more acute as relevant mineral ores are soluble in water (with land surface above carnallite rocks subsiding even faster than above sylvinite rocks because carnallite is more soluble in groundwater). Experts have projected that it will take approximately 3 to 4 years for Mine 1 to be completely filled with water based on the current inflow of water and injection of brine being undertaken by the Company. Back-filling of mined-out workings which was done by the Company prior to the flooding of Mine 1, reduced general subsidence (by reducing the size of the void left after the ore extraction), but did not eliminate it. However, in areas with non-back-filled cavities in carnallite rock, there is an increased risk of localized depression due to dissolution of pillar material. After the flooding at Mine 1, Rostekhnadzor prohibited further back-filling of cavities at Mine 1 for safety reasons.

Immediately following the flooding in October 2006, Russian experts were appointed to determine what areas are most likely to suffer subsidence due to such flooding. The Russian experts projected that parts of the City of Berezniki (located directly above the carnallite rocks) and the land under a parcel of the Perm-Berezniki-Solikamsk federal railway line (near the main area of inflow in Mine 1) would suffer substantial subsidence. Therefore part of the population of the City of Berezniki has been and is being relocated at the expense of the state budget and an additional alternative 800 metres of rail track was built to bypass the parcel of land identified by the Russian experts. Also, due to safety reasons, some facilities of a local electricity and steam generation plant were relocated and a blocking dam was built to prevent the water from the industrial shipping channel reaching the ground-water inflow. In addition to the alternative 800 metres of rail track, Russian experts strongly recommended, as a more long term solution, the construction of a longer alternative railway route, by-passing subsiding ground by at a greater distance. This longer by-pass is still under discussion including with respect to its financing (although the Company is not currently being required to provide any such financing). According to the latest expert research, a motorway close to the Perm-Berezniki-Solikamsk federal railway line and a site of an asphalt plant in Berezniki could be exposed to a subsidence risk due to dissolution of pillar material in non-back-filled mined-out workings. Furthermore, future subsidence may affect the above-ground industrial site of Mine 1 which includes, in particular, a Uralkali carnallite processing plant and a Uralkali potash processing plant.

If experts conclude that subsidence of land underlying these plants may exceed the maximum permitted level and no counter-measures can be recommended or if recommended, such counter-measures are ineffective, these plants would be closed. There can be no assurance that ground subsidence will not continue, or increase, or become more uneven, or that an additional area will not be affected, and this may result in Uralkali incurring substantial liabilities and costs to those affected and the local authorities and/or disruption to Uralkali's production.

Although the Company does not use the rail track affected by subsidence and although the Company believes there are no legal grounds for requiring it to finance construction of the longer by-pass and no such official requests have been addressed to the Company to date, it may nevertheless, perhaps with other companies in Berezniki, be requested or required to fund some or all of the costs involved in constructing an alternative railway route by-passing subsiding ground. In addition the Company may face claims for damages from the owner or users of the affected rail tracks and from owners or users of other affected properties. Such parties could assert that Uralkali violated the applicable legislative standards regarding the back-filling of Mine 1's cavities. During its regular examination in June 2006, Rostekhnadzor issued a prescription stating that the Company was not, in a timely manner, fulfilling its back-filling obligations in the carnallite field in the eastern area of Mine 1 (far from the main area of ground-water inflow of Mine 1), pursuant to a 2003 federal regulation issued by Rostekhnadzor applicable to all parties involved in the carnallite mining business. This was the case notwithstanding that Rostekhnadzor had approved individual schedules for backfilling for Uralkali both before and after 2003 with which the Company believes it was in material compliance. The Company accelerated its back-filling activities until the flooding in Mine 1 occurred from which time it was prohibited by Rostekhadzor from continuing to back-fill of Mine 1.

Another part of the Perm-Berezniki-Solikamsk federal railway line (other than the one replaced by the alternative 800 meters rail track) is located above these cavities. Pursuant to the current Russian expert estimates, subsidence above these cavities should not exceed the maximum permitted levels and should not affect the railway tracks located above these cavities. Russian Railways have communicated with the Company that they would like to receive an expert opinion as to the safety of the 800 meter rail track and the planned longer bypass for the reestablishment of regular rail service. An opinion to the effect of the Russian expert estimates referred to above or Rostechnadzor oversight might satisfy the Russian Railways, although there can be no assurance that they would not request a different form or opinion. Furthermore, there can be no assurance that if geological conditions change and a subsidence level increases, third parties will not initiate a court action seeking compensation from Uralkali in respect of damages caused to the such railway tracks, claiming that Uralkali violated the applicable legislative standards regarding the back-filling of its cavities.

The Company has been trying to mitigate subsidence by injecting brine into Mine 1 at its own expense, which is intended to slow down the dissolution of the mineral reserves and reduce pressure on existing pillars, but there can be no assurance that the Company will be able to make adequate injections within the required time or that it will be able to make such brine injections properly, or that the injection will have the effect that the Company expects. In addition, the costs involved in connection with such brine injections could increase. If any of these occurred, the currently affected area could suffer added subsidence and additional land may be affected. Any or all of these could result in Uralkali incurring additional substantial liabilities and costs.

Although the causes of the flooding of Mine 1 to date have been classified as being extraordinary and unavoidable, as explained above, there can be no assurance that the Federal Service for Supervision of Natural Resources or another Russian state authority will not seek a court order to find Uralkali liable for all or part of any environmental or other damage suffered by the surrounding area and, if it is proved that the flooding was in some way caused or contributed to by Uralkali, demand compensation. Similarly, there can be no assurance that a court may not find Uralkali liable for any damages caused by such flooding to properties of third parties or any other damages, liabilities or losses incurred by individual members of the public, including the residents of the Berezniki area. The Company's current insurance agreements do not cover such risks of damage to property of third parties resulting from Uralkali's underground activities.

The Ercosplan Report states that the geological anomaly was not identifiable with the technology available at the time the pillar system was devised and implemented for Mine 1. If it had been identified, Ercosplan believes the Company could have adapted its room and pillar plan for Mine 1 to potentially avoid the flooding. The Company believes it has been reasonable in using available technology to identify geological anomalies that could affect Mines 2 and 4 and have adapted mining practices accordingly. The Ercosplan Report states that exploitation in Mine 2 and Mine 4 do not pose the same risks as they did in Mine 1 and Mine 3 because of sufficient geological exploration for determination of anomalous geological structure and improvements in design studies, geotechnical investigations and deformation monitoring over the past 20 years, enabling the better understanding of the geological and technical state of the strata above Mine 2 and Mine 4. However, particularly as parts of Mine 2 were mined under earlier, less stringent standards, the Company intends to conduct a further assessment consisting of the mapping of anomalies, together with pillar design and areas of settlement and stress, and to implement necessary support, if warranted. The Company is also revising its procedures for collecting and assessing hydrological and geotechnical data and then reviewing its pillar designs and mining procedures on an ongoing basis. Notwithstanding these measures, because it is an inherent risk of potash mining, there can be no assurance that geological anomalies will not cause flooding of Mines 2 and 4 or that they will not suffer flooding otherwise.

Mine flooding costs for the total amount of RUR 2,054 million were recognised in 2006 and additional costs of RUR 77 million were recognised in the first half of 2007. These costs include a write-off of fixed assets, including the book value of Mine 1 and equipment, and the Company's estimate of current and future flooding liquidation expenses, which includes labour costs, the depreciation of assets used in brine production, transportation and injection (depreciation expenses) and costs of materials and components used in connection with the closing of Mine 1. In addition, Plant 1A (a part of Plant 1), which was used as a flotation enrichment plant, is now solely used for the production of brine for injection into the cavity in Mine 1, as explained above. The management continues to assess accident risks, consequences and costs that Uralkali may incur in the future from the subsidence within the City of Berezniki and contiguous area pursuant to the flooding of Mine 1. The flooding has had a significant adverse impact on Uralkali's potash reserves and has resulted in ore from other mines being transported to Plant 1 and Plant 3, which would have processed ore from Mine 1 and Mine 3 but for the flooding. The Company can provide no assurance that in the future it will not suffer any additional losses and write-offs or that the management will not decide that additional provision should be made in respect of such possible losses. See "Management's discussion and analysis of financial condition and results of operations — Costs and Expenses — Mine flooding costs."

In addition, the terms of the Company's sub-soil production license relating to its mines, stipulate that in the event of an environmental or natural disaster, accident or catastrophe resulting in impossibility of further use of sub-soil mineral reserves, a license holder is obliged to reimburse the damage caused to the state by the loss of such mineral deposit at the license holder's expense or pursuant to the environmental insurance (which is voluntary under the Russian law) of such deposit. It also states that the procedure and conditions of reimbursement of this type of damage is to be determined by a supplementary agreement between the license holder and licensing authorities in accordance with the procedure for environmental insurance determined by the government of the Russian Federation. Although the Company does not have such environmental insurance, such supplementary agreement has never been entered and the Company was never asked to provide any compensation following the flooding of Mine 3, and even though the Company believes the risk to be low since the relevant term of the license is not necessarily consistent with pertinent clauses of current Russian legislation, there can be no assurance that the government will not want to seek such a claim in the future in relation to the flooding at Mine 1 or Mine 3 and that any such claim would not be successful and, if successful, the amount of liability for the Company will not be material. The Mine flooding costs provided for in the Company's Financial Statements do not include any such liabilities.

If any of the events set out above in relation to the flooding at Mine 1 were to occur, the Company could face significant losses and/or disruptions of its production operations, which could, any or in aggregate, have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. Furthermore, flooding of other mines owned by the Company could result in a complete closure of the Company's business and dissolution of the Company.

Uralkali's mining and other operations are subject to significant natural risks.

Uralkali's mining operations are subject to hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. In particular, hazards associated with Uralkali's underground mining operations include those relating to geological anomalies or other geological characteristics and also include:

- potential flooding;

- cave-ins or ground falls;
- underground fires and explosions, including those caused by flammable gas;
- discharges of gases;
- sinkhole formation and ground subsidence;
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine; and
- seismic activity.

Uralkali is at risk of experiencing any or all of these hazards. For example, flooding has forced the Company to cease operations at two of its mines, Mine 1 and Mine 3. These losses had a significant impact on Uralkali's potash reserves and may result in additional liabilities and losses which may be significant. See "— Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperable and has exposed Uralkali to potential financial liabilities." Uralkali has also, on average, suffered the death of one mineworker every two to three years in the last few years due to accidents at work. The occurrence of any of these hazards in the future could delay production, increase production costs and result in injury to persons and damage to property, as well as liability for Uralkali. Uralkali may therefore incur significant costs that could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations.

The salts of the Verkhnekamskoe potash ore deposit where Uralkali mines its potash contain free and sorbed combustible gases. The gas content and qualitative gas composition vary over the deposit ranging from 1.5 to 1.7 cubic meters of gas per cubic meter of rock. Desorption of these gases at slow rates results in gas emissions into the mine workings. These emissions could result in fire or an explosion. Rapid gas desorption can result in violent stress reliefs in the form of gas and salt outbursts. Recent flooding at Mine 1 led to gradual dissolution of salts and emissions of combustible gases. Although the risk of underground fires and explosions at Mine 1 is relatively low as long as Mine 1 remains non-operational, discharge of combustible gases at high concentrations in residential and industrial areas may have serious negative repercussions on the environment and population in such areas.

Uralkali uses room and pillar mining in its mines. In Mine 2, the majority of the pillars are yielding pillars, rather than the stiff pillars used in Mine 4. Although yielding pillars may allow a higher extraction ratio than stiff pillars because of the narrower pillars, it also creates fissures in the roof. These fissures must be prevented from propagating into water bearing strata as this would allow water inflow with catastrophic consequences.

If any of the such risks materialises, it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali is not insured against all potential losses and liabilities and could be seriously harmed by natural disasters, catastrophes and/or other risks that are not covered by its insurance policies.

Many of Uralkali's business activities involve substantial investments in complex mining and production facilities, warehouses and transportation equipment. In addition, certain raw materials, finished products, by-products and process water located within these facilities are potentially destructive and dangerous in uncontrolled or catastrophic circumstances, including fires, explosions, accidents, and major equipment failures.

The insurance that Uralkali currently maintains does not cover it against certain risks or exclude certain risks as force majeure. Such risks include liabilities for environmental pollution, interruption of certain business activities, liabilities for damages resulting from land subsidence caused by extraction of minerals or from underground flooding, liabilities for damages to the property of third parties resulting from Uralkali's underground activities. Similarly, some property may not be insurable, such as potash ore reserves which are considered to be government property under Russian law (for example no compensation was payable for the loss of reserves suffered by Uralkali when Mine 1 flooded). See also "— Uralkali's mining and other operations are subject to significant natural risks." Further, Uraklali may not be able to secure insurance at reasonable costs in the future for those risks currently covered.

Uralkali could incur uninsured losses and liabilities arising from such events, including damage to its reputation, and/or suffer substantial losses in its operations, any or all of which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Because Uralkali sells its products to a limited number of customers, the loss of a significant customer could have an adverse effect on its business.

In 2006 and in the first half of 2007, the top 10 customers for Uralkali's products represented approximately 55% and 57% of its sales volumes, respectively. This percentage may increase if, for example, there is additional consolidation among NPK producers. Sinochem (China) and IPL (India) together accounted for 26% and 25% of sales volumes in 2006 and in the first half of 2007, respectively, and the impact on Uralkali's business of the delay in potash sales contract negotiations with Sinochem, CNAMPGC and IPL was demonstrated in the first half of 2006. See "— Sales contract negotiations may adversely affect Uralkali's ability to export potash, which could have an adverse effect on its business." Uralkali expects that a significant portion of its revenues will continue to be derived from a small number of customers. Uralkali's customers are often not contractually obliged to purchase from Uralkali or BPC, and when they are, it is never for a period of more than one year. In addition, since August 2006, Belorussian law requires a special corporate approval by the supervisory council or the shareholders for "major transactions," or transactions exceeding 25% of the total assets on the balance sheet of a Belorussian corporation. BPC, however, has not obtained such approvals for sales agreements with its customers subject to this requirement. Interested parties, including counterparties to such agreements, are able to challenge the validity of such agreements, and the court has the power to void such agreements. The Company estimates that since August 2006, contracts for delivery of approximately 4.7 million tonnes of potash have not been approved by BPC in this way. If the contracts were to be successfully challenged, Uralkali may not get all or any benefit of the expected bargain, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. BPC has informed the Company that BPC intends to obtain requisite approvals for all agreements subject to such requirement in the future. However, the Company cannot assure you that BPC will do so.

Uralkali's customers make purchase decisions based on a combination of price, product quality, government policies, planting schedules and their desired inventory levels. Uralkali's customers may face adverse economic conditions that may have a material impact on their operations and their purchases. Furthermore, the customers may act in concert during negotiations and may resist higher prices and/or request large discounts on their purchases. Changes in customer strategies or deteriorating economic conditions could result in the loss of one or all of the Company's major customers or termination of their contracts, which in turn could lead to a decrease in sales volumes, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Demand for potash is affected by macroeconomic factors, and a downturn in such factors could have an adverse effect on Uralkali's business.

A number of macroeconomic factors, including changes in world population, availability of arable land per capita and income growth, drive demand for potash.

The relationship between population and demand for potash is closely linked. Rising population numbers increase demand for food, including crops and meat. Increased demand for crops helps drive demand for potash because potash can help increase yield from available arable land. Increased demand for meat drives demand for grain to provide animal feed, which in turn drives demand for potash.

Population levels in certain markets that are important to Uralkali, such as China, India, Brazil and Southeast Asia, have been growing. However, annual population growth rates in China, for example, have been below global population growth rates since 2000. China is Uralkali's most important market, accounting for 45.3% and 40.7% of Uralkali's sales volumes in the first half of 2007 and in the year 2006, respectively, and the slowdown in the population growth of China is not a favourable trend for Uralkali's business. Furthermore, population levels in the EEA and in Russia have been shrinking. The EEA and Russia are also important to Uralkali's business, accounting for 7.1% and 8.9% of Uralkali's sales volumes in the first half of 2007, respectively, and 11.6% and 10.1% of Uralkali's sales volumes in 2006, respectively. The population trends in China, the EEA and Russia could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Arable landmass per capita may also grow if forests are felled or undeveloped land is cultivated for farming, therefore reducing demand for potash by alleviating the pressure to increase crop yields from existing farmed land.

Rising income levels also help drive potash demand. Rising income levels enable people to afford better diets, which are more likely to include meat. Increased demand for meat generally drives demand for grain and therefore potash, as explained above. In addition, stronger economic conditions put farmers in a better position to be able to afford potash. In addition, farmers can suspend or reduce application of potash, which can have a negative effect on potash demand. Economic conditions have historically moved in cycles, and downturns of the type the world and particular economies have undergone in the past, or more or less severe downturns, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Sustained periods of high inflation could increase Uralkali's costs and decrease Uralkali's operating margins.

Uralkali's production activities are located in Russia, and the majority of Uralkali's direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year, according to the Russian Federal State Statistics Service ("Rosstat"). Notwithstanding recent reductions in the inflation rate, which, according to Rosstat, was 10.9% and 9% in 2005 and 2006, respectively, Uralkali is exposed to inflation-driven increases in certain of its costs, such as salaries, that are linked to general price levels in Russia. However, Uralkali may not be able to increase the prices for its products sufficiently in order to preserve operating margins, particularly for its export sales, when such inflation is accompanied by real appreciation of the rouble against the US dollar. See "— Fluctuations in the value of the rouble, or other currencies important to Uralkali, against the US dollar may have an adverse effect on Uralkali's business." Accordingly, high rates of inflation in Russia could increase Uralkali's costs and decrease its operating margins and consequently have an adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Fluctuations in the value of the rouble, or other currencies important to Uralkali, against the US dollar may have an adverse effect on Uralkali's business.

Uralkali's products are typically priced in roubles for Russian sales and in US dollars or Euros for international sales, while Uralkali's direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and other costs, such as interest expense, are incurred in roubles, US dollars and Euros. The rouble appreciated in real terms against the US dollar by 10.7% in 2006, 10.8% in 2005 and 15.1% in 2004, and in nominal terms on average as well according to the CBR. In recent years the effect of the real appreciation of the rouble against the US dollar has been more than offset by increased prices for Uralkali's products, both in Russia and internationally, but that trend may not continue in the future. At the beginning of 2007 Uralkali entered into a number of foreign exchange options, to try and limit effect of fluctuations in the Russian roubles and the US dollars exchange rate, but these may not prove sufficiently effective depending on then prevailing market conditions. See "Management's discussion and analysis of financial condition and results of operations — Significant factors affecting results of operations — Exchange rate movements and inflation." Further real appreciation of the rouble against the US dollar could have an adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

In addition, nominal depreciation of the rouble against the US dollar results in a decrease in the reported US dollar value of Uralkali's rouble-denominated assets and nominal appreciation of the rouble against the US dollar results in an increase in the reported US dollar value of Uralkali's rouble-denominated assets. The average exchange rate of the rouble against the US dollar appreciated by 5.4%, 1.9% and 4.0% in nominal terms in 2004, 2005 and 2006, respectively, according to the CBR.

Furthermore, if the US dollar appreciates against currencies used in the local markets in which Uralkali's products are sold, it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares. Currency exchange rate fluctuations between the US dollar and foreign currencies, particularly the Brazilian real, the Chinese yuan and the Indian rupee affect the affordability of Uralkali's products to customers in those local markets. Appreciation of the US dollar against these currencies could jeopardise or limit Uralkali's ability to transact business in those markets and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Prices for potash are affected significantly by the levels of supply and expansion of available production and/or structural capacity of potash producers, and either oversupply or overcapacity could have an adverse effect on Uralkali's business.

The dynamics associated with supply are a crucial factor in determining potash prices, which in turn have a significant effect on Uralkali's business. The participants in Canpotex and BPC, the two main potash export traders, including Uralkali, have generally appeared to follow a strategy of "swing" production, changing production volumes in response to perceived demand. When demand levels have been high, these participants have typically produced at the maximum available production levels. When demand levels have fallen, production has been slowed down, and sometimes even suspended for a period. For example, Uralkali temporarily suspended production in the first half of 2006 in response to the delayed conclusion of the China Sea Contracts and the contracts with its main customers in India. See "— Sales contract negotiations may adversely affect Uralkali's ability to export potash, which could have an adverse effect on its business" for a more detailed discussion. If any of the participants of Canpotex or BPC changes its supply strategy and continues production despite lower demand, there could be a severe impact on prices and a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Industry-wide capacity also has a key impact on potash prices. The greater the available production and/or the structural capacity, the greater the potential for downward pressure on potash prices. During the 1990s, following the collapse of the Soviet Union the potash industry suffered from overcapacity and prices fell significantly as a result. The number of capacity and production expansion projects in the industry, including those of Uralkali, have the potential to depress prices if demand does not grow to meet the supply that may come on line. According to the annual reports and press releases of certain industry participants, structural capacity could rise by as much as 9.0 million tonnes through 2011 based on expansion projects confirmed by potash producers and other expansion projects thought to be under serious consideration. Confirmed expansion projects include PotashCorp's plans to increase available production by 700,000 tonnes per year (Allan and Esterhazy site) and 1.5 million tonnes per year (Lanigan site) by the end of 2007 and 2008, respectively. Available production and/or structural capacity levels could be significantly higher and could come on line earlier than currently envisaged. Although greenfield expansion projects are regarded as being very expensive, brownfield expansion projects are less expensive, and expansion projects that involve removing production bottlenecks are generally the least expensive. In addition, technological changes, for example, could result in large potash reserves, which are currently not cost effective to mine, being exploited economically, resulting in an increase in supply. Increases in the global available production and/or structural capacity could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Changes in agricultural markets may adversely affect the demand for potash.

Uralkali's business depends significantly on the businesses of customers for its products and the strength of those businesses. The principal use for Uralkali's potash is, directly or indirectly, in agriculture as fertiliser for crops. Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on farmers and other participants in the agricultural industry. Unfavourable growing conditions caused by these or other factors can reduce both crop size and crop quality. These factors could result in lower sales as well as increased costs to Uralkali's customers, which, in turn, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Other key factors that affect agriculture include:

- field conditions: If field conditions deteriorate for farmers, their business could be adversely affected, which would affect their income and decrease demand for potash. In addition, as the availability of potassium in soils is a key driver for demand for potash, a move by farmers to soils that are naturally richer in potassium could adversely impact demand for potash.
- current and projected grain inventories and crops prices: Supply and demand dynamics for crops will affect their prices and therefore the businesses of customers for potash.
- changes in the types of crops being grown: Consumer demand, government regulation or economics may lead farmers to a shift from the production of crops that typically require high levels of potash fertilisation (such as sugar beet, carrots and potatoes) to those that require lower levels of potash fertilisation (such as cereals and green feed crops).

Any or all of these factors may decrease world potash demand, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Government policies can adversely affect the market for Uralkali's products.

Government policies, including subsidies and commodity support programmes influence potash demand through, for example, restricting the number of acres planted, requiring a particular mix of crops to be planted and limiting the use of fertilisers for particular agricultural applications. In a number of markets, Uralkali is the beneficiary of governmental policies that support agriculture and therefore potash demand. For example, potash demand in China and India, where the governments of those countries have been involved in the purchase of potash by customers in those countries, has historically been heavily dependent on government policy and Uralkali expects this to continue. Customers in China and India have a substantial amount of bargaining power given the large volume of the contracts they are negotiating. Such negotiations may result in delays in concluding contracts, as they have in the first half of 2006, as the two sides press for increases or decreases in proposed prices. For further discussion of this issue, see "— Sales contract negotiations may adversely affect Uralkali's ability to export potash, which could have an adverse effect on its business." Government policies can also influence market conditions in markets with indirect government subsidies, such as the EEA and the United States.

Government policies towards Uralkali's products, or products sold through BPC, in those and other countries could change in a way that is adverse to Uralkali's business for a number of reasons including:

- a change in government;
- a move towards more protectionist policies to help local fertiliser producers;
- closer political or economic ties with countries other than Russia;
- preference for other fertiliser products;
- nutrient management that gives preference to potassium-enriched manure over chemical fertilisers;
- a desire to encourage competition;
- rotation of suppliers from period to period to maintain bargaining position; or
- maintenance of greater inventories to strengthen bargaining position.

Any or all of these factors could decrease demand for potash, thereby having a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Examples of ongoing changes in governmental policies that may have a material adverse affect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares:

- *Potential decreases in agricultural subsidies.* Governments may reduce or eliminate agricultural subsidies. For example, the European Union has adopted a proposal to reform the Common Agricultural Policy ("CAP"), which provides for the form and size of subsidies paid to EU farmers for production and export of their crops and products. CAP reform primarily involves a reduction in the number of payments made to farmers for sustaining certain levels of production. Agricultural activity may decline as reduced subsidies make agriculture less economically attractive, which may, in turn, reduce the demand for fertilisers, such as potash. The CAP reform also includes set-aside policies that could contribute to increases in arable land, which may further reduce demand for fertilisers such as potash by reducing the pressure to increase crop yields from existing farmed land. The current CAP reform proposal also extends to the ten Central and Eastern European countries that joined the European Union in May 2004. It is unclear how Western European producers will be affected by the expansion of the European Union. The expansion could, for instance, result in a shift in agricultural activity that would be disruptive to established fertiliser markets and distribution systems and that could allow new entrants to gain market share from existing fertiliser suppliers, including suppliers of potash.
- *WTO agricultural negotiations.* These negotiations are also expected ultimately to lead to a reduction of agriculture tariff barriers, domestic support and export subsidies. A wide range of countries, including the United States and many other developing countries, is advocating

implementation of the EU CAP reform in these negotiations. Any additional CAP reform arising from WTO commitments will likely lead to a substantial reduction in production-linked payments to farmers and export subsidies to farmers selling to export markets. These reductions may also materially adversely affect fertiliser demand, including demand for potash.

- *Regulatory changes with respect to chemical fertilisers.* A number of jurisdictions, including EEA jurisdictions, to which Uralkali has significant sales are considering and from time to time consider limitations on the use and application of "inorganic straight primary nutrient fertilisers", such as potash, due to concerns about the impact of these products on the environment. Statutory limitations on fertiliser use would materially adversely affect fertiliser demand, including demand for potash.

Consumer or regulatory concerns about fertiliser use may decrease demand for potash.

Further growth of organic farming could have an adverse effect on Uralkali's business because it discourages use of muriate of potash. For example, the organic farming area in the European Union represented approximately 4% of the utilised agricultural area in 2005. Organic farming has been growing due, in large part, to agricultural subsidies and consumer pressure related to pesticides, food scares, health, environment and animal welfare. Organic farming generally makes use of manure or other organic materials. While limited use of some fertilisers of low solubility is permitted under applicable guidelines, the use of muriate of potash is prohibited. If organic farming increases substantially in Western Europe, demand for potash may decrease. In addition, EU legislation such as the Water Framework Directive restricts heavy use of nitrogen and phosphate fertilisers. As a result, demand for nitrogen and phosphate products, such as NPK fertilisers, may decline in the Western European market, and if the demand for nitrogen and phosphate products falls, demand for potash may fall as well to the extent fixed ratios are used to determine nitrogen, phosphate and potash application rates.

Markets where organic farming is growing most, for example the European Union, are markets where Uralkali's products attract comparatively high margins. A decrease in demand due to a shift to organic farming could have a material adverse effect on Uralkali's business prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali's inability to predict future seasonal fertiliser demand accurately could result in excess inventory, potentially at costs in excess of market value, or product shortages.

Uralkali's revenues are affected by seasonality in each market in which it operates. To date, Uralkali has attempted to manage seasonality by selling to different markets at different times of the year depending on planting, growing and harvesting cycles to keep sales at relatively constant levels throughout the year. See "Management's discussion and analysis of financial condition and results of operations." However, if Uralkali is not successful in implementing this strategy or fails to anticipate demand properly, Uralkali could become exposed to seasonality. In such case, if in any given period seasonal demand exceeds Uralkali's projections and Uralkali limits its production in that period, then its customers may acquire products from its competitors, and Uralkali's profitability may be negatively impacted. If in any given period seasonal demand is less than Uralkali has forecasted, it will be left with excess inventory that will have to be stored, liquidated or discarded. Any such failure to predict demand could have a material adverse effect on Uralkali's business prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. The risks associated with excess inventory and product shortages are particularly acute with respect to potash because of the relatively brief periods for which potash can be stored.

Worldwide demand for compound fertilisers could fall, thus affecting demand for potash used to make compound NPK fertilisers, or production of compound NPK fertilisers may shift from higher priced markets to lower priced markets, thereby decreasing the prices Uralkali is able to charge for its products.

Compound fertiliser producers are key customers for Uralkali's potash in certain markets, with most exports directed at Asian countries such as China and Malaysia. Import demand for NPK in China could fall as it commissions local capacity for NPK. This could also occur in other markets. This could result in an increase in direct purchases by China (or such other markets) of Uralkali's potash for NPK production locally, and a decrease in demand for potash from some of Uralkali's other markets which now purchase potash from Uralkali and later export it to China (or such other markets) in the form of compound NPK fertilisers. If this results in a shift in demand to China, it would increase Uralkali's exposure to the Chinese market even further. This shift in demand could, in turn, result in a shift in demand for potash from higher price markets, such as Europe to lower price markets that purchase potash for NPK production. Exports of compound fertilisers from Russia could decline if costs in Russia become more aligned with world market levels, which could also shift demand for potash to lower priced markets. Finally, demand for compound fertilisers could simply fall overall. Any of these events could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares.

Uralkali is subject to regulatory risks and risks of political instability associated with its international distribution, which could have an adverse effect on its export sales.

In the six months ended 30 June 2007, Uralkali derived 90% of its revenues from sales to customers located outside of Russia. In the years ended 31 December 2006, 2005 and 2004, Uralkali derived 90%, 93% and 88%, respectively, of its revenues from export. Uralkali and BPC are therefore subject to numerous risks and uncertainties relating to international sales and operations, including:

- difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations;
- changes in regulatory environments;
- increased government control and regulation in the markets Uralkali's products are sold;
- political and economic instability, including the possibility for civil unrest;
- the imposition of export duties, antimonopoly and/or antidumping measures; and
- the imposition of tariffs, exchange controls or other restrictions.

In particular, export duties on potassium chloride in the amount of 5% were introduced in Russia in 1998 and abolished in October 2004. In the future, the Russian government may seek limiting the export of potassium products as a measure aimed at increasing the domestic supply and reducing the domestic prices by way of introducing an export duty on potassium products. For example, recently a new bill was introduced to the State Duma of the Russian Federation proposing to amend the Federal Law No. 5003-1 "On Customs Tariff" of 21 May 1993, as amended, which envisages a new market price based system of imposing customs duties on export of all mineral or chemical fertilisers. Adoption of such a system may lead to additional costs of Uralkali.

The occurrence of any or all of the events above could jeopardise or limit Uralkali's or BPC's ability to conduct business in those markets and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali is subject to the economic, political and social instability risks of doing business in developing economies.

During the first half of 2007 and in the year 2006, 84% and 78%, respectively, of Uralkali's total revenues were attributable to sales in developing economies such as China, Brazil, and India that are subject to rapid change and, consequently, the information set out in this document may become outdated relatively quickly. Moreover, financial turmoil in any developing market country tends to adversely affect all developing market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in developing markets could dampen foreign investment in the developing economies on which Uralkali relies and adversely affect those economies. As a result, during such times, companies, such as Uralkali, whose operations involve developing markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, financial turmoil in any emerging market country could materially adversely affect Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali may not be able to execute its capital expenditure, available production and structural capacity expansion programmes and may need to spend more than planned.

A key element of Uralkali's strategy is to increase its available production levels and structural capacity and to build new storage facilities in addition to repairing and maintaining its production facilities. See "Description of business — Mines," "Management's discussion and analysis of financial condition and results of operations — Liquidity and capital resources — Capital requirements" and "— Maintenance and repair work is a significant expense for Uralkali and may interrupt the mining or production processes, which could have an adverse effect on Uralkali's business.'' As part of this strategy, planned total capital expenditures from 30 June 2007 until 31 December 2011 of approximately RUR 28.8 billion are expected to be funded primarily from cash flows from operating activities as well as potentially from debt financing. It is possible that these sources of financing may not be available in the future in the amounts Uralkali requires or on commercially reasonable terms, for reasons including, without limitation, the unavailability of external financing sources; changes in the terms of existing financing arrangements; fluctuations in the potash markets and regulatory developments. If these sources of financing are not available in the future in the amounts Uralkali requires or on commercially reasonable terms, Uralkali may not be able to make some or all of its planned capital expenditures. Uralkali may not, as a result or for other reasons, be able to expand its available production or structural capacity. The unavailability or high cost of financing could have a material adverse effect on Uralkali's ability to make its anticipated capital expenditures. For example, the Company's current capital expenditure projections do not include the costs involved in developing Mine 5, since before the finalisation of the feasibility study (scheduled to be completed by the end of 2008), no firm decisions can be made about any such development. Failure to make these expenditures or to realise the benefits in terms of actual production volumes would result in a failure to implement key elements of its strategy to increase its available production and provide the ability to actually realise the benefits thereof, increase its capacity to store potash and undertake necessary or desirable repair and maintenance work, any of which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. See also ''—The environmental regulations to which Uralkali is subject, as well as its potential environmental liabilities, may have an adverse effect on its business.''

Maintenance and repair work is a significant expense for Uralkali and may interrupt the mining or production processes, which could have an adverse effect on Uralkali's business.

As at 30 June 2007, 19% of the gross book value of Uralkali's fixed assets were assets that have been fully depreciated and a further 13% of the gross book value of Uralkali's fixed assets are within three and a half years of being fully depreciated. Plants 1, 2 and 3 were commissioned between the 1950s and 1970s. Partly as a result of the age of many of Uralkali's assets, it is required to undertake a significant amount of capital expenditure supporting existing available production and general maintenance and repair work for its property, plant and equipment. In the first half of 2007 and in 2006, Uralkali spent RUR 1,699 million and RUR 3,090 million, respectively on capital expenditures supporting existing production. Significant amounts are also spent on general maintenance and repair which are expensed as incurred. In addition, Uralkali has budgeted a total of RUR 14.6 billion for capital expenditures supporting existing production from 30 June 2007 through 31 December 2011. Although significant amounts have been spent already, having taken advantage, for example, of the production slowdown resulting from the protracted contract negotiations with the Chinese customers, and significant amounts are planned for the future, there can be no assurance that the amounts that will actually be required to be spent will not be much higher, or that Uralkali will have the liquidity to cover such cash outflows. There can also be no assurance that Uralkali will not have to divert resources from its planned capital expenditures focused on growth, such as increases in available production and structural capacity, for use on capital expenditures to maintain existing available production and this could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali's production costs could increase.

Uralkali currently has what it believes to be one of the lowest costs of production in the industry. However, its costs of production may increase significantly, particularly as Russia's economic environment comes in line with those of Western countries. Uralkali's most significant cash costs include (i) labour costs, (ii) energy and fuel related costs, and (iii) material and components used costs.

Labour costs are the largest component of Uralkali's cost of sales, comprising 25.4% and 26.4% in the first half of 2007 and for the full year 2006 of the total cost of sales. According to the Ministry of Economic Development and Trade of the Russian Federation and Rosstat, the average wage in the Russian Federation has been rising in real terms at a rate of 11% to 13.5% per year in recent years.

During the first half of 2007 and for the full year 2006, energy and fuel related expenses were 24% and 20.7% of Uralkali's Cost of sales, respectively. In each of these periods, the majority of energy related expenses was attributable to electricity expenses. The next two largest components of the energy related expenses in the first half of 2007 and in the year 2006 were heat and natural gas, together representing about a quarter of energy expenses.

In the first half of 2007 and the full year 2006, Uralkali purchased approximately 420 million and 782 million kWh of electricity, respectively, representing almost all of its requirements, from Permenergo (and its successor JSC Perm Energy Supply Company), a local subsidiary of RAO UES ("UES"), the government controlled national holding company for the Russian power sector. Currently, 85% to 90% of domestic electricity prices are generally regulated by the Russian government. The government is in the course of implementing a restructuring plan for the power sector aimed at introducing greater competition, liberalising the wholesale electricity market and moving from a largely regulated pricing structure to a market based system by 2011. Moreover, according to the Russian Energy Strategy approved by the Russian government in 2003, electricity tariffs for all users are to reach US$0.04 — US$0.045 per kWh by 2020. There can be no assurance that electricity prices would not rise even faster. In the first half of 2007, and in 2006, Uralkali's average effective cost of electricity was RUR 1.19 per kWh and RUR 1.04 per kWh, respectively. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. Also, the Russian government is in the course of promoting the use of alternative fuel materials that could be cheaper than gas, such as for example, thermal coal, and implementing a restructuring plan for the gas sector aimed at achieving the comparable level of gas prices on the domestic and international markets. As a part of this plan, the Russian government intends to gradually increase the regulated wholesale gas prices for up to from 10% in 2007 to 60% in 2010, and such price increases may in turn put additional pressure on the Russian government to raise the electricity prices quicker than envisaged.

To reduce its exposure to potential price fluctuations, Uralkali has instituted a programme to increase the proportion of its electricity requirements that it generates from internal sources and reduce its reliance on external sources. See "Management's discussion and analysis of financial condition and results of operations — Significant factors affecting results of operations — Costs and expenses — Fuel and energy." However, if Uralkali is required to pay higher prices for electricity in the future, its costs will rise and it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Heat costs are negotiated with local suppliers of heat and the prices can be volatile from year to year.

Uralkali's operations also require significant amounts of natural gas, primarily for the production of heat energy at Uralkali's facilities, from subsidiaries of OAO Gazprom ("Gazprom"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Uralkali's reliance on gas and exposure to increase in natural gas prices will increase as part of its power generation programme described in more detail below, as the electricity generation turbines that will be installed pursuant to that programme will be powered by gas. A shortage of gas supplies or a sharp rise in gas prices could have material adverse effect on the Company's business prospects or results of operations and on the price of GDRs. Domestic natural gas prices are generally regulated by the government, and have been rising over the last few years. The regulated price for industrial consumers in the Perm Region in Russia was approximately RUR 1,165 per thousand cubic metres in 2006, an increase of approximately 30% from RUR 891 per thousand cubic metres in 2004. Despite these recent price increases, natural gas prices in Russia remain significantly below North American levels, helping to provide Uralkali with a cost advantage over many of its competitors. In May 2004, in connection with an agreement on Russia's potential accession to the WTO, Russia and the EU agreed that Russia would raise domestic gas prices to US$49-57 per thousand cubic metres by 2010. In accordance with the Russian government resolution of 28 May 2007, domestic gas tariffs are currently expected to increase in the future to ensure that the same profitability for Gazprom as export sales of gas by 2011. As a part of the overall reform process towards gas price liberalisation, the Russian government previously adopted Resolution No. 534 of 2 September 2006, under which Gazprom is permitted to sell up to 5 billion cubic meters of gas in 2006-2007 at unregulated prices on the electronic trade platform. Under this gas price liberalisation schedule, it is anticipated that gas prices will rise by 15% from January 2007, by 25% from January 2008, by 13% from each of January and July in 2009 and 2010, finally reaching Western European gas price levels from January 2011. There can be no assurance that gas prices would not rise even faster. The Russian government may also accelerate the liberations of gas prices or increase of the regulated gas tariffs prior to the decrease of the required volumes of electricity sold at regulated tariffs.

Supplies from Gazprom, the Company's primary gas supplier, are limited by two factors: (i) Gazprom's continued willingness to provide gas supplies to the Company; and (ii) Gazprom's overall oil production volume (since the gas supplied by Gazprom is a by-product of oil production). The Company entered into long term framework gas supply agreements with Gazprom in 2001 (relating to Plant 1 and Plant 2) and in 2005 (relating to Plant 4), which the Company believes should cover approximately 90% of its anticipated demand for gas in 2008. However, there is no assurance that this agreement will be extended in the future or that its conditions will be adequately performed. Gazprom supplies gas to the Company at the regulated, below-market, price for industrial customers for an agreed "limit" quotas. If the volume of gas supplied pursuant to these quotas does not rise, an increasingly smaller proportion of the Company's gas supplies will be provided at these regulated, below-market, prices which may increase the overall fuel costs of the Company. There is also no assurance that Gazprom's overall oil production volume will remain at current levels and that its oil production licenses will not be challenged or suspended by Russian authorities. Furthermore, if the Company chooses to purchase gas from independent suppliers such supplies from other independent suppliers are dependent on these companies enjoying continued access to the UGTS, Russia's only gas pipeline network which Gazprom controls. Though Gazprom is required by law to provide third-party access to the UGTS on non-discriminatory terms, in practice, it does not do so. If Gazprom continues to limit such third-party access, the Company may face a reduction in gas supplies from certain of its independent suppliers. Because of Gazprom's extensive control over the gas industry, it may impose stringent requirements on its customers, including the Company, such as requiring very aggressive payment schedules. Should the Company not receive payments from its customers in time, there is a risk that the Company, in turn, will be delinquent in its payments to Gazprom, which may prompt Gazprom to interrupt its supplies to the Company.

If any of these scenarios materialise, the Company may face a shortage in electricity or gas supplies and/or a rise in energy and fuel costs, all or any of which could have a material adverse effect on Uralkali's business, prospects, results of operations and financial condition and/or on the price of the GDRs or the Shares.

Uralkali relies heavily on the Russian railroad network and its own rail cars for the transportation of its ore and products.

Uralkali is heavily reliant on railway transportation for China Rail Sales and sales to European countries for delivery by rail (which were together approximately 37% of export sales volumes in 2006 and 39% in the first half of 2007) and also for deliveries, mainly to BBT, for onward transportation by sea (which were the balance of export sales volumes in 2005 and the first half of 2006). Also, Uralkali's domestic customers rely on transportation of potash by railway from Berezniki, where Uralkali's production facilities are situated. Currently, the Russian government sets Railway tariffs and may further increase these tariffs, as it has done in the past. Moreover, in 2003, legislation was enacted which sets out the framework for privatisation of certain state-owned railway enterprises, and in 2004 their assets were contributed into the share capital of a state-owned company, JSC Russian Railways ("Russian Railways"). If the privatisation of Russian Railways or other factors were to result in increased railway transport costs, it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. In the past, Uralkali has been able to increase the prices of its products which has offset increases in Transportation costs associated with these products; however, there can be no assurance that Uralkali will be able to pass along such price increases in the future or that any such increases will be sufficient to offset increases in transportation tariffs. If Uralkali is unable to make increases in its prices, its profit margins would decrease, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

While Uralkali owns sufficient rail cars to transport its current production, and while Uralkali plans to buy more rail cars in line with its planned additional available production, it may not be successful in implementing this strategy and as a result, in the future, such assets may not be sufficient for all of Uralkali's total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, a disruption in transportation of Uralkali's products and an increase in Railway tariffs. The need to rent rail cars in the future, if such need arises, and the costs associated with that, could also have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

In addition, any disruptions or industrial action caused by trade unions at Uralkali or Russian Railways could result in transportation delays that could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali faces risks of industrial action, natural disaster and terrorist attacks for shipments made via BBT, its principal loading port.

In 2006, Uralkali sent approximately 62% of export sales volume of its potash to BBT and 1% to other ports. Inclement weather can disrupt operations at marine terminals. For example, BBT can experience shutdowns due to ice. Any prolonged delay in exports due to inclement weather or for any other reason, for example, industrial action or natural disaster or terrorist attack, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali's power generation programme may not be implemented successfully, and even if it is successful, Uralkali will have increased exposure to volatile natural gas prices.

Uralkali is in the process of implementing a power generation programme, which involves the purchase and installation of four electricity generation turbines powered by natural gas at its production facilities. See "Description of business — Production process — Energy." The electricity generation turbines will also produce heat as a by-product, which Uralkali intends to use to reduce, and then potentially eliminate, its demand for heat supplied externally.

Uralkali currently estimates that the cost of the power generation programme will be approximately RUR 2.7 billion through the end of 2008. Of this amount, Uralkali spent approximately RUR 2.1 billion from 31 December 2004 to 30 June 2007. Uralkali expects its power generation programme to have a positive effect on total energy costs in the future, but since Uralkali will become more reliant on the prices of natural gas, the ultimate effect on Uralkali's results of operations will depend on the future cost of natural gas. There can be no assurance that Uralkali will be able to implement the power generation programme successfully, and even if it does, it may not achieve its goals of reducing Fuel and energy costs. Further, the Company's increased exposure to prices may have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Potash can only be stored for a limited time period, thus limiting Uralkali's operational flexibility and ability to respond to changing market conditions.

The finished potash product, whether Pink MOP, White MOP or Granular, is not amenable to being stored for long periods but is regarded as having a shelf life of about six months, depending on the environment in which it is stored. The product degrades easily and is susceptible to moisture. This hampers Uralkali's operational flexibility in a number of respects. In particular, if there is a slowdown in purchases, the Company may halt production rather than continue to produce potash. The ability to store potash is also important as a logistical matter. Potash inevitably needs to be stored from time to time as immediate transportation from production facilities or sea ports is not always possible, for example, because of the Company's dependence on timetabling of the Russian Railways or freight timetables. These risks could increase if Uralkali is unable to successfully implement its strategy to increase its storage capacity. The inability to store potash for long periods can increase logistical costs, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Sales contract negotiations may adversely affect Uralkali's ability to export potash, which could have an adverse effect on its business.

During the first half of 2007, revenues from Uralkali's export segment were RUR 12,014 million, an increase of 52% from RUR 7,918 million in the first half of 2006. The substantial increase in revenues in the first six months of 2007 compared to the first six months in 2006 was mainly due to the unusually low sales volumes for the first six months of 2006 due to the delay in agreeing the China contracts and the India contracts. Such annual sales contracts with the large customers in China are normally agreed at the start of the year with a fixed price for potash supplies for the remainder of that year. In 2007, the China Sea Contracts were agreed in February, but in 2006 these were not agreed until the end of July and the price was only fixed until the end of 2006. Many customers were able to extend contract negotiations because they had reportedly built up significant reserves of potash. Although all other major producers in the potash market also experienced a similar delay in negotiating their supply contracts and despite the price agreed being higher than the price for 2005 sales, the adverse impact of the protracted negotiations was significant. The delay in agreeing the China Sea Contracts in 2006 had a knock-on effect on negotiating key contracts with the most significant Indian customers too. See "Description of business — Key markets and customers" for a detailed discussion. Furthermore, Uralkali relies on BPC to negotiate its sales contracts with its major customers and as such relies heavy on the BPC's ability to do so effectively (see "— Uralkali relies heavily on BPC for the generation of revenues, and any failure related to BPC could have an adverse effect on Uralkali's business").

Uralkali cannot predict what will happen in future negotiations with the key customers for its products in China, India and other markets. Patterns of negotiations similar to what occurred in China in 2006 could be repeated in China or could occur in other markets including if customers are able to build up significant reserves of potash. Such patterns could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares and, going forward, such effect could be worse than the impact in the first half of 2006.

Uralkali's headcount reduction plan may not be successful, and if it is, Uralkali may still not achieve planned cost reductions.

Uralkali has adopted a plan to reduce employee headcount as part of its overall cost reduction programme. See "Description of business — Strategy." Future redundancies could result in labour disputes, adverse relations with employees and trade unions and a disruption of Uralkali's operations. If this occurs, the productivity of Uralkali's operations may decline. If Uralkali is unable to implement its employee headcount reduction plan successfully or if the costs associated with the employee headcount reduction plan are greater than expected, it may not be able to fully recognise the estimated cost benefits and, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali depends on a limited number of suppliers for some of the equipment necessary to produce its products.

Uralkali is only able to purchase certain key mining and production equipment from a limited number of contractors. Any interruption in the operations of its suppliers, and/or the inability to obtain timely delivery of key equipment of acceptable quality or any significant increases in the prices of such equipment could result in material production delays, increased costs and reductions in shipments of Uralkali's products, any of which could increase Uralkali's operating costs, harm its customer relationships or could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali faces a number of mining, production and logistical risks and hazards which could lead to economically harmful consequences and have an adverse effect on its business.

Uralkali is generally subject to a number of business-specific risks and hazards, including:

- industrial accidents;
- man-induced earthquakes;
- unexpected geological conditions;
- environmental hazards;
- electricity stoppages; and
- equipment or vessel failures.

These occurrences could result in damage to, or destruction of, mineral properties, production facilities, transportation facilities, equipment or vessels. They could also result in personal injury or death, environmental damage, waste of resources or intermediate products, delays or interruption in mining, production or transportation activities, monetary losses and possible legal liability, thus could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. Furthermore, although, ERCOSPLAN have concluded, following a comprehensive evaluation, that no specific flooding or mining risk exists in any of Uralkali's mines under operation, the general risk of flooding that does exist due to the inherent water solubility of the host rock, is common with all potash mines. There can be no assurance that flooding of these mines will not occur in the future and have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali's and SRK's analysis of Uralkali's reserves and resources may be materially different from mineral quantities that Uralkali may actually recover and market price fluctuations and changes in operating and capital costs may render certain ore reserves or mineral deposits uneconomical to mine.

Uralkali's and SRK's analysis of Uralkali's ore reserves represent quantities of ore and minerals that under present and anticipated conditions and anticipated extensions of certain licences have the potential to be economically mined and processed by the extraction of their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and resources and in projecting potential future rates of mineral production, including many factors beyond Uralkali's control, such as potential flooding of a particular mine. In addition, reserve engineering is a subjective process of estimating underground deposits of minerals that cannot be measured in an exact manner and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Estimates of different engineers may vary and results of Uralkali's mining and production subsequent to the date of an estimate may justify revision of estimates. Reserve and resources estimates may require revision based on actual production experience and other factors. For example, fluctuations in the market price of minerals, reduced recovery rates increased production costs due to inflation or other factors or failure to obtain licence extensions may render proved and probable reserves containing relatively lower grades of mineralisation uneconomic to exploit and may ultimately result in a restatement of reserves which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price the GDRs or the Shares.

It may not be economically, technically or otherwise feasible to develop Uralkali's exploration asset. Even if it is and the Company decides to construct a new mine, there may be significant risks associated with it.

Uralkali has an exploration asset, Ust-Yaivinsky field, or Mine 5. This is a prospect for which Uralkali has commissioned feasibility studies to assess the viability of establishing a further operating mine, and it does not expect this study to be completed by the end of 2008. Uralkali intends to make a decision on developing Mine 5 after the completion of the feasibility study. If Uralkali decides to develop Mine 5, it will be subject to significant risks. There are currently no businesses in Russia who have deep and longstanding experience in constructing and developing potash mines. If Uralkali decides to pursue plans to develop Mine 5, or any other mine in the future, it will face a significant challenge in executing this plan in light of this lack of expertise. Even if Uralkali finds the appropriate expertise problems that Uralkali may face in this regard include the following:

- Costs of developing the mine might materially exceed expectations. Uralkali's current capital expenditure programme does not include any amounts that might be required to develop Mine 5, in the event the Company makes a decision to pursue its development. If the Company elects to pursue development of Mine 5, the capital expenditures that will ultimately be required are likely to be considerably higher than those currently projected for capital expenditures generally.
- Uralkali could incur material liabilities as a result of the poor construction or development of the mine, for example, due to accidents or collapsing of the mine, or because of the environmental impact of the mine, if it is proven to be the Company's responsibility.

The foregoing risks regarding the development of Mine 5 could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. Even if Uralkali is successful in developing Mine 5, it may not be able to economically extract potash from that mine.

The potash market has a number of powerful competitors, each of which competes with Uralkali.

The Company has a number of powerful competitors in its key markets. See "Description of business — Competition" for a brief description of these competitors. Uralkali's competitors, some of which are large multinational corporations, may have certain advantages over Uralkali, including the following:

- *Creating strategic relationships with Uralkali's important customers.* PotashCorp, one of Uralkali's competitors, acquired a 10% share in Sinofert, Sinochem's Hong Kong listed fertiliser operations, in 2005 and an additional 10% share in 2006. Sinochem is an important customer of Uralkali, and the strategic relationships created by this investment may result in Sinochem purchasing less potash from BPC in the long-term. See "Description of business — Key markets and customers." These types of investments from Uralkali's competitors may become more prevalent and may result in less potash being purchased from Uralkali or BPC.

- *The ability to obtain more and cheaper sources of capital than Uralkali.* For example, PotashCorp is a US SEC registered company, which may be able to raise capital more inexpensively than Uralkali.
- *Access to more established markets with higher prices, such as the European Union.* In order to benefit from an exemption from anti-dumping duties granted by the EC Council, Uralkali must sell into the EU at or above a minimum price, and may not export into the European Union above a set limitation, referred to as a quantitative ceiling. Exports to the European Union sold at prices below the minimum prices or in quantities above the level of the quantitative ceiling are subject to an anti-dumping duty of 12.3%. See "— Uralkali faces protective trade restrictions in the export of its potash products to the European Union" for a further discussion.
- *Higher available production levels and increases in the structural capacity.* For example, PotashCorp reported that it had structural capacity of approximately 12.9 million tonnes of potash in 2006, significantly higher than Uralkali's, and produced 7.0 million tonnes of potash in 2006. Structural capacity and available production of Uralkali's competitors are important to Uralkali's business as the ability to increase world production levels affects the price Uralkali can charge for its products. See "— Prices for potash are affected significantly by the levels of supply and expansion of available production and/or structural capacity of potash producers, and either oversupply or overcapacity could have an adverse effect on Uralkali's business."
- *More potash reserves and the ability to extract them more cheaply than Uralkali.* The comparative level of potash reserves of Uralkali and its competitors, and the comparative costs involved in extracting them, is important for the long-term sustainability of Uralkali's business. Uralkali's competitors' reserves may be closer to key markets, have higher concentrations of potash than Uralkali's reserves, be shallower (and therefore less expensive to mine) or otherwise be superior to Uralkali's, giving the competitors a further advantage. See "Management's discussion and analysis of financial condition and results of operations — Operating costs and expenses" and "— Uralkali's production costs could increase."
- *Logistical advantages with respect to certain markets for potash.* For example, PotashCorp, Mosaic and Agrium have logistical advantages for supply to Canada and the United States, because of their proximity to those markets.

Any of the foregoing advantages and potential advantages of Uralkali's competitors over Uralkali could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

New entrants to the potash market could weaken Uralkali's competitive position.

Although the costs of developing new mines and production facilities are high, thereby acting as a significant barrier to entry in the potash industry, this could change. New competitors could obtain access to reserves through new discoveries or because existing reserves become economic, perhaps because of technological advances. These reserves may be larger than Uralkali's, closer to the key markets, have a better potash content than Uralkali's reserves, be shallower or otherwise be superior to Uralkali's, giving the new competitors an advantage. In addition, if prices for potash continue to rise, currently unprofitable greenfield projects could become profitable. The effect of a new competitor on potash prices could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. See "— Prices for potash are affected significantly by the levels of supply and expansion of available production and/or structural capacity of potash producers, and either oversupply or overcapacity could have an adverse effect on Uralkali's business."

Risks related to Regulations

Competition regulation in numerous jurisdictions, to which Uralkali and BPC are subject, may have an adverse effect on Uralkali's business.

Uralkali may be subject to antitrust enforcement in various jurisdictions, including, in respect of BPC, its 50/50 joint venture with Belaruskali for export sales. In addition, mere allegations of the violation of antitrust legislation in any jurisdiction in which its goods are sold may lead to Uralkali or BPC being the subject of investigation and charges under antitrust regulation.

In respect of BPC, Uralkali and Belaruskali have agreed to apportion a substantial part of the sales of their respective products through BPC on an agreed basis for each month, each year and each country. BPC purchases potash from Uralkali and Belaruskali pursuant to sale and purchase agreements at the sales price BPC agrees with its customers, less a fixed margin agreed by Uralkali and Belaruskali intended to cover the costs of operating BPC and less certain other costs. See "Description of business — Sales and marketing — BPC" and "Material contracts — BPC Charter" for a detailed description of BPC.

BPC, Uralkali and/or Belaruskali may be subject to the enforcement of antitrust laws in the countries in which BPC sells potash or in respect of which budgets are agreed, as a result of BPC jointly selling Uralkali's and Belaruskali's potash on behalf of Uralkali and its competitor, Belaruskali. A competition regulator could also conclude that there is scope for coordination between Uralkali and Belaruskali to spill over into other areas of commercial strategy, as information may be shared or a tacit understanding reached in respect of matters other than those that are referred to above. Uralkali sells into over 20 other countries, including into the European Union exempt from anti-dumping duties up to a quantitative ceiling with minimum price. See "— Uralkali faces protective trade restrictions in the export of its potash products to the European Union." Within the European Union, Article 81(1) EC prohibits agreements that may appreciably restrict competition and affect trade between Member States. Other jurisdictions, including the United States, have similar antitrust laws. Any agreement that is contrary to Article 81(1) EC is prohibited unless it meets the requirements for certain exemptions. These exemptions include a requirement that the agreement result in economic benefits that are passed on to consumers, that any restrictions on competition are indispensable to the achievement of these benefits, and that competition is not eliminated. The European Commission may well determine that these exemptions are not available in the case of BPC. BPC may well not benefit from exemptions in the antitrust laws of other jurisdictions, including the United States.

In February-April 2006, Uralkali received two enquiries from the FAS in relation to acquisition of 50% interest in BPC and BPC operations. Uralkali provided to FAS all the requested information, except for BPC documents that Uralkali does not have in its possession, and forwarded the FAS enquiries to BPC. BPC, however, refused to provide any of the requested information regarding it as a commercial secret under the law of Belarus and claiming that BPC is not obliged to disclose such information to the FAS. In addition, Mr. Rybolovlev has an interest in both Uralkali and Silvinit, Uralkali's principal competitor in Russia and Mr. Shevtsov, a member of the Board of Directors of Uralkali, is also a beneficial owner of shares in Silvinit. Uralkali's chief executive officer and counsel to Uralkali's Chairman of the Board of Directors also have seats on the board of directors of Silvinit. The Company and Silvinit have common shareholdings in companies that provide services to both Uralkali and Silvinit, which include the development of project documentation and sale of mining equipment. These cross-shareholdings and cross-directorships could also give rise to antitrust enforcement if it is determined, for example, that they provide scope for coordination between Uralkali and Silvinit. In April 2007, FAS established that Uralkali and Silvinit have a dominant position in the Russian potash market by holding more than 50% of the potash market, which is a relatively price-inelastic commodity. FAS also found that each of Uralkali and Silvinit violated the antimonopoly law by abusing the dominant position by establishing a monopolistically high price for potash on domestic market. Based on these findings, FAS sought to set the maximum price for domestic sale of potash by Uralkali and ordered Uralkali to pay a fine of approximately US$2.4 million. The Company appealed this decision and on 9 October 2007 the Arbitration Court of Moscow ruled against FAS's findings and prescription. FAS may challenge this decision in the appellate court, however, and if FAS's appeal is successful, the Company would be required to comply with the FAS prescription and sell potash on the domestic market at the regulated price. Even if FAS's appeal is unsuccessful, FAS would not be precluded from issuing further prescriptions to regulate domestic potash prices, which may have a material adverse effect on Uralkali's financial condition and results of operations. See "— Risks relating to the controlling shareholder and management" and "Description of business — Litigation — Claims relating to the Company."

Uralkali may seek to mitigate the risks of antitrust enforcement by competing with Belaruskali with respect to sales in to the European Union, in the United States or any other jurisdiction that Uralkali considers appropriate. Despite this, Uralkali could nevertheless be determined to be in breach of relevant antitrust laws if, for example, it was determined that avoiding sales in the relevant jurisdiction by BPC was insufficient to successfully reinstate the competition which would otherwise have existed.

Uralkali can therefore give no assurance that the BPC joint venture, matters relating to Silvinit, or any other matters relating to Uralkali, would not be determined to be in breach of Article 81(1) EC or antitrust laws in other jurisdictions, including the United States. Moreover, Uralkali can give no assurance that the

EU Commission, or other competition regulators, would not require Uralkali and Belaruskali to cease joint selling through BPC, or would not impose fines in such circumstances for breaches of antitrust laws. The EU Commission, for example, may impose fines for an infringement of Article 81(1) EC of up to maximum of 10% of the total group turnover of the undertakings concerned. Fines in other jurisdictions, such as the United States, could conceivably be higher. Antitrust enforcement, or the mere allegations of antitrust breaches by regulators or other persons, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

If FAS were to increase the level of control it exerts over certain of Uralkali's operations, Uralkali could face administrative sanctions, be required to divest certain assets or be subject to limitations in its operating flexibility.

Under the FAS prescription of 7 July 2006, which was further clarified in September 2006, FAS determined that Uralkali's market share of the Russian potassium chloride market exceeds 35%. This decision imposed a number of obligations on Uralkali, including an obligation to supply potash to domestic buyers on non-discriminatory terms (including prices) and to notify FAS in advance of any proposed transaction or joint action that may lead to a restriction of competition in the Russian potassium chloride market.

The notification requirement does not extend to transactions or joint actions made in ordinary course of the Company's business. During its discussions with the Company, FAS has noted that the ordinary course of business would include export activities of the Company, but there is no assurance that FAS will not reassess its position in the future. The Company's compliance with reporting requirements are likely to result in a greater awareness by FAS of Uralkali's business. There remains some doubt as to the further potential impact on Uralkali of the reporting requirements, in particular, their impact on activities through BPC. In certain circumstances, Uralkali's ability to export potash may be restricted by the requirement not to unreasonably refuse to supply potassium chloride to buyers in Russia.

In April 2007, FAS determined that Uralkali and Silvinit have a dominant position as defined under the Federal Law on Protection of Competition of 26 July 2006 (the "Competition Law") and have abused such dominant position by establishing a monopolistically high price for potash on domestic market by charging prices in excess of the sum of "*necessary production and sale expenses and profit*". FAS issued a prescription to the Company expanding its notification obligations and requiring the Company to charge an average weighted potassium chloride price for the domestic market for 2007 not exceeding RUR 2,950 per tonne, which is significantly lower than the price which the Company can obtain in the international market and lower than the contract prices with domestic buyers. The Company was also required to pay a fine of RUR 62,165,483 to the Russian federal budget. The Company appealed this decision and on 9 October 2007 the Arbitration Court of Moscow invalidated all of FAS's findings, prescription and penalties. FAS may challenge this decision in courts of higher instances, however, and if FAS's appeal is successful, the Company would be required to comply with the FAS prescription and sell potash on the domestic market at the regulated price. Even if FAS's appeal is unsuccessful, FAS would not be precluded from issuing further prescriptions to regulate domestic potash prices, which may have a material adverse effect on Uralkali's financial condition and results of operations.

These requirements or any changes to these requirements, such as limitations on further acquisitions or further specific pricing requirements, or on the ability of Uralkali to adjust its production and pricing to respond to changed market conditions, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations. See also "Regulatory matters — Regulation of competition."

In addition, if Silvinit decided to decrease its domestic sales, the Company's market share in Russia would increase accordingly and Uralkali may become a subject of a greater FAS review, and FAS may also require the Company to increase its domestic sales. Any such finding, determination or decision could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali faces protective trade restrictions in the export of its potash products to the European Union.

Uralkali faces protective tariffs, duties and quotas that reduce its competitiveness in, and limit its access to, the European market. Imports into the European Union of potash originating in Russia are generally subject to anti-dumping duties, set at €19.61 to €40.63 per tonne as at 11 July 2006 depending on potassium content. Uralkali (but not BPC in respect of Uralkali potash) currently benefits from favourable treatment in respect of its sales into the European Community, as it has agreed with the European Commission that it may import potash exempt from anti-dumping duties, provided that Uralkali adheres to certain restrictions, which include, amongst others:

- A stipulation that the exemption is available only up to a quantitative ceiling of 800,000 tonnes on European Union import volume. Imports above the level of the quantitative ceiling, or imports not falling within the scope of the agreement, are subject to an anti-dumping duty of 12.3%.
- An obligation on Uralkali to sell in the European Union at or above a minimum import price in respect of all imports, regardless of whether the imports are eligible for an exemption from the anti-dumping duty. Imports sold below the minimum import price are subject to an anti-dumping duty of 12.3%.
- A stipulation that the exemption is available only in respect of sales of potash produced and sold by Uralkali, or produced by Uralkali and sold by Uralkali Trading. Imports into the European Union through any other channel, including imports made by BPC, do not benefit from an exemption and are considered to be a breach of the agreement.
- An obligation to comply with certain reporting, notification and documentation requirements in respect of all potash imports into the European Union.

In the event of a breach of the agreement by Uralkali, the European Commission is entitled to withdraw its acceptance, regardless of the materiality of the breach. The European Commission is not bound to the agreement and may withdraw acceptance even if there is no breach. If acceptance was withdrawn, Uralkali would be subject to an anti-dumping duty of 12.3% on imports into the European Union. This could reduce sales volumes into the European Union which could have a material adverse effect on Uralkali's business prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali can give no assurance as to how this anti-dumping regime will evolve in the future. Uralkali cannot give any assurance that the European Commission will not amend the anti-dumping duties currently in force, or withdraw its acceptance of the agreement currently agreed. In addition, the European Commission may, at its discretion, vary or withdraw the duty free quota which has been granted to Uralkali and which entitles Uralkali to carry out exports into the European Union without paying duties. The European Commission may withdraw or vary Uralkali's duty free quota for reasons related to Uralkali's economic behaviour, and also for general political or economic disputes between Russia and Member States of the European Union, which may have no connection with Uralkali's own behaviour and over which Uralkali has no control. A decision to vary or withdraw Uralkali's duty free quota may make it more expensive for Uralkali to conduct its export operations into Europe. In the future, Uralkali may be subject to different anti-dumping duties, minimum import prices, quantitative ceilings or other restrictions or obligations. Any such changes may limit Uralkali's ability to sell potash to customers in the European Union. This is an important market for Uralkali, particularly because of the logistical benefits arising from Russia's proximity to Europe, as compared to many other producers. Were Uralkali's access to European markets to be impeded by changes to the anti-dumping regime currently in force, there could be a material adverse effect on Uralkali's business prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. See "Regulatory matters" for a further description of the anti-dumping duties imposed in respect of imports into the European Community of potash originating in Russia.

The environmental regulations to which Uralkali is subject, as well as its potential environmental liabilities, may have an adverse effect on its business.

Uralkali's operations and properties are subject to environmental, health and safety and other laws and regulations in the jurisdictions in which it operates, principally in Russia. For instance, Uralkali's operations generate air emissions, wastewater discharges and large amounts of by-products, including waste salt, mine tailings and other waste materials, some of which are hazardous. Uralkali has solid waste dumps located at each site for the disposal of industrial and domestic waste generated by that site. These dumps are typically situated in locations with clay soil which act as a natural liner system. The discharge, storage and disposal of such waste is subject to environmental regulations, some of which require the clean-up of contamination and reclamation. Such waste dumps also are a source of potential liability, including operational risk from the potential for uncontrolled release of landfill by-products such as methane gas and leachate and the potential for substantial remediation expenses, both during the operation of the mines and post-closure. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Additionally, under current Russian environmental legislation, Uralkali must make payments for air emissions, water discharges and waste disposals which are within specified limits as well as make increased payments for emissions, discharges and waste disposals in excess of these limits. Uralkali's total payments associated with overall pollution and waste disposal were approximately RUR 4 million in 2006 and RUR 2 million in the first half of 2007. For example, payment for waste disposal is based on the volume and category of waste and generation of the least hazardous category triggers the lowest amount of payment. Under Federal Law No. 89-FZ "On Industrial and Consumption Waste" of June 24, 1998, as amended, companies which operations generate hazardous waste are obliged to obtain expert examinations proving a particular hazardous category of such waste. Currently, most of the waste generated by Uralkali's operations (including waste salts and mine tailings) falls within the least hazardous category, confirmed in independent reports by a research institute within the Russian Academy of Medical Science and by Saint-Petersburg Institute of Toxicology. However, there can be no assurance that the Federal Service for Environmental, Technological and Nuclear Supervision (Rostechnadzor) will not make its own expert examinations which may result in recategorisation of Uralkali's waste from the least category to a superior hazardous category. Rostechnadzor can even seek applying such recategorisation retrospectively. Recategorisation of hazardous waste may result in Uralkali incurring increased liabilities and costs. Any increase in the amount of payments resulting from recategorisation of the Company's waste, increase in volume of waste, or amendments to the existing regulation could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares.

Furthermore, although Uralkali believes that it should not be held accountable for the environmental damage caused by the flooding at Mine 1, in accordance with the current classification of causes of the flooding, the Federal Service for Supervision of Natural Resources or another Russian state authority may seek a court order to find Uralkali liable for a share or whole of any environmental damage suffered by the surrounding area and, if it is proved that the flooding was in some way caused or contributed to by Uralkali, successfully demand compensation from the Company. Similarly, there can be no assurance that a court may not find Uralkali liable for any damages caused by such flooding to properties of third parties or any other damages, liabilities or losses incurred by individual members of the public. Uralkali's insurance agreements do not cover such risks of damage to third parties property resulting form Uralkali's underground activities. In addition, the Company may be forced by the government to compensate it for the damage caused to the state by loss of mineral deposit pursuant to the flooding, in accordance with the terms of Uralkali's sub-soil production license even though the Company believes the risk to be low since the relevant term of the licence is not necessarily consistent with the pertinent clause of current Russian legislation. See "— Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperative and has exposed Uralkali to potential financial liabilities."

Uralkali conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Russian Ministry of Natural Resources. Although the Company believes that it has complied with such requirements in all material respects, they do not require mines to achieve the approximate original contour ("AOC") of the property as is required, for example, in the United States. Other than in respect of Mine 1, the Company has not prepared closure and post closure plans for its mining and production plants and it has not made provisions for asset retirement obligations such as reclamation and restoration costs at its mining operations.

Should closure and post-closure plans for its remaining facilities and operations be developed in accordance with acceptable international standards, for example, as stipulated in the World Bank guidelines, SRK estimates in its report to a conceptual level that the closure liabilities would be as follows:

- Should closure have occurred at 1 January 2007, closure and post-closure liabilities would have been of the order of US$115 million (comprising US$100 million biophysical liability and US$15 million terminal benefits liability, for example, redundancy payments);
- Should closure occur on depletion of the Ore Reserves, closure and post-closure liabilities would be of the order of US$165 million (comprising US$150 million biophysical liability and US$15 million terminal benefits liability, for example, redundancy payments).

Though it has been enhanced since the Soviet era, environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. Nonetheless, recent press reports in Russia indicate that environmental protection agencies have become more proactive in carrying out their regulatory functions. In addition, more stringent standards may be introduced or enforcement increased in Russia in the future. Any change in the current regulatory environment could result in actual costs and liabilities for which Uralkali has not provided for or planned. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia could issue an order reducing or halting production at a facility that has violated environmental standards. In the event that production at one or more of Uralkali's facilities was partially or wholly prevented due to this type of sanction, its business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares could be materially adversely affected.

Furthermore, the implementation of the Kyoto Protocol to the United Nations Framework Convention on Climate Change from February 2005 or other regulation of greenhouse gas emission would entail capital expenditures or modifications in operating practices. The extent of the impact on Uralkali would depend on, among other factors, the base level against which permissible levels of emissions are to be measured and the allocation of quotas for such emissions, which is currently uncertain.

If any of the changes with respect to environmental regulations set out above were to occur, or if Uralkali incurs any environmental liabilities the Company could face significant losses and/or disruptions of its production operations, which could, any or in aggregate, have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Uralkali's operations are dependent on having received the required licences, permits and approvals from governmental authorities. A decision by a government agency to deny any of Uralkali's licences, permits and approvals or to impose restrictive conditions on Uralkali with respect to these licences, permits and approvals may have an adverse effect on its business.

Uralkali's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for Uralkali's mining operations in Russia. Uralkali's mining licences currently expire in 2013, other than the licence for Mine 5, which expires in 2024. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In addition to Uralkali's mining licences, Uralkali is required to obtain numerous licences, authorisations and permits of routine nature which are usually issued for a period of three or five years by various Russian governmental authorities. Such licences cover ancillary Uralkali's activities, including, among others, an exploration activity for the purpose of brine injections, a geodesic or cartographic or surveying activity, use or storage of explosive materials, etc. Approximately 21 ancillary licences and permits (other than Uralkali's mining licences) out of 52 licenses and permits in aggregate held by Uralkali as of the date of this Prospectus would expire by the end of 2008 and Uralkali would need to renew them.

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

As part of its obligations under licensing regulations and the terms of its licences Uralkali is also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor Uralkali's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect its activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licencees. As a result, while Uralkali seeks to comply with the terms of its licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences may not be suspended or terminated. In the event that the licensing authorities in Russia discover what they deem a "material" violation by Uralkali, it may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have a material adverse effect on Uralkali's business prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. In addition, under the Mine 5 licence, Uralkali is obliged to compensate owners of agricultural and forest land for loss of such land and loss of profits. Futhermore, the terms of the Company's sub-soil production license relating to its mines stipulate that in the event of an environmental or natural disaster, accident or catastrophe resulting in impossibility of further use of sub-soil mineral reserves, a license holder is obliged to reimburse the damage caused to the state by the loss of such mineral deposit. See "— Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperative and has exposed Uralkali to potential financial liabilities".

Any or all of these factors may affect Uralkali's ability to obtain, maintain or renew necessary licences or may cause it to incur additional costs. If Uralkali is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, or incurs liability with respect to its obligations to state authorities pursuant to the terms of a license, it may be unable to benefit fully from its potash resources, and may have to cease conducting its business as it does now, and it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Russian legislation is prone to frequent changes. Recently adopted amendments to the Russian legislation and pending new legislation with respect to fundamental regulation of business activity might affect Uralkali's operations in a way that may be difficult to ascertain.

In June 2005, the government of the Russian Federation introduced to the State Duma a new version of the Subsoil Law. However, this draft Subsoil Law was subsequently returned to the Ministry of Natural Resources for further revision. According to recent press reports, this draft Subsoil Law is now undergoing final review in various Russian state agencies and will be soon introduced to the State Duma for its further consideration. The nature and scope of regulation of the new Subsoil Law and its potential impact on Uralkali's operations are currently uncertain.

In October 2006, a new Federal Law on Protection of Competition (the "Competition Protection Law") became effective, essentially superseded the Law on Competition and Limitation of Monopolistic Activity on the Commodities Markets of 22 March 1991. The new law conceptually changes currently existing antimonopoly legislation in many ways. For example, it introduces a more detailed regulation of determination of a dominant position and cartel and related agreements. In addition, the new law provides for new procedures for FAS clearance with respect to intra-group transactions. See "Regulatory matters." Possible application and interpretation of provisions of the newly adopted law by Russian state authorities and courts (including provisions regarding dominant position and cartel and related agreements) are subject to a high degree of uncertainty and this could have a material adverse effect on Uralkali's business, prospects financial condition and results of operations and/or on the price of the GDRs or the Shares.

If the Perm Region government exercises its right to purchase from Uralkali a portion of produced potassium chloride, it might have an adverse effect on Uralkali's business.

Pursuant to the terms of its licences, Uralkali is obliged to sell to the government of the Perm Region a portion of produced potassium chloride in order to satisfy internal demands of Perm Region in potash. Such sales must be made on the basis of annually executed sale and purchase agreements. Although the government of the Perm Region has never purchased potash from Uralkali pursuant to such provisions or sought to enter into any sale and purchase agreements, there is no assurance that it will not do so in the future. In addition, provisions of the licences of Uralkali regarding the right of the government of the Perm

Region to purchase a portion of potassium chloride produced by Uralkali are vaguely drafted, leaving wide scope for interpretation by the government of the Perm Region of these provisions in terms of both the amount and price of potassium chloride that may be purchased. If the government of the Perm Region were to purchase potash from Uralkali pursuant to such licence provisions it could have an adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

If the Russian Federal Tariffs Service were to include JSC BBT in the register of natural monopolies, JSC BBT could be subject to limitations in its operating flexibility.

Federal Law No. 147-FZ on Natural Monopolies of 17 August 1995, as amended (the "Natural Monopoly Law") defines a "natural monopoly" as a condition on the commodities market where a demand for particular products or services is satisfied more effectively in the absence of competition and where the monopoly product or service cannot be easily replaced by another one. Under this law, providers of transport terminal and port services are considered natural monopolies. In 2003, the Federal Energy Commission carried out an analysis of JSC BBT's activities in order to include JSC BBT in the register of natural monopolies. Nevertheless, as far as the Company is aware, a decision to include JSC BBT in the register of natural monopolies has not yet been taken. However, no assurance can be given that such a decision will not be taken in the future.

If such a decision is taken, the relevant regulatory authorities will be able to regulate BBT's activities by, among other things, determining tariffs for BBT's services and requiring JSC BBT to provide certain levels of services to particular consumers. This may result in BBT being unable to carry out shipment of Uralkali's cargoes within the quantities required by Uralkali. In addition, if JSC BBT is included in the register of natural monopolies and if tariffs for JSC BBT's services are fixed by the state authorities, such tariffs may be lower than the market value of JSC BBT's services. Any of these consequences may, separately or in the aggregate, have a material adverse effect on Uralkali's business, prospects, financial condition or results of operations and/or on the price of the GDRs or the Shares.

Risks Relating to the Controlling Shareholder and Management

Uralkali has been and will continue to be controlled by Uralkali's majority shareholder, whose interests may conflict with those of other shareholders.

Immediately following the Offering, Madura Holding Limited ("Madura") will continue to retain a majority and controlling interest in Uralkali. Mr. Rybolovlev is the sole director of Madura and Madura is a company which acts and has historically acted in accordance with the instructions of Mr. Rybolovlev. Uralkali's charter provides that, if not otherwise required by law, resolutions at a shareholders' meeting will be adopted by a simple majority at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Madura will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, directly or indirectly, the majority of Uralkali's ordinary shares, will control appointment and removal of the majority of directors. There can be no assurance that either Mr. Rybolovlev or his successor would always act in the best interests of other shareholders in the Company.

Mr. Rybolovlev is the beneficial owner of substantial shareholdings in a number of companies and his interests may conflict with those of Uralkali or its other shareholders. Any sales of his stake in Uralkali will reduce its relative value compared to his other holdings and may increase his conflicts of interest, thereby exposing Uralkali to an increased risk that he may not act in the best interest of Uralkali.

For example, Mr. Rybolovlev beneficially owns 19.47% of the ordinary shares and 2.22% of the preferred shares in Silvinit, which is a direct competitor of Uralkali both in the Russian market and in many of Uralkali's key export markets, including China. Mr. Rybolovlev has publicly stated that he does not have any plans to cede control of Uralkali in the foreseeable future. However, Mr Rybolovlev may consider from time to time options for the disposal of his interests in Uralkali and there can be no assurances that he will not dispose of any such interests in the future. Interests in the Selling Shareholder could be disposed of during the period of the lock-up since Mr. Rybolovlev is not a party thereto. See "Description of business — Competition." Mr. Rybolovlev or Mr. Shevtsov could use their influence over Silvinit in a manner that could conflict directly with Uralkali's interests. This cross-shareholding in a direct competitor of Uralkali may also increase the risk of enforcement of competition rules. In addition, Silvinit has in the past discussed entering the BPC joint venture as an equal shareholder although the Company does not believe Silvinit's participation is imminent. Were Silvinit to join BPC in the future, however, the risk of enforcement of competition rules in respect of BPC may be increased, as Silvinit would no longer compete with Uralkali and Belaruskali on any markets in which BPC sells on behalf of Silvinit. See "Risk factors — Risks related to regulations — Competition regulation in numerous jurisdictions, to which Uralkali and BPC are subject, may have an adverse effect on Uralkali's business."

Any of these conflicts could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

The Company's chief executive officer is also on the board of directors of Silvinit, Uralkali's direct competitor, in a non-executive role.

Mr. Baumgertner, the Company's chief executive officer, is also on the board of directors of Silvinit, a direct competitor of Uralkali both in the Russian market and in many of Uralkali's key export markets, including China. Mr. Baumgertner could use his influence at Silvinit in a manner which could conflict directly with Uralkali's interests. Mr. Baumgertner is in possession of a substantial amount of confidential information as it relates to Uralkali and BPC, and it may be contrary to Uralkali's interests for any such information to be disclosed to Silvinit or for that information to inform any of the decisions he makes as a director of Silvinit or any of the views he takes in his capacity as director of Silvinit. This involvement in the management of a direct competitor of Uralkali and BPC may increase the risk of enforcement of competition rules, even in the absence of Silvinit joining BPC joint venture. See "Risks related to regulations — Competition regulation in numerous jurisdictions, to which Uralkali and BPC are subject, may have an adverse effect on Uralkali's business." In addition, Mr. Shevtsov, a member of the Board of Directors and a beneficial shareholder of Uralkali, is a beneficial owner of 5.65% of ordinary shares and 0.29% of preferred shares in Silvinit. Likewise, Mr. Shevtsov could use his influence over Silvinit in a way that could conflict directly with Uralkali's interests. Any of these conflicts could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

If Uralkali or BPC were to lose its key employees, it may not be able to continue its business operations.

Uralkali believes its continued success depends on the collective abilities and efforts of its senior management and that of BPC. Additionally, if Uralkali or BPC loses one or more key personnel or is unable to find, hire and retain needed key personnel in the future, it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. Uralkali is reliant on a number of key employees including its CEO, Vladislav Baumgertner, CFO, Kuzma Marchuk, and others such as Oleg Petrov, a key employee of BPC. Oleg Petrov is in charge of sales and marketing, including selling and distribution strategies, product allocation, pricing, logistical and promotional policies and most importantly, negotiation of customer contracts. Mr. Petrov also negotiates or is involved in the negotiation of most of Uralkali's export sales, made directly and through BPC. Mr. Petrov has key relationships with many of the significant customers for Uralkali's products, in particular in China, India and Brazil, and Uralkali has relied on him for many years. See "Description of business — Sales and marketing" and "Directors and management." No other employees of Uralkali and BPC have the key knowledge of trading markets or familiarity with customers and logistics, and Mr. Petrov is responsible for implementing a great number of Uralkali's marketing strategies. The loss of the services of key personnel could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

If Mr. Petrov were to work for a competitor using his knowledge of the markets into which Uralkali exports, it could put Uralkali at a significant disadvantage and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Risks relating to Uralkali's assets and business

Due to uncertainties inherent in Russian privatisation, Uralkali may face challenges relating to its privatisation and challenges to the ownership of its facilities.

The Company is a Russian open joint stock company that was established in 1992 in the course of its initial privatisation when it was reorganised from a state enterprise into an open joint stock company. Between 1992 and 1995, the Company underwent a second stage of privatisation when most of its shares were sold by the state to the public. However, from 1992 to 1998, the state had significant control over the Company's activities through retaining, during the Company's initial privatisation, a so called "golden share" in the Company's charter capital that gave the state the right to veto certain decisions of the Company's shareholders meetings. The "golden share" owned by the state was converted into ordinary shares in 1998. To the extent that Russian privatisation laws have been vague, inconsistent or in conflict with other laws, including conflicts between federal and regional privatisation laws, many Russian privatisations are arguably deficient and therefore vulnerable to challenge. For example, a series of Presidential decrees issued in 1991 and 1992 granted to the Moscow City government the right to adopt its own privatisation procedures; the Constitutional Court of the Russian Federation subsequently invalidated them, ruling, in part, that the Presidential decrees addressed issues that were the subject of federal law. As a result, many privatisations in Russia are arguably deficient and may be subject to challenge, at least on technical grounds, including through selective action by governmental authorities motivated by political or other extra legal considerations or through actions by competing powerful economic groups. Some uncertainty exists in respect of strict compliance with applicable law of the exchange of the "golden share" held by the state into ordinary shares. If Uralkali or its core shareholder faces a claim that it or any of its assets has been improperly privatised (including in respect of the exchange of the "golden share"), the shareholders of Uralkali may lose their rights to the Shares, the Russian government may increase its control over Uralkali's activities and Uralkali may lose its rights to other assets, which could materially affect Uralkali's business, prospects, results of operations and financial condition and/or on the price of the GDRs or the Shares.

Third parties could challenge Uralkali's title to or other rights in land that it owns or leases.

In accordance with current Russian law, Uralkali either owns or leases the land plots in which it mines or where its processing plants are located. Any challenge to the validity or enforceability of Uralkali's title to or Uralkali's rights in such land could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

JSC BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex.

Although JSC BBT, a wholly-owned subsidiary of the Company, operates a universal mineral fertiliser shipping complex that provides valuable sea transportation services to Uralkali and bore 100% of the costs for its construction, JSC BBT is in the process of obtaining fully registered title to the shipping complex and faces certain risks and uncertainties in respect of property rights essential for the operation of the complex. See also "Material Contracts — Material contracts of BBT." Should any of the risks indicated below materialise, it may disrupt Uralkali's downstream activities through BBT, and in extreme cases may make Uralkali unable to secure its rights to the shipping complex. Almost all of Uralkali's export sales for transport by sea are transported through BBT. Accordingly, Uralkali is heavily reliant on BBT.

JSC BBT faces the following risks and uncertainties in respect of property rights essential for the operation of the complex:

- *Lack of Registered Property Title to the Shipping Complex.* JSC BBT and OJSC St. Petersburg Sea Port ("St. Petersburg Sea Port"), a partner of JSC BBT under the joint operating agreement with respect to construction of the shipping complex, have registered joint ownership property rights in proportion of 98% and 2%, respectively, to certain buildings forming the shipping complex. The joint title of JSC BBT and OJSC St. Petersburg Sea Port to the entire shipping complex has not been yet registered with a special state register. The state registration of title in Russia involves a cumbersome process of obtaining various consents and approvals from state authorities supervising construction prior to registration and the respective Russian regulations are vague and uncertain. Failure to register title to the Shipping Complex by the parties may have a material adverse effect on JSC BBT and Uralkali's business.

- *Acquisition of material rights to real estate by JSC BBT is dependent on the performance by St. Petersburg Sea Port under the agreements between the two parties.* JSC BBT's ability to acquire title for the shipping complex and lease rights for the underlying land plot depends on the performance by St. Petersburg Sea Port under the agreements relating to construction of the shipping complex. Any failure of St. Petersburg Sea Port to perform under, or any successful challenge in respect of, these agreements will have a material adverse effect on JSC BBT and Uralkali's business.

- *Lack of Long-Term Registered Lease Rights to the Land Plot Underlying the Shipping Complex.* The written lease agreement in respect of the original land plot of approximately 15 hectares between

St. Petersburg Sea Port and the City Property Management Committee of St. Petersburg expired on 31 December 2003. Upon expiration of this initial term, the lease was extended for an unidentified period of time by virtue of applicable Russian law. Given the unidentified term of the lease, the City Property Management Committee of St. Petersburg has the ability to unilaterally terminate the lease for the original land plot upon a three-month notice. Certain buildings constituting the shipping complex were built on the additional land of approximately 8 hectares that was not covered by the written lease agreement with the City Property Management Committee of St. Petersburg. In December 2004, the St. Petersburg Government expanded the original land plot to 23 hectares. St. Petersburg Sea Port is seeking to consolidate the land plot leased under the written lease agreement with the additional land into one land plot underlying the entire shipping complex, which is a prerequisite to the execution of a long-term lease agreement with the relevant state authorities. A failure of St. Petersburg Sea Port to perform all legal formalities with respect to consolidation of the land plot and execution of a long-term lease for such land plot may prevent JSC BBT from securing its rights in the shipping complex, which would adversely affect JSC BBT's operations. In an extreme case, JSC BBT's title to certain parts or all shipping complex could be impaired or even lost or third parties may claim that JSC BBT uses the underlying land plot unlawfully.

- *JSC BBT has no registered rights in respect of berth No. 106, which is essential for operation of the Shipping Complex.* Effective operation of the Shipping Complex also depends on JSC BBT's 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. Since August 2005, JSC BBT has been operating berth No. 106 without having any registered right to such berth 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 is complicated because St. Petersburg Sea Port has not completed the necessary formalities to register the berth as a real estate unit. Moreover, when such formalities are completed, the lease over it may be required to be awarded through a tender. While JSC BBT applied for the conclusion of the lease agreement, taking the view that the tender requirements shall not be applicable due to JSC BBT's operation of berth No. 106, such position may be open to challenge and JSC BBT may be required to participate in a tender in respect of the lease of berth No. 106. In such case, no assurance can be given that JSC BBT will prevail in such tender. Any failure to secure proper registered rights in respect of berth No. 106 will prevent Uralkali from loadings its products and will disrupt its activities through JSC BBT.

- *A portion of JSC BBT's railway track, loading equipment and other infrastructure is located on a land plot to which it does not have any rights.* Part of a dam owned by OJSC St. Petersburg Generating Company, and some water area adjacent to the dam, were used for back-filling followed by a construction of a railway track on such back-filled land. An additional land plot behind berths No. 106 and No. 107 has also been back-filled but has been registered as a real estate unit with the relevant state authorities. JSC BBT does not have any registered rights (whether title or lease) in respect of both land plots so created by back-filling. JSC BBT is currently considering various options relating to the formalisation of its rights of use regarding the portion of the dam and the back-filled land plots. If JSC BBT fails to acquire such rights with respect to the dam and the land plots, JSC BBT may be forced to dismount a portion of its railway track or other properties located thereon, which may lead to additional expenses, and may be subject to claims from OJSC St. Petersburg Generating Company or the state authorities for the unauthorised use of land. In addition, there is a risk that JSC BBT may be subject to environmental liability as a result of the unauthorised use of a water area. Sanctions may include fines and/or suspension of JSC BBT's activities.

- *Congestion in and around the St. Petersburg port may impact upon Uralkali's operations conducted out of BBT.* Traffic congestion in the waters surrounding the north west of Russia, specifically in the vicinity of St. Petersburg, may result in significant congestion at the St. Petersburg port. This congestion may have an impact on Uralkali's operations from BBT, and may restrict Uralkali's ability to meet its shipping obligations. In addition, this significant congestion may hinder any future plans Uralkali may have to expand production output from this port.

- *In certain circumstances it may become more challenging for Uralkali to make shipments from BBT.* In certain circumstances, it may become more challenging for Uralkali to conduct its operations out of BBT. For example, the companies that provide Panamax size vessels to Uralkali for operations outside of Russian territory waters in St. Petersburg may, in certain circumstances, have no vessels available for this purpose, which may mean that Uralkali is unable to fulfill certain of its shipping obligations out of BBT. In certain circumstances, these companies may also increase freight charges payable by Uralkali, which would make it more expensive for Uralkali to carry out its operations out of BBT. In addition, environmental protection groups may attempt to enforce environmental regulations against Uralkali, which may make it more challenging for Uralkali to carry out its operations from BBT.

If any of the foregoing risks were to take place, it could have a material adverse effect on Uralkali's business, prospects, financial condition or results of operations and/or on the price of the GDRs or the Shares. In addition, the assets of JSC BBT may become impaired for accounting purposes.

Any successful challenge to certain interested party transactions or major transactions by minority shareholders of the Company or its subsidiaries could result in a court invalidating such transactions.

Russian law requires a company that enters into interested party transactions to obtain special approvals. See "Description of share capital and certain requirements of Russian legislation — Certain requirements of Russian legislation — Interested party transactions."

The Company and its subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other companies in Uralkali's consolidated group and affiliates of Uralkali that may be considered "interested party transactions" under Russian law, requiring approval by a majority vote of the "independent disinterested directors" or of the "disinterested shareholders," in advance of a particular transaction. In particular, the Company relies to a large extent on its export agreements with BPC and Uralkali Trading and various service contracts with OJSC Galurgiya.

Russian law also requires a company that enters into major transactions to obtain special approvals. See "Description of share capital and certain requirements of Russian legislation — Certain requirements of Russian legislation — Major transactions." The Company and its subsidiaries have in the past carried out, and continue to carry out, certain transactions that may be considered "major transactions" under Russian law requiring special approval and possibly giving rise to appraisal rights to its shareholders.

In the past, no approvals were sought for certain transactions between and among the Company, its subsidiaries and other affiliates of Uralkali as interested party transactions or major transactions in accordance with the procedures set forth in Russian law. Although Uralkali believes these interested party transactions and major transactions generally took place on market terms, the Company's minority shareholders or minority shareholders of its subsidiaries could challenge them in court on the grounds that they lacked the requisite corporate approvals. In addition, Uralkali might fail to obtain proper approvals for interested party transactions or major transactions in the future or the Company's minority shareholders or minority shareholders of its subsidiaries might prevent the approval of such transactions in the future.

In the event that minority shareholders successfully contest existing or future interested party transactions or major transactions of Uralkali, or prevent the approval of these transactions in the future, this could limit Uralkali's operational flexibility and have a material adverse affect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs of the Shares.

Crime and corruption and related press speculation could disrupt Uralkali's ability to conduct its business and have an adverse effect on Uralkali's business.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant organised criminal activity has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further their own interests or the interests of certain individuals. Any allegations of involvement in such practices would pose a risk of prosecution and of possible criminal or administrative liability.

In addition, published reports indicate that a significant number of Russian media regularly publish biased articles in return for payment. There is also a noted tendency amongst the local and international press to generate speculative reports that contain allegations of criminal conduct or corruption on the part of Russian companies or individuals within Russian companies, irrespective of whether those allegations have any basis in fact.

Speculation or allegations about the chairman of Uralkali's Board of Directors and indirect controlling shareholder, or other directors or executive officers of Uralkali or BPC, could materially adversely affect Uralkali's and/or BPC's reputation and the price of Uralkali's GDRs or the Shares.

In 1996, Mr. Rybolovlev and Mr. Shevtsov were charged with conspiracy to commit murder and Mr. Rybolovlev was charged with unlawful possession of firearms. Both Mr. Rybolovlev and Mr. Shevtsov were acquitted on all counts at every stage of the ensuing trial proceedings, and were finally and absolutely acquitted before the Presidium of the Supreme Court of the Russian Federation, which is the highest court for criminal cases in Russia. Notwithstanding these acquittals, particularly given the nature of the Russian environment, including the Russian press, it cannot be excluded that future speculation or allegations about these or similar matters which include references to Uralkali, BPC, or to their respective shareholders, directors or executive officers, whether or not accurate, could materially adversely affect Uralkali's and/or BPC's reputation and the price of Uralkali's GDRs or the Shares.

The Company and its affiliates enjoy favourable tax treatment in various jurisdictions; any challenge, withdrawal or change in such favourable tax treatment may have an adverse effect on Uralkali's business.

Perm Region in Russia. In 2001, the local regional authorities in the Perm region in Russia where the Company has its main production assets established a favourable tax regime for certain types of companies by lowering the sub-federal portion of the profits tax rate, resulting in the overall profit tax rate decreasing from 24% to 20%. The criteria for application of such reduced rate were revised in March 2006. The Company believes that it qualified under the old criteria, and complies with the new criteria, for the favourable tax treatment in the Perm Region. Nonetheless, no assurance can be given that the criteria will not change in the future or that the Company would be able to comply with the criteria if they were changed, therefore no assurance can be given that the Company will continue to qualify for the reduced tax rate, or that the favourable tax regime established in the Perm Region in respect of the profits tax will be maintained or will not be revised in a way that it will no longer apply to the Company. Any revocation or adverse changes in the favourable tax regime afforded to Uralkali and its affiliates may have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Belarus. Since its formation in late 2005, BPC has been subject to taxation in accordance with the general Belorussian tax legislation, as well as specific regulations applicable only to BPC. One of the applicable regulations established an individual tax regime for BPC for profits generated from the sales of potash fertilisers. While management of Uralkali takes every effort within its authority to comply with the current tax regime for BPC, no assurance can be given that the favourable tax regime established in Belarus will be maintained in its current or a more favourable form. If it were not maintained in its current or a more favourable form, there could be a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. At the end of 2006 and beginning of 2007, BPC opened representative offices in China, India and Singapore, and Brazilian and US subsidiaries, that do not trade in their own name but facilitate BPC's sales in relevant markets. The local tax authorities in the jurisdictions where BPC maintains such representative offices and subsidiaries may potentially challenge the tax treatment and position of BPC in the applicable jurisdiction. Notwithstanding the fact that the representative offices in China, India and Singapore were given tax exempt status upon registration, and the Company's management takes every effort within its authority to comply with local tax legislation applicable to BPC in the relevant jurisdictions and mitigate the risk of challenge from the local tax authorities, no assurance can be given that the consequences of such risk being realised will not have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Switzerland. In 2005, Uralkali started to conduct its export sales through Uralkali Trading, the Company's wholly-owned trading subsidiary incorporated in Switzerland. Pursuant to applicable legislation, Uralkali Trading obtained a ruling from the Swiss sub-federal (i.e., cantonal) tax authorities regarding taxation of Uralkali Trading in Switzerland, including in respect of Swiss federal taxes. Although the sub-federal tax authorities were authorised to provide this tax ruling, the Swiss federal tax authorities have not tested, or opined on, the application of that ruling in practice. If the Swiss federal tax authorities determine that the assertions set out in the tax ruling do not provide a sufficient basis for the ruling, they may revoke or materially change such ruling. Any such revocation or adverse change in the Swiss tax ruling may have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Gibraltar. In 2005-2006, Uralkali Trading (Gibraltar) Limited ("UTGL") operated through branches in Singapore, China and India and a subsidiary in Brazil, and provided support services to Uralkali Trading by facilitating its trading activities. A significant part of such support services was in practice performed by UTGL's respective branches and the subsidiary. The relevant local tax authorities where UTGL maintained its branches and subsidiary may potentially challenge the tax treatment and position of UTGL in the applicable jurisdiction. While the Company's management takes every effort within its authority to comply with local tax legislation in the relevant jurisdictions applicable to UTGL and mitigate the risk of challenge from local tax authorities, no assurance can be given that the consequences of such risk being realised will not have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Vaguely drafted Russian transfer pricing rules and other tax laws as well as a lack of reliable pricing information may have an adverse effect on Uralkali's business.

Russian transfer pricing rules became effective in 1999, giving Russian tax authorities the right to control prices, make transfer pricing adjustments and impose tax liabilities with respect to transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates from the market price by more than 20%. Special transfer pricing rules have been developed for operations with securities and derivative instruments. The Russian transfer pricing rules are broad in scope and vaguely drafted, leaving wide scope for their interpretation to the discretion of Russian tax authorities and courts, each of which may use the transfer pricing rules as catalysts for politically motivated investigations and prosecutions. In the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction, especially when such counterparty is subject to tax in a foreign jurisdiction. Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force as early as 2008. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, this could have a material adverse impact on the Company's business, prospects, financial condition and results of operations and on the price of the Shares and GDRs.

Uralkali is transitioning much of its export sales from Uralkali Trading to BPC. The price at which Uralkali's potash is sold to BPC takes into account a fixed margin for BPC, which is projected at a level of about 1.2% of the price at which BPC sells to its customer, net of distribution, administrative and certain other costs. This margin is significantly lower than the margins at which Uralkali Trading operates and has operated for similar purchases from the Company and sales to its customers. The Company believes that the respective operating margins of BPC and Uralkali Trading fall within the range for transactions on an arm's length basis.

Due to the uncertainties in the interpretation of transfer pricing legislation, however, no assurance can be given that the tax authorities will not challenge Uralkali's prices (including prices for the sales of Uralkali's products, as well as prices for mined ore used by the Company to calculate the natural resources extraction tax) and propose price adjustments. If such price adjustments were to be upheld by the Russian courts and implemented, the results of Uralkali's operations could be materially adversely affected. In addition, the Company's prior tax payments could be reassessed, and the Company would have to pay any deemed unpaid taxes and the related interest and penalties, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

The Company must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put the Company into default.

The Company has total short- and long-term borrowings of RUR 9,519 million and total shareholders' equity of RUR 21,044 million as of 30 June 2007. The Company is subject to certain financial and other restrictive covenants under the terms of its indebtedness that may limit its ability to, among other things:

- borrow money;
- create liens;
- give guarantees;

- make acquisitions;
- sell or otherwise dispose of assets;
- engage in mergers, acquisitions or consolidations;
- declare and pay dividends; and
- changes in shareholding structure.

The terms of the Company's indebtedness also require it to operate within certain specified financial ratios. For example under the hedging arrangement with ABN AMRO Bank CJSC, the Company is obliged to procure that the interest cover ratio shall be equal or not less than 5 and that the ratio of total debt to EBITDA shall be equal or not less than 2.5.

The need to observe financial ratios and other restrictions could hinder the Company's ability to carry out its business strategy. In addition, a breach of the terms of the Company's indebtedness could cause a default under the terms of its indebtedness causing some or all of its indebtedness to become due and payable. Such action could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of GDRs or the Shares. It is uncertain whether the Company's assets would be sufficient to generate the funds necessary to repay the Company's indebtedness in the event of its acceleration.

In addition, all of the Company's indebtedness is secured by a pledge of equipment, rail cars and receivables. See "Management's description and analysis of financial condition and results of operations — Description of existing bank debt obligations."

Finally, the Company is exposed to interest rate risk. For a discussion of this exposure, see "Management's discussion and analysis of financial condition and results of operations — Exchange and interest rate risk."

The Company's accounting systems and internal controls may not be as sophisticated or robust as those of companies organised in jurisdictions with a longer history of compliance with generally accepted reporting practices.

Russian companies are not required to adopt IFRS or to certify the systems of their internal controls. Many Russian companies that have only recently adopted IFRS, including the Company, have not implemented or are in the process of implementing accounting systems or systems of internal controls that are commonplace in countries with a longer history of reporting in accordance with international standards. The lack of such systems may make the Company's financial information less reliable than that of companies that have implemented these systems and could jeopardise the quality of decision making by the Company's senior management.

As IFRS standards have been adopted by a growing number of Russian companies only recently, many Russian companies, including the Company, are not as experienced with or knowledgeable about IFRS or systems of internal controls. As a result, the Company:

- lacks sufficient accounting personnel with experience in the application and interpretation of IFRS;
- has limited experience in exercising the judgment required by IFRS;
- has not fully developed and implemented the methodologies required for the preparation of IFRS financial statements, such as internal control frameworks, including systems to facilitate the reporting of business transactions and other relevant matters to the personnel responsible for the preparation of IFRS financial statements, and risk assessment activities; and
- has limited capacity and little experience to implement integrated information technology and business process automation systems that enable dual accounting under Russian Accounting Standards ("RAS") and IFRS, which could facilitate the preparation of IFRS financial statements including timely preparation of annual and condensed consolidated interim financial statements.

Financial statements prepared by the Company's subsidiaries under RAS, require significant reprocessing to present financial data in accordance with IFRS, because RAS differs significantly from IFRS.

In addition, the Company's internal controls relating to preparation of its financial statements are not commensurate with the increasing scope and volume of its business. The Company's management information system, financial reporting function and system of internal controls may also be less developed in certain respects than those of fertiliser producers that operate in more developed markets and may not provide the Company's management with as much or as accurate or timely information as those in more developed markets. The Company's management pays considerable attention to the development of such information systems, reporting functions and internal controls in order to minimise the risks that critical business decisions regarding budgeting, planning and other matters may be based on incomplete or inaccurate information. For example, the Company is currently in the process of expanding the scope of its Oracle management information system to allow key management reports to be generated directly instead of manually and retained Ernst & Young to help develop more robust internal control procedures. In addition, it is intending to improve the accounting function at the subsidiary level to help ensure the accuracy and timeliness of information provided to management and to require the maintenance of improved documentation underlying transactions. However, the Company may be unable to remedy weaknesses in internal controls, prevent future weaknesses from occurring or otherwise implement measures to upgrade its internal controls, in which case there is a risk that misstatements in amounts that would be material in relation to the consolidated financial statements of the Company may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, the Company may be unable to remedy weaknesses in internal controls, prevent future weaknesses from occurring or otherwise implement measures to upgrade its internal controls, in which case there is a risk that misstatements in amounts that would be material in relation to the consolidated financial statements of the Company may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Notwithstanding the above, Uralkali believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA as a listed entity.

Risks relating to the Offering and Shares or GDRs

Future sales of the Company's Shares or GDRs may affect the market price of the Shares or GDRs.

Sales, or the possibility of sales, of substantial numbers of the Company's Shares, or Company's Shares in the form of GDRs, in the public markets, including the Russian stock market, following the offering could have an adverse effect on the trading prices of the Shares or GDRs or could materially adversely affect the Company's ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may reduce the percentage ownership of the Company's existing shareholders. Moreover, newly issued Shares may have rights, preferences or privileges senior to those of the Shares.

The Company may issue additional ordinary shares or other securities convertible or exchangeable into ordinary shares. Any such issues could result in an effective dilution to investors purchasing GDRs in the Offering and/or adversely affect the market price of the GDRs.

The Offering may not result in an active or liquid market for the Shares or GDRs, and their price may be highly volatile.

Although the Shares have been admitted to trading on the RTS, trading volumes on that market have been relatively low and may remain low even after the Shares are admitted for trading on the London Stock Exchange. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Furthermore, the Company's Shares may cease to be listed on the RTS in the future.

If a liquid trading market for the Shares or GDRs does not develop, the price of the Shares or GDRs may be more volatile and it may be more difficult to complete a buy or sell orders. The liquidity in the Shares or GDRs may also be impaired if the Group is unsuccessful in placing all the Shares or GDRs. The Offer Price has been determined by negotiation between the Selling Shareholder and the Lead Managers and may not be indicative of the price at which the Shares or GDRs will trade following completion of the Offering. After the Offering, the Shares or GDRs could be subject to significant fluctuation and investors may not be able to resell the Shares or GDRs at or above the Offer Price.

Because the Depositary may be considered under Russian law to be the legal and beneficial holder of Shares represented by the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Russian law may not recognise GDR holders as beneficial owners of the underlying Shares. Accordingly, holders of GDRs could lose all of their rights to those Shares if the Depositary's assets in Russia are seized or arrested. In that case, they would lose all the money they invested. Russian law may treat the Depositary as the beneficial owner of the Shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs. Under the United States and the English legal systems, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial," or real owners. In US or UK courts, an action against the Depositary, the legal owner of the shares, would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognise the rights of the Depositary in whose name the Shares are held, not the rights of GDR holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying Shares as the assets of the Depositary, open to seizure or arrest. In the past, a lawsuit was filed against the Depositary seeking the attachment of various Russian companies' shares represented by GDRs issued by the Depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the Shares underlying the Company's GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares.

In particular, since May 2007, the Federal Custom Service of the Russian Federation has been pursuing a claim against The Bank of New York, seeking in excess of $20 billion in monetary damages, based upon allegations relating to certain funds transfers made through accounts at The Bank of New York in the 1990s. The Bank of New York has indicated that it believes that it has meritorious procedural and substantive defenses to the allegations. However, should the Federal Custom Service seek attachment of the Company's Shares represented by the GDRs issued by the Depositary, there cannot be any assurance that the Shares underlying the Company's GDRs would not be seized or arrested and the GDR holders involved would not lose their rights to such underlying Shares.

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

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the terms and conditions of the GDRs and relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Company's Charter requires it to notify shareholders at least 30 days in advance of any meeting and, in relation to an extraordinary meeting to elect directors, the Joint Stock Companies Law requires at least 70 days' notice. The Company's common shareholders will receive notice directly from the Company and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement. The Company will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, in a timely manner and at the Company's expense, and provided there are no US, English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares and the GDRs are listed or admitted to trading), to mail to GDR holders notice of the meeting and the agenda therefore (if and as received by the Depositary from the Company) as well as written requests containing voting instructions (if and as received by the Depositary from the Company) by which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote with regards to the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for them than for holders of the Shares and the Company cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested. Moreover, GDR holders may not exercise voting rights in respect of fractional shares. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of holders of GDRs.

While, as a practical matter in accordance with the procedures established by the Depositary holders of GDRs might be able to instruct the Depositary to introduce proposals for the agenda of shareholders' meetings, request that a shareholders' meeting be called, nominate candidates for the Company's Board of Directors or its revision commission or otherwise exercise the rights of minority ownership arising under the Russian Joint Stock Companies Law, there is no strict legal basis for such procedures of the Depositary, and such procedures remain untested by the Russian courts. See "Description of share capital and certain requirements of Russian legislation." If such procedures are challenged successfully, then holders of GDRs who wish to take such actions, will need to timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owner of the Shares on the Company's share register.

GDR holders may be unable to repatriate distributions made on the Shares.

The Company intends to pay dividends on Shares in roubles, and Russian law currently permits such rouble funds to be converted into US dollars by the Depositary without restriction. The ability to convert roubles into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of roubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge roubles and rouble-denominated investments.

Non-resident holders of Shares or GDRs may not be able to benefit from double tax treaties.

In accordance with Russian legislation, dividends paid to a non-resident holder of Shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and at a rate of 30% for individuals (15% for individuals with effect from 1 January 2008). The withholding tax may be reduced under the double tax treaty between Russia and the jurisdiction in which the holder of Shares is resident for tax purposes. In particular, this tax may be reduced to 5% or 10% for legal entities and organisations and to 10% for individuals under the United States-Russia double tax treaty for US holders that are beneficial owners of the dividends and entitled to treaty benefits, and to 10% under the United Kingdom-Russia double tax treaty for UK holders who are beneficial owners of the dividends and entitled to treaty benefits.

There are uncertainties in relation to withholding tax on dividends payable to GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rates apply to this income. In 2005 and 2006, the Russian Ministry of Finance expressed an opinion in private rulings that GDR holders should be treated as the beneficial owners of dividends for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying Shares, provided that tax residencies of the GDR holders are duly confirmed. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the Russian tax authorities and courts will ultimately treat the GDR holders in this regard.

Unless the Company receives adequate clarification from the Russian tax authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary at a lower rate than the domestic rate applicable to such payments, the Company intends to withhold Russian withholding tax at the domestic non-resident rates, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant double tax treaty if it were the beneficial owner of the Shares for purposes of that treaty. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by the Company under the relevant double tax treaty, the Company cannot make any assurances that the

Russian tax authorities will grant any refunds. See "Taxation — Russian Federation tax considerations" for further details.

Capital gains from the sale of Shares or GDRs may be subject to Russian income tax.

Under Russian tax legislation, gains arising from the sale, exchange or other disposition by non-resident holders that are legal entities or organisations of Russian shares, such as the Shares, as well as financial instruments derived from such shares, such as the GDRs, may be subject to Russian profit tax or withholding income tax if immovable property located in Russia constitutes more than 50% of the assets of the issuer of the Shares. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made by non-resident holders to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Moreover, gains arising from the sale, exchange or other disposition on foreign stock exchanges of the foregoing types of securities listed on these exchanges by non-resident holders that are legal entities or organisations are not subject to taxation in Russia. Therefore, so long as the GDRs remain circulated on the London Stock Exchange (i.e. listed on the Official List and admitted to trading on the London Stock Exchange), gains arising from the sale, exchange or other disposition on the London Stock Exchange of GDRs by non-resident legal entities or organisations should not be subject to taxation in Russia.

A non-resident holder who is an individual, generally should not be subject to Russian tax in respect of capital gains realised on a sale, exchange or other disposal of Shares or GDRs, provided that the proceeds of such sale, exchange or disposal are not received from a source within Russia. However, in the absence of a clear definition of what constitutes income from sources within Russia in the case of a sale of securities, there is a risk that income from the disposal of Shares or GDRs may be considered as received from a Russian source. Gains arising from the sale, exchange or other disposition of Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, submitted by such holders to the Russian tax authorities. See "Taxation — Russian Federation tax considerations."

The number of shares that can be deposited into the GDR programme is limited, and requires certain approvals from Russian authorities.

The number of shares that can be deposited into the GDR programme is limited, and requires certain approvals from Russian authorities. Russian securities regulations currently provide that no more than 35% of all issued Russian company's shares may be circulated abroad through sponsored depositary receipt programs at any time. In addition, there are limitations on the number of shares that are offered for placement and/or circulation outside of Russia in a particular offering. Under Russian law, up to 70% of the offering can be placed in the form of depositary receipts and no less than 30% of the offering must be offered, but not necessarily sold, to the Russian market. On 22 September 2006, the Company received an approval from the Federal Service for the Financial Markets ("FSFM") for up to 616,073,100, or 29% of its issued and outstanding shares to be circulated abroad. Receipt of this approval is a prerequisite for the issuance of GDRs on the Closing Date and the admission of the GDRs to trading on the London Stock Exchange. As a result, the Company's GDR programme is currently capped at 29% of the Company's issued capital. There can be no assurance that the Company would be able to increase the share of the Company's capital that is allowed to be deposited in the GDR programme from current allowance of 29% to the maximum 35% allowed under the law. In addition, the Selling Shareholder, while offering the shares in the form of GDRs, must also offer to place the Company's shares on a Russian stock exchange or via a Russian broker. Therefore, the Company's GDR programme may not have sufficient capacity to accept all future deposits of shares. Accordingly, investors may not be able to deposit shares into the Company's GDR programme in order to receive GDRs.

The Depositary has not obtained prior approval from the FAS to accept deposits in excess of 20% of the Company's ordinary shares.

Under current Russian antimonopoly laws, an individual or legal entity must receive a prior approval of the FAS before acquiring more than 25% of the voting rights of a joint stock company of the size of the Company. A deposit of voting shares into a depositary facility may be considered to be an acquisition of voting rights by the Depositary, even though the Depositary has no discretion with respect to voting the deposited shares and may not dispose of them. Following the Offering, the Depositary will possibly hold more than 25% of the Company's ordinary shares, but has not sought, and does not currently intend to, obtain approval from the FAS for deposits in excess of 25% of the Company's ordinary shares, including the Shares. Failure to obtain these approvals could result in fines being assessed against the Depositary or the deposits being held to be invalid.

The Depositary received from the FAS the clarification that no approval by the FAS is required for the deposit by the Selling Shareholder of the Shares being sold in the Offering in the form of GDRs because the Depositary will have no discretion with respect to voting the deposited shares and will not have the authority to dispose of them. In addition, Uralkali understands that other depositaries have previously made deposits of shares of other Russian companies into their depositary facilities in the amount above the threshold triggering the applicability of the Russian antimonopoly rules with respect to the FAS clearance without having sought or obtained approval from the FAS. While no challenges to these prior deposits have been brought to date, there can be no assurance that fines will not be levied and/or challenges made in the future. If any such challenge were to be successful, these other deposits could be declared invalid, which could result in the cancellation of GDRs (but not the shares represented thereby) and adversely affect the trading market for the GDRs.

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

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

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

Risks relating to the Russian Federation

Political and social risks

Political and governmental instability could have an adverse effect on the value of the GDRs or the Shares.

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. Whilst the current President, Vladimir Putin, has generally increased governmental stability and has even accelerated the reform process, a different approach may be adopted over time. In

February 2004, President Putin dismissed his entire cabinet, including the Prime Minister, and appointed a new Prime Minister. Shortly thereafter, a presidential decree significantly reduced the number of federal ministries, redistributed certain functions among various agencies of the government of Russia and overhauled the federal administrative system. Reforms have been implemented under which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on 18 May 2005 and came in force on 7 December 2006, single member district elections for the State Duma was eliminated, and all votes were instead cast on a party-list basis. The next State Duma and presidential elections are scheduled to be held in December 2007 and March 2008, respectively. The potential stagnation during the uncertain period leading up to these elections, as well as potential instability during the transition period, could negatively affect the economic and political environment in the near term. In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies. On 12 September 2007, President Putin dismissed the Russian government. Such changes in the Russian government, major policy shifts or lack of consensus between various branches of the Russian government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Current and future changes in the government, major policy shifts or lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups, could lead to political instability which could have a material adverse effect on the value of investments relating to Russia, including the value of the GDRs or the Shares.

There is only limited protection of minority shareholders in Russia.

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of share capital and certain requirements of Russian legislation — Description of share capital." Some companies have conducted shareholder meetings in an irregular manner, shareholder resolutions have not always been respected by management and shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a shareholders' meeting. As a result, a controlling shareholder owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by the Company's controlling shareholders or management could materially and adversely affect the value of the Shares and GDRs.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the Company's stock may bring an action for damages suffered by the Company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, the ability of the holders of GDRs and Shares to pursue legal redress against the Company and the Selling Shareholder may be limited.

Moreover, some protections for minority investors that are provided under Russian law may impose additional costs on the Company. For example, the Joint Stock Companies Law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value. The decisions that trigger this right to sell shares include decisions with respect to a reorganisation; the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth 25% or more of the gross book value of the company's assets calculated according to RAS, regardless of whether the transaction is actually consummated; and the amendment of the company's charter in a manner that limits shareholder rights. Any obligation by the Company to purchase shares in these circumstances, though limited to 10% of the Company's net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares.

Restrictive currency regulations may adversely affect Uralkali's business and financial condition.

Notwithstanding significant recent liberalisation of the Russian currency control regime and the abolishment of certain restrictions from 1 January 2007, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "Currency Law") and current regulations still contain a number of limitations. In particular, bank accounts denominated in any currency with banks located outside of the Russian Federation in countries that are not member states of the Organisation for Economic Cooperation and Development ("OECD") or the Financial Action Task Force, are subject to the prior registration of such bank accounts with the Russian tax authorities. Moreover, certain currency controls restrictions were not repealed from 1 January 2007 and these include a general prohibition of foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law and the operations between the authorised banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings in Russia. Restrictions on Uralkali's ability to conduct some of these transactions could increase its costs, or prevent Uralkali from continuing necessary businesses, or from successfully implementing its business strategy which could have a material adverse effect on Uralkali's business, prospects, results of operations or financial condition.

In addition, because of the limited development of the foreign currency market in Russia, the Company may experience difficulty converting roubles into other currencies. Any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit the Company's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults.

Furthermore, there are only a limited number of available rouble denominated instruments in which the Company may invest its excess cash. Any balances maintained in roubles will give rise to losses if the rouble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that the Company might wish to pursue.

Uralkali is heavily dependent on its operations in Russia, and changes in the economic policies in Russia may have an adverse effect on its business.

In recent years, the political and economic situation in Russia has generally become more stable and conducive to investment. However, major policy shifts, government reshuffles and a lack of consensus among key political groups could hinder or reverse political, economic and regulatory reforms. Reform may also suffer if key government officials engage in private business while in office, particularly when these business interests are in the industry that such officials regulate. Any such deterioration of Russia's investment climate might constrain Uralkali's financing ability in the international capital markets, limit sales in Russia, and otherwise could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on Uralkali's business as well as investments in Russia more generally.

President Putin took office as Prime Minister in 1999 and was elected President in 2000. Since Putin's coming to power, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain Uralkali's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on Uralkali's business, results of operations, financial condition and prospects. In May 2005, President Putin ordered the Prime Minister to submit to the Russian parliament draft laws limiting foreign ownership of sectors that "ensure government security." The nature and scope of any such limitations that may be proposed is currently uncertain.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes from, according to the Russian press, companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution. President Putin announced in March 2005 that the government was considering plans to reform the system of tax collection and administration, and in his annual address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorise" taxpayers by repeatedly considering the same problems. Partly in response to this statement, on 2 June 2005, the government submitted to the State Duma draft amendments to the Tax Code which were adopted as law on 27 July 2006. The amendments are intended to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent.

Conflicts among federal, regional and local authorities and other political conflicts could create an uncertain operating environment hindering Uralkali's long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation is a federation of 85 different sub-federal political units. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders Uralkali's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent it from effectively and efficiently carrying out its business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in certain cases, military conflict and terrorist attacks. If such tensions escalate, significant political consequences could arise, such as the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or the price of the GDRs or the Shares.

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

The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than that of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in such more economically developed countries. Additionally, Uralkali relies on and refers to information and statistics from various third party sources and its own internal estimates. For example, substantially all the information contained in this document concerning Uralkali's competitors has been derived from publicly available information, including press releases. Management believes that these sources and estimates are reliable, but has not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this document is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Social instability could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.

The failure of the government to adequately address social problems have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict Uralkali's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on Uralkali's business, prospectus, financial condition, results of operations and/or on the price of the GDRs or the Shares.

Economic risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could have an adverse effect on Uralkali's business and the value of the GDRs or the Shares.

Generally, investing in emerging markets is only suitable for sophisticated investors who fully appreciate that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this document may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt Uralkali's business, as well as result in a decrease in the value of the GDRs or the Shares. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs or the Shares.

Economic instability in the Russian Federation could have an adverse effect on Uralkali's business.

Russia has recently experienced strength in its gross domestic product ("GDP"), higher tax collection and stability of the rouble, providing a certain degree of economic soundness. However, the sustainability of such a trend is not guaranteed, and if a downturn occurs, it will directly impact the profitability of Uralkali's business. Any of the following risks, which the Russian economy has experienced at various times, may seriously change the investment climate in Russia and in turn burden Uralkali's operations with unforeseen costs:

- significant declines in GDP;
- high levels of inflation;
- sudden price declines in the natural resource sector;
- instability in the local currency market;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- growth of black- and grey-market economies;
- pervasive capital flight;
- corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

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

There can be no assurance that recent positive trends in the Russian economy will continue or will not be abruptly reversed. Moreover, recent fluctuations in international oil and gas prices, the strengthening of the rouble in real terms relative to the US dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect the Russian Federation's economy and could have a material adverse effect on Uralkali's investment plans, business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Fluctuations in the global economy may have an adverse effect on the Russian Federation's economy and thus Uralkali's business.

The Russian Federation's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As the Russian Federation produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is especially vulnerable to commodity prices on the world markets and a decline in such prices or the imposition of restrictions on Russian products by principal export markets could slow or disrupt the Russian economy. These developments could severely limit Uralkali's access to capital and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy.

The physical infrastructure in Russia is in a poor condition.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission, communication systems, and building stock. Electricity and heating shortages in some of the Russian Federation's regions have seriously disrupted the local economies. In May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems.

Road conditions throughout the Russian Federation are also poor and some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous. The federal government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems.

Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of the Russian Federation's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, each of which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

The Russian banking system remains underdeveloped, and Uralkali is only able to conduct banking transactions with a limited number of creditworthy Russian banks.

Russia's banking and other financial systems are not well developed, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced further serious turmoil. As a result of various market rumours and certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. Uralkali's receives and holds funds in a number of Russian banks, including Sberbank and the Bank of Moscow and subsidiaries of foreign banks, such as International Moscow Bank and ABN AMRO. However, the bankruptcy or insolvency of one or more of these banks could adversely affect the Uralkali's business. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Uralkali's funds, could result in the loss of Uralkali's income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Legislative and legal risks

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on Uralkali's business.

The Russian Federation is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that Uralkali makes, many of which do not exist in countries with more developed market economies:

- inconsistencies exist between: (1) federal laws; (2) decrees, orders and regulations issued by the President, the government and federal ministers; and (3) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- judges and courts are relatively inexperienced in interpreting legislation in accordance with new principles established under reformed statutes;
- substantial gaps exist in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures are not well developed and are subject to abuse.

Disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Additionally, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws is in doubt and many new laws remain untested. Moreover, the courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Any or all of these weaknesses could affect Uralkali's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

Regulation of Russian capital markets may provide inadequate protection to security holders.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies and managers and are considerably less developed in Russia than in the United States and Western Europe. In addition, several different agencies regulate the Russian securities market, including the FSFM, the

Ministry of Finance, FAS, the CBR, and various professional self-regulatory organisations. The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities regulations can change rapidly, which may adversely affect Uralkali's ability to conduct transactions in securities. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to Uralkali. Moreover, from time to time, Uralkali may not be in full compliance with Russian securities law reporting requirements. Violation of these reporting requirements can result in the imposition of fines or difficulties in registering subsequent share issuances. As a result, Uralkali may be subject to fines or other enforcement measures despite its best efforts at compliance, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of Uralkali's shares.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. Russian law does not expressly prohibit affiliation between a registrar and its shareholders, including entities whose share registers such registrar maintains. The Company, together with its affiliated persons, owns 13.47% of shares in a company maintaining its share register, CJSC Registrator "Intrako." This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreement, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Description of share capital and certain requirements of Russian legislation" for a further discussion of the share registration system and registrars in the Russian Federation and the Depositary's obligations.

Shareholder liability under the corporate law of Russia or Belarus could cause Uralkali to become liable for the obligations of its subsidiaries.

Russian law generally provides that shareholders in a Russian joint stock company or participants of a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when one legal entity is capable of determining decisions made by another entity. The legal entity capable of determining such decisions is called the effective parent entity (*osnovnoye obshchestvo* in Russian). The legal entity whose decisions are capable of being so determined is called the effective subsidiary entity (*docherneye obshchestvo* in Russian). The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives obligatory directions to the effective subsidiary.

Moreover, under Russian law, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. In these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, the Company itself and some of Uralkali's Russian companies could be liable in some cases for the debts of their effective subsidiaries.

In addition, under the law of Belarus, if BPC were declared insolvent and Uralkali could be shown to be directly responsible for such insolvency, Uralkali may be held liable for the unsatisfied debts of BPC.

Arbitrary government action could have an adverse effect on Uralkali's business and reduce the value of the GDRs or the Shares.

Government authorities have a high degree of discretion in the Russian Federation and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts and effectively expropriate or nationalise private enterprises. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, Uralkali's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at Uralkali's operations in Russia, could have a material adverse effect on Uralkali's business, prospects, financial conditions and results of operations and/or on the price of the GDRs or the Shares.

In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to challenge certain Russian companies' use of tax optimisation schemes, and press reports have speculated that these enforcement actions have been selective. For example, the Russian Federal Tax Service determined that Yukos owed in excess of US$28 billion in back taxes and related penalties, and in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations and Yukos was declared bankrupt in July 2006. The press has also reported from time to time significant claims for back taxes and related penalties against other companies. In his annual address to the Federal Assembly on 25 April 2005, the President of Russia stated that tax authorities should not "terrorise" taxpayers by repeatedly considering the same problems. Although Uralkali believes that it is currently in compliance with all of its tax obligations with respect to its operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which could have a material adverse effect on Urakali's business, prospects, financial conditions and results of operations and/or on the price of the GDRs or the Shares.

The judiciary's lack of independence and inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent Uralkali or holders of the GDRs or the Shares from obtaining effective redress in a court proceeding, which could have an adverse effect on Uralkali's business or the value of the GDRs or the Shares.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is often understaffed and underfunded. Judges are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental prosecutions are often used in furtherance of political aims, which the courts themselves support. Uralkali may be subject to such claims and may not be able to receive a fair hearing. The uncertainties make judicial decisions in Russia difficult to predict and effective redress uncertain and could have a material adverse effect on Uralkali's business, prospects, financial conditions and results of operations and/or on the price of the GDRs or the Shares.

Russian property law is subject to uncertainty and contradiction.

The legal framework relating to the ownership and use of land and other real estate in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in more economically developed countries. It is often difficult to determine with certainty the validity and enforceability of title to land in Russia and the extent to which it is encumbered. Moreover, in order to use and develop land and other real estate in Russia, approvals, consents and registrations of various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body has the right to lease land in relation to certain land plots; the construction approval procedures are intricate and such approvals may be contested or totally cancelled; and the building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences for the landowners and other real estate owners and lessees, including in respect of any current construction activities. If the real estate owned or leased by Uralkali, or any construction activities relating to such real estate, is found not to be in compliance with all applicable regulations, Uralkali may be prevented from or delayed in using such real estate or continuing such construction activities, and this could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Difficulty in ascertaining the validity and enforceability of title to land in Russia and the extent to which it is encumbered may have an adverse effect on Uralkali's business.

Until the beginning of the 1990s, all land in Russia was owned by the state. After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years — more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body, had power to sell, lease or otherwise dispose of land.

In 2001, the Russian Civil Code was amended and the new Russian Land Code as well as a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. These uncertainties may have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Non-compliance with governmental and administrative real estate regulations in Russia could have an adverse effect on Uralkali's business.

In order to use and develop land in Russia, approvals and consents of various federal, regional or local governmental authorities, such as the various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory and are subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. No assurance can be given that Uralkali will at all times be in full compliance with all governmental and administrative real estate regulations in Russia. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders. If any of the Uralkali's existing or prospective mining or production sites is found not to be in compliance with all applicable regulations, Uralkali may be subject to fines or penalties (including civil and administrative penalties applicable to the relevant member of Uralkali and criminal and administrative penalties applicable to its officers) or its rights to such properties may be affected. Management believes that Uralkali's current legal and regulatory compliance programmes adequately address these concerns. However, additional effort on compliance with, or any violation of, current and future laws or regulations could result in material expenditures by Uralkali or otherwise have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares. In certain cases, Uralkali may be required to cease certain of its business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions may restrict Uralkali's ability to conduct its operations or to do so profitably. See "— Risks relating to Uralkali's assets and business — JSC BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex."

Uncertainty relating to the Russian tax system could have an adverse effect on an investment in the GDRs or the Shares.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax ("VAT") and other sales-based taxes, mineral extraction tax, unified social tax and pensions contributions, corporate property tax and other taxes. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisers as to these tax matters before investing in the GDRs or the Shares.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation.

The quality of tax legislation has generally improved since the introduction of the Russian Tax Code in 1999, and Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code. In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, an investigation covers the taxpayer's activities for the three calendar years immediately preceding the year in which the investigation is carried out. As previous investigations do not exclude subsequent claims relating to the investigated period, the statute of limitations is not entirely effective. In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year period if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, recent amendments to the first part of the Tax Code, effective 1 January 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms "obstructed," "hindered" and "created insurmountable obstacles" are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed," "hindered" or "created insurmountable obstacles" in respect of an inspection and ultimately to seek penalties beyond the three-year term. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial statements of a Russian group of companies are not consolidated for tax purposes. Therefore, each of Uralkali's Russian companies pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another subsidiary in the consolidated group. In addition, pursuant to amendments to tax legislation effective as of 1 January 2005, payments of inter-company dividends between two Russian entities are subject to a withholding tax of 9% (15% if distributed to foreign corporate residents). If the recipient of a dividend is a Russian entity and such entity pays an upstream dividend, it may offset its withholding tax against taxes on such upstream dividend, so long as it does not pay the upstream dividend to a foreign resident. However, the above rules will change with effect from 1 January 2008, in such a way that dividends received by Russian entities will no longer be subject to withholding tax, provided that certain conditions described in the applicable law are met (including as to holding period, share of participation and amount of investment). For details on dividends taxation in Russia, see "Taxation — Russian Federation tax considerations."

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on the Uralkali's operations, including management resources. There can be no assurance that current taxes will not be increased or additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "— Arbitrary government action could have an adverse effect on Uralkali's business and reduce the value of the GDRs or the Shares." In addition to Uralkali's tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing Uralkali to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Management has assessed Uralkali's overall position based upon their understanding of the applicable tax regulations and their experience in working with the tax authorities. As a result, Uralkali's management believes that its interpretation of the relevant legislation is appropriate and that the positions that Uralkali has taken with regard to taxes and customs duties will be sustained. Accordingly, no provision for potential tax liabilities has been recorded in the Financial Statements. However, there can be no assurance that such interpretation and positions or some other measures will not be re-assessed or challenged by the Russian tax authorities. If such re-assessment or challenge occurs, it could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

A Russian legal entity may be liquidated on the basis of formal non-compliance with certain requirements of Russian law.

Russian law provides for certain requirements that should be complied with in the course of establishing and reorganising a Russian company, or during its operation. Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during the formation of such entity or during its operation. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of Russia that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction for such violations. Although some of Uralkali's Russian companies might have failed from time to time to comply fully with all the applicable legal requirements (for example, untimely capital contributions or certain matters connected with the registration of share issues in the course of foundation or having insufficient net assets), Uralkali believes that none of its subsidiaries should be subject to liquidation on such grounds because none of the possible violations was significant, caused any damage to any person, or has had any other negative consequences. In addition, Uralkali believes that its Russian companies' financial conditions have been satisfactory at all material times, except for JSC BBT before 2003, which had negative net assets in 2001 and 2002, and the Company and its subsidiaries have been capable at all material times of meeting all of their respective tax and other third party obligations in a timely fashion. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. Therefore, investors should not rely on Uralkali's interpretations of Russian law. If a Russian court or a governmental authority takes a position unfavourable to Uralkali, it may need to restructure its operations, which could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. In the event that such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalisation of Uralkali's business could have a material adverse effect on Uralkali's business, prospects, financial condition and results of operations and/or on the price of the GDRs or the Shares.

USE OF PROCEEDS

Uralkali is not selling any ordinary shares in the Offering and will not receive any of the proceeds of the Offering by the Selling Shareholder. The Selling Shareholder has confirmed that it intends to use a portion of the proceeds of the Offering to repay the indebtedness that Uralkali has extended to the Selling Shareholder and LLC "Permgeologodobycha," a limited liability company of which Mr. Rybolovlev is the ultimate beneficial controlling shareholder. See "Related party transactions." As of 31 August 2007, the aggregate principal balance of the loans was RUR 3,638.6 million, plus accrued interest (based on the exchange rate quoted by the CBR on 31 August 2007 of RUR 25.65 to US$1.00). See "Related party transactions."

Uralkali expects to use the funds it receives from the repayment of its loan to the Selling Shareholder for general corporate purposes.

DIVIDEND POLICY

The Company currently intends to declare and pay annual dividends of no less than 15% of any IFRS net income in the prior annual period subject to the restrictions on declaration and payment of dividends contained in Russian law. See "Description of share capital and certain requirements of Russian legislation — Description of share capital — Dividends." In determining the amount of any dividends to propose to shareholders of the Company, the Board of Directors of the Company will take into account the Company's business prospects, capital expenditure, cash requirements, financial requirements and other business and regulatory considerations.

The Joint Stock Companies Law and the Company's Charter set forth the procedure for determining the dividends that the Company distributes to its shareholders. The Joint Stock Companies Law allows dividends to be paid out only of net profits calculated under RAS. According to its Charter, the Company may distribute dividends based on its three-month, six-month, nine-month or annual results according to RAS. The Board of Directors recommends dividends to the general shareholders' meeting, which then approves the dividends by majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the respective period; a decision on annual dividends must be taken at the Annual General Shareholders' Meeting. The dividend approved at the shareholders' meeting may not exceed the amount recommended by the Board of Directors. Dividends are distributed to holders of the Company's ordinary shares as of the record date for the shareholders' meeting approving the dividends. The shareholders' right to receive dividends, once declared, does not lapse. See "Description of share capital and certain requirements of Russian legislation — Description of share capital — Dividends."

In accordance with the decisions of the general shareholders' meetings in 2004, 2005 and 2006, the Company declared aggregate dividends in the amounts of:

- RUR 1,596 million, or RUR 0.75 per ordinary share, for the year ended 31 December 2004;
- RUR 5,225 million, or RUR 2.46 per ordinary share, for the year ended 31 December 2005; and
- RUR 3,378 million, or RUR 1.59 per ordinary share, for the year ended 31 December 2006.

In any given year, several factors may affect the Company's determination of whether to pay dividends and the amount of such dividends, including, whether the Company generated any or sufficient profits under RAS on an unconsolidated basis or under IFRS on an unconsolidated basis, the Company's business prospects, cash requirements, financial performance, the condition of the market and the general economic climate, and other factors, including tax and other regulatory considerations.

To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of the Company's shares underlying the GDRs, subject to the terms of the Deposit Agreement. Holders of Shares will also be entitled to receive dividends. Cash dividends may be paid to the Depositary in any currency and, except as otherwise described under "Terms and conditions of the Global Depositary Receipts — Conversion of foreign currency," are converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

For further information on dividends and certain general restrictions of Russian law with respect to the payment of dividends, see "Description of share capital and certain requirements of Russian legislation — Description of share capital — Dividends."

CAPITALISATION AND INDEBTEDNESS

The following table sets out Uralkali's consolidated capitalisation and indebtedness (both short and long-term borrowings), as at 30 June 2007, and as adjusted to reflect the expected repayment of the loans Uralkali has extended to the Selling Shareholder and LLC "Permgeologodobycha," a company of which Mr. Rybolovlev is the ultimate beneficial controlling shareholder, from the proceeds of this Offering. See "Related party transactions." The capitalisation and indebtedness table has been prepared for illustrative purposes only and because of its nature addresses a hypothetical situation and, therefore, does not represent Uralkali's actual financial position or results. The following table should be read in conjunction with "Selected financial and operating information," "Use of proceeds," "Management's discussion and analysis of financial condition and results of operations," "Description of business" and the Financial Statements and the related notes thereto.

	As at 30 June 2007	
	Actual	As Adjusted(2)
	(RUR millions)	
Cash and cash equivalents	1,381	5,274
Short-term borrowings, including the current portion of long-term borrowings	6,515	6,515
Long-term borrowings and bonds, excluding the current portion of long-term borrowings	3,004	3,004
Equity		
Share capital	648	648
Treasury shares	(12)	(12)
Share premium/discount	(841)	(841)
Revaluation reserve	150	150
Cumulative translation difference	(268)	(268)
Retained earnings	21,367	21,367
Minority interest	27	27
Total equity	21,071	21,071
Total capitalisation(1)	30,590	30,590

(1) Total of long-term and short-term borrowings and total equity.

(2) Adjusted for repayment of: (i) the amount due to Uralkali from the Selling Shareholder as at 30 June 2007 of RUR 3,430.0 million, including RUR 72.1 million of accrued interest (based on the exchange rate quoted by CBR on 30 June 2007 of RUR 25.82 = US$1.00); and (ii) the amount due to Uralkali from LLC "Permgeologodobycha" as at 30 June 2007 of RUR 462.9 million, including RUR 47.3 million of accrued interest assuming Uralkali does not directly or indirectly sell any Shares in the Offering.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following selected financial and operating information for Uralkali must be read in conjunction with the Financial Statements for the Company and its subsidiaries (including the notes thereto) appearing in "Financial statements" as well as with the "Management's discussion and analysis of financial condition and results of operations."

The following financial information except for the selected operational data for the six months ended 30 June 2007 and 30 June 2006 has been extracted without adjustment from the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2007 prepared in accordance with IAS 34 "Interim Financial Reporting" and the financial information for the years ended 31 December 2006, 2005 and 2004 has been extracted without adjustment from the audited consolidated annual financial statements of the Company for the three years ended 31 December 2006 prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(RUR millions) (except where otherwise stated)				
Consolidated statement of income data					
Revenues	**13,323**	**8,925**	**22,290**	**27,976**	**12,095**
Cost of sales	(3,119)	(2,399)	(6,307)	(5,497)	(5,213)
Gross profit	**10,204**	**6,526**	**15,983**	**22,479**	**6,882**
Distribution costs	(3,741)	(2,633)	(6,691)	(8,544)	(2,045)
General and administrative expenses	(1,067)	(813)	(2,058)	(1,286)	(891)
Taxes other than income tax	(135)	(125)	(258)	(283)	(261)
Other operating expenses	(212)	(248)	(426)	(635)	(401)
Operating profit	**5,049**	**2,707**	**6,550**	**11,731**	**3,284**
Finance income	552	445	914	380	287
Finance expense	(764)	(509)	(1,084)	(771)	(270)
Mine flooding costs	(77)	—	(2,054)	—	—
Share of net (loss)/profit of investments accounted for using the equity method	—	—	—	(3)	8
Profit before income tax	**4,760**	**2,643**	**4,326**	**11,337**	**3,309**
Income tax expense	(936)	(557)	(832)	(1,908)	(763)
Profit for the period	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
Profit is attributable to:					
Equity holders of the Company	3,818	2,084	3,494	9,430	2,544
Minority interest	6	2	—	(1)	2
Net profit for the period	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
Earnings per share — basic and diluted (in RUR)(1)	**1.82**	**0.99**	**1.66**	**4.45**	**1.20**

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(RUR millions)				
Net cash from operating activities	**4,184**	**1,290**	**6,616**	**9,464**	**4,080**
Net cash used in investing activities	**(3,272)**	**(4,662)**	**(7,646)**	**(7,174)**	**(2,295)**
Net cash (used in)/generated from financing activities	**(2,506)**	**(141)**	**(138)**	**1,087**	**(1,288)**

	As at 30 June 2007	As at 31 December 2006	2005	2004
		(RUR millions)		
Consolidated balance sheet data				
Total assets	**34,403**	**33,038**	**30,136**	**17,729**
Total current liabilities	9,304	10,731	8,323	1,394
Total non-current liabilities	4,028	4,657	3,834	1,582
Total liabilities	**13,332**	**15,388**	**12,157**	**2,976**
Minority interest	27	21	21	49
Total equity	**21,071**	**17,650**	**17,979**	**14,753**
Total liabilities and equity	**34,403**	**33,038**	**30,136**	**17,729**

	Six months ended 30 June 2007	2006	Year ended 31 December 2006	2005	2004
			(RUR millions)		
Selected Operating Data					
EBITDA (RUR millions)[2]	5,959	3,748	6,526	13,585	4,833
EBITDA margin[3]	59.0%	56.0%	39.1%	66.3%	45.8%
Adjusted EBITDA (RUR millions)[4]	6,031	3,748	8,558	13,585	4,833
Adjusted EBITDA margin[5]	59.7%	56.0%	51.3%	66.3%	45.8%
Capital expenditure (RUR millions)	2,591	1,853	5,198	5,728	2,064
Number of employees	11,393	12,943	12,740	14,097	14,606
Available Production (thousand tonnes)[6][7]	—	—	5,400	5,379	4,990
Actual Productions (thousand tonnes)[7]	2,525	1,912	4,165	5,379	4,990

Notes:

(1) Earnings per share have been determined using the weighted average number of ordinary shares outstanding and not held by Uralkali as treasury shares during the years ended 31 December 2006, 2005 and 2004 and during the six months ended 30 June 2007 and 2006, respectively. On average, there were 2,102 million ordinary shares in the six months ended 30 June 2007 and 2,111 million ordinary shares in the six months ended 30 June 2006, and in the years ended 31 December 2006 and 2005, in each case excluding those held by Uralkali as treasury shares, on average, there were 2,110 million ordinary shares and 2,121 million ordinary shares.

(2) EBITDA means Net profit adjusted for Income tax expense, Finance income, Finance expense, Share of net (loss)/profit of investments accounted for using the equity method, Depreciation and Amortisation expenses. Depreciation is reported through Cost of sales, Distribution costs, Transhipment costs, General and administrative expenses and Mine flooding costs depending on the function of the assets being depreciated. Amortisation is reported through General and administrative expenses. See "Presentation of financial and other information."

	Six months ended 30 June 2007	2006	Year ended 31 December 2006	2005	2004
			(RUR millions)		
Net profit	**3,824**	**2,086**	**3,494**	**9,429**	**2,546**
plus income tax expense	936	557	832	1,908	763
plus finance expense	764	509	1,084	771	270
less share of net (loss)/profit of investments accounted for using the equity method	—	—	—	3	(8)
plus depreciation	954	1,006	1,966	1,800	1,509
plus amortisation	33	35	64	54	40
less finance income	(552)	(445)	(914)	(380)	(287)
EBITDA	**5,959**	**3,748**	**6,526**	**13,585**	**4,833**

(3) EBITDA margin means (1) EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Uralkali believes that this calculation provides a better reflection of margins because it adjusts for the effect of the different methods of

sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the EBITDA margins expressed by many of Uralkali's competitors.

	Six months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
	(RUR millions)				
Revenues	**13,323**	**8,925**	**22,290**	**27,976**	**12,095**
less railway tariff	1,864	1,297	3,050	2,966	1,342
less freight costs	1,232	814	2,218	4,163	178
less transhipment costs	127	116	349	358	27
Revenues less railway tariff, freight and transhipment costs	**10,100**	**6,698**	**16,673**	**20,489**	**10,548**

(4) Adjusted EBITDA means EBITDA plus Mine flooding costs (net of depreciation expense). See "Presentation of financial and other information."

	Six months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
	(RUR millions)				
EBITDA	**5,959**	**3,748**	**6,526**	**13,585**	**4,833**
plus Mine flooding costs (net of depreciation charge)	72	—	2,032	—	—
Adjusted EBITDA	**6,031**	**3,748**	**8,558**	**13,585**	**4,833**

(5) Adjusted EBITDA margin means (1) Adjusted EBITDA divided by (2) Revenues less Railway tariff, Freight and Transhipment costs. Uralkali believes that this calculation provides a better reflection of margins because it neutralises the effect of the different methods of sales, which affect price and the size of revenues and which Uralkali believes makes it more comparable to the Adjusted EBITDA margins expressed by many of Uralkali's competitors.

(6) Available production information can meaningfully be provided for full year periods only, since it takes into account estimates of stoppages or planned stoppages in the relevant annual period and those stoppages can be rescheduled to take place when production has been suspended as part of the application of the Company's price over volume strategy, as was the case in the first half of 2006 while there was a delay in agreeing the contracts with the main customers of Uralkali's potash in China. See "Description of business — Strategy" and "Management's discussion and analysis of financial condition and results of operations."

(7) Potash only.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Uralkali's financial condition and results of operations should be read in conjunction with the Financial Statements, the notes thereto and the other information included elsewhere in this document. This section contains forward-looking statements that involve risks and uncertainties. Uralkali's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk factors" and "Forward-looking statements."

OVERVIEW

Uralkali is a dedicated potash producer with leading market penetration in the most significant developing markets for fertiliser consumption. Based on revenues in 2006 and in the first half of the 2007, the Company was the largest publicly traded dedicated potash producer in the world and one of the fastest growing in the industry over the past several years, according to various industry sources. In 2006 and the first half of 2007, Uralkali accounted for approximately 8.3% and 8.8%, respectively, of global potash production with production of 4.2 million tonnes and 2.5 million tonnes, respectively. Uralkali has a major distribution platform including its joint venture interest in BPC. Uralkali and Belaruskali established BPC, an export trader, to undertake most of their respective exports. In 2006, BPC and Uralkali Trading, a wholly-owned subsidiary of Uralkali, together were the largest exporters in the world potash market by volume with a 34% share of the global potash market. Over 90% of Uralkali's potash sales volumes was exported to more than 20 countries in the first half of 2007. The principal export markets for Uralkali's products are China, Brazil and India. Uralkali's products are also sold to more mature markets in Europe and the United States, to Southeast Asia, Africa, the Middle East and domestically in Russia. The Company believes that it is one of the most profitable and the lowest cost producers of potash in the world, due mostly to its access to low-cost labour and energy.

Uralkali produces three main potash products: Granular, White MOP and Pink MOP, each of which is derived from potash ores comprising potassium chloride mixed with other minerals. Each of Uralkali's potash products varies in terms of potassium content, consistency and production method.

Uralkali's total consolidated revenues for the six months ended 30 June 2007 and the year ended 31 December 2006 were RUR 13,323 million and RUR 22,290 million, respectively. Uralkali's net profit for the six months ended 30 June 2007 and for the year ended 31 December 2006 was RUR 3,824 million and RUR 3,494 million, respectively.

Uralkali's principal assets are:

- four production divisions with available production of 5.0 million tonnes of potash and structural capacity of 7.0 million tonnes: (i) Plant 1, which processes ore from the Bygelsko-Troitsky field, or Mine 4, (ii) Plant 2, which processes ore from the Durymansky field, or Mine 2, (iii) Plant 3 which processes ore transported from Mines 2 and 4 and (iv) Plant 4, which processes ore from Mine 4;
- mining licenses — consisting of three mining licenses (excluding a license relating to flooded Mine 1) for Durymansky and Bygelsko-Troitsky fields of the Verkhnekamskoe Deposit. These licenses are currently valid until April 2013. A mining licence for the Ust-Yaivinsky field was awarded to Uralkali in 2004, which is currently valid until April 2024. The Company is currently conducting a feasibility study for the potential development of a new mine, Mine 5, at that field. Results of the study are expected to be available in 2008. See "Description of Business — Mineral resources, ore reserves and mines;"
- trading assets — consisting of BPC (a joint venture with Belaruskali) and Uralkali Trading (a wholly-owned subsidiary of the Company), both of which have offices in key export markets: India, Brazil, China, Singapore and United States; and
- logistics assets — including BBT in the port of St. Petersburg, through which most of the exports of Uralkali products are handled, significant rail car assets and strategically located warehousing capacity.

The following financial information has been extracted without adjustment from the Company's Financial Statements:

	Year ended 31 December			Six months ended 30 June	
	2006	2005	2004	2007	2006
	(RUR millions)				
Consolidated income statement data					
Revenues	22,290	27,976	12,095	13,323	8,925
Operating profit	6,550	11,731	3,284	5,049	2,707
Net profit for the period	3,494	9,429	2,546	3,824	2,086

The table below summarises Uralkali's sylvinite mineral resources and reserves as of 1 January 2007, according to international standards which comply with the JORC Code. See "Description of business — Mineral resource and ore reserve reporting."

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Resources:			
Measured	1,481.7	21.7	321.8
Indicated	2,560.2	21.4	547.2
Inferred	219.4	26.5	58.2
Total Measured + Indicated	**4,042.0**	**21.5**	**869.0**
Reserves:			
Proved	165.5	19.4	32.2
Probable	303.9	19.7	60.0
Total Reserves	**469.4**	**19.6**	**92.2**

PRESENTATION OF FINANCIAL INFORMATION AND SEGMENTS

Trading mechanisms and delivery methods

During the periods under review, Uralkali used a number of delivery methods for sales of potash and accepted varying responsibilities for the chain and cost of delivery. Choice of such methods and responsibilities has affected the amount of the Distribution costs in any particular period as well as the prices charged for the potash, and therefore the amount of Uralkali's revenues. See "— Cost and expenses — Distribution costs." In general, the more delivery costs that were borne by Uralkali, the higher the Distribution costs incurred by Uralkali, and the higher the amounts that Uralkali would charge the entity to which it was selling its potash. These factors should be taken into account in comparing results of operations for the periods under review. These factors also affect the calculation of any margins using revenues during certain periods because those revenues were higher, reflecting higher Distribution costs incurred by Uralkali, even though the operating or net profit would not necessarily have increased as a result.

Segments and revenue

Uralkali presents financial information in respect of geographical segments based on the location of the relevant customer:

- Export
  - Developing Countries (which are export sales of potash to developing countries, principally China, Brazil and India)
  - Developed Countries (which are export sales of potash to developed countries, principally the United States and within Europe)
- Domestic (which is further divided into two sub-segments, one covering potash sales and the other covering non-potash sales)
  - Domestic — Potassium chloride (which are sales of potash within the Russian Federation)

- Domestic — Other (which include all non-potash revenues, such as transportation, sales of by-products (such as technical salt) and carnallite, revenues earned by JSC BBT from transhipment services provided to third parties, services provided by non-core business divisions (hotel, catering services to employees), sales of services (repair and maintenance) and sales of energy to local customers to whom the Company supplies excess energy).

Changes from period to period within the segments set out below are not necessarily representative of trends in sales to particular markets because of changes in Uralkali's trading mechanisms and delivery methods. See "— Trading mechanisms and delivery methods" and the discussion below on the lack of information available to the Company about sales made by Fertexim.

Segments are shown as follows:

- For the six months ended 30 June 2007 and 2006 and for the years ended 31 December 2006 and 2005, because Uralkali exported its products through its joint venture, BPC, and/or its wholly-owned subsidiary, Uralkali Trading, and could determine the final destination of those sales, export sales volumes, revenues, and operating profit were presented in respect of Developing Countries and Developed Countries. In addition, domestic potash sales and non-potash sales were presented in Domestic — Potassium chloride and Domestic — Other, respectively.
- For the year ended 31 December 2004, because Uralkali exported many of its sales through an external trader, Fertexim, and could not determine the final destination of the resales by Fertexim, export volumes, revenues, and operating profit were presented for Fertexim, Developing Countries (for these periods, almost all of which were China Rail Sales) and Developed Countries. In addition, domestic potash sales were presented in Domestic — Potassium chloride, and non-potash sales and potash sales that could not be allocated on a reasonable basis to any of the three geographical segments were presented in Domestic — Other.

Joint Ventures — Jointly Controlled Operations

In October 2005, Uralkali acquired a 50% interest in BPC, the export trader established by way of a 50/50 joint venture between Uralkali and Belaruskali. The joint venture partners derive benefit from the joint trading activity through a share of the results of the trading. The Charter of BPC (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 sales. Until August 2007, administrative expenses of BPC were accounted for on a 50/50 basis between Uralkali and Belaruskali irrespective of their respective sales volumes made through BPC. From August 2007, they have been accounted for in proportion to their respective sales volumes made through BPC (except that Uralkali's share of administrative expenses shall not be less than 31%). Distribution of net income to each participant is on the basis of their relevant results, after the deduction of administrative costs. BPC's operations are deemed jointly controlled operations and are reflected in Uralkali's Financial Statements using the proportionate consolidation method. Uralkali recognises in its Financial Statements (a) certain BPC assets, principally accounts receivable (with appropriate eliminations in the consolidation process) and cash received by BPC from sales of Uralkali potash and certain BPC liabilities, principally accounts payable for freight charges for sales of Uralkali potash made on a CFR basis and (b) all BPC revenue, Distribution costs relating to the sale of Uralkali potash by BPC.

Summary of acquisitions

In December 2004, the Company entered into an agreement with Ermina Ventures Limited ("Ermina"), Levrasco Holdings Limited and Strianco Holdings Limited (the "December 2004 agreement") for the acquisition by the Company of 50% of the shares in JSC BBT for total consideration in roubles of the equivalent of US$30 million. At the time of the agreement, the Company already owned the other 50% of JSC BBT shares. The transfer of the shares under the December 2004 agreement was completed in two stages. The first stage involved the transfer of 25% of the shares in February 2005 and the second stage involved the transfer of the remaining 25% in June 2005. The Company began to consolidate JSC BBT upon the transfer of the first 25% of the shares. As part of the second stage, the December 2004 agreement was amended so that the amount payable by the Company was to be divided into two parts: US$25 million to be paid 10 days after the date of the amendment and a further

US$5 million, which is still outstanding and is due upon fulfilment of certain conditions relating to JSC BBT. These conditions include:

- the conclusion of or an amendment to the lease agreement between JSC Seaport St. Petersburg and the Committee on Management of Municipal Property of St. Petersburg with respect to a specified land plot; and
- the settlement of issues between JSC BBT and OJSC Lenenergo regarding the use of a part of a dam owned by OJSC Lenenergo (which was later reorganised into OJSC St. Petersburg Generating Company).

See "Risk factors — Risks relating to Uralkali's assets and business — JSC BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex."

The primary objective of the acquisition of JSC BBT's shares by the Company was to obtain control of a major part of its logistics network. In 2006 and the first half of 2007, approximately 62% and 61%, respectively, of the total export sales volumes of Uralkali's products sold were shipped through the Shipping Complex. In 2006 and the first half of 2007, JSC BBT contributed revenue of RUR 196 million and RUR 276 million, respectively, to Uralkali. See "Description of business — Logistics — Transportation — Sea transportation."

JSC BBT was originally a joint venture between the Company and JSC First Stevedore Company ("Perstico"). JSC BBT, together with JSC Seaport St. Petersburg, constructed the main part of the Shipping Complex in St. Petersburg from 2001 through 2004. The construction was financed with a RUR 1,255 billion interest-free loan from the Company to JSC BBT and a RUR 1,025 billion interest-free loan from Ermina to JSC BBT. The loan to Ermina is now fully repaid. As of 30 June 2007, RUR 1,023 million was still outstanding and is to be paid by 2009.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

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

- Macroeconomic and other economic trends, globally and in the markets which drive demand for Uralkali products;
- Pricing dynamics, which vary from market to market; and
- Costs and expenses, which are mainly driven by domestic factors other than Freight costs.

In addition, Uralkali's operations were recently affected by the flooding of Mine 1, which the Company considers to be an unusual and extraordinary event. See "—Mine flooding costs."

Each of these factors is described below in turn.

Macroeconomic and other economic trends

A number of macroeconomic factors drive demand for Uralkali's potash or otherwise affect its results of operations. These factors include: rising world population and rising population in the key markets in which Uralkali's products are sold, income growth, a reduction in arable land per capita that makes higher crop yields vital, changes in diet (such as increase in meat consumption resulting in increased demand for grain and other animal food), increasing demand for biofuel, the rouble/US dollar exchange rate, exchange rates between local currencies in the countries to which Uralkali exports its products and the US dollar and inflation trends in the Russian Federation.

Rising global population and falling arable land per capita

According to the CIA World Factbook, the global population is now more than 6.6 billion and has been increasing by 1.2% annually in recent years. Rising population increases demand for food, including crops and meat. Increased demand for crops (which is in itself also driven by increased demand for meat and therefore grain for animal feed) helps drive increased demand for potash because potash can help increase yield from the available arable land. See "Industry overview — Global fertiliser industry — Rising global population and falling arable land per capita."

At the same time that population has been rising, the amount of arable land has been shrinking globally and in the main markets in which Uralkali's products are sold, again, driving increased demand for potash which helps increase the yield of that land. See "Industry overview — Rising global population and falling arable land per capita."

GDP and GDP per capita

Rising income levels, indicated by rising GDP levels, GDP per capita levels and the relevant consumer price index, also help drive potash demand. According to the IMF, the world economy grew by 5.4% in 2006, led significantly by Asian countries such as China and India, and also by the Russian Federation. Rising income levels help bring people above the poverty line and help them afford food above a mere subsistence level, which helps drive increased demand for both grain and meat. Moreover, rising incomes lead to demand for better diets, which are more likely to include meat protein. Demand for meat, in turn, increases demand for grain and therefore potash, as explained above. See "Industry overview — GDP and GDP per capita."

In addition, stronger economic conditions put farmers in a better position to be able to afford potash. Potash (along with phosphate fertiliser) is not typically the first nutrient farmers choose to use and deterioration in economic conditions is likely to result in a reduction or suspension of potash use before it affects demand for nitrogen.

Rising demand for biofuels

There has been a significant increase in demand for alternative sources of energy, such as ethanol and biodiesel, in recent years. Global production of ethanol, for example, grew to 12.5 billion gallons in 2006. While there is some degree of uncertainty as to the environmental impact of biofuels, which could weaken future demand for biofuels, industry experts estimate that, by 2010, the demand may grow to over 20 billion gallons per annum. This growth has led to rising demand for certain crops such as sugar cane and corn used for production of biofuels, including in Brazil, one of Uralkali's key markets. The increase in demand and prices for these crops have in turn helped drive increased demand for potash. See "Industry overview — Global Fertiliser Industry — Biofuels."

Exchange rate movements and inflation

The rouble/US dollar exchange rate and inflation trends in the Russian Federation affect Uralkali's results of operations since most of Uralkali's revenues from sales of potash outside the Russian Federation are denominated in US dollars, while a substantial portion of its expenses are denominated in Russian roubles. Accordingly, the real appreciation of the rouble versus the US dollar negatively affects Uralkali's margins. The rouble has appreciated against the US dollar both in real and nominal terms throughout the periods under review. Since the beginning of 2007, the Company's policy has been to partially hedge its foreign currency exposures for periods commensurate with the known or forecasted operating transactions. In order to achieve these objectives, at the beginning of 2007, Uralkali entered into a number of foreign exchange options.

Whether the rouble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The table below sets forth information on exchange rate movements and inflation during the indicated periods.

	As of and for the year ended 31 December				As of and for the six months ended 30 June	
	2003	2004	2005	2006	2006	2007
Rouble inflation (CPI)	12.0%	11.7%	10.9%	9.7%	6.2%	5.7%
Rouble/US dollar exchange rate at the end of the period	29.45	27.75	28.78	26.33	27.08	25.82
Average rouble/US dollar exchange rate during the period	30.68	28.81	28.70	26.59	27.62	25.86
Nominal appreciation/(depreciation) of the rouble against US dollar	8.1%	5.4%	(3.1)%	9.6%	6.8%*	1.4%*
Real appreciation/(depreciation) of the rouble against US dollar	18.9%	14.0%	3.9%	16.7%	10.0%*	3.8%*

Source: Central Bank of Russia

* indicates the percentage change from the exchange rate as of 31 December of the prior year.

Because most prices for potash are quoted in US dollars, exchange rates of currencies used in the local markets in which Uralkali's products are sold against the US dollar are also important. In particular, exchange rates for the Brazilian real, the Chinese yuan and the Indian rupee against the US dollar affect the affordability of Uralkali's products to customers in those local markets. These currencies have also generally strengthened against the dollar in nominal and in real terms during the periods under review.

Pricing dynamics

The macroeconomic and other economic factors set out above have an impact on the prices of Uralkali's products. Prices for Uralkali's products affect revenues and therefore results of operations. Other factors that affect the prices of Uralkali's products across the markets to which its products are directed include the following:

Supply dynamics

Key dynamics of supply in the potash industry that affect prices include the following:

- *Utilisation rates:* the participants in Canpotex and BPC (which includes Uralkali), the two main export entities, generally follow a strategy of "swing" production, resulting in varying utilisation rates depending on levels of demand for their products. When demand levels are high, these participants typically produce at maximum available production. When demand levels fall, production is slowed down, and sometimes even suspended. Uralkali believes there is a direct relationship between this strategy and the prevailing prices for potash globally. Uralkali slowed production down significantly in the first half of 2006, with a utilisation rate of approximately 68% during the period. This was in response to a fall in orders as a result of the prolonged negotiation of the potash contracts with Sinochem and CNAMPGC for Uralkali products in China, which have historically accounted for a large proportion of the consumption of Uralkali products (approximately 25% of Uralkali's total sales volumes in the first half of 2007). Since China is such a significant market for Uralkali products, Uralkali reduced its production during that period when negotiations faltered. As a result, the Company produced only 4.2 million tonnes of potash in 2006. The contracts for China Sea Sales were concluded in July 2006 and Uralkali has produced at the available production to date thereafter. See "Description of business — Key markets and customers."

- *Industry-wide production capacity also has a key impact on potash prices:* The greater the production capacity, the greater the potential for downward pressure on potash prices. The number of capacity expansion projects in the industry, including those of Uralkali, have the potential to depress prices if demand does not grow to meet the supply that may come on line. According to the annual reports and press releases of certain industry participants, structural capacity could rise by as much as 9.0 million tonnes from 2006 to 2011 based on expansion projects confirmed by potash producers and other expansion projects thought to be under serious consideration. Actual production capacity levels could be significantly higher and could come on line earlier than currently envisaged.

Demand dynamics

Key dynamics of demand in the potash industry, other than the macroeconomic factors discussed above that affect prices include the following:

- *Types of and demand for crop being grown:* For example, soybeans, sugar cane and palm oil (which are used not only as foods but also for production of biofuels) need more potash than cereals. The introduction of new or improved crop varieties may also have greater or lesser potassium requirements;

- *The extent and severity of potassium deficiency in cropland:* The extent of this deficiency effectively sets a ceiling on potash demand. However, most of the markets in which Uralkali's products are sold suffer from severe potash deficiency, in particular China, Brazil, India and Russia. Potash occurring naturally in soil is depleted with crop cultivation and becomes a constraint on further crop production. Expansion of crop production in a country or into a region that are not naturally rich in nutrients can also affect sales volumes. For example, the development for soybean growth of the Cerrado area in Brazil, where the soil is low on potassium content, has increased potash demand in Brazil.

- *Prices for commodities and other fertilisers:* Potassium, nitrogen and phosphorous are all essential to plant growth and are not substitutable. In addition, the Company believes fertiliser costs are typically less than 15% of a farmer's total costs of production. However, farmers have the option of reducing or suspending the application of potash to soils in response, for example, to increased prices for other nutrients. The Company believes that although farmers may elect to reduce or suspend potash use in the short term, ultimately they will generally need to resume usage because of potash depletion in the soil.
- *Government crop production/restriction programmes:* For example, the European Union is moving to reduce subsidisation of agriculture in the Union, and the negative impact on the agricultural industry is likely to have a negative impact on potash demand in this market. In addition, potash demand in China, where the government influences the price of potash, and India, where potash use is subsidised by the government, is heavily dependent on government policy.
- *Inventory overhang of customers:* The amount of potash held in store by customers also has a key impact on prices. For example, Uralkali believes that in 2005, many of the customers for its products had higher inventory levels than they have typically held before, driven by increases in prices during the year. The excess level of inventory allowed buyers in China and India to delay entry into potash contracts in 2006 as they pushed for lower prices. Largely because of the extended negotiation period for these contracts, the Company believes that inventory levels have fallen. In 2007, for example, negotiations with the Chinese customers were concluded earlier in the year with higher prices agreed for 2007 deliveries. Uralkali, through BPC, which follows a price over volume strategy, intends to try to monitor closely inventory levels in key markets to help avoid extended delays in reaching agreements in the future.

Interrelationship of prices between markets

Purchasers of potash in certain markets are sensitive to prices in other markets. China is the world's largest potash market, and, accordingly, the prices set for the large annual contracts of BPC and Canpotex in that market form a key reference point for prices in many other parts of the world, but mainly Asia. The delay in conclusion of the Chinese contracts in 2006 resulted in a delay in the conclusion of the contract between BPC and the large customers in India for Uralkali's (and Belaruskali's) potash. Supplies of Uralkali products to India pending negotiation of the India contracts therefore fell, and those that were undertaken during this period were made at varying prices, including some at 2005 prices. Shortly after the Chinese contracts were agreed, the contract with the largest Indian supplier for the rest of 2006 was entered into on terms that maintained prices at 2005 levels, however, without discounts given in 2005.

Absence of large variations in prices within particular markets

Within a particular market, the market leading potash producer or trader generally sets the benchmark price through negotiations with its customers. Once that price becomes known, for example through industry press or announcements in the market, buyers in the relevant market will generally accept those prices for its potash purchases from other suppliers. Prices in a particular market for a particular potash product are therefore generally quite uniform, with leading companies for the most part not being able to charge a premium over other leading companies. Prices specified in spot contracts for Uralkali products are similarly affected by the benchmark prices set in the relevant market.

Volume of an order

The greater the volume ordered by a customer, or committed to in a contract by the customer, the more willing Uralkali is to offer lower prices. Uralkali and other large potash traders, often give discounts to the largest customers in any particular market in return for large orders. They also give rebates to customers on pre-agreed prices payable once the customer has purchased a specified contractual volume. In addition, the more established the customer relationship and the more solvent Uralkali believes the customer to be, the more willing Uralkali has been to offer discounts. However, when the potash demand outstrips the supply, as in recent years, discounts are less common even for large orders or for established customers.

Freight and rail costs

During the periods under review, Uralkali used a number of delivery methods for sales of potash and accepted varying responsibilities for the chain and cost of delivery. Choice of such methods and responsibilities has affected the amount of the Distribution costs in any particular period as well as the prices charged for the potash, and therefore the amount of Uralkali's revenues. See "— Cost and expenses — Distribution costs." In general, the more delivery costs that were borne by Uralkali, the higher the Distribution costs incurred by Uralkali, and the higher the amounts that Uralkali would charge the customers.

CFR (Cost and Freight)

Under the CFR arrangement, title to potash transfers when potash passes the rail of the ship at the port of shipment. Uralkali, however, pays for transportation to the port of loading as well as loading and Freight costs to the destination port. All sales to Southeast Asia, Brazil, India, Latin America and the United States, as well as all European Export Sales, when delivered by sea, and some of the China Sea Sales (approximately 29.2% of all sales to China were China Sea Sales in the first half of 2007) are made on a CFR basis. Uralkali incurs Railway tariff for deliveries to the sea port in St. Petersburg, Transhipment cost to load potash on the ship, Freight cost for transporting potash to the destination port and the Rail tariff for transporting the empty rail cars back from the sea ports to Berezniki.

The table below shows an approximate percentage of sales volumes made on CFR terms by Uralkali for each specified market in 2006 and the first half of 2007:

	Six months Ended 30 June 2007	Year Ended 31 December 2006
	(% of sales to that market made on CFR terms)	
China (incl. Sea and Rail Sales)	11.3%	7.1%
Brazil	100%	100%
India	100%	100%
EEA	50.8%	44.2%
United States of America	n/a[(1)]	100%
Southeast Asia and Bangladesh	100%	94.3%
Africa and Middle East	0%	11.1%

(1) No sales were made by Uralkali to the United States in the first half of 2007. Instead, Belaruskali sold its potash to U.S. customers who otherwise would have purchased potash from Uralkali. Uralkali was instead given a greater allocation for certain other markets pursuant to the BPC budget.

DAF (Delivery at Frontier)

Under the DAF arrangement, title to potash transfers when potash crosses the Russian border. All China Rail Sales and certain European Export Sales, such as those to Poland, Lithuania, Finland and Romania, when made for delivery by rail, are made by Uralkali on a DAF basis. In all cases, Uralkali incurs the loaded rail car tariff charges for transporting the potash to the train terminal near the Russian border as specified in the contract and the Railway tariff for transporting the empty rail cars back from that train terminal to Berezniki. The price charged to customers includes the expected cost to Uralkali of these transport costs.

The table below shows an approximate percentage of sales volumes made on DAF terms by Uralkali for each specified market in 2006 and the first half of 2007:

	Six months Ended 30 June 2007	Year Ended 31 December 2006
	(% of sales to that market made on DAF terms)	
China (incl. Sea and Rail Sales)	70.8%	66.7%
EEA	49.2%	55.3%

FCA (Free Carrier) Berezniki

Under the FCA Berezniki arrangement, title to potash transfers when potash is loaded on the customers' rail cars at the production facilities in Berezniki. Uralkali delivers all of and only its domestic sales on an FCA Berezniki basis. The price charged to customers for these deliveries are generally lower than export prices reflecting the fact that delivery is taken so close to the production facilities without additional charges having to be made for onward deliveries. Rail related costs do not therefore affect the price Uralkali receives for its products. Until December 2004, all export sales were made to Fertexim on an FCA Berezniki basis.

FOB (Free on Board)

Under the FOB arrangement, title to potash transfers as soon as potash is loaded on the ship. The majority of China Sea Sales (approximately 61% in the first six months of 2007) are made by Uralkali on a FOB basis. Uralkali incurs Railway tariff for deliveries to the sea port in St. Petersburg for onward shipping and the rail tariff for transporting the empty rail cars back from the sea port to Berezniki.

The table below shows an approximate percentage of sales volumes made on FOB terms by Uralkali for each specified markets in 2006 and the first half of 2007:

	Six months Ended 30 June 2007	Year Ended 31 December 2006
	(% of sales to that market made on FOB terms)	
China (incl. Sea and Rail Sales)	17.9%	26.1%

The table below shows an approximate percentage of various delivery methods, in terms of sales volume, in the first six months of 2007, and the years ended 31 December 2006, 2005 and 2004:

	Six months Ended 30 June 2007	Year Ended 31 December		
		2006	2005	2004
CFR	46.5%	44.2%	59.5%	3.4%
DAF	35.8%	33.7%	16.8%	8.9%
FCA Berezniki	8.9%	10.1%	8.7%	87.7%
FOB	8.8%	12.1%	14.9%	0%

Structure of contracts, product mix and other pricing characteristics unique to certain markets

China

Government policy and involvement in the negotiations for potash prices is of key importance in determining prices in this market. The key customers for its products are heavily influenced by the Chinese government. The Chinese government has pursued a pro-farmer economic policy for a number of years.

Approximately 33% and 29% of Uralkali sales destined for customers in China were China Sea Sales in 2006 and the first half of 2007, respectively, based on annual contracts between BPC or Uralkali Trading and the large customers in China. These contracts have fixed prices and volumes. Approximately 67% and 71% of Uralkali sales destined for customers in China were China Rail Sales in 2006 and the first half of 2007, respectively, with prices set based on an expectation of a minimum volume of orders for the year. Margins for China Rail Sales tend to be higher than China Sea Sales, partly because there are smaller volumes of sales to a larger number of customers who do not benefit from significant volume discounts, and because China Rail Sales are not made through the large distributors who in turn can typically demand higher discounts. Shipping terms for the majority of China Sea Sales were done on FOB terms. Prices set in the Chinese market are a reference point for negotiations in many other markets, particularly in Asia, although the average prices for potash exported to China are generally lower than those for exports to other Asian countries. This gap, however, has narrowed significantly after the contracts with Sinochem and CNAMPGC were concluded in July 2006. The negotiations in 2006 between BPC and Sinochem and CNAMPGC were illustrative of the pricing dynamics in the Chinese market. Sinochem and CNAMPGC were more easily able to delay reaching agreement with BPC because they had created large inventories of potash during the course of 2005. The Company believes that potash from these inventories was released to the agricultural market in China pending conclusion of the contracts. Since China is such a significant market for Uralkali products, Uralkali reduced its production during that period, producing only 4.2 million tonnes of potash in 2006, as compared to 5.4 million tonnes in 2005. However, BPC entered into agreements with the Chinese customers in July 2006, under which BPC managed to increase prices by US$25 per tonne for shipments for the remainder of the year and Uralkali had China Sea Sales of 462 thousand tonnes through BPC under the new agreements in 2006. In 2007, negotiations with the Chinese customers were concluded in February and prices were further increased by US$5 per tonne for 2007 shipments. The China Sea Sales contracts with Sinochem and CNAMPGC provide for deliveries of 2.8 million tonnes in aggregate for 2007, of which 1.0 million tonnes is expected to be supplied by Uralkali.

Brazil

Prices in the Brazilian market are driven by prices for Granular, which dominates sales in that market. Price determination depends on the type of purchase. Typically large customers buy with prices fixed for a particular bulk delivery by vessel or on a quarterly basis. Prices are typically set taking into account the indicative expected purchase volume for the relevant period. Small and medium size businesses, which represent most of the rest of the customers for Uralkali products, typically purchase on a spot basis. Prices for these sales are affected by the prevailing prices for large customers, although they are generally higher than those prevailing prices.

India

All sales to India in 2006 were made pursuant to 8- or 9-month contracts with fixed prices and volumes with very large customers.

Since China is the largest market for potash, prices in certain other markets, particularly India, are heavily influenced by prices set with the large customers in China. In both 2006 and 2007, new revised contracts with the large customers in India were concluded shortly after the contracts with the large customers in China were concluded. In June 2007, BPC entered into a new contract with an Indian company, IPL, for the delivery of approximately 750,000 tonnes of potash, with a term ending May 2008 at prices higher by US$50 per tonne compared to the 2006 levels. The contracts with other Indian distributors followed shortly after the IPL contract at similar prices for the same period and for the supply by BPC of approximately 500,000 tonnes of Uralkali potash.

Russia

Uralkali's average price of potash in the Russian market is typically lower than the average price Uralkali and BPC charge for export sales. A significant part of the difference is because of the delivery terms for these sales (they are delivered a very short distance away from Uralkali's production facility on FCA Berezniki terms). Most of the sales in Russia are made directly to the customer. Since March 2007, however, Uralkali has also started selling potash on the commodity section of the Moscow Stock Exchange and exchanged contracts for sales to Moscow Stock Exchange counterparties for 13,500 tonnes of potash in the first six months of 2007. See also "Regulatory matters — Regulation of competition" and "Risk factors — Risks related to regulations — If FAS were to increase the level of control it exerts over certain of Uralkali's operations, Uralkali could face administrative sanctions, be required to divest certain assets or be subject to limitations in its operating flexibility."

Europe

Approximately half of European export sales are made at prices negotiated on a six-month contracted basis. The balance of the prices are set for individual purchases made on a spot basis. These prices are influenced by the prices set on the six-month contracted basis referred to above. The prices for these sales are also significantly affected by the anti-dumping duties imposed by the European Commission and the undertakings that Uralkali has entered into that requires it to sell at or above the minimum import prices. See "Risk factors — Risks relating to operations — The potash market has a number of powerful competitors, each of which competes with Uralkali — Access to more established markets with higher prices, such as the European Union" and "Risk factors — Risks relating to regulations — Uralkali faces protective trade restrictions in the export of its potash products to the European Union."

United States

Large customers for Uralkali products in the United States, mainly distributors, typically buy on the basis of prices fixed for a three or six month period, based on an expectation for the purchase of a minimum volume in a one-year period. No sales were made by Uralkali to the United States in the first half of 2007. Instead, Belaruskali sold its potash to U.S. customers who otherwise would have purchased potash from Uralkali. Uralkali was instead given a greater allocation for certain other markets pursuant to the BPC budget.

Southeast Asia

Customers in Southeast Asia generally purchase Uralkali potash with prices determined on a spot basis. For the balance, discount and rebate schemes are used to try and encourage larger orders. Prices in

Southeast Asia, largely led within Southeast Asia by Malaysia, are affected significantly by the prices negotiated in the annual contracts in China and India. See "— China" above and "Description of business — Key markets and customers — China."

Costs and expenses

The largest components of Uralkali's Cost of sales are Labour costs, Depreciation, Materials and components used and Fuel and energy. Uralkali's largest Distribution costs are Freight costs, Railway tariffs and Transhipment costs. Uralkali's largest General and administrative expenses are Labour, Depreciation and amortisation, Insurance and Other costs. These Cost of sales, Distribution costs, and General and administrative expenses, as well as some less significant elements of those costs that are identified separately in the notes to the Financial Statements, are discussed below.

Cost of Sales

Labour costs

Labour costs are allocated by employee function among Cost of sales, Distribution costs (including a share of Labour costs relating to BPC) and General and administrative expenses. Labour costs relating to mining and processing potash, and repair and maintenance of production equipment, are recorded under Cost of sales. Labour costs relating to the distribution of products are recorded under Distribution costs and head office Labour costs are recorded under General and administrative expenses. Labour costs represent the largest component of Uralkali's total Cost of sales (25.4% and 35.1% in the first six months of 2007 and 2006, respectively and 26.4%, 26.5% and 30.4% in 2006, 2005 and 2004, respectively) and the largest component of General and administrative expenses (39.3% and 40.6% in the first six months of 2007 and 2006, respectively, and 37.6%, 35.9% and 34.7% in 2006, 2005 and 2004, respectively). Labour costs are a negligible portion of Distribution costs (0.9% and 1.6% in the first six months of 2007 and 2006, respectively). Prior to 2005, there were no Labour costs allocated to Distribution costs because exports were made on an FCA basis through third party traders who arranged distribution, domestic sales were also made on FCA terms and Labour costs for China Rail Sales were recorded under Cost of sales.

Uralkali's Labour costs mainly consist of salaries, bonuses and other incentives, severance payments, pension expenses and related social taxes. The table below represents the allocation of Labour costs included in Cost of sales, General and administrative expenses and Distribution costs, respectively for the periods under review:

	Six Months Ended 30 June		Year Ended 31 December		
	2007	2006	2006	2005	2004
Total Labour costs (RUR millions)	1,243	1,216	2,539	2,022	1,893
Labour costs allocated to (% of total)					
Cost of sales	63.6%	69.4%	65.6%	72.0%	83.7%
General and administrative expenses	33.7%	27.1%	30.5%	22.9%	16.3%
Distribution costs	2.7%	3.5%	3.9%	5.1%	—

According to the Russian Federal State Statistics Service, the average wage in the Russian Federation grew at a compound annual growth rate of 15% in real terms from 2000 to 2006. The Company expects the Labour costs per employee to increase going forward, although Uralkali intends to reduce its overall number of employees as part of its cost reduction programme. See "Description of business — Strategy."

Depreciation and amortisation

Uralkali calculates Depreciation and amortisation costs on a straight line basis with respect to its property, plant and equipment and allocates it to the income statement through Cost of sales, Distribution costs (which excludes, for this purpose, depreciation relating to JSC BBT port facility assets), Transhipment costs (which includes depreciation relating to JSC BBT port facility assets), General and administrative expenses and Mine flooding costs. Depreciation of property, plant and equipment relating to (i) mining and processing potash are reported through Cost of sales; (ii) the distribution of products (such as rail cars) are reported through Distribution costs; and (iii) the head office expenses (such as computer equipment) are reported through General and administrative expenses. Depreciation has been one of the four largest components of Uralkali's total Cost of sales, during the periods under review

(22.3% and 31.2% in the first six months of 2007 and 2006, respectively, and 22.8%, 24.4% and 24.4% in 2006, 2005 and 2004, respectively). Depreciation has represented a relatively small component of Distribution costs (3.2% and 4.4% in the first six months of 2007 and 2006, respectively and 3.2%, 2.6% and 8.1% in 2006, 2005 and 2004, respectively). Depreciation and amortisation have represented one of the largest components of General and administrative expenses for the periods under review (11.9% and 15.7% in the first six months of 2007 and 2006, respectively and 12.0%, 15.6% and 12.5% in 2006, 2005 and 2004, respectively).

	Six Months Ended 30 June		Year Ended 31 December		
	2007	2006	2006	2005	2004
Total Depreciation and amortisation (RUR millions)	987	1,041	2,030	1,854	1,549
Depreciation and amortisation allocated to (% of total)					
Cost of sales	70.4	71.9	71.0	72.5	82.1
General and administrative expenses	12.9	12.3	12.1	10.8	7.2
Distribution costs	12.0	11.0	10.6	11.9	10.7
Transhipment costs	4.2	4.8	5.2	4.8	—
Mine flooding costs	0.5	—	1.1	—	—

As of 30 June 2007, 19% of the gross book value of Uralkali's fixed assets has been fully depreciated and a further 13% is expected to be fully depreciated within three and half years. As the Company invests more in property, plant and equipment (see "— Liquidity and capital resources" and "Description of business — Production Process — Production divisions") to increase production capacity, it expects depreciation expense to increase.

Materials and components used

Expenses in relation to Materials and components used are costs incurred for products used in the production process, for example, the chemicals needed, spare parts for mining equipment and the costs of repairs and maintenance conducted by Uralkali's in-house repairs and maintenance departments, and are all reported through Cost of sales. Expenses for Materials and components used have been one of the largest components of Uralkali's total Cost of sales during the periods under review (18.7% and 18.5% in the first six months of 2007 and 2006, respectively, and 20.6%, 22.5% and 24.1% in 2006, 2005 and 2004, respectively, of Cost of sales).

	Six Months Ended 30 June		Year Ended 31 December		
	2007	2006	2006	2005	2004
Materials and components used (RUR millions)	582	445	1,301	1,235	1,255

If the Company succeeds in its strategy to expand structural capacity, available production and increase production, it expects the Materials and components used in production to increase as a result. See "Description of business — Strategy." The Company, however, expects the possible increase to be partially offset as it increasingly outsources its repair and maintenance function in accordance with its strategy. Outsourced repair and maintenance expenses are reported through Repairs and maintenance in Cost of sales.

Fuel and energy expenses

The potash production process requires significant amounts of electricity and heat energy.

Energy related expenses represented 24.0% and 27.2% of total Cost of sales in the first six months of 2007 and 2006, respectively, and 20.7%, 24.3% and 23.5% of total Cost of sales in 2006, 2005 and 2004, respectively. In each of these periods, the majority of Fuel and energy expenses were attributable to electricity expenses. The next two largest components during the period under review were heat and natural gas, together representing about a quarter of Fuel and energy expenses. The remaining portion of these expenses were fuel oil and other energy expenses (principally consisting of gasoline). Uralkali uses electricity, among other things, to power the machines used in the production processes. Uralkali uses gas to heat boilers, which are used to produce heat for various stages of the production process, including, for example, to dry the potash and to heat the production facilities. Uralkali also purchases steam for heating from external providers. Uralkali uses fuel oil for ovens and heating Plant 3 and Plant 4 and gasoline to fuel its trucks.

The trends in prices and tariffs for electricity, heat and natural gas for Uralkali during the periods under review are shown in the tables below.

Uralkali's payments for electricity consist of (i) a lump sum payment to the local supplier based on the per unit amount planned to be consumed in the following month and (ii) a tariff for each unit of electricity actually consumed. Electricity prices have changed during the period under review:

	Change in capacity payment compared to the price applicable for the preceding year	Change in electricity tariff compared to the price applicable for the preceding year
	(RUR per kilowatt)	(RUR per kilowatt hour)
2004	+10.6%	+11.0%
2005	+27.3%	+2.8%
2006	+1.67%	+1.1%
First six months of 2007	+34.5%	+9.0%

Heat tariffs have been volatile during the period under review because of changes in the relative bargaining positions of Uralkali and the local heat provider from period to period:

	Change in average heat tariff compared to the preceding year
	(RUR per Gcal)
2004	+0.1%
2005	+16.0%
2006	−22.0%
First six months of 2007	+14.0%

The table below shows trends in natural gas prices during the period under review from Uralkali's biggest supplier of natural gas, which supplied over three quarters of Uralkali's natural gas consumption in the periods under review. These prices have risen during the period under review:

	Change in average gas tariff compared to the preceding year
	(RUR per cubic metre)
2004	+2.5%
2005	+19.6%
2006	+10.3%
First six months of 2007	+15.5%

Other energy related expenses included fuel oil and other energy expenses. Fuel oil prices have increased significantly during the periods under review mainly as a result of higher oil prices.

The Russian government intends to gradually diminish indirect support for prices of electricity, gas and other utilities, and as a result the Company expects utility prices to rise in the future. Currently, 85-90% of domestic electricity prices are regulated by the Russian government. The government is in the course of implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market based system by 2011. Moreover, according to the Russian Energy Strategy approved by the Russian government in 2003, electricity tariffs for all users are to reach US$0.04 — US$0.045 per kWh by 2020. In the first half of 2007, and in 2006, Uralkali's average effective cost of electricity was RUR 1.19 per kWh and RUR 1.04 per kWh, respectively. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. Also, the Russian government is in the course of promoting the use of alternative fuel materials that could be cheaper than gas, such as for example, thermal coal, and implementing a restructuring plan for the gas sector aimed at achieving the comparable level of gas prices on the domestic and international markets.

Heat costs are negotiated with local suppliers of heat and the prices can be volatile from year to year.

Domestic natural gas prices are generally regulated by the government, and have been rising over the last few years. According to Goskomstat, the average price for industrial consumers in Russia was approximately RUR 378 per thousand cubic metres in 2006, an increase of approximately 30.35% from RUR 290 in 2004. In accordance with the Russian government resolution of 28 May 2007, domestic natural gas prices are now expected to increase to western European levels by 2011. As a part of the overall reform process towards gas price liberalisation, Gazprom was permitted to sell up to 5 billion cubic meters of gas in 2006-2007 at unregulated prices on an electronic trading platform. Under this gas price liberalisation schedule, it is anticipated that gas prices will rise by 15% from January 2007, by 25% from January 2008, by 13% from each of January and July in 2009 and 2010, finally reaching western European gas price levels by January 2011. The Russian government may also accelerate the liberalisation of gas prices or increase of the regulated gas tariffs prior to the decrease of the required volumes of electricity sold at regulated tariffs. Despite the ongoing liberalisation process and accompanying price increases, natural gas prices in Russia remain significantly below typical western European levels for now, helping to provide Uralkali with a cost advantage over many of its competitors.

Power generation programme

Uralkali is currently implementing a power generation programme, which it expects to fully implement by 2009, to reduce its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas.

The power generation programme consists of installation and operation of four electricity generation turbines at Plant 4. Two of these turbines are currently being tested and Uralkali expects them to be operational in 2008. The other two are yet to be installed and the Company currently expects them to be operational in 2009. Uralkali estimates that the total cost of the programme will be RUR 2,711 million, of which approximately RUR 2,119 million was spent from 2004 through the first half of 2007. Although Uralkali expects its total electricity expenses to continue to rise as production is increased, it believes that by building its own power generation facility it will be able to reduce the rate of increase for these expenses. The Company's costs of producing its own electricity will also be reported under energy related expenses. The Company expects its natural gas expenses to rise, as it increases natural gas usage for electricity generation and as it switches from the use of fuel oil to gas. Although Uralkali's energy strategy will make it more reliant on natural gas and more exposed to changes in natural gas prices, the Company has taken into account the historic correlation of electricity prices with gas prices in Russia. Fuel oil has been more expensive than natural gas during the periods under review. See "Risk Factors — Risks related to operations — Uralkali's production cost could increase." Uralkali expects its total heat expenses to fall if it is able to implement its power programme as it intends to use heat produced as a by-product of its own electricity generation and acquire less heat from third parties. Uralkali intends to finance the power generation programme using internal cash flow. The Company estimates cost savings of approximately RUR 50 per tonne of potash production in 2011 compared to 2006, assuming a 25% annual average increase in gas prices and a 16% annual average increase in electricity prices from 2006 to 2011.

Repairs and Maintenance

Expenses in relation to Repairs and Maintenance are costs of repairs and maintenance for production facilities and equipment outsourced to third-party service providers. Since the end of 2005, Uralkali has increasingly outsourced repairs and maintenance work to third-party service providers and, in the first six months of 2007, approximately 40% of all repairs and maintenance works were conducted by such providers. Increase in Repairs and Maintenance as a result of outsourcing has an offsetting effect on Materials and components used, as Materials and components used include the costs of repairs and maintenance conducted by Uralkali's in-house repair and maintenance department. Repairs and maintenance costs accounted for 8.5% and 4.6% of the total Cost of Sales in the first six months of 2007 and 2006, respectively and 4.9%, 1.9% and 2.4% of total Cost of sales in 2006, 2005 and 2004, respectively. The Company expects these costs to continue to rise, as the Company intends to further increase the proportion of repairs and maintenance work conducted by third-party service providers.

Transportation between mines

Costs related to Transportation between mines are incurred to transport ore from Mine 4 to Plant 3 by rail. Uralkali incurs rail tariffs for this transport. These costs accounted for 4.5% and 3.2% of the total Cost of Sales in the first six months of 2007 and 2006, respectively and 2.8%, 3.0% and 2.3% of total Cost of sales in 2006, 2005 and 2004, respectively. The Company expects these costs to rise to the extent more ore needs to be transported resulting from capacity expansions, which are planned for Plant 3. See "Description of business — Products," "Description of business — Production process" and "— Liquidity and capital resources." Rail tariffs are also expected to rise.

Utilities

Utilities costs represent payments made to third party service providers for disposal of dirt water discharged from ore processing plants. The Company expects these costs to remain stable in the near future.

Change in provision for earth replacement

The provision for earth replacement relates to estimated expenses for filling in cavities below the City of Berezniki to reduce the extent of subsidence resulting from Uralkali's mining practices in the earlier part of Uralkali's history prior to privatisation. After privatisation, Uralkali adopted modern mining techniques which the Company believes do not give rise to the same problem. The amount of the provision represents the present value of an estimate of future cash outflows relating to these earth replacement obligations using a discount rate of 9.99% starting 1 January 2006 (the rate from 1 January 2004 to 31 December 2005 was 12.15%). The local authorities in Berezniki and regional authorities in the Perm region reimbursed Uralkali for a part of the costs incurred in filling cavities pursuant to this law. At the end of each year, the provision is reassessed to account for earth replaced during the year and changes in the estimates of future cash outflows. The change in the provision is charged to the statement of income in the year when it occurs. The changes in provision accounted for 0% and 4.3% of total Cost of sales in the first six months of 2007 and 2006, respectively, and 2.2%, 2.2% and 2.2% of total Cost of sales in 2006, 2005 and 2004, respectively. Due to the flooding of Mine 1, this provision was reassessed and increased to reflect the Company's estimate of probable cash outflows for brine injections related to the Mine 1 flooding (the "Mine 1 Provision"). See "— Mine flooding costs". Amounts attributable to the discount applied to the estimate of probable cash outflow as a result of recognising the discounted provision prior to the amounts being due are recognised within Finance expenses on a straight line basis until the end of the relevant discount period.

Change in work in progress, finished goods and goods in transit

The change in work in progress, finished goods and goods in transit is an adjustment to Cost of sales to reflect production of goods for which revenues have not yet been recognised. The amount of the work in progress, finished goods and goods in transit at each reporting date is recorded at the cost of production of those products. Uralkali engages an independent surveyor as required by customs regulations to verify the physical quantity of finished products at a customs warehouse at the port of St. Petersburg at the reporting dates used for valuation. In accordance with the surveyor's guidance and the technical characteristics of the devices used for valuation, the valuation error can be plus or minus four to six percent. Change in work in progress, finished goods and goods in transit accounted for 4.0% and 16.7% of total Cost of sales in the first six months of 2007 and 2006, respectively, and 3.0%, 2.0% and 6.0% of total Cost of sales in 2006, 2005 and 2004, respectively.

Other costs

Other costs mainly consist of the costs of JSC BBT for the transhipment of products of its third party customers after consolidation of BBT beginning in February 2005. Other costs accounted for 0.3% and 0.6% of total costs of sales in the first six months of 2007 and 2006, respectively, and 0.5%, 1.0% and 0.5% of total costs of sales in 2006, 2005 and 2004, respectively.

Distribution costs

The major components of Distribution costs are Freight costs and Railway tariffs (together accounting for 82.8% and 80.2% of Distribution costs in the first six months of 2007 and 2006, respectively). The rest, consisting of Depreciation, Transport repairs and maintenance, Transhipment, Labour costs, Commissions, Travel expenses, and Other costs, together accounted for less than 20% of Distribution costs in 2006 and in the first six months of 2007.

Freight

Freight costs are shipping costs incurred by Uralkali if it sells potash on a CFR basis. The amount of Freight costs Uralkali incurs not only depends on changes in freight charges, but also on the volumes

Uralkali sells on a CFR basis, which in turn depends on how the sales are made and to which markets sales are made. Freight costs have been a large part of Distribution costs since 2005, when Uralkali started making its export sales through a wholly owned subsidiary. Prior to this period, sales were principally either on an FCA Berezniki or DAF basis. Freight costs accounted for 32.9% and 30.9% of Distribution costs in the first six months of 2007 and 2006, respectively, and 33.1%, 48.7% and 8.7% of Distribution costs in 2006, 2005 and 2004, respectively. Sales on a CFR basis accounted for 46.5% of Uralkali's sales volumes in the first six months of 2007 and 44.2%, 59.5% and 3.4% of Uralkali's sales volumes in 2006, 2005 and 2004, respectively.

In 2006, Freight costs for deliveries to India were the largest component of total Freight costs, followed by deliveries to Brazil, Indonesia, main countries sold to in Southeast Asia and the United States.

Freight costs are seasonal in nature in that the underlying freight prices are higher in the winter months than in the summer months.

Railway tariff

During the period under review, Railway tariff consisted of:

- railway tariff costs for deliveries by Uralkali by rail to sea ports for onward delivery by sea to the export markets for Uralkali products for sales made on a CFR and FOB basis;
- railway tariff costs for overland deliveries undertaken by Uralkali on a DAF basis to China and European destinations such as Poland, Finland, Lithuania and Romania. In these instances, Uralkali incurred railway tariff associated with transporting potash as far as the agreed rail terminal outside the country of ultimate destination, which is typically close to the relevant border with that country; and
- empty rail car tariffs for the return of the empty rail cars after deliveries have been made on deliveries made to Fertexim in 2004 on FCA terms at Berezniki, on China Rail Sales by Uralkali on DAF terms, and on European export sales on DAF terms.

Railway tariff costs accounted for 49.8% and 49.3% of Distribution costs in the first six months of 2007 and 2006, respectively, and 45.6%, 34.7% and 65.6% of Distribution costs in 2006, 2005 and 2004, respectively. The changes in these proportions principally resulted from a change in the method by which Uralkali made export sales in 2006, 2005 and 2004 as described above.

Railway tariff is influenced by Russian government policies towards its Russian Railway business.

Transhipment

For periods when JSC BBT was accounted for using the equity method of accounting (prior to 31 March 2005), Transhipment costs (meaning the costs of transporting the product from storage or a means of conveyance to a different vessel, ship or rail car) were the costs incurred by Uralkali to BBT for transhipment services. For periods after JSC BBT was fully consolidated, Transhipment costs were principally costs incurred by JSC BBT with respect to transhipment of Uralkali potash. Accordingly, after February 2005, 100% of JSC BBT'S costs related to transhipment of Uralkali products were included in Distribution costs under Transhipment costs. JSC BBT costs include Depreciation, Labour costs, Raw material expenses (to facilitate storage of potash, for example) and various General and administrative expenses. Transhipment costs accounted for 3.4% and 4.4% of Distribution costs in the first six months of 2007 and 2006, respectively, and 5.2%, 4.2% and 1.3% of Distribution costs in 2006, 2005 and 2004, respectively. The Company expects that these costs will increase in the future as the underlying fixed costs of JSC BBT increase and as further investments are made in JSC BBT assets that then need to be depreciated. If Uralkali's deliveries through JSC BBT fall in the future, Transhipment costs would likely decrease, while Other costs, where the Company records fixed costs attributable to third party transhipments would likely increase.

Depreciation

Depreciation of property, plant and equipment relating to the distribution of products (that is, Uralkali's rail cars and associated assets) is reported through Distribution costs.

Transport repairs and maintenance

Transport repairs and maintenance costs are costs related to services of third parties (primarily Russian Railways) and Uralkali's subsidiaries, Depo LLC and Vagonnoe Depo Balahontsi LLC. The costs relate to the repair and maintenance of Uralkali's rail cars and vary depending on the number and type of rail car serviced (such as dump cars and boxcars).

Labour costs

Labour costs relating to the distribution of products are reported through Distribution costs. Such costs include, for example, costs of staff at Uralkali Trading and a share of Labour costs at BPC. As discussed above, JSC BBT's Labour costs related to the distribution of products are reported through Transhipment and head office Labour costs are reported through General and administrative expenses. Prior to 2005, there were no Labour costs allocated to Distribution costs because exports were made through third party traders who arranged distribution, and costs related to domestic distribution and China Rail Sales were not significant. Labour costs for distribution of products sold domestically and as China Rail Sales were reported through Cost of sales in 2004 and thereafter reported through Distribution costs.

Commissions

Commissions are payments by Uralkali for the services of intermediaries for sales of Uralkali's products in various markets and commissions paid to shipping brokers. Until 14 December 2004, Uralkali used Fertexim to export its products and therefore did not have any commission expenses related to distribution.

Travel expenses

Travel expenses comprise costs for the charter of a jet by the Company for use by the Company's key executives and travel expenses of sales people selling potash for Uralkali's account, including those incurred at BPC for sale of Uralkali's potash. Prior to 2005, the Company did incur any expenses under this line item, as it exported substantially all of its potash through Fertexim.

Other

Other expenses include dispatch, demurrage costs, General and administrative expenses relating to Uralkali Trading and expenses for sales representative offices, when they were offices of Uralkali, customs procedures, shunting operation, forwarding services, inspection, carriage placing (rent of rail lines) and other costs related to Uralkali's distribution.

General and administrative expenses

The major components of General and administrative expenses are Labour costs, Depreciation and amortisation (related to administrative buildings and office equipment), Consulting, audit and legal services and Insurance, which together accounted for 70.5% and 72.5% of General and administrative expenses in the first six months of 2007 and 2006, respectively, and 71.3%, 71.2% and 70.5% in 2006, 2005 and 2004, respectively. The remaining components include Security, Mine-rescue crew, Communication and IS services, Bank charges and Other expenses.

Labour costs

Labour costs relating to the head office Labour costs are reported through General and administrative expenses. Labour costs mainly consist of salaries, bonuses and other incentives, lump-sum payments (equal to approximately two months' salary) for retired employees and related social taxes. Uralkali's Labour costs relating to General and administrative expenses comprise salaries for executive management and other administrative staff.

Depreciation and amortisation

Depreciation of property, plant and equipment at Uralkali's head office is reported through General and administrative expenses. Amortisation reported through General and administrative expenses mainly relates to amortisation of its Oracle software. Depreciation and amortisation accounted for 11.9% and 15.7% of General and administrative expenses in the first six months of 2007 and 2006, respectively, and 12.0%, 15.6% and 12.5% of General and administrative expenses in 2006, 2005 and 2004, respectively.

Consulting, audit and legal services

Consulting, audit aned legal services mainly consists of fees for external management consultants, legal advisors and auditors.

Insurance

Insurance costs represent premiums for insurances maintained by the Company, including property insurances for underground production facilities (such as buildings, constructions and equipment), above-ground production facilities and rail cars, business interruption insurance, as well as civil liability insurance for operators of dangerous industrial facilities and water development facilities.

Mine flooding costs

In October 2006 the Company stopped production operations in Mine 1 due to a sudden, uncontrollable inflow of groundwater. The consequences include the permanent loss of production and ore reserves at Mine 1 (which represented 13% of the pre-flooding proved and probable reserve of Uralkali) and damage to property, both of the Company and third parties, and the environment associated with an accelerated and increased ground subsidence exacerbated by the flooding. The technical investigation of the flood by an ad hoc commission with the participation of the Federal Service for Environmental, Technological and Nuclear Supervision (Rostechnadzor) has concluded that the main cause of the flooding was a previously unknown anomaly of geological structure and has classified the circumstances preceding the accident as being extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved. The flooding has also been classified by the Federal Chamber of Commerce and Industry and the Perm Chamber of Commerce and Industry as an unpredictable force majeure event. See "Risk Factors — Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperative and has exposed Uralkali to potential financial liabilities."

Mine flooding costs of RUR 2,054 million were recognised as an expense in 2006 and included a write-off of fixed assets, including the book value of Mine 1 and equipment, and current mine closure expenses, as well as estimated probable future expenses, in each case including Labour costs and Costs of Materials and components used or estimated to be used in connection with the closing of Mine 1. Mine flooding costs of RUR 77 million were recognised as an expense in the six months ended 30 June 2007. See "— Six months ended 30 June 2007 compared to six months ended 30 June 2006 — Mine flooding costs." In addition, the Company expects to incur additionally approximately RUR 44 million for Mine 1 closure costs in the next 18 months, which amount is not included in the provision carried on the balance sheet as of 30 June 2007. The Company carried RUR 679 million, as a provision in Uralkali's balance sheet as at 31 December 2006 and RUR 574 million as at 30 June 2007 for liquidation related to the Mine 1 flooding. The change in the Mine 1 Provision is reflected in the income statement in Mine flooding costs. See "Change in provision for earth replacement". The Company may adjust the amount of the provision, if and when its estimate for future expenses for the mine closure changes. For example, if the volume of groundwater inflow into Mine 1 continues at the average rate during the first six months of 2007, the period in which the Mine 1 is expected to be filled with groundwater would increase from expected 3 years to 3.4 years from the time of the initial flooding and the Company would incur additional brine injection costs of RUR 87 million. See Note 5 to the audited consolidated financial statements. In addition, the Company will continue to assess any potential liabilities arising out of the accident and, if the Company deems any additional liabilities probable, it will adjust the amount of the provision at such time. See "— Liquidity and capital resources — Provision related to Mine flooding costs."

SIX MONTHS ENDED 30 JUNE 2007 COMPARED TO SIX MONTHS ENDED 30 JUNE 2006

The table below shows sales volumes of potash:

	For the six months Ended 30 June	
	2007	2006
	(thousand tonnes)	
Granular	627	442
Pink MOP (including White MOP coloured and sold as Pink MOP)	1,055	612
White MOP	764	654
Total	**2,446**	**1,708**

Revenues

Uralkali earned revenues during the first half of 2007 principally from the sale of Pink MOP and White MOP and Granular. Uralkali's products were exported to over 20 countries in the first half of 2007, but mainly to China, Brazil, India, member states of the EEA and to southeast Asian countries. In the first half of 2007, 50.4% of Uralkali's export sales were made through Uralkali Trading and all its domestic sales through the Company directly. In the same year, 49.6% of Uralkali's export sales were made through BPC. See "Description of business — Sales and marketing."

Total revenues — overview

Total revenues in the first half of 2007 were RUR 13,323 million, an increase of 49.3% from RUR 8,925 million in the first half of 2006. This increase was largely due to the lower volume of sales made during the first half of 2006 because of prolonged contract negotiations with major Chinese customers, which have historically accounted for a large proportion of Uralkali's sales. In addition, the delay in agreeing the China contracts led to a delay in agreeing the main contracts in India, which led to a negligible amount of sales to India being made in the first half of 2006. The sales that were made were mainly deliveries in 2006 under the contracts signed in 2005. Since China and India are such a significant market for Uralkali products, Uralkali reduced its production during that period when negotiations faltered. As a result, the Company only produced 4.2 million tonnes of potash for all of 2006. The contracts for China Sea Sales were concluded in July 2006, closely followed by conclusion of contracts with Indian customers, and Uralkali produced at available production for the remainder of the year. See "Description of business — Key markets and customers." The increase in revenues also resulted from higher price levels globally in the first half of 2007. For example, the average Vancouver FOB price and the average Baltic FOB price, which are used by the potash industry as measures of average prices globally, increased 4% and 10%, respectively, in the first half of 2007 over the first half of 2006.

Revenues from geographical and product segments

	Six Months Ended 30 June			
	2007		2006	
	RUR millions	% of total revenues	RUR millions	% of total revenues
Export	12,014	90.2%	7,918	88.7%
Products:				
Potassium chloride (Pink MOP and White MOP)	8,525	64.0%	5,673	63.6%
Potassium chloride (Granular)	3,489	26.2%	2,245	25.2%
Segments:				
Developing countries	11,152	83.7%	6,833	76.6%
Developed countries	862	6.5%	1,085	12.2%
Domestic				
Potassium chloride (Pink MOP and White MOP)	761	5.7%	576	6.5%
Others	548	4.1%	431	4.8%
Total revenues	**13,323**		**8,925**	

Revenues from export and domestic potash sales

Revenues from export potash sales increased 51.7% to RUR 12,014 million in the first half of 2007 from RUR 7,918 million in the first half of 2006. As a proportion of total revenues, export sales remained at a similar level of 90.2% in the first half of 2007, as compared to 88.7% in the first half of 2006, and domestic potash sales decreased to 5.7% in the first half of 2007 from 6.5% in the first half of 2006. The increase in exports was largely due to the lower level of sales in the first half of 2006 resulting from the protracted negotiations of sales contracts with the biggest Chinese customers. This delay also had a knock-on effect on key contracts with the most significant Indian customers, as a number of Indian customers waited until the price had been set in China before committing to new contracts. Although Uralkali continued to make China Rail Sales while the negotiation for China Sea Sales contracts were ongoing, such sales did not make up for the loss of earnings from China Sea Sales. The increase in domestic potash sales was primarily due to the greater demand for potash in Russia in 2007.

In the first half of 2007, RUR 11,152 million, or 83.7% of total revenues, were revenues from exports to Developing countries, which were mainly for customers in China, Brazil and India and RUR 862 million, or 6.5% of total revenues, were revenues from exports to Developed countries, which included member states of the EEA. In the first half of 2007, RUR 761 million, or 5.7% of total revenues, were made from sales of potash to the domestic market. Average prices in the first half of 2007 for sales to Developing countries, Developed countries and domestically were RUR 5,424 per tonne, RUR 4,983 per tonne and RUR 3,507 per tonne, respectively. The price differences resulted primarily from different delivery terms and different market conditions. In the first half of 2006, Uralkali made its export sales mainly to Developing Countries, including China, Brazil, southeast Asia, as well as countries in Africa. Average prices for potash in the first half of 2006 for sales to Developing Countries, Developed Countries and domestically were RUR 5,305 per tonne, RUR 4,910 per tonne and RUR 2,894 per tonne respectively. The price differences resulted from different delivery terms and different features of the markets. The average prices in the Developing countries increased between the first half of 2007 over the first half of 2006 mainly because of the growth in demand, which was partially offset by the impact of the appreciation of the rouble against the US dollar, since the relevant prices are quoted in US dollars. The average prices in the Developed countries increased in the first half of 2007 over the first half of 2006 principally because of the growth in demand and an increase in the proportion of sales made on a CFR basis.

Revenues from specific products in export sales

Revenues from potassium chloride (Pink MOP and White MOP) in export sales in the first half of 2007 were RUR 8,525 million, an increase of 50.3% from RUR 5,673 million in the first half of 2006. The increase was largely due to the lower level of sales made during the first half of 2006 as a result of protracted negotiations of China Sea Sales contracts. Revenues from potassium chloride (granular) in export sales in the first half of 2007 were RUR 3,489 million, a 55.4% increase from RUR 2,245 million in the first half of 2006. The increase was largely due to the lower level of sales made during the first half of 2006 as a result of the protracted China Sea Sales contract negotiations.

Revenues from domestic potash sales

Revenues from domestic potash sales in the first half of 2007 were RUR 761 million, an increase of 32.1% from RUR 576 million in the first half of 2006 primarily driven by the increase in prices as a result of growth in demand worldwide. Uralkali had no revenues in either the first half of 2007 or 2006 from potassium chloride (granular) in Russia.

Revenues from domestic non-potash sales

Revenues from domestic non-potash sales in the first half of 2007 were RUR 548 million, an increase of 27.2% from RUR 431 million in the first half of 2006. The increase was primarily a result of higher revenues from transhipment services rendered by JSC BBT to third parties, due to the higher level of average price charged by BBT for such services.

Operating costs and expenses

Cost of sales

Cost of sales in the first half of 2007 were RUR 3,119 million, an increase of 30.0% from RUR 2,399 million in the first half of 2006. As a percentage of Revenues, Cost of sales fell slightly from 26.9% for the first half of 2006 compared to 23.4% for the first half of 2007, as Revenues grew at a faster rate than Cost of sales. Cost of sales increased largely due to the higher volume of production and sales made in the first half of 2007. The table below details Uralkali's Cost of sales for the periods under review by major components:

	Six Months ended 30 June		
	2007	% change	2006
	(RUR millions, except percentages)		
Labour costs	791	(6.2)%	843
Fuel and energy	748	14.6%	653
Depreciation	695	(7.1)%	748
Materials and components used	582	30.8%	445
Repairs and maintenance	264	137.8%	111
Transportation between mines	141	83.1%	77
Utilities	14	7.7%	13
Change in provision for earth replacement	0	(100)%	(104)
Change in work in progress, finished goods and goods in transit	(124)	69.0%	(401)
Other costs	8	(42.9)%	14
Total Cost of sales	**3,119**		**2,399**

Labour costs

Labour costs decreased in the first half of 2007 compared to the first half of 2006, largely due to the lower headcount, partially offset by the higher amount of compensation paid to employees in line with the wage inflation in Russia. Even during the production suspension in the first half of 2006 due to the protracted contract negotiations with the Chinese customers, the Company continued to pay compensation at the same level to its mining employees. As a percentage of total Cost of sales, Labour costs decreased to 25.4% for the first half of 2007 from 35.1% for the first half of 2006.

Fuel and energy

Fuel and energy costs increased largely due to the higher consumption of electricity and gas resulting from the higher production volume and the higher prices for electricity and gas in the first half of 2007. As a percentage of total Cost of sales, however, Fuel and energy costs decreased to 24.0% for the first half of 2007 from 27.2% for the first half of 2006.

Depreciation

Depreciation slightly decreased in the first half of 2007 compared to the first half of 2006, largely due to lower asset base in the first half of 2007, as fixed assets relating to Mine 1 were written off in the second half of 2006, the effect of which was partially offset by the acquisition of additional fixed assets for potash production. As a percentage of total Cost of sales, Depreciation decreased to 22.3% for the first half of 2007 from 31.2% for the fist half of 2006.

Materials and components used

Costs related to Materials and components used increased in the first half of 2007 compared to the first half of 2006, largely due to higher levels of production in the first half of 2007, the effect of which was partially offset by the higher amount of repairs outsourced to third parties. As a percentage of total Cost of sales, Materials and components remained stable at 18.7% for the first half of 2007 and at 18.6% for the first half of 2006.

Repairs and maintenance

Repairs and maintenance costs increased largely due to the higher production volume in the first half of 2007 and the larger amount of repair and maintenance work outsourced to third-party contractors in the first half of 2007. As a percentage of total Cost of sales, Repairs and maintenance costs increased to 8.5% for the first half of 2007 from 4.6% for the first half of 2006.

Transportation between mines

Costs related to transportation increased mainly because of an increase in Railway tariffs incurred for transportation between mines and an increase in the volume of ore transported resulting from higher levels of production at Plant 3 due to its facility expansion.

Utilities

Utilities remained stable during the periods under review, as the service fees charged by external service provider remained at the same level.

Change in provision for earth replacement

Change in provision for earth replacement changed from an income of RUR 104 million in the first half of 2006 to nil in the first half of 2007. As a result of the Mine 1 flooding, the provision was reassessed and applied against the Mine 1 Provision. See "— Significant factors affecting results of operations — Costs and expenses — Change in provision for earth replacement".

Change in work in process, finished goods and goods in transit

Change in work in process, finished goods and goods in transit changed from an income of RUR 401 million in the first half of 2006 to an income of RUR 124 million in the first half of 2007. The larger increase in inventories in the earlier period was due significantly to the China contract negotiations.

Distribution costs

Distribution costs increased by 42.1% to RUR 3,741 million in the first half of 2007 from RUR 2,633 million in the first half of 2006, largely due to the higher amount of potash exported during the first half of 2007. As a percentage of Revenues, Distribution costs fell slightly from 29.5% for the first half of 2006 to 28.1% for the first six months of 2007, as Revenues grew at a faster rate than Distribution costs. The table below details Uralkali's Distribution costs for the periods under review by major components:

	Six Months ended 30 June		
	2007	**% change**	**2006**
	(RUR millions, except percentages)		
Railway tariff	1,864	43.7%	1,297
Freight	1,232	51.4%	814
Transport repairs and maintenance	166	115.6%	77
Transhipment	127	9.5%	116
Depreciation	119	3.5%	115
Travel expenses	55	0%	55
Labour costs	33	(23.3)%	43
Commissions	14	(50.0)%	28
Other	131	48.9%	88
Total Distribution costs	**3,741**		**2,633**

Railway tariff

The increase in Railway tariffs in the first half of 2007 compared to the first half of 2006 was mainly because of the higher volume of export sales in the first half of 2007 and certain increases in railway tariffs in Russia, including routes between Berezniki and St. Petersburg, for which Railway tariffs were approximately 11% higher in the first half of 2007 as compared to the first half of 2006.

Freight

The increase in Freight costs in the first half of 2007 compared to the first half of 2006 resulted primarily from the higher amount of sales made during the first half of 2007, as compared to the lower level of sales made in the first half of 2006 due to the protracted negotiations of the China Sea Contracts.

Transport repairs and maintenance

The increase in Transport repairs and maintenance increased in the first half of 2007 compared to the first half of 2006 resulted primarily from the higher level of activities in the first half of 2007, as the level of repairs and maintenance directly correlates to the distance travelled by such rail cars.

Transhipment

The Transhipment costs slightly increased in the first half of 2007, as compared to the first half of 2006, due to the higher volume of export sales shipped through BBT in the first half of 2007 as compared to the first half of 2006.

General and administrative expenses

General and administrative expenses increased by 31.2% to RUR 1,067 million in the first half of 2007 from RUR 813 million in the first half of 2006, mainly because of an increase in Consulting, audit and legal services costs and in Labour costs. General and administrative expense constituted 8.0% and 9.1% of Revenues in the first half of 2007 and the first half of 2006, respectively as Revenues grew at a faster rate than General and administrative expenses. The changes in the principal components in the General and administrative expenses between the periods are set out in the table below.

	Six Months ended 30 June		
	2007	**% change**	**2006**
	(RUR millions, except percentages)		
Labour costs	419	27.0%	330
Depreciation and amortisation	127	(0.8)%	128
Consulting, audit and legal services	116	197.4%	39
Insurance	90	(2.2)%	92
Security	41	7.9%	38
Mine-rescue crew	41	13.9%	36
Communication and IS services	32	39.1%	23
Bank charges	29	(9.4)%	32
Other	172	81.1%	95
Total General and administrative expenses	**1,067**		**813**

Labour costs

The increase in Labour costs was largely due to the higher amount of compensation paid to staff in line with wage inflation in Russia and employment of more highly paid professionals and managers. As a percentage of total General and administrative expenses, however, Labour costs slightly decreased to 39.3% for the first half of 2007 from 40.6% for the first half of 2006.

Depreciation and amortisation

Depreciation and amortisation remained stable in the periods under review as the Company did not acquire any major fixed assets at its headquarters during the periods.

Consulting, audit and legal services costs

Consulting, audit and legal services costs almost trebled in the first half of 2007 compared to the first half of 2006 because of consulting services the Company obtained in connection with efficiency improvement in the first half of 2007. As a percentage of total General and administrative expenses, Consulting, audit and legal services costs increased to 10.9% for the first half of 2007 from 4.8% for the first half of 2006.

Insurance

Insurance costs remained stable during the periods under review as the insurance premium remained stable and no additional insurance was obtained by the Company during the periods.

Taxes other than income tax

Taxes other than income taxes increased by 8.0% to RUR 135 million in the first half of 2007 from RUR 125 million in the first half of 2006 largely due to an increase in the extraction tax resulting from higher production volumes in the first half 2007 as compared to the first half of 2006.

Other operating expenses

Other operating expenses decreased by 14.5% to RUR 212 million in the first half of 2007 from RUR 248 million in the first half of 2006 mainly because of a loss in connection with the disposal of obsolete fixed assets relating to fuel storage.

Operating profit and operating margin

Operating profit increased by 86.5% to RUR 5,049 million in the first half of 2007 from RUR 2,707 million in the first half of 2006. Operating margin increased to 37.9% in the first half of 2007 from 30.3% in the first half of 2006.

Operating profit from total export sales increased to RUR 4,546 million in the first half of 2007 from RUR 2,411 million in the first half of 2006 and operating profit from total domestic sales increased to RUR 584 million in the first half of 2007 from RUR 330 million in the first half of 2006. Operating margin from total export sales increased to 37.8% in the first half of 2007 from 30.5% in the first half of 2006. Operating margin from total domestic sales increased to 44.6% in the first half of 2007 from 32.8% in the first half of 2006.

Finance income

Finance income increased by 24.0% to RUR 552 million in the first half of 2007 from RUR 445 million in the first half of 2006 mainly because of a foreign exchange gain recorded on loans payable denominated in US dollars as a result of the appreciation of the rouble against the US dollar.

Finance expense

Finance expense increased by 50.1% to RUR 764 million in the first half of 2007 from RUR 509 million in the first half of 2006 mainly because of an increase in aggregate interest expense arising from a higher average level of debt being owed by Uralkali in the first half of 2007 as compared to the first half of 2006 to finance working capital and capital expenditures and an increase in the foreign exchange losses recorded on export receivables denominated in US dollars as a result of the appreciation of the rouble against the US dollar between the date of recognition of the relevant sale and the date of receipt of the corresponding receivable. The average export receivables outstanding during the first half of 2007 increased as compared to the first half of 2006 because of the lower volume of export sales made in the first half of 2006 due to the protracted contract negotiations with the Chinese customers.

Mine flooding costs

Mine flooding costs of RUR 77 million were incurred in the six months ended 30 June 2007 of which RUR 67 million related to dismantling costs for production infrastructures and RUR 10 million was a loss on disposal of fixed asssets. RUR 139 million of the Mine 1 Provision as at 31 December 2006 was utilised for brine injection costs.

Profit before income tax

Profit before income tax increased by 80.1% to RUR 4,760 million in the first half of 2007 from RUR 2,643 million in the first half of 2006.

Income tax expense

Income tax increased by 68.0% to RUR 936 million in the first half of 2007 from RUR 557 million in the first half of 2006, largely due to the increase in operating profit.

Net profit for the year

Net profit for the year increased by 83.3% to RUR 3,824 million in the first half of 2007 from RUR 2,086 million in the first half of 2006 for the reasons discussed above.

YEAR ENDED 31 DECEMBER 2006 COMPARED TO YEAR ENDED 31 DECEMBER 2005

The table below shows sales volumes of potash:

	For the year ended 31 December	
	2006	2005
	(thousand tonnes)	
Granular	1,004	1,244
Pink MOP (including White MOP coloured and sold as Pink MOP)	1,928	2,745
White MOP	1,411	1,349
Total	**4,343**	**5,338**

Revenues

Uralkali earned revenues during 2006 and 2005 principally from the sale of Pink MOP and White MOP and Granular. Uralkali's products were exported to over 20 countries in 2006 and 2005, but mainly to China, Brazil, India, member states of the EEA, the United States and to southeast Asian countries. In 2006, 68.2% of Uralkali's export sales were made through Uralkali Trading and all its domestic sales through the Company directly. In the same year, 31.8% of Uralkali's export sales were made through BPC. See "Description of business — Sales and marketing."

Total revenues — overview

Total revenues in 2006 were RUR 22,290 million, a decrease of 20.3% from RUR 27,976 million in 2005. This decrease was largely due to the prolonged contract negotiations with major Chinese customers, which have historically accounted for a large proportion of the consumption of Uralkali products and the decrease in the Company's capacity due to the closure of Mine 1. In addition, the delay in agreeing the China contracts led to a delay in agreeing the main contracts in India, which led to a negligible amount of sales to India being made in the first half of 2006. Since China and India are such a significant market for Uralkali products, Uralkali reduced its production during that period when negotiations faltered. As a result, the Company only produced 4.2 million tonnes of potash in 2006. The contracts for China Sea Sales were concluded towards the end of July 2006, closely followed by the conclusion of contracts with Indian customers, and Uralkali produced at available production for the remainder of the year. See "Description of business — Key markets and customers." The fall in revenues also resulted from a decrease in revenues from Brazil as a result of a fall in prices in the first half of 2006. The Company believes this was in part because of increased supplies to Brazil from other producers, who sought other markets pending resolution of the contract negotiations in China and India, and because of a decrease in demand for agricultural products in Brazil. Revenues from Russian sales also fell because of a delay in entering into a contract with one of Uralkali's largest NPK customers in Russia as a result of price negotiations. The potash price levels continue to rise globally in 2006 as compared to 2005. For example, the average Vancouver FOB price and the average Baltic FOB price, which are used by the potash industry as a reference point for prices globally, increased 9% and 7%, respectively, in 2006 over 2005.

Revenues from geographical and product segments

	Year Ended 31 December			
	2006		2005	
	RUR millions	% of total revenues	RUR millions	% of total revenues
Export	20,030	89.9%	25,942	92.7%
Products:				
Potassium chloride (Pink MOP and White MOP)	14,949	67.1%	18,718	66.9%
Potassium chloride (granular) (Granular)	5,081	22.8%	7,224	25.8%
Segments:				
Developing countries	17,456	78.3%	21,951	78.5%
Developed countries	2,574	11.5%	3,991	14.3%
Domestic				
Potassium chloride (Pink MOP and White MOP)	1,304	5.9%	1,138	4.1%
Others	956	4.3%	896	3.2%
Total revenues	**22,290**		**27,976**	

Revenues from export and domestic potash sales

Revenues from export potash sales were RUR 20,030 million in 2006, a decrease of 22.8% from RUR 25,942 million in 2005. As a proportion of total revenues, export sales decreased to 89.9% from 92.7% in 2005 and domestic sales increased to 5.9% from 4.1% in 2005. The decrease in exports was largely due to the protracted negotiations of sales contracts with the biggest Chinese customers. This delay also had a knock-on effect on key contracts with the most significant Indian customers, as a number of Indian customers waited until the price had been set in China before committing to new contracts. Although Uralkali continued to make China Rail Sales while the negotiation for China Sea Sales contracts were ongoing, such sales did not make up for the loss of earnings from China Sea Sales.

In 2006, RUR 17,456 million, or 78.3% of total revenues, were revenues from exports to Developing countries, which were mainly for customers in China, Brazil and India and RUR 2,574 million, or 11.5% of total revenues, were revenues from exports to Developed countries, which included the United States and member states of the EEA. In 2006, RUR 1,304 million, or 5.9% of total revenues, were made from sales of Uralkali's potash to the domestic market. Average prices in 2006 for sales to Developing countries, Developed countries and domestically were RUR 5,181 per tonne, RUR 4,803 per tonne and RUR 2,978 per tonne respectively. The price differences resulted primarily from different delivery terms and different market conditions.

In 2005, Uralkali made its export sales mainly to Developing Countries, including China, Brazil, southeast Asia, as well as countries in Africa. Average prices for potash in 2005 for sales to Developing countries, Developed countries and domestically were RUR 5,360 per tonne, RUR 5,150 per tonne and RUR 2,437 per tonne, respectively. The price differences resulted from different delivery terms and different features of the markets. The differences in average prices in the Developing countries between 2006 and 2005 were mainly because of the appreciation of the rouble against the US dollar, since the relevant prices are quoted in US dollars. The differences in average prices in the Developed countries in 2006 and 2005 were principally because of the fall in the proportion of sales to the United States, where prices were higher than prices for EEA countries because of the different delivery bases. The absolute amount, and also the proportion of revenues, from sales to the United States fell because the budget for BPC contemplated fewer sales of Uralkali goods through BPC to the United States and a greater volume of sales to Brazil. This was because Belaruskali has certain logistical advantages for sales to the United States but not for sales to Brazil. Margins for sales to the United States were slightly higher than for sales to Brazil in 2006, although there were only a limited number of deliveries to compare.

Revenues from specific products in export sales

Revenues from potassium chloride (Pink MOP and White MOP) in export sales in 2006 were RUR 14,949 million, a decrease of 20.1% from RUR 18,718 million in 2005. The decrease was largely due to the protracted negotiations of China Sea Sales contracts. Revenues from potassium chloride (granular) in the export sales in 2006 were RUR 5,081 million, a 29.7% decrease from RUR 7,224 million in 2005. The decrease was largely due to the protracted China Sea Sales contract negotiations and the decreased export to the United States as explained above.

Revenues from domestic potash sales

Revenues from domestic potash sales in 2006 were RUR 1,304 million, an increase of 14.6% from RUR 1,138 million in 2005 primarily driven by the increase in prices as a result of growth in demand. Uralkali had no revenues in either 2006 or 2005 from potassium chloride (granular) in Russia.

Revenues from domestic non-potash sales

Revenues from domestic non-potash sales in 2006 were RUR 956 million, an increase of 6.7% from RUR 896 million in 2005. The increase was primarily due to the full-year effect of the consolidation of JSC BBT in the second quarter of 2005 and an increase in Transhipment services rendered by JSC BBT to third parties, as a result of spare capacity created by the lower level of potash export sales during the first six months of 2006, offset by a lower level of sales of carnallite, mostly due to the flooding at Mine 1 in October 2006 which was Uralkali's only mine with carnallite resources. See "Description of business — Products" and "Description of business — Health, safety and environmental matters — Flooding of Mine 1."

Operating costs and expenses

Cost of sales

Cost of sales in 2006 were RUR 6,307 million, an increase of 14.7% from RUR 5,497 million in 2005. Cost of sales increased, despite the lower production volume, largely due to the increase in Labour costs, Materials and components used, Repairs and Maintenance and Change in work in progress, finished goods and goods in transit, as more fully explained below. As a percentage of Revenues, Cost of sales increased to 28.3% for 2006 from 19.6% for 2005 due to the decline in revenue during 2006 resulting from the potracted China Sea Sales contract negotiations and the flooding of Mine 1. The table below details Uralkali's Cost of sales for the periods under review by major components:

	Year ended 31 December		
	2006	**% change**	**2005**
	(RUR millions, except percentages)		
Labour costs	1,665	14.4%	1,456
Depreciation	1,441	7.2%	1,344
Fuel and energy	1,307	(2.1)%	1,335
Materials and components used	1,301	5.3%	1,235
Repairs and maintenance	312	194.3%	106
Transportation between mines	174	5.5%	165
Utilities	25	(16.7)%	30
Change in provision for earth replacement	(137)	13.2%	(121)
Change in work in progress, finished goods and goods in transit	188	274.1%	(108)
Other costs	31	(43.6)%	55
Total Cost of sales	**6,307**		**5,497**

Labour costs

Labour costs incurred for production increased in 2006 compared to 2005, largely due to the increase in the amount of compensation paid to employees involved in mining, in line with the wage inflation in Russia, partially offset by the lower headcount. The Company continued to pay wages during the slowdown in production resulting from the protracted China Sea Sales contract negotiations. As a percentage of total Cost of sales, Labour costs slightly decreased to 26.4% for 2006 from 26.5% for 2005.

Depreciation

Depreciation increased in 2006 compared to 2005 due to the acquisition of new fixed assets relating to potash production in 2006. As a percentage of total Cost of sales, Depreciation decreased from 24.5% for 2005 to 22.9% for 2006.

Fuel and energy

Fuel and energy costs decreased mainly because of the lower consumption of electricity and gas as a result of the lower production volume in 2006. The effect of the lower production was partially offset by the increase in prices of electricity and gas. As a percentage of total Cost of sales, Fuel and energy decreased to 20.7% for 2006 from 24.3% for 2005.

Materials and components used

Costs related to Materials and components used increased in 2006 compared to 2005, largely due to materials used in connection with extensive maintenance work that the Company opportunistically conducted throughout its operations to take advantage of the temporary slowdown in the Company's production caused by the protracted negotiations with the Chinese customers. As a percentage of total Cost of sales, Materials and components used slightly decreased from 22.5% in 2005 to 20.6% in 2006.

Repairs and maintenance

Repairs and maintenance costs increased largely due to the extensive maintenance work that the Company opportunistically conducted throughout its operations to take advantage of the temporary slowdown in the Company's production caused by the protracted negotiations with the Chinese customers in 2006, the higher price of materials used in repairs and maintenance work, and the larger amount of repair and maintenance work outsourced to third-party contractors in 2006. As a percentage of total Cost of sales, Repairs and maintenance costs increased to 5.0% for 2006 from 1.9% for 2005.

Transportation between mines

Costs related to transportation increased mainly because of an increase in Railway tariffs incurred for transportation between mines, an increase in the volume of ore transported resulting from higher levels of production at Plant 3 and an increase in rent for Russian Railway locomotives used for shunting operations between Uralkali's mines.

Utilities

Utilities remained stable during the periods under review, as the service fees charged by the external service provider remained at the same level.

Change in provision for earth replacement

Change in provision for earth replacement slightly changed from an income of RUR 121 million in 2005 to an income of RUR 137 million in 2006. The difference was primarily due to a RUR 69 million decrease in the estimate for the size of cavity to be filled because of the flooding of Mine 1. This provision was reassessed and increased to reflect the Company's estimate of probable cash outflows for brine injections related to the Mine 1 flooding. See "— Costs and expenses — Costs of sales — Change in provision for earth replacement" and "— Costs and expenses — Mine flooding costs."

Change in work in process, finished goods and goods in transit

Change in work in process, finished goods and goods in transit increased to a charge of RUR 188 million in 2006 from an income of RUR 108 million in 2005, largely due to the larger amount of inventory held in Uralkali's and third party warehouses due to the protracted contract negotiations with the Chinese customers in 2006.

Distribution costs

Distribution costs decreased by 21.7% to RUR 6,691 million in 2006 from RUR 8,544 million in 2005, largely due to the lower amount of potash exported during 2006. As a percentage of Revenues, Distribution costs fell slightly from 30.5% in 2005 to 30.0% in 2006. The table below details Uralkali's Distribution costs for the periods under review by major components:

	Year ended 31 December		
	2006	**% change**	**2005**
	(RUR millions, except percentages)		
Freight	2,218	(46.7)%	4,163
Railway tariff	3,050	2.8%	2,966
Transhipment	349	(2.5)%	358
Transport repairs and maintenance	251	20.1%	209
Depreciation	215	(2.3)%	220
Travel expenses	110	20.9%	91
Labour costs	100	(3.9)%	104
Commissions	37	(52.0)%	77
Other	361	1.4%	356
Total Distribution costs	**6,691**		**8,544**

Freight

The decrease in Freight costs in 2006 compared to 2005 resulted primarily from the lower volume of sales made during 2006 due to the protracted negotiations of the China Sea Contracts.

Railway tariff

The Railway tariffs in 2006 remained at a level similar to 2005, as the increase in Railway tariffs for China Rail Sales and the higher volume of China Rail Sales in 2006 were offset by the decrease in rail transport between Berezniki and the St. Petersburg port as a result of the overall decline in production and sales.

Transhipment

The decrease in Transhipment costs in 2006 compared to 2005 resulted from a decrease in export sales due to the declines in volumes shipped through BBT during the protracted contract negotiations with Chinese customers in the first six months of 2006.

Transport repairs and maintenance

The increase in Transport repairs and maintenance in 2006 as compared to 2005 resulted primarily from the increase in prices of rail car parts and the higher number of repairs of rail cars in 2006 as compared to 2005.

General and administrative expenses

General and administrative expenses increased by 60.0% to RUR 2,058 million in 2006 from RUR 1,286 million in 2005, mainly because of an increase in Labour and in Consulting, audit and legal services costs. As a percentage of Revenues, General and administrative expenses increased sharply from 4.6% in 2005 to 9.2% in 2006, as a result of the overall decline in Revenues in 2006. The changes in the principal components in the General and administrative expenses between the periods are set out in the table below.

	Year ended 31 December		
	2006	% change	2005
	(RUR millions, except percentages)		
Labour costs	774	67.5%	462
Consulting, audit and legal services	269	258.7%	75
Depreciation and amortisation	247	22.9%	201
Insurance	177	0%	177
Communication and IS services	84	82.6%	46
Security	85	142.9%	35
Mine-rescue crew	72	16.1%	62
Bank charges	34	13.3%	30
Other	316	59.6%	198
Total General and administrative expenses	**2,058**		**1,286**

Labour costs

The increase in Labour costs was largely due to the effect of recognition of a prior year bonus made to the senior management, a higher amount of compensation paid to staff, employment of more highly paid professionals and managers, the restructuring of parts of the labour force to move certain employees from the production function to general administration for greater efficiencies and wage inflation in Russia. As a percentage of total General and administrative expenses, Labour costs increased to 37.6% for 2006 from 35.9% for 2005.

Consulting, audit and legal services costs

Consulting, audit and legal services costs more than trebled in 2006 compared to 2005 because of professional services obtained in connection with a financing transaction, which was eventually aborted in 2006. As a percentage of total General and administrative expenses, Consulting, audit and legal services costs increased to 13.1% for 2006 from 5.8% for 2005.

Depreciation and amortisation

The increase in Depreciation and amortisation in 2006 as compared to 2005 primarily resulted from the full year effect of the IT related assets purchased in the last quarter of 2005 for use at the Company's headquarters.

Insurance

Insurance cost remained stable during the periods under review, as the premium remained stable and no additional insurance was obtained by the Company.

Communication and IS service

Communication and IS service expenses almost doubled in 2006 compared to 2005 because of investments in a management information system at Uralkali's headquarters in Berezniki in 2006. As a percentage of total General and administrative expenses, Communication and IS service costs increased to 4.1% for 2006 from 3.6% for 2005.

Security costs

Security expenses more than doubled in 2006 compared to 2005 because of the higher level of security services obtained from third party providers. As a percentage of total General and administrative expenses, Security costs increased to 4.1% for 2006 from 2.7% for 2005.

Taxes other than income tax

Taxes other than income taxes decreased by 8.8% to RUR 258 million in 2006 from RUR 283 million in 2005 largely due to the decrease in the extraction tax resulting from lower production volumes in 2006 as compared to 2005, partially offset by an increase in property tax because of an increase in the property tax base.

Other operating expenses

Other operating expenses decreased by 32.9% to RUR 426 million in 2006 from RUR 635 million in 2005 mainly because of a RUR 274 million loss incurred in 2005 on disposal of worker hostels in Berezniki to municipal authorities.

Operating profit and operating margin

Operating profit decreased by 44.2% to RUR 6,550 million in 2006 from RUR 11,731 million in 2005. Operating margin decreased to 29.4% in 2006 from 41.9% in 2005.

Operating profit from total export sales decreased to RUR 6,058 million in 2006 from RUR 11,351 million in 2005 and operating profit from total domestic sales decreased to RUR 485 million in 2006 from RUR 756 million in 2005. Operating margin from total export sales decreased to 30.2% in 2006 from 43.8% in 2005. Operating margin from total domestic sales decreased to 21.5% in 2006 from 37.2% in 2005.

Finance income

Finance income increased by 140.5% to RUR 914 million in 2006 from RUR 380 million in 2005 mainly because of a foreign exchange gain recorded on loans payable denominated in US dollars as a result of the appreciation of the rouble against the US dollar and gains in investment in Sberbank ordinary shares held by the Company.

Finance expense

Finance expense increased by 40.6% to RUR 1,084 million in 2006 from RUR 771 million in 2005 mainly because of an increase in the aggregate interest expense arising from a higher average level of debt being owed by Uralkali in 2006 as compared to 2005. This increase was partially offset by a decrease in the foreign exchange losses recorded on export receivables denominated in US dollars as a result of the appreciation of the rouble against the US dollar between the date of recognition of the relevant sale and the date of payment of the corresponding receivable. The average export receivables outstanding during the 2006 declined as compared to 2005 because of a decrease in export sales for the corresponding period.

Mine flooding costs

In October 2006, the Company stopped production operations in Mine 1 due to flooding. In the year ended 31 December 2006, the Company recognised RUR 2,054 million of total accident liquidation expense, comprising a write-off of fixed assets, including the book value of Mine 1 and equipment, and current mine closure expenses, as well as estimated probable future expenses, including Labour costs and Costs of Materials and components used in connection with the closing of Mine 1. The Company also carried RUR 679 million as a provision in Uralkali's balance sheet as at 31 December 2006 for liquidation costs related to the Mine 1 flooding. The increase in the Mine 1 Provision, after reassessment of the provision for earth replacement, is reflected in the income statement under a line item, Mine flooding costs. See "— Significant factors affecting results of operations — Costs and expenses — Change in provision for earth replacement". The Company may adjust the amount of the provision, if and when the Company's estimate for future expenses for the mine closure changes. In addition, the Company will continue to assess any potential liabilities arising out of the accident and, if the Company deems any additional liabilities probable, it will adjust the amount of the provision at such time.

Share of net (loss)/profit of investments accounted for using the equity method

Share of net (loss)/profit of investments accounted for using the equity method was the net loss or profit primarily of JSC BBT attributable to Uralkali as its shareholder in the first quarter of 2005.

Profit before income tax

Profit before income tax decreased by 61.8% to RUR 4,326 million in 2006 from RUR 11,337 million in 2005.

Income tax expense

Income tax decreased by 56.4% to RUR 832 million in 2006 from RUR 1,908 million in 2005, largely due to the decline in operating profit.

Net profit for the year

Net profit for the year decreased by 63% to RUR 3,494 million in 2006 from RUR 9,429 million in 2005 for the reasons discussed above.

YEAR ENDED 31 DECEMBER 2005 COMPARED TO YEAR ENDED 31 DECEMBER 2004

The table below shows sales volumes of potash:

	For the year ended 31 December	
	2005	2004
	(thousand tonnes)	
Granular	1,244	1,093
Pink MOP (including White MOP coloured and sold as Pink MOP)	2,745	2,512
White MOP	1,349	1,197
Total	**5,338**	**4,802**

Revenues

Uralkali earned revenues during 2005 and 2004 principally from the sale of Pink MOP and White MOP and Granular. Uralkali's products were exported to over 20 countries in 2005 and 2004, but mainly to China, Brazil, India, member states of the EEA, the United States and to Southeast Asian countries. In 2005, Uralkali made all its export sales through Uralkali Trading and all its domestic sales through the Company directly. In 2004 until 14 December 2004, Uralkali sold all of its potash destined for locations outside the Russian Federation (except for China Rail Sales) to Fertexim, a third-party trading company, and all its domestic sales through the Company directly. See "Description of business — Sales and marketing."

Total revenues — overview

Total revenues in 2005 were RUR 27,976 million, an increase of 131.3% from RUR 12,095 million in 2004. The Company believes that a significant factor for the increase was due to Uralkali Trading incurring the Distribution and Freight costs in 2005 of the type that Fertexim, Uralkali's third party trader, incurred in 2004. Because the Company does not know what Fertexim's Freight and Distribution costs were or prices at which Fertexim was able to sell its products in 2004, the Company is not able to determine how much of the increase in the price Uralkali obtained in 2005 compared to 2004 was as a result of the price in 2004 reflecting Fertexim's Distribution and Freight costs and how much was as a result of increases in the underlying price of potash. Uralkali believes, however, that a significant factor for the increase in revenues from 2004 to 2005 was the higher price of potash globally in 2005 over 2004. For example, the average Vancouver FOB price and average Baltic FOB price, which are used by the potash industry as measures of average prices globally, increased 18% and 25%, respectively, in 2005 over 2004. Although Uralkali's potash prices are not the same as the Vancouver FOB price or the Baltic FOB price, the Company expects its prices to generally move in line with Vancouver and Baltic FOB prices. Part of the increase in revenues was also due to a 11.2% increase in potash sales volumes to 5,338 thousand tonnes in 2005 from 4,802 thousand tonnes in 2004, which Uralkali was able to achieve because of increased demand for its potash and increased available production in 2005 compared to 2004.

Revenues from geographical and product segments

	Year Ended 31 December			
	2005		2004	
	RUR millions	% of total revenues	RUR millions	% of total revenues
Export	25,942	92.7%	10,684	88.3%
Products:				
Potassium chloride (Pink MOP and White MOP)	18,718	66.9%	7,675	63.5%
Potassium chloride (granular)	7,224	25.8%	2,992	24.7%
Complex fertilisers	—	—	17	0.1%
Segments				
Developing countries	21,951	78.5%	2,508	20.7%
Developed countries	3,991	14.3%	39	0.3%
Fertexim	—	—	8,137	67.3%
Domestic				
Potassium chloride (Pink MOP and White MOP)	1,138	4.1%	643	5.3%
Others	896	3.2%	768	6.4%
Total revenues	**27,976**	**100.0%**	**12,095**	**100.0%**

Revenues from export and domestic potash sales

Revenues from export potash sales were RUR 25,942 million in 2005, an increase of 142.8% from RUR 10,684 million in 2004. As a percentage of total revenues, export sales increased to 92.7% from 88.3% in 2004 and domestic sales fell to 4.1% from 5.3% in 2004. This was because the export market grew more for Uralkali than the Russian market, driven significantly, the Company believes, by a large increase in demand from China and India in 2005 compared to 2004.

In 2005, RUR 21,951 million, or 78.5% of total revenues, were revenues from exports to Developing countries, which were mainly for customers in China, Brazil and India, and RUR 3,991 million, or 14.3% of total revenues, were revenues from exports to Developed countries, which included the United States and member states of the EEA. In 2005, RUR 1,138 million, or 4.1% of total revenues, were made from sales of Uralkali's potash to the domestic market. Average prices in 2005 for sales to Developing countries, Developed countries and domestically were RUR 5,360 per tonne, RUR 5,150 per tonne and RUR 2,437 per tonne, respectively. The price differences resulted primarily from different delivery terms and different market conditions.

In 2004, until 14 December, Uralkali made its export sales, other than China Rail Sales, to Fertexim as principal and Uralkali does not have information about where Fertexim subsequently sold Uralkali's products. Between 14 December and the end of 2004, a limited number of sales were made through Uralkali Trading, the Company's wholly-owned subsidiary. In 2004, RUR 8,137 million, or 67.3% of total revenues, were revenues from sales to Fertexim, while RUR 2,508 million, or 20.7% of total revenues, were revenues from sales by Uralkali Trading to Developing countries and RUR 39 million, or 0.3% of total revenues, were revenues from sales by Uralkali Trading to Developed countries. Average prices in 2004 for sales to Fertexim, Developing countries, Developed countries and domestically were RUR 2,148 per tonne, RUR 4,354 per tonne, RUR 2,786 per tonne and RUR 1,520 per tonne, respectively. The price differences resulted primarily from different delivery terms and different market conditions.

Revenues from specific products as export sales

Revenues from potassium chloride (Pink MOP and White MOP), in the export sales in 2005 were RUR 18,718 million, an increase of 143.9% from RUR 7,675 million in 2004. The Company believes much of the increased demand for potassium chloride was driven by increased demand from China and India. Revenues from potassium chloride (granular) in the export sales in 2005 were RUR 7,224 million, a 141.4% increase from RUR 2,992 million in 2004. The Company believes much of this increased demand for Uralkali's Granular came from Brazil and the United States.

Revenues from domestic potash sales

Revenues from domestic potash sales in 2005 were RUR 1,138 million, an increase of 76.9% from RUR 643 million in 2004 primarily driven by the increase in prices as a result of growth in demand. Uralkali had no revenues in either 2005 or 2004 from potassium chloride (granular) in Russia.

Revenues from domestic non-potash sales

Revenues from domestic non-potash sales in 2005 were RUR 896 million, an increase of 16.7% from RUR 768 million in 2004. The increase was primarily due to the consolidation of JSC BBT after the first quarter of 2005, which resulted in the contribution of an additional RUR 105 million in 2005. See "— Summary of acquisitions."

Operating costs and expenses

Cost of sales

Cost of sales in 2005 were RUR 5,497 million, an increase of 5.5% from RUR 5,213 million in 2004. As a percentage of Revenues, Cost of sales fell sharply to 19.6% in 2005 from 43.1% in 2004, primarily as Revenues grew at a substantially faster rate than Cost of sales. The table below details Uralkali's Cost of sales for the periods under review by major components:

	Year ended 31 December		
	2005	% change	2004
	(RUR millions, except percentages)		
Labour costs	1,456	(8.1)%	1,584
Depreciation	1,344	5.7%	1,272
Fuel and energy	1,335	9.2%	1,223
Materials and components used	1,235	(1.6)%	1,255
Repairs and maintenance	106	(15.2)%	125
Transportation between mines	165	37.5%	120
Utilities	30	(6.3)%	32
Change in provision for earth replacement	(121)	3.4%	(117)
Change in work in progress, finished goods and goods in transit	(108)	(64.8)%	(307)
Other costs	55	111.5%	26
Total Cost of sales	**5,497**		**5,213**

Labour costs

Labour costs incurred for production fell in 2005 compared to 2004, notwithstanding an increase in production in 2005 compared to 2004, because of the outsourcing of security and cleaning functions and related headcount reductions, the restructuring of parts of the labour force to move certain employees from the production function to general administration, and greater efficiencies in production. As a percentage of total Cost of sales, Labour costs decreased to 26.5% for 2005 from 30.4% for 2004.

Depreciation

Depreciation increased in 2005 compared to 2004 because of an increase in the gross book value of the property, plant and equipment involved in production. The increase in those assets was as a result of Uralkali's investments in its production assets. As a percentage of total Cost of sales, Depreciation decreased to 24.5% for 2005 from 24.4% for 2004.

Fuel and energy

Fuel and energy costs increased mainly because of higher electricity and gas costs resulting from higher tariffs and higher consumption resulting from higher production levels. Fuel oil costs rose significantly as well, primarily as a result of higher oil prices. Heat costs also rose as a result of higher tariffs. Other, consisting mainly of gasoline, increased mainly because of price increases. As a percentage of total Cost of sales, Fuel and energy costs decreased to 24.3% for 2005 from 23.5% for 2004.

Materials and components used

Costs related to Materials and components used fell in 2005 compared to 2004 because of a decrease in repairs required for production property, plant and equipment, which offset increased costs resulting from increased production. As a percentage of total Cost of sales, Materials and components used decreased to 22.5% for 2005 from 24.1% for 2004.

Repairs and maintenance

Repairs and maintenance costs decreased in 2005 primarily because the Company was able to rely more on its inhouse repair and maintenance team in 2005 as compared to 2004, as the repair and maintenance needs were more evenly spread throughout the year in 2005. These effects were slightly offset as the Company started to increasingly rely on third-party service providers for its repair and maintenance needs starting in the last quarter of 2005.

Transportation between mines

Costs related to Transportation increased mainly because of an increase in Railway tariffs incurred for Transportation between mines, an increase in the volume of ore transported resulting from higher levels of production at Plant 3 and an increase in rent for Russian Railway locomotives used for shunting operations between Uralkali's mines.

Utilities

Utilities remained stable during the periods under review, as the service fees charged by the external service provider remained at the same level.

Change in provision for earth replacement

Cost of sales was offset by a benefit arising from a decrease in the provision for earth replacement, resulting from the related cavities having been filled during 2005. The size of the benefit increased slightly in size in 2005 compared to 2004.

Change in work in process, finished goods and goods in transit

The adjustment to Cost of sales for Change in work in process, finished goods and goods in transit in 2005 was 64.8% smaller than in 2004. The Company made a one-time large adjustment in the change in delivery terms for many sales from FCA Berezniki in 2003 to FOB at the end of 2004, resulting in a much higher inventory as at 31 December 2004. A similarly large change did not arise in 2005 because the delivery terms in 2005 were similar to those in 2004.

Distribution costs

Distribution costs were RUR 8,544 million in 2005, an increase of about four times over 2004, mainly because of the large increases in Freight costs and Railway tariffs because of the change in the way Uralkali sold its products for exports. As a percentage of Revenues, Distribution costs nearly doubled to 30.5% in 2005 from 16.9% in 2004, in line with the substantial growth in production in 2005 and the change in the delivery terms for Uralkali's products. The reasons for the changes are set out in more detail below. The table below details Uralkali's Distribution costs for the periods under review by major components:

	Year ended 31 December		
	2005	% change	2004
	(RUR millions, except percentages)		
Freight	4,163	2,238.8%	178
Railway tariff	2,966	121.0%	1,342
Transhipment	358	1,225.9%	27
Transport repairs and maintenance	209	32.3%	158
Depreciation	220	32.5%	166
Travel expenses	91	—	—
Labour costs	104	—	—
Commissions	77	—	—
Other	356	104.6%	174
Total Distribution costs	**8,544**		**2,045**

Freight

The increase in Freight costs in 2005 compared to 2004 resulted from the change in the delivery method used by Uralkali for most of its export products in 2005 compared to most of 2004. From 14 December 2004 and throughout 2005, Uralkali's export sales were made through Uralkali Trading, its wholly-owned subsidiary, which incurred the Freight costs for sale on CFR terms. In 2004 (until 14 December 2004) Uralkali used Fertexim for all export sales (other than China Rail Sales). These export sales were made to Fertexim on a FCA Berezniki basis, which meant that Fertexim incurred the Freight costs on shipments to its customers.

Railway tariff

The increase in Railway tariffs in 2005 compared to 2004 was mainly because of the change in the delivery method used by Uralkali for most of its export products in 2005 compared to 2004. In 2005, Uralkali's export sales were made through Uralkali Trading, its wholly-owned subsidiary, which incurred the Railway tariff costs in full to transport the products to the sea ports on FOB or CFR terms, or to transport the products to the customers, typically on DAF terms, and also in each case the empty rail car tariffs for the return of the empty rail cars after the rail deliveries had been made. In contrast, in 2004 (until 14 December 2004), for all export sales other than sales made by Uralkali directly for delivery by rail to China, Uralkali delivered potash to Fertexim on a FCA Berezniki basis. Accordingly, Uralkali did not incur Railway tariffs for delivery, but only the much lower empty car tariff for the return of the rail cars once the deliveries had been made.

Transhipment

The increase in Transhipment costs in 2005 compared to 2004 was because in 2004 Uralkali incurred only a small amount of Transhipment costs because of its delivery terms for most of 2004. In addition to that, prior to February 2005 Uralkali was accounting for its investment in BBT using the equity method and Transhipment costs included those incurred by Uralkali to BBT for transhipment services. Uralkali only incurred Transhipment costs in 2004 during the last two weeks of that year when Uralkali started using Uralkali Trading for export sales and was making deliveries on an FOB basis at BBT rather than on an FCA Berezniki basis, which it did prior thereto in 2004. Accordingly, in 2004, Uralkali incurred a small amount of Transhipment costs, whereas in 2005, Uralkali incurred Transhipment costs to BBT in the first quarter prior to its consolidation. Upon consolidation of BBT, these Transhipment costs were eliminated upon consolidation.

Transport repairs and maintenance

Transport repairs and maintenance costs did not change significantly in 2005 compared to 2004, notwithstanding greater use of distribution assets in 2005 compared to 2004 mainly because Uralkali's newer rail cars required less repair and maintenance.

Depreciation

The increase in Depreciation in 2005 compared to 2004 resulted from the additional rail cars purchased by Uralkali.

Travel expenses

No Travel expenses were incurred in 2004, as the Company exported all of its potash through Fertexim until the end of 2004 and did not incur any Travel expenses related to sales of potash in 2004.

Labour costs

Labour costs were recorded under Distribution costs for the first time in 2005, because of the change in the way Uralkali sold most of its products in 2005 compared to 2004. See "— Segments and revenue." In 2005, these were Labour costs of employees of Uralkali Trading. In 2004, Uralkali used Fertexim for most of the year for all export sales other than China Rail Sales domestic sales, which were made by Uralkali Trading and the Company, respectively. Labour costs of Uralkali for domestic sales and China Rail Sales were reported through Cost of sales in 2004. See "— Operating costs and expenses — Distribution costs — Labour costs."

Commissions

Commissions are payments by the Company for the services of intermediaries for sales of its products in various markets and commissions paid to shipping brokers. No Commissions were incurred in 2004, as the Company used Fertexim to export its products for most of 2004.

Other

These expenses increased significantly in 2005, compared to 2004, because of the change in the way Uralkali exported its products in 2005, using a consolidated subsidiary, Uralkali Trading for the first time during the period under review, rather than a third party trader, Fertexim. These expenses were therefore expenses of Uralkali, whereas for most of 2004, they were expenses of Fertexim.

General and administrative expenses

General and administrative expenses increased by 44.3% to RUR 1,286 million in 2005 from RUR 891 million in 2004, mainly because of an increase in Labour and Depreciation costs. As a percentage of Revenues, General and administrative expenses fell to 4.6% in 2005 from 7.4% in 2004 as Revenues grew at a faster rate than General and administrative expenses. The changes in the principal components in the General and administrative expenses between the periods are set out in the table below.

	Year ended 31 December		
	2005	**% change**	**2004**
	(RUR millions, except percentages)		
Labour costs	462	49.5%	309
Consulting, audit and legal services	75	50.0%	50
Depreciation and amortisation	201	81.1%	111
Insurance	177	12.0%	158
Communication and IS services	46	7.0%	43
Security	35	288.9%	9
Mine-rescue crew	62	34.8%	46
Bank charges	30	(47.4)%	57
Other	198	83.3%	108
Total General and administrative expenses	**1,286**		**891**

Labour costs

The increase in General and administrative expenses was mainly attributable to increases in Labour costs due to employment of more highly paid professionals and managers, the restructuring of parts of the labour force to move certain employees from the production function to general administration for greater efficiencies and wage inflation in Russia. As a percentage of total General and administrative expenses, Labour costs increased to 35.9% for 2005 from 34.7% for 2004.

Consulting, audit and legal services

The increase in Consulting, audit and legal services primarily reflects professional fees charged by Ernst and Young in connection with its advisory service provided to the Company for improvement of internal controls.

Depreciation and amortisation

Depreciation and amortisation expenses almost doubled in 2005 compared to 2004 because of investments in fixed assets at Uralkali's headquarters in Berezniki during 2005, in particular IT related assets, which added to the book value of the assets that were required to be depreciated and amortised in 2005. As a percentage of total General and administrative expenses, Depreciation and amortisation increased to 15.6% for 2005 from 12.5% for 2004.

Insurance

Insurance costs increased in 2005 compared to 2004 because of the substantial increase in the premium for suspension of production insurance. As percentage of total General and administrative expenses, Insurance decreased to 13.8% for 2005 from 17.7% for 2004.

Taxes other than income tax

Taxes other than income tax increased by 8.4% to RUR 283 million in 2005 from RUR 261 million in 2004 because of an increase in the extraction tax resulting from higher production volumes in 2005 compared to 2004 and an increase in property tax because of an increase in the property tax base.

Other operating expenses

Other operating expenses increased by 58.4% to RUR 635 million in 2005 from RUR 401 million in 2004 mainly because of an increase in a loss on disposal of fixed assets mainly arising as a result of the disposal of worker hostels in Perm to municipal authorities. This increase was partially offset by a reversal of a provision for an impairment of receivables because bad debts that previously had been provided for had been paid.

Operating profit and operating margin

Operating profit increased by 257.2% to RUR 11,731 million in 2005 from RUR 3,284 million in 2004. Operating margin increased to 41.9% in 2005 from 27.2% in 2004.

Operating profit from total export sales increased to RUR 11,351 million in 2005 from RUR 3,026 million in 2004 and Operating profit from total domestic sales increased to RUR 756 million in 2005 from RUR 326 million in 2004. Operating margin from total export sales increased to 43.8% in 2005 from 28.3% in 2004. Operating margin from total domestic sales increased to 37.2% in 2005 from 23.1% in 2004.

Operating profit and Operating margin from sales to Fertexim were RUR 2,396 million and 29.5% in 2004, respectively.

Finance income

Finance income increased by 32.4% to RUR 380 million in 2005 from RUR 287 million in 2004 mainly because of a foreign exchange gain recorded on loans payable denominated in US dollars as a result of the appreciation of the rouble against the US dollar. This was partially offset by a decline in interest income since, from 31 March 2005, Uralkali started to consolidate BBT and ceased recognising interest income on loans given to BBT.

Finance expense

Finance expense increased by 185.6% to RUR 771 million in 2005 from RUR 270 million in 2004 mainly because of an increase in interest expense arising from more debt being owed by Uralkali in 2005 than in 2004 and also because of an increase in the foreign exchange loss recorded on export receivables denominated in US dollars as a result of the appreciation of the rouble against the US dollar.

Profit before income tax

Profit before income tax increased by 242.6% to RUR 11,337 million in 2005 from RUR 3,309 million in 2004 because of the reasons set forth above.

Income tax expense

Income tax expense increased by 150.1% to RUR 1,908 million in 2005 from RUR 763 million in 2004 mainly because of an increase in current income tax expense resulting from the large increase in taxable income in 2005. This was partially offset by an increase in deferred tax benefit in 2005 as compared to 2004.

Net profit for the year

Net profit for the year increased by 270.3% to RUR 9,429 million in 2005 from RUR 2,546 million in 2004 because of the reasons set forth above.

LIQUIDITY AND CAPITAL RESOURCES

Capital resources

Historically, Uralkali has relied on cash provided by operations and bank loans to finance its working capital and capital requirements, and management expects that these will continue to be important sources of cash in the future. Under certain circumstances, Uralkali may be required to repay its indebtedness earlier than scheduled, as discussed below. Uralkali does not make use of off-balance sheet financing arrangements.

Uralkali intends to finance its future capital investment programme with a mix of cash flows from operations and financing activities. Uralkali currently seeks long-term financing both domestically and internationally, from banks and in the future potentially through the capital markets, as well as short-term working capital loans that may be secured by pledges over plant and equipment.

Net cash generated from operating activities was RUR 4,184 million and RUR 1,290 million in the six months ended 30 June 2007 and 30 June 2006, respectively and RUR 6,616 million, RUR 9,464 million and RUR 4,080 million in the years ended 31 December 2006, 2005 and 2004, respectively.

The significant increase in the net cash generated from operating activities in the first six months of 2007 compared to the first six months in 2006 was largely due to the lower levels of sales in the first six months of 2006 because of the protracted contract negotiations with the Chinese customers and the higher level of prices achieved in the first six months of 2007, due to the increased worldwide demand for potash, especially in Developing countries.

The largest change between the first six months of 2007 compared to the first six months of 2006 in non-cash items applied to adjust the profit before income tax to derive the operating cash flows before working capital changes was a RUR 113 million change from a negative adjustment of RUR 16 million in the first six month of 2006, representing gains from sales of redundant rail cars, to a positive adjustment of RUR 97 million in the first six months of 2007, representing losses from a routine disposal of various fixed assets, in gains/losses on disposal of property plant and equipment.

The most significant differences between the first six months of 2007 compared to the first six months of 2006 in the changes in working capital were the following:

- a RUR 818 million increase in trade and other receivables in the first six months of 2007 compared to an increase of RUR 1,008 million in the first six months of 2006;
- a RUR 94 million increase in inventories in the first six months of 2007 compared to a much larger increase of RUR 1,109 million in the first six months of 2006. The large increase of inventories in the first six months of 2006 was due to the lower sales made during the period due to the protracted contract negotiation with Chinese customers; and
- a RUR 76 million decrease in accounts payable, accrued expenses and other creditors in the first half of 2007 as compared to a RUR 387 million increase in the first half of 2006.

The decline in net cash generated from operating activities in 2006 compared to 2005 was mainly due to the protracted contract negotiations with the Chinese customers, which led to the lower level of sales in first half of 2006. Prices were also less robust on average in the first six months of 2006 mainly because of the impact of the delay in agreeing these contracts and lower prices in Brazil. The Company believes that Brazilian prices fell, in large part, as suppliers that would sell to China or India were diverting supplies to Brazil.

The most significant changes between 2006 compared to 2005 in the non-cash items applied to adjust the profit before income tax to derive the operating cash flows before working capital changes were the following:

- a RUR 1,208 million positive adjustment in 2006, representing the write-off of fixed assets relating to the flooding of Mine 1;
- a RUR 570 million change from a negative adjustment of RUR 87 million in 2005 to a positive adjustment of RUR 483 million in provision for earth replacement and accident liquidation expenses;
- a RUR 396 million change from foreign exchange losses of RUR 110 million in 2005 to foreign exchange gains of RUR 286 million. The gains were due to the effect of the depreciation of the US dollar against the rouble on the US dollar denominated borrowings; and
- a RUR 2 million adjustment for net gains on disposal of property, plant and equipment in 2006 compared to RUR 351 million adjustment for net losses on disposal of property, plant and equipment in 2005.

The most significant differences between 2006 compared to 2005 in the changes in working capital were the following:

- a RUR 9 million decrease in trade and other receivables in 2006 compared to an increase of RUR 2,006 million in 2005. There was a significant increase in trade and other receivables in 2005, as the Company temporarily had an unusually low level of trade receivables at the end of 2005 as Fertexim settled most of its obligations with the Company in the last quarter of 2005; and
- a RUR 118 million increase in accounts payable, accrued expenses and other creditors in 2006 as compared to a RUR 376 million increase for 2005.

Income taxes paid were RUR 998 million in 2006 compared to RUR 2,167 million in 2005. The decrease in Income taxes paid was due to the lower taxable profits in 2006.

Interest paid was RUR 307 million higher in 2006 compared to 2005 because of the higher average level of debt incurred by Uralkali in 2006 than in 2005.

The increase in net cash from operating activities in 2005 compared to 2004 was due mainly to the higher prices for potash in 2005 compared to 2004 and the higher volumes sold in 2005 compared to 2004. The largest changes between 2005 compared to 2004 in the non-cash items applied to adjust the profit before income tax to derive the operating cash flows before working capital changes were the following:

- a larger adjustment for depreciation and amortisation of RUR 1,854 million in 2005 compared to RUR 1,549 million in 2004;
- larger losses less gain on disposal of property, plant and equipment in 2005 of RUR 351 million compared to RUR 68 million in 2004;
- finance costs, net, of RUR 121 million in 2005 compared to finance gains, net, of RUR 70 million in 2004; and
- a larger adjustment for foreign exchange losses of RUR 110 million in 2005 compared to RUR 16 million in 2004.

The most significant differences between 2005 compared to 2004 in the changes in working capital were the following:

- a RUR 2,006 million increase in trade and other receivables in 2005 compared to a RUR 267 million decrease in trade and other receivables in 2004; and

- a smaller increase in inventories in 2005 of RUR 229 million compared to RUR 511 million in 2004 because of the impact of the change in the method of export trading between 2003 and 2004, which did not arise between the balance sheet dates for 2004 and 2005.

Income taxes paid in 2005 were RUR 2,167 million in 2005 compared to RUR 797 million in 2004. The increase in Income taxes paid was due to the higher taxable profits in 2005.

Net cash used in investing activities was RUR 3,272 million and RUR 4,662 million in the six months ended 30 June 2007 and 2006, respectively. The cash flow used in investing activities mainly related to capital expenditures supporting existing available production and acquisition of assets relating to the power generation programme in the first half of 2007 and in the first half of 2006.

Net cash used in investing activities was RUR 7,646 million, RUR 7,174 million and RUR 2,295 million in the years ended 31 December 2006, 2005 and 2004, respectively. The cash flows used in investing activities mainly related to loans to the Selling Shareholder, capital expenditures supporting existing available production and acquisition of assets relating to the power generation programme in 2006, capital expenditures supporting existing available production, acquisition of rail cars, acquisition of BBT and acquisition of assets related to the power generation programme in 2005 and capital expenditures supporting existing available production and acquisition of rail cars in 2004.

Net cash flows used in financing activities was RUR 2,506 million and RUR 141 million in the six months ended 30 June 2007 and 2006, respectively. Proceeds from borrowings were RUR 4,470 million and RUR 8,387 million in the six months ended 30 June 2007 and 2006, respectively. Repayments of borrowings were RUR 6,353 million and RUR 3,257 million in the six months ended 30 June 2007 and 2006, respectively. The higher cash flows from borrowings in the first half of 2006 primarily relate to the Company's drawdowns under its facilities to finance its working capital as a result of the lower cash received from sales in the first half of 2006 due to the protracted China contract negotiations. In addition, RUR 547 million and RUR 5,184 million was used to pay dividends to shareholders in the six months ended 30 June 2007 and 2006, respectively.

Net cash flows relating to financing activities was an outflow of RUR 138 million, an inflow of RUR 1,087 million and an outflow of RUR 1,288 million in the year ended 31 December 2006, 2005 and 2004, respectively. Proceeds from borrowings were RUR 11,934 million, RUR 4,941 million and RUR 2,655 million in 2006, 2005 and 2004, respectively. Repayments of borrowings were RUR 3,808 million, RUR 2,660 million and RUR 2,784 million in 2006, 2005 and 2004, respectively. As in the first half of 2006, the higher cash flows from borrowings in 2006 relates to the Company's drawdown under its facilities to finance its working capital. In addition, RUR 7,959 million, RUR 877 million and RUR 1,159 million was used to pay dividends to shareholders in 2006, 2005 and 2004, respectively. Uralkali also used RUR 234 million and RUR 289 million to acquire shares in the Company from numerous minority shareholders in 2006 and 2005, respectively.

Capital requirements

In addition to meeting its working capital requirements, Uralkali expects that repayments of outstanding debt and capital expenditures will represent its most significant uses of funds for the next several years. The amount and timing of Uralkali's obligations in respect of outstanding debt is described below.

Uralkali has a capital expenditure programme that extends until the end of 2011 and can be broken down as follows. Some of these projects are underway. Uralkali intends to finance these projects through internal cash flow and debt financing. The following table summarises this plan. Capital expenditures in this table are presented on an accrual, rather than cash flow basis:

	2007	2008-2009	2010-2011
		(RUR millions)	
Production expansion(1)	965	6,276	2,490
Logistics and storage	259	2,740	1,393
Power generation programme	389	520	0
Maintenance supporting existing available production(2)	3,306	6,715	6,315
Total	**4,919**	**16,251**	**10,198**

(1) Including certain debottlenecking (which mainly involves improvements in the production line) and expansion of structural capacity and available production.

(2) These capital expenditures are also expected by the Company to result in available production increases as these investments would likely be in more modern property, plant and equipment.

The objective of the planned production expansion capital expenditure is to increase available production by up to approximately 2 million tonnes. The objective of the planned logistics and storage capital expenditure is to increase the number of owned rail cars and to increase warehouse capacity by more than 150,000 tonnes of potash. The objective of the power generation programme is to reduce energy-related costs by operating Uralkali's own electricity generation turbines. See "Description of Business — Production Process." Uralkali's capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and expects to be completed in 2008. If the Company does make a decision to pursue development of Mine 5, the capital expenditures that will ultimately be required are likely to be considerably higher than those set out above, although the Company expects that most of the required capital expenditures would be after 2011. The Company does expect, however, that if it did make a decision to pursue development of Mine 5, some capital expenditures would be required starting in 2008, which are not included in the table above.

Liquidity

The following table summarises the liquidity and working capital ratios of Uralkali as at 30 June 2006, 31 December 2006, 31 December 2005 and 31 December 2004.

Liquidity and Working Capital Ratios	As at 30 June 2007	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Current ratio(1)	0.92	0.87	1.3	2.85
Quick ratio(2)	0.75	0.73	1.13	2.02

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities.

Uralkali's current ratio decreased from 2.85 in 2004 to 1.3 in 2005 as a large proportion of long-term obligations became due in 2005. The increase in current liabilities was partially offset by an increase in cash balances from the commencement of activities by Uralkali Trading and an increase in receivables due to growing sales. In 2006 the current ratio decreased further to 0.87 mainly due to an increase in short-term floating USD loans to finance working capital, as Uralkali generated less cash due to the lower volume of sales made during 2006. The current ratio increased to 0.92 as at 30 June 2007 mainly because of a decrease in borrowing.

Uralkali's quick ratio has fallen throughout the periods under review: 2.02 in 2004, 1.13 in 2005, 0.73 in 2006 and 0.75 as of 30 June 2007. The trends for the quick ratio were similar to those for the current ratio and for substantially the same underlying reasons.

The following table sets forth the amount of Uralkali's obligations in respect of loans and borrowings as of 30 June 2007 by period. These borrowings are guaranteed by collateral of equipment and finished goods. The Group's bank borrowings mature as follows:

Bank Loans	(RUR millions)
— within 1 year	6,470
— between 2 and 5 years	2,676
Total bank loans	**9,146**

Minimum lease payments as at 30 June 2007 under finance leases and their present values are as follows:

	(RUR millions)
— within 1 year	38
— between 2 and 5 years	152
— after 5 years	1,504
Minimum lease payments at the end of the period	1,694
Less future finance charges	(1,366)
Present value of minimum lease payments	328

Capital expenditure commitments as at 30 June 2007 were RUR 2,050 million payable upon satisfaction by the contractor of its obligations.

Description of existing bank debt obligations

The following table summarises Uralkali's bank debt obligations. For additional information, please refer to the following discussion, as well as to the notes to Uralkali's consolidated Financial Statements included in this document.

Lender	Currency	Nominal Annual Interest Rate	Amount outstanding as of 30 June 2007	Maturity	Security
			(US$ millions)		
International Moscow Bank	USD	LIBOR + 3%	3.4	2008	Pledge of equipment
International Moscow Bank	USD	LIBOR + 3% or 3.75%	37.6	2007	Pledge of equipment and railcars
International Moscow Bank	USD	LIBOR + 1.95%; or 2.5% or 4.5%	104.1	2010	Pledge of equipment and railcars
ABN AMRO Bank	USD	LIBOR + 2.25%	30.6	2008	Pledge of equipment and railcars
Sberbank	USD	7.5%	69.1	2008	Pledge of equipment and railcars
Bank of Moscow	USD	LIBOR + 2.5%	109.4	2008	Pledge of equipment, railcars and receivables; surety of the Selling Shareholder

As of 30 June 2007 the carrying value of property, plant and equipment pledged under bank loans was RUR 8,710 million.

Provision related to Mine flooding costs

See "— Costs and expenses — Mine flooding costs."

Management continues to assess flooding risks, consequences and costs the Group could incur in the future from subsidence within the City of Berezniki and contiguous areas. Due to the complexity of the risks, management could not reasonably assess at 30 June 2007 the amount of expenses the Group can incur in the future in relation to flooding risks, however the amount could be significant for the Group. The Company may adjust the amount of the provision, if its estimate for future expenses for the mine closure changes. In addition, the Company will continue to assess any potential liabilities arising out of the accident and, if the Company deems any additional liabilities probable, it will adjust the amount of the provision at such time. Payments that the Company may be required to make for such additional liabilities could have a material adverse effect on its liquidity and profitability. The Company expects to incur additionally approximately RUR 44 million for Mine 1 closure costs in the next 18 months, which amount is not included in the provision carried on the balance sheet as of 30 June 2007.

Other expected cash outflows

Uralkali is also involved in a number of social programmes aimed at supporting education, health care and development of social infrastructure in the towns in which its assets are located, and in 2007 plans to spend RUR 140 million under these programmes.

Tax and other contingencies

Tax

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Tax reforms in the Russian Federation started in 1999 with the introduction of Part One of the Tax Code of the Russian Federation which set out general taxation guidance. Since then the Russian Federation has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT, unified social tax and personal income tax. Many tax laws and related regulations were not always clearly written, subject to varying interpretation and inconsistent enforcement. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable, however, if uncertainty arises in the future, Uralkali will accrue tax liabilities based on management's best estimates. For a further discussion of tax contingencies arising out of Russia's legal, political and administrative practices, see "Risk factors — Risks relating to the Russian Federation — Legislative and legal risks — Uncertainty relating to the Russian tax system could have a material adverse effect on an investment in the Shares or the GDRs" and "Risk factors — Risks relating to the Russian Federation — Legislative and legal risks — Arbitrary government action could have an adverse effect on Uralkali's business and reduce the value of the GDRs or the Shares." Please also refer to "Risk Factors — Risks relating to the controlling shareholder and management — Uralkali enjoys favourable tax treatment afforded to the Company and its affiliates in various jurisdictions; any challenge, withdrawal or change in such favourable tax treatment may have a material adverse effect on Uralkali," "Risk Factors — Risks relating to the controlling shareholder and management — Vaguely drafted Russian transfer pricing rules and a lack of reliable pricing information may have an adverse effect on Uralkali's business," "Risk Factors — Risks relating to the offering, shares and GDRs — Holders of Shares or GDRs may not be able to benefit from double tax treaties," and "Risk Factors — Risks relating to the offering, shares and GDRs — Capital gains from the sale of GDRs may be subject to Russian income tax."

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The Company's interpretation of such legislation as applied to the transactions and activity of Uralkali 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. 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 on 1 January 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%. Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force in 2008. Such amendments, if adopted, are expected to result in stricter transfer pricing rules.

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 and barter transaction. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

The form of the Uralkali intercompany and related party transactions (See "Related party 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 Uralkali 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.

Uralkali's management believes that its interpretation of the relevant legislation is appropriate and Uralkali's position from the tax, currency legislation and customs point of view will be sustained. Accordingly, at 30 June 2007 no provision for potential tax liabilities had been recorded. No provision has been recorded by the Company with respect to the years 2004, 2005 and 2006. The mine closure expenses not disbursed in 2006, RUR 679 million, were carried as a provision on Uralkali's balance sheet at 31 December 2006. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which Uralkali operates.

Insurance

Uralkali has obtained insurance for its mining and production facilities that it believes covers property and business interruption risks at industry standard levels. For instance, in September 2007 Uralkali obtained coverage of up to approximately RUR 4 billion for its underground production facilities (including buildings, constructions and equipment) from OJSC "Russian Insurance Company" for the period through August 2008. Uralkali has also obtained property insurance from OJSC "AIG Insurance and Reinsurance Company" for above-ground production facilities, railcars and business interruption risks for up to US$1,180 million through October 2007. In addition, Uralkali holds policies with OJSC "Russian Insurance Company" in order to cover business interruption risks for up to approximately RUR 4,400 million for the period through November 2007. However, flooding of Mine 1 was outside the scope of such insurance and therefore no losses from this accident are expected to be compensated.

Uralkali's civil liability as operator of dangerous industrial facilities (including mines) and of water development facilities is insured by "Gruppa Renessans Strakhovanie" pursuant to a policy for the aggregate coverage of RUR 20.8 million valid through February 2008 and by "Ural-AIL" pursuant to a policy for the aggregate coverage of RUR 22.7 million valid through August 2008, respectively. Uralkali holds certain other insurance policies including obligatory insurance policies required by Russian law. The insurance agreements also do not cover risks of damage to the property of third parties resulting form Uralkali's underground activities.

Environment

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Uralkali periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. More stringent environmental regulation such as that existing in the European Union and the United States could require, for example, remediation of groundwater contamination that has been identified as associated with Uralkali's mining activities and reclamation and restoration obligations upon mine closure. See "Regulatory Matters."

In addition to the general requirements of Russian law, Uralkali's production licenses specifically provide that in case of environmental or natural disaster, accident or catastrophe leading to impossibility of further use of a subsoil block, the license holder shall compensate the state for damage caused by a loss of a mineral deposit at its own expense or at the expense of environmental insurance covering such deposit. The license further provide that the procedure and conditions of compensation of this type of damage shall be determined by a supplementary agreement between Uralkali and licensing authorities in accordance with a procedure for environmental insurance determined by the government of the Russian Federation. Environmental insurance is not mandatory under Russian law or under the terms of Uralkali's licenses. In Uralkali's management's view, the terms of the licenses would unlikely impose an obligation on Uralkali to pay costs of damage caused to third parties by a flood or any other accident that is not dependent on Uralkali's actions. Furthermore, in Uralkali's management's view, the terms of the licenses should mean that any payment of compensation, including its amount, is subject to an additional agreement that Uralkali would be able to negotiate with the relevant state authorities.

In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements. Provision for site restoration and reclamation costs was created for the constructive obligation attributable to earth replacement activity under the City of Berezniki. No provision is recognised for cavities excavated in other areas, not located under the City of Berezniki.

The Company historically held a provision related to future amounts that would need to be spent to fill in cavities below the City of Berezniki to avoid subsidence resulting from Uralkali's mining practices prior to its privatisation. See "— Costs and expenses — Cost of Sales — Change in provision for earth replacement."

Seasonality

To date, Uralkali has attempted to manage seasonality by selling to different markets at different times of the year depending on planning, growing and harvesting cycles to keep sales at relatively constant levels throughout the year. Sales in China, for example, typically rise towards the end of the first quarter, fall during the middle of the year, rise at the beginning of the third quarter, and fall towards the end of the year. The delay in concluding the China contracts in 2006 has resulted in lower sales in the first half of 2006 than would have been the case had the China contracts been agreed at the time of the year they typically are. Sales in Asia-Pacific markets such as India and Southeast Asia, typically rise towards the middle of the second quarter, and then fall gradually in the last quarter. Sales in Brazil fall towards the end of the first quarter, typically rise at the beginning of the last quarter and fall again throughout the rest of the year. Sales in the United States typically have a relatively flat peak in the first quarter, fall sharply in the middle of the year, rise sharply in the third quarter, fall again sharply at the end of the third quarter and then rise sharply again at the end of the year.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

Uralkali is exposed in the ordinary course of its business to risks related to changes in exchange rates, interest rates, commodity prices and energy and transportation tariffs.

Exchange and interest rate risk

Uralkali's presentation and measurement currency is the rouble. The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of Russia. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the Central Bank of Russia. See "Exchange rate information."

Uralkali's products are typically priced in roubles for Russian sales and in US dollars for international sales, and Uralkali's direct costs, including Materials and components used, Labour and Distribution costs, are largely incurred in roubles, while Other costs, such as interest expense, are incurred in US dollars. The mix of Uralkali's revenues and costs is such that appreciation in real terms of the rouble against the US dollar tends to result in an increase in Uralkali's costs relative to its revenues, while depreciation of the rouble against the US dollar in real terms tends to result in a decrease in Uralkali's costs relative to its revenues. The rouble appreciated in real terms against the US dollar by 14.0% in 2004, 3.9% in 2005, 16.7% in 2006 and 3.8% in the first half of 2007, according to the Central Bank of Russia. However, in recent years the effect of the real appreciation of the rouble against the US dollar has been more than offset by increased prices for Uralkali's potash products, both in Russia and internationally. See "Exchange rate information" and "Risk factors — Risks relating to operations — Fluctuations in the value of the rouble, or other currencies important to Uralkali against the US dollar may have an adverse effect on Uralkali's business."

The Company's policy is to partially hedge its foreign currency exposures for periods commensurate with its known or forecasted operating transactions. In order to achieve these objectives, at the beginning of 2007, Uralkali entered into a number of foreign exchange options for the aggregate notional amount of up to US$175 million at the weighted average strike price of RUR26.10=US$1.00.

The following table summarises Uralkali's outstanding interest-bearing bank loans by currency and interest rate method as at 30 June 2007:

	Rouble-denominated	Dollar-denominated
Bank loans		
Fixed-rate debt	RUR 0	USD 1,783
Variable-rate debt	RUR 0	USD 7,363

The following table summarises Uralkali's currency exposure and interest rates on its outstanding debt as of 30 June 2007:

	Expected maturity as of 30 June 2007						
	2007	2008	2009	2010	After 2010	Total	Annual interest rate(%)
	(RUR millions)						
Variable-rate debt:							
Total US dollar denominated	1,560	3,217	446	2,230	—	7,363	LIBOR+1.75%/+3.0%
Fixed-rate debt:							
Total US dollar denominated	1,783	—	—	—	—	1,783	7.5%
Total debt	**3,343**	**3,217**	**446**	**2,230**	**—**	**9,146**	

A hypothetical, instantaneous and simultaneous 10% depreciation of the rouble against the US dollar as of 30 June 2007 would have resulted in an increase of approximately RUR 914 million on borrowings denominated in roubles held as at 30 June 2007.

Price risk

Uralkali's revenue is exposed to the market risk of price fluctuations related to the sale of its potash products. Prices for Uralkali's potash sales both inside and outside of Russia are generally determined by market forces. The pricing dynamics are discussed above at "— Pricing dynamics." Adverse changes in any of these factors may reduce the revenue that Uralkali receives from the sale of its potash products.

Tariff and Duty risk

Uralkali is also exposed to uncertainty with respect to the prices of the electricity and natural gas that it consumes in producing potash products. Uralkali expects to become more exposed to natural gas prices with the implementation of its power generation programme. See "Description of business — Strategy," "— Fuel and energy costs." Prices for both electricity and natural gas are currently below market prices in western Europe and are regulated by the government, limiting Uralkali's exposure to fluctuations in the cost of these products.

The Russian government's policies towards the prices for electricity and natural gas are likely to have a significant effect on Uralkali's energy costs. See "Risk factors — Risks relating to operations — Uralkali's production costs could increase."

Uralkali is also exposed to fluctuations in Transportation costs. See "— Distribution costs." The prices that Uralkali receives may be adversely affected by Transportation costs to the extent that Uralkali must reduce the prices that it can charge customers for its products in order to ensure that its products remain competitive with those of other producers, who may be located closer to customers and therefore less subject to increases in Transportation costs. In recent years the government has indexed Railway tariffs in line with inflation, and Uralkali expects this policy to continue for the immediate future. Therefore, Uralkali does not currently expect fluctuations in Railway tariffs to have a significant impact on its margins.

Uralkali is also exposed to export duties on its sales of potash outside the Russian Federation. Recent legislation introduced to the State Duma of the Russian Federation may impose customs duties on exports of mineral and chemical fertilisers. See "Risk Factors — Risks Relating to Operations — Uralkali is subject to regulatory risks and risks of political instability associated with its international distribution, which could have an adverse effect on its export sales."

CRITICAL ACCOUNTING POLICIES

Uralkali prepares its annual financial statements in accordance with International Financial Reporting Standards and interim half year financial statements in accordance with IAS 34. Significant accounting policies applied in the preparation of the IFRS financial statements are described in Notes 2 and 5 to the consolidated annual financial statements for the three years ended 31 December 2006 and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007. The application of certain of these policies requires management to make assumptions and judgments that can significantly affect the amounts reported in the Financial Statements. Management believes that the following are critical policies where the assumptions and judgments made may significantly affect the consolidated Financial Statements.

Uralkali 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 (in addition to those discussed under "—Costs and expenses—Mine flooding costs" and "—Liquidity and Capital Resources—Liquidity—Provision related to Mine flooding costs":

Arrangements in respect of BPC

The income statement reflects Uralkali's share of the results of operations of BPC. 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 sales. Until August 2007, administrative expenses were accounted for on a 50/50 basis irrespective of sales volumes of Uralkali and Belaruskali products. From August 2007, they have been accounted for in the ratio proportional to the sales volume of Uralkali and Belaruskali. Distribution of net income to each participant is on the basis of their relevant results, after the deduction of administrative costs unless the participants decide not to receive their share. BPC's operations are reflected in Uralkali's Financial Statements using the proportionate consolidation method. Uralkali recognises in its Financial Statements (a) certain BPC assets, principally, accounts payables for freight charges for sales made on a CFR basis and certain BPC liabilities, principally, accounts receivable (with appropriate eliminations in the consolidation process) and cash received by BPC from sales of Uralkali potash and (b) the share of the BPC's revenue, distribution and administrative costs from the sale of Uralkali goods by BPC.

Estimated impairment of goodwill

Uralkali 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.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. See note 29 to the consolidated annual financial statements and "— Tax and other contingencies" above.

Remaining useful life of property, plant and equipment

The Company 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 Uralkali. The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the operating licences. The Company believes that the licences will be renewed in due order; however, if the licences are not renewed, property, plant and equipment with net book value of RUR 403 million as of 30 June 2007 should be assessed for impairment.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company; the Company has transferred to the buyer the significant risks and rewards of the ownership and the revenue and related costs can be reliably measured. For FOB transactions, title to goods transfers as soon as the goods are loaded on the ship. For DAF transactions, title to goods transfers only when goods cross the Russian border. For FCA terms, title transfers when goods are loaded on the first carrier (railway carriages). For CFR terms, title transfers when goods pass the rail of the ship in the port of shipment.

Uralkali Trading entered into a sales agreement with BPC for processing of sales of Belaruskali goods in 2005 and 2006 to overcome some technical difficulties in Belorussian export legislation. In the beginning of 2007, the Belorussian technical difficulties were resolved and the Company has reduced the volume of these transactions close to zero, except under existing contracts. Notwithstanding that the sales are entered into legally on a principal basis, where Uralkali does not take the risk with respect to sales it makes and the products it purchases from Belaruskali, Uralkali considers these transactions to be agent activity and therefore the revenues that are reported are accounted net of the sales and costs related to these sales.

INDUSTRY OVERVIEW

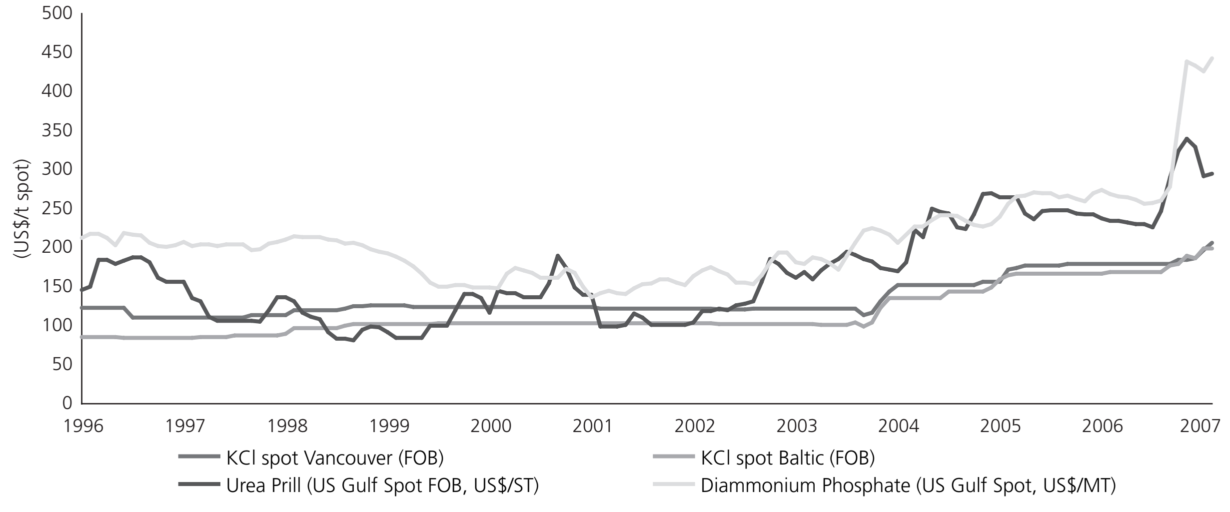
The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources Uralkali believes to be reliable. Uralkali accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers. See also "Risk factors — Risks relating to the Russian Federation — Incomplete, unreliable or inaccurate official data and statistics could create uncertainty."

Global fertiliser industry

Fertilisers serve an important role in global agriculture by providing vital nutrients that help increase both the yield and the quality of crops. The three main nutrients required for plant growth are potassium, nitrogen and phosphorus. All three of these nutrients are naturally present in soil, but continued farming depletes soil of nutrients and therefore each must be replenished through the use of fertilisers.

Potassium ("K") improves plant durability, providing protection from drought, disease, weeds, parasites and cold weather and is an important regulator of plants' physiological functions. Nitrogen ("N") promotes protein formation and is a major component of DNA and RNA. Absorbed by plants in larger amounts than other nutrients, nitrogen makes plants green and is usually most responsible for increasing yields in crop plants. Phosphorus ("P") plays a key role in the photosynthesis process, i.e., the conversion of light energy into chemical energy and storing it in the bonds of sugar. Phosphorus is also involved in seed germination and helps plants use water efficiently.

The charts below show international fertiliser prices for nitrogen, phosphate and potash fertilisers since 1996.



Source: FERTECON, August 2007, Datastream

According to the IFA, global production for the three principal crop fertilisers in the 2006/2007 season was approximately 163.9 million tonnes, consisting of 97.9 million tonnes (59.7%) of nitrogen, N, 38.9 million tonnes (23.7%) of processed phosphate, P_2O_5 and 27.1 million tonnes (16.6%) of potash, K_2O. The quality or grade of potash is sometimes expressed in terms of KCl content, or its equivalent in terms of potassium content, and the formula to convert the two is: $K_2O = KCl*0.6$.

There has been a steady increase in consumption of fertilisers in the last 50 years due to a number of world macroeconomic factors. These factors include rising world population, shrinking arable land per capita and income growth, as well as changes in diet worldwide (such as increase in meat consumption resulting in increased demand for grain and other animal feed).

Rising global population and falling arable land per capita: According to the CIA World Factbook, the global population is now more than 6.6 billion and has recently been increasing at 1.2% per annum, which has led to higher demand for food. At the same time that population has been rising, available arable land has remained fairly stable in the world generally and in the main markets in which Uralkali's products are directed. These factors have therefore driven increased demand for fertilisers which help increase the yield of the land. The table below shows population growth trends in certain key markets in which Uralkali products were directed and the approximate available arable land mass in each of those markets during each of the three years ended 31 December 2004, 2005 and 2006:

Country	Population growth compared to previous year As of 31 December		
	2004	2005	2006
China	0.6%	0.6%	0.5%
Brazil	1.5%	1.4%	1.4%
India	1.5%	1.4%	1.4%
Russia	(0.5)%	(0.5)%	(0.4)%
United States	1.0%	0.9%	1.0%
Western Europe	0.5%	0.6%	0.5%

Source: Economic Intelligence Unit, August 2007

Country	Available Arable Land Mass As of 31 December		
	2004	2005	2006
	(million hectares)		
China	145.0	147.1	147.9
Brazil	59.3	59.8	60.0
India	160.5	160.4	160.5
Russia	122.0	121.4	120.8
United States	172.0	172.0	171.4
Western Europe	74.6	74.5	74.4

Source: UN Food and Agriculture Organisation, FAOSTAT, Euromonitor 2007

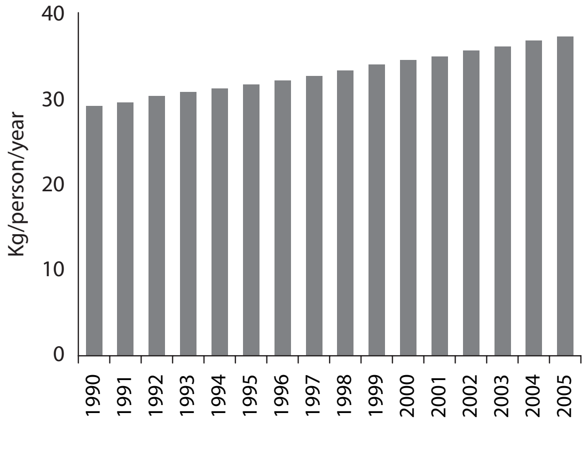
Income growth: The world economy grew by approximately 4% (5.3% in purchasing power parity ("PPP") terms) in 2006, led significantly by Asian countries such as China and India, and also by the Russian Federation. The table below shows GDP and GDP per capita increases in Western (mature) economies and BRIC countries compared to the previous corresponding period or date, as specified:

Economies	As of and for the years ended 31 December		
	2004	2005	2006
Western (mature) economies			
Real GDP (US$ at PPP) in billions US$	21,340	21,878	22,518
GDP Growth %	3.1%	2.5%	2.9%
Total population in millions	795	801	807
GDP per capita in thousands US$	26.8	27.3	27.9
BRIC			
Real GDP (US$ at PPP) in billions US$	12,160	13,244	14,500
GDP Growth %	8.9%	8.9%	9.5%
Total population in millions	2,690	2,715	2,739
GDP per capita in thousands US$	4.5	4.9	5.3

Source: Economic Intelligence Unit, August 2007

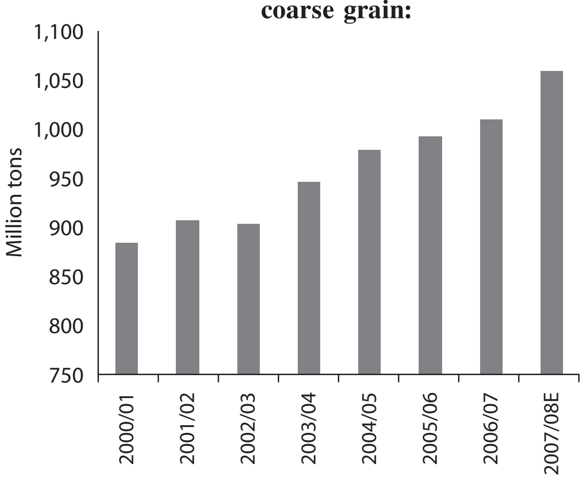
Rising income levels, indicated by rising GDP levels, GDP per capita levels and the relevant consumer price index, also help drive fertiliser demand. Rising income levels help bring people above the poverty line and help them afford food above a mere subsistence level, which, in turn, helps drive increased demand for both grain and meat. Moreover, rising incomes lead to demand for better diets, which are more likely to include meat protein. Rise in demand for meat increases demand for grain and other animal food, which in turn drives the demand for fertilisers in order to increase the yield of the land. The charts below illustrate the changing diets driven by wealth equalisation:

World per capita meat consumption:



Source: FAO

Global consumption of coarse grain:



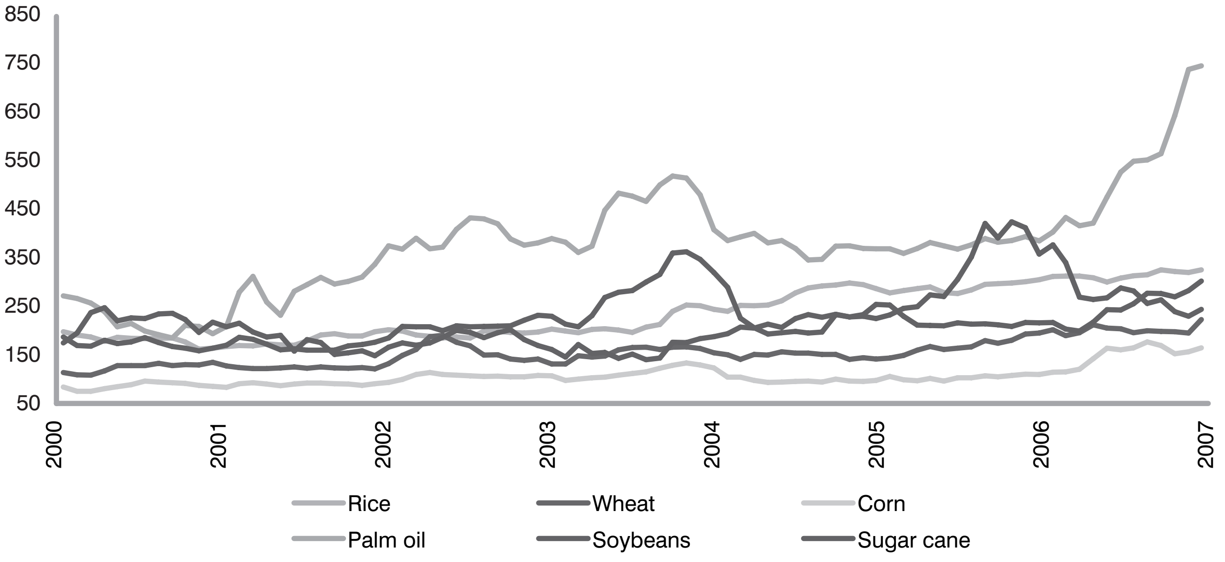
Source: USDA

Biofuels: Due to the continued upsurge in oil prices and the increasing governmental support for clean alternative sources of energy, a new use for crops is emerging in the form of ethanol and biofuels production. Increasingly, corn in the United States, sugar cane in Brazil and oil crops such as canola and oil palm in Indonesia and Malaysia are being used for the production of such alternative fuels. For example, approximately 50% of sugar cane in Brazil is already used for the purpose of ethanol production, while in the United States almost 20% of corn goes into ethanol production.

Furthermore, the favourable regulatory framework plays an important role in shaping biofuels industry growth as governments worldwide aim to reduce conventional fuel consumption and replace it with environmentally friendly biofuels. For example, an EU directive has established a mandatory target of 5.8% of biofuel usage in proportion to the total fuel consumption by 2010, as compared to the actual usage of 1.4% in the European Union in 2005. This increase in demand for biofuels has a positive effect on the demand for potash as more potash is required to keep up with growing production of biofuel.

As a result of these coinciding trends (growth in population and GDP per capita, better diets, reduction in the amount of arable land per person and increasing popularity of biofuels), in the last few years, the world population has been consuming more grains than it has been producing, with the stock-to-use ratio dropping to historically low levels and the crop prices increasing to historically high levels as set out below:

Crop Prices Have Been Rising
(US$/t)



Source: IMF Primary Price, July 2007, Datastream

These increasing crop prices motivate farmers to use more fertilisers which represent a relatively small portion of crop production costs in order to increase yields. In developed economies, fertilisers are generally used to maintain healthy balances of nutrients in soils that have been fertilised for significant periods of times. Consumption has been fairly consistent over time. There has been little to no growth in fertiliser use in recent years in developed countries. In contrast, soil in many developing nations is undergoing its first stage of treatment in order to meet growing crop consumption. As a result, many developing countries have experienced a strong growth in the consumption of fertilisers.

Global potash industry

Overview

Potash is the common name for potassium chloride (also referred to as muriate of potash). It is the most common source of potassium. Plants cannot achieve maximum growth and yield without potassium, nor can the functions that potassium performs be carried out by other nutrients. Nearly every aspect of plant growth development, yield and quality is dependent upon an adequate supply of potassium.

Potash is mined from ore deep underground or extracted from brine by means of solution mining and is milled on the surface. In its processed state, potash appears as a granular mineral of varying sizes and ranges in colour from white to reddish depending on the presence of trace elements, notably iron, which remain after processing.

There are two principal potash grades: granular/coarse, and standard/fine. Standard/fine includes white muriate of potash (referred to as White MOP) and pink muriate of potash (referred to as Pink MOP). These grades differ in their particle size distribution specifications. Potash can be applied directly to crops or blended mechanically or chemically with other fertiliser nutrients.

The concentration of potash reserves is high and the production is limited to 11 countries, with 2 of these controlling roughly 68.7% of the total reserves. Approximately 37.4% of known potash reserves are located in Canada, with Russia second, controlling roughly 31.3% of the total reserves. The third-ranked, Belarus, has 9.1% of the total reserves.

Global potash demand

Approximately 94% of the world's potash production is used as fertiliser, with the balance used principally in a variety of industrial applications. There are currently no commercially available viable substitutes for potash that approximate its function in plants.

Potash is generally purchased by distributors that then sell to the agricultural industry, producers of NPK compound fertilisers and governments negotiating on behalf of a consortium of agricultural interests.

According to FERTECON, global consumption of potash has grown on average by approximately 4.3% per annum since 2000, as many countries are increasing potash application due to the need to develop food supply for an expanding population. In 2006, according to FERTECON, total consumption increased by approximately 4% compared to 2005, but total deliveries decreased by 6.2%, from 32.6 million tonnes in 2005 to 30.6 million tonnes in 2006, as customers consumed large inventory balances. Declining deliveries were the result of decreased biofuel production in North America and protracted contract negotiations with Chinese and Indian potash customers in the first half of 2006, see "Description of business — Key markets and customers — China" and "Description of business — Key markets and customers — India").

However, FERTECON estimates that total deliveries in 2007 will increase by over 12%, to as much as 34.5 million tonnes, the highest level this decade, as many customers went into 2007 with much lower stocks than in 2006 due to the protracted price negotiations in China, which had a substantial effect on potash sales all over the world. In addition, increase in demand in North America is also expected this year, as farmers switch more acreage away from soybeans towards corn, driven by much higher commodity prices, in part due to demand from the growing biofuels industry. In some markets, such as in Brazil, record demand has allowed many suppliers to increase prices for the third time this year. Overall, FERTECON estimates that demand for potash is expected to grow on average by approximately 3.2% per annum over the next five years, but projected growth varies significantly from country to country. According to market data, it is estimated that the BRIC market will account for more than 60% of the global incremental demand for potash by 2011.

China, Brazil and India

China, Brazil and India have significantly outpaced global growth in demand for potash. The growth of these economies and populations has driven demand for more and better-quality food, which requires appropriate crop nutrition and increased use of potash.

According to the Potash & Phosphate Institute and the Potash & Phosphate Institute of Canada (PPI-PPIC), even though they have sharply increased potash use, China, Brazil and India are still applying a fraction of what they require to meet scientifically recommended ratios in order to realise potential increases in crop yields and benefits to plant health possible through use of NPK fertilisers. Furthermore, the trend towards bioenergy may drive further increases in demand for certain crops, such as sugar cane, where Brazil is particularly active. According to FERTECON's report, in 2006, total volumes of world potash sales in China, Brazil and India were 11.5, 6 and 4 million tonnes (KCl), respectively, with projected annual growth rates over the next five years of 3.9%, 6.9% and 6.3%, respectively.

Russia

The Russian potash market has been progressively recovering from a significant decline in the early 1990s following the collapse of the Soviet Union where farming was heavily subsidised and therefore fertiliser consumption was stronger. The majority of Russia's potash consumption is for the manufacture of NPK compound fertilisers, three quarters of which was exported in 2006. Based on the management's estimates, in 2006 the total volume of potash sales in Russia was 1.5 million tonnes (KCl), and according to FERTECON, the projected annual growth rate over the next five years is 8.2%.

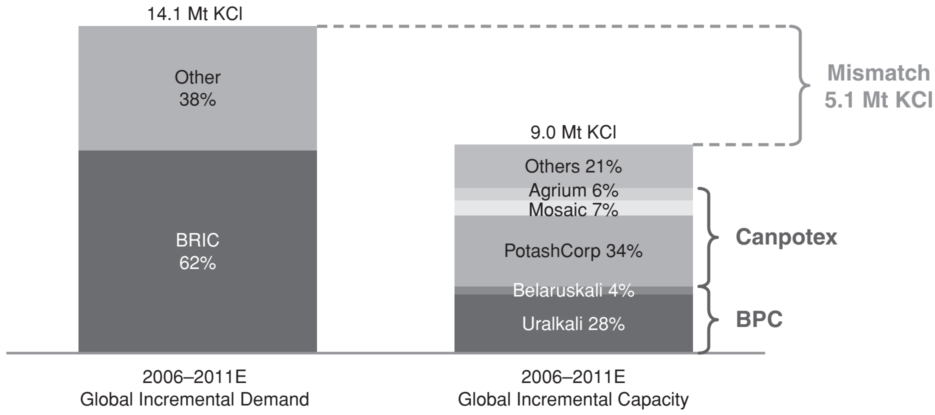
North America and Europe

North America and Europe are mature markets and are important global potash consumers, with total annual potash demand of 9.9 million tonnes and 7.3 million tonnes (KCl), respectively, in 2006, according to FERTECON. Potash demand has been slightly declining for the past 20 years in Western Europe due to productivity improvements in farming and greater constraints on the amounts produced by the European Union. In Eastern Europe, there has been a modest up-turn in fertiliser consumption, most likely as a result of increases in fertiliser application in the group of countries that joined the European Union in May 2004 and gained access to a modified form of Common Agricultural Policy subsidies. Furthermore, an increase in biofuel production, encouraged by European Union directives, also had a positive effect on potash demand. Potash demand in North America has been relatively flat since 2000.

Global potash supply

During the 1990s, the potash industry suffered from significant overcapacity primarily due to high level of investments in Canada and an increased supply of potash to the global market from Russian and Belorussian producers. The situation changed significantly over the last several years during which the world demand for potash has experienced robust growth. Global demand for potash since 2000 grew on average by 4.3% per annum driven by substantial economic growth in Asia and Latin America. The three leading potash-producing countries — Canada, Russia and Belarus — increased production in response to the increased demand. Then in 2006, due to the protracted negotiations with Chinese customers and lower potash sales in North America, potash producers worldwide curtailed production in 2006 in order prevent oversupply in the market and excessive stock levels. The world potash production declined dramatically to 30.4 million tonnes representing a decrease of 8.9% from the production levels in 2005 of 33.4 million tonnes according to FERTECON. However, FERTECON's forecasts that the total world production of potash in 2007 will increase to 34.3 million tonnes, representing an increase of 12.7% from 2006 levels.

If global demand grows at an average rate of 3.2% per annum as estimated by FERTECON, approximately 1 million additional tonnes of K_2O will be required every year by potash consumers and capacity additions will be needed to meet future demand. Only a limited number of potash producers have the available reserves to increase production.



Source: For incremental demand: FERTECON, August 2007. For incremental capacity: FERTECON, June 2007, PotashCorp, Uralkali estimates for itself and Belaruskali.

Potash deposits are scarce and the Company believes that the cost of a development of a greenfield potash mine represents a significant barrier to entry for new participants and limits the potential growth of the current potash producers. According to PotashCorp's data such development cost would amount to over US$2.2 billion for 2 million tonnes per year of potash, while the estimated time for such development is approximately seven years.

Pricing

Fertilisers are commodities for which competition occurs principally on the basis of delivered price and to a lesser extent on customer service and product quality. Potash prices are usually negotiated between suppliers and consumers based on delivery contracts. Contracts for potash sales often vary in terms depending on the market. Contracts may be large sales contracts with fixed prices, contracts negotiated on a monthly basis with terms conditional on minimum orders for the year, and ad hoc "spot" purchases.

The "spot" price of "Standard KCl f.o.b. Vancouver", which means Standard grade potash (KCl) shipped free on board from Vancouver, which had historically been the primary port of departure for potash exports, is considered a reference. In December 2000, delivered prices were US$119.5 per tonne and stagnated until the middle of 2004 when a rise in Freight costs pushed prices to US$147.5 per tonne. Between the end of 2004 and July 2007, delivered prices increased by US$55 per tonne, taking the typical level for standard grade potash (KCl) to US$202.5 per tonne. This price represents an increase of 15.7% compared to the average spot price in July 2006. Similar increases in prices have been recorded by potash producers in all ports for both Granular and Standard MOP as a result of tight supply and strong demand on the market, with some suppliers announcing additional price increases from August 2007.

Period-end prices (USD per tonne)	1998	1999	2000	2001	2002	2003	2004	2005	2006	July 2007
Vancouver FOB	116.0	119.5	119.5	117.5	116.5	117.5	147.5	172.5	175.0	202.5
Baltic FOB	93.0	98.5	98.5	98.5	98.0	96.5	140.0	162.5	165.0	195.0

Source: FERTECON, August 2007

Given the limited additional capacity in the next several years and the expected demand growth of 3.2% per annum, as estimated by FERTECON, the imbalance in supply and demand could lead to higher levels of pricing in the future.

Premium grades of potash include coarse and granular material in which the particle sizes are larger (1-4 mm), and soluble industrial products that are generally purer (98% K_2O). In international markets, Granular/Coarse potash is priced at a premium of US$10-15 per tonne over Standard/Fine because of the additional processing required to produce it.

Trading

While there are eight major potash producers worldwide, there are currently just two major international traders who were, or whose joint venture partners were, responsible for the sale of approximately 57% of world potash sales in 2006 outside the country of production (excluding deliveries between Canada and the United States). These two traders are BPC and Canpotex.

- BPC based in Belarus, a 50/50 joint venture of Uralkali and Belaruskali, was set up in 2005. In 2006, Belaruskali and Uralkali together were the largest exporter in the world potash market with 34% of the global market share. By coordinating supply through BPC with another significant world producer, Belaruskali, Uralkali believes that it has improved its negotiating position with its customers.
- Canpotex, based in Canada, was established in 1972 as a joint venture owned by PotashCorp, Mosaic and Agrium. Canpotex trades outside of North America, which is considered the domestic market for each of its shareholders.

Transportation

Potash is transported via rail and by sea. Logistical costs vary significantly depending on the location of production and consumption. Because the major sources of potash are geographically concentrated, Transportation costs both during the production process and for the delivery to the customer have a significant impact on a company's ability to price its products competitively.

Reliable transportation is a key component in the value chain of potash production as it allows top quality customer service and reactivity to peaks in demand and it ensures total control over low costs. However, reliable transportation will not necessarily be cheap.

DESCRIPTION OF BUSINESS

Overview

Uralkali is a dedicated potash producer with leading market penetration in the most significant developing markets for fertiliser consumption. Based on revenues in 2006 and in the first half of the 2007, the Company was the largest publicly-traded dedicated potash producer in the world and one of the fastest growing in the industry over the past several years, according to various industry sources. In 2006 and the first half of 2007, Uralkali accounted for approximately 8.3% and 8.8%, respectively, of global potash production with production of 4.2 million tonnes and 2.5 million tonnes, respectively. Uralkali has a major distribution platform including its joint venture interest in BPC. Uralkali and Belaruskali are joint venture partners in BPC, an export trader, which undertakes most of their respective exports. In 2006, Belaruskali and Uralkali together were the largest exporters in the world potash market with 34% (calculated as the total export volume of Uralkali and Belaruskali, including China Rail Sales) share of the global potash market. Uralkali's potash accounted for 13% of such worldwide sales. Over 90% of Uralkali's potash sales volumes was exported to more than 20 countries in the first half of 2007. The principal export markets for Uralkali's products are China, Brazil and India. Uralkali's products are also sold to mature markets in Europe and to Southeast Asia, Africa, the Middle East and domestically in Russia. The Company believes that it is one of the most profitable and the lowest cost producers of potash in the world, due mostly to its access to low-cost labour and energy.

Uralkali produces three main potash products: Granular, White and Pink MOP, each of which is derived from potash ores comprising potassium chloride ("KCl") mixed with other minerals. Each of Uralkali's potash products varies in terms of potassium content, consistency and production method.

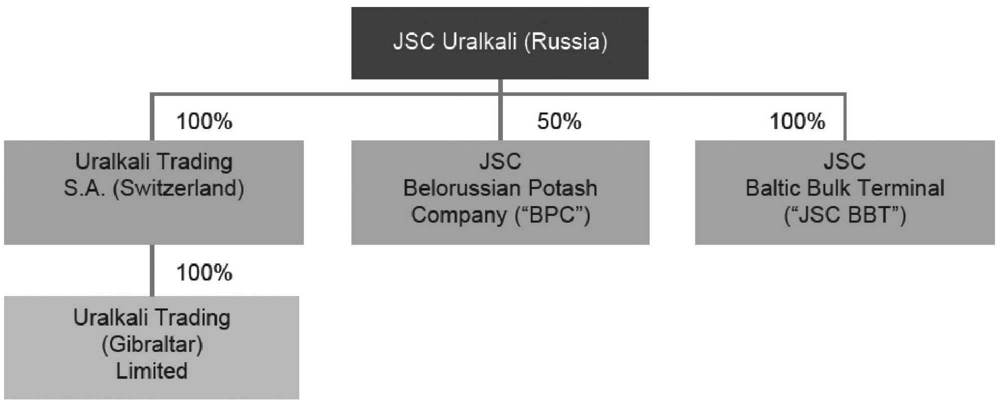
Uralkali's total consolidated revenues for the six months ended 30 June 2007 and the year ended 31 December 2006 were RUR 13,323 million and RUR 22,290 million, respectively. Uralkali's net profit for the six months ended 30 June 2007 and for the year ended 31 December 2006 was RUR 3,824 million and RUR 3,494 million, respectively. Uralkali's Adjusted EBITDA for the six months ended 30 June 2007 and for the year ended 31 December 2006 was RUR 6,031 million and RUR 8,558 million, respectively. Uralkali's Adjusted EBITDA margin was 51% in the year ended 31 December 2006 and 60% in the first half of 2007.

Uralkali's principal assets are in the Perm region and in St. Petersburg in Russia. Uralkali's reserves are located in the Verkhnekamskoe Deposit, which is the second-largest known potash deposit in the world, reported to contain in excess of 3.8 billion tonnes of potash ore.

Uralkali's principal assets are:

- four production divisions with structural capacity of 7.0 million tonnes and available production of 5.0 million tonnes of potash: (i) Plant 1, which processes ore from the Bygelsko-Troitsky field, or Mine 4, (ii) Plant 2, which processes ore from the Durymansky field, or Mine 2, (iii) Plant 3 which processes ore transported from Mines 2 and 4 and (iv) Plant 4, which processes ore from Mine 4;
- mining licenses — consisting of three mining licenses (excluding a license relating to flooded Mine 1) for Durymansky and Bygelsko-Troitsky fields of the Verkhnekamskoe Deposit valid until April 2013 and for the Ust-Yaivinsky field valid until April 2024. The Company is currently conducting a feasibility study for the potential development of a new mine, Mine 5, at the Ust-Yaivinsky field. Results of the study are expected to be available by the end of 2008. See "— Mineral resources, ore reserves and mines;"
- trading assets — consisting of BPC (a joint venture with Belaruskali) and Uralkali Trading (a wholly-owned subsidiary of the Company). BPC has offices in key export markets: India, Brazil, China, Singapore and the United States; and
- logistics assets — including Baltic Bulk Terminal ("BBT") in the port of St. Petersburg, through which most of the exports of Uralkali products are handled, significant rail car assets and strategically located warehouses.

The following chart represents Uralkali's organisational structure, which includes the Company's major subsidiaries and joint ventures:



Competitive strengths

The Company is a key participant in an industry which it believes will help support its growth. The potash industry has enjoyed significant, stable growth in price and customer demand, particularly in Uralkali's key markets. Industry data on expected increases in structural capacity creates greater visibility on supply dynamics than is the case in other fertiliser industries. The industry has a limited number of significant participants with export trading led by two key players, including BPC, mainly as a result of the scarcity of mineral resources and their location in a limited number of countries. The Company believes it has the following key strengths:

Leading dedicated potash producer with access to a major global distribution and logistics platform:

- In 2006, Uralkali was the largest publicly-traded dedicated potash company in the world based on revenue. In terms of production volume in 2006, Uralkali was the second largest producer of potash in Russia and the third largest dedicated producer of potash in the world. In contrast to some of its competitors, who also produce nitrogen and phosphorous-based fertiliser products, Uralkali is a dedicated potash producer. Nitrogen and phosphorous-based fertiliser products have historically been subject to high price volatility, mainly because of the correlation between their prices and phosphate and energy (primarily oil and natural gas) prices. See "Industry overview." By focusing on potash, for which prices have risen significantly in recent years, but with less volatility, Uralkali believes its financial performance is subject to less volatility than that of some of its competitors.
- Given the importance of the export trade in the global potash market, a strong trading and distribution platform is a key asset. Uralkali distributes its products through leading export traders, BPC (a joint venture with Belaruskali) and Uralkali Trading (its in-house export trader). In 2006 Beloruskali and Uralkali together were the largest exporters in the world potash market, with a 34% share of worldwide sales outside the country of production (excluding domestic sales and potash trade between Canada and the United States). BPC is one of only two major international traders, the other being Canpotex, a joint venture between PotashCorp, Mosaic and Agrium, which are North American fertiliser producers. Uralkali, Belaruskali and Canpotex in aggregate accounted for approximately 57% of sales outside the country of production in 2006 (excluding domestic sales and potash trade between Canada and the United States). By coordinating supply with another significant potash producer, Belaruskali, the Company believes that it has improved its negotiating position with its customers.
- Uralkali owns and operates a large part of its logistics chain, including a large fleet of rail cars and BBT, a loading terminal in the port of St. Petersburg, which gives it a greater degree of control over logistics than many of its competitors and has helped Uralkali position itself as a highly reliable supplier with reputable levels of service. The transhipment capacity of BBT is approximately 6.2 million tonnes of potash per year, which the Company believes can support significant increases in Uralkali's production capacity. In 2006, approximately 62% of the total export sales volumes of Uralkali's products were shipped through the shipping complex at the port of St. Petersburg.

Strong platform to capture above industry growth:

- Uralkali, directly and through its export traders, has leading access to the key markets of BRIC countries, which accounted for approximately 45% of the global potash market in terms of total consumption and approximately 75% of Uralkali's sales volumes in 2006. Based on data from IFA, Uralkali Trading and BPC, were the largest exporters to China, Brazil and India in terms of sales in 2006. Each of the BRIC countries is an emerging market and of these, China, India and Russia have been amongst the fastest growing economies in the world, with GDP compound annual average growth rates of 9.5%, 6.4% and 6.1%, respectively, since 2000. According to FERTECON data, the BRIC countries are expected to be among the markets with the fastest growing potash demand and, together, account for more than 60% of projected growth in global potash demand between 2006 and 2011. See "Industry overview." The Company believes that potash demand in these countries has high growth potential because of their rising incomes leading to more protein-intensive diets, their fast growing population rates, and their need to achieve greater yields from their arable land. In addition, growing awareness among farmers in BRIC countries of the benefits of potash has also contributed to the increase in potash demand. The Company believes that its strength in the BRIC countries positions it well to benefit from their expected growth, and gives it the potential to grow faster than competitors who are exposed to less attractive markets.

- The Company believes that it is well placed to increase its available production to capture expected growth in potash demand and do so more cost effectively than many of its competitors, especially given its structural capacity. Uralkali has a capital expenditure programme in place that it believes will allow it to increase its available production. With approximately 4,042 million tonnes of potash measured and indicated resources, the Company also believes it has the potash ore resources to support its planned structural capacity increases.

Low-cost producer with strong financial performance: Uralkali enjoys a number of cost and operational benefits compared to many of its major competitors. See "— Competition."

- Uralkali currently enjoys lower Labour costs and lower energy costs, which are key inputs for potash production, than its competitors located in more developed countries. The Company believes it is well placed to keep its costs competitive through implementation of its cost control plans which consist of (i) its continued power generation programme (ii) plans to outsource its repair and maintenance function, and (iii) modernisation and automation of production. Uralkali owns and operates a large part of its logistics chain, including a large fleet of rail cars and a loading terminal in St. Petersburg, the closest port to the location of Uralkali's potash resources, which gives it cost benefits and a greater degree of control over logistics than many of its competitors.

- Uralkali's historic financial performance has been strong. In the first half of 2007 and the twelve months ended 31 December 2006 and 2005, Uralkali achieved total consolidated revenue of RUR 13,323 million and an Adjusted EBITDA margin of 60%, revenue of RUR 22,290 million and an Adjusted EBITDA margin of 51%, and revenue of RUR 27,976 million and an Adjusted EBITDA margin 66%, respectively. Even under adverse market conditions, such as in the first half of 2006 when the volume of sales suffered due to the protracted contract negotiation with the Chinese customers, the Company maintained its profitability. The Company believes its strong financial performance and strong free cash flow position it well to invest in its future expansion plans. See "— Strategy" and "Management's discussion and analysis of financial condition and results of operations — Significant factors affecting results of operations."

Dynamic and experienced management team: Uralkali's management team has a proven track record in managing Uralkali's operations. Uralkali's senior management team combines extensive industry and marketing experience with financial and management expertise, and its newly-formed Board of Directors includes individuals who have been involved in Uralkali's business for several years. Management have contributed significantly to the growth of the business and its recent financial record. The Company believes its management has positioned Uralkali as one of the key swing producers in the potash industry, by significantly increasing its available production, improving logistics and establishing a strong trading platform.

Strategy

Uralkali's strategy is to enhance its global position as a leading low-cost dedicated supplier of potash, particularly for the high growth markets for potash consumption. The Company intends to pursue this strategy by endeavouring to enhance its margins, achieving superior growth and expanding its production platform, while pursuing a price over volume strategy, as set forth below.

Uralkali plans to maintain or improve further its leading positions in BRIC countries. Uralkali, directly and through its export traders, has leading access to the BRIC countries, which accounted for 45% of the global potash market in terms of total consumption and over 75% of Uralkali's sales volumes in 2006. In 2006, Uralkali Trading and BPC, together, were the largest exporters to China, Brazil and India in terms of total sales. According to FERTECON data, the BRIC countries are expected to be among the markets with the fastest growing potash demand and are predicted to account for more than 60% of projected growth in global potash demand by 2011. See "Industry overview." The Company's strategy is to maintain or improve further its positions in those markets through coordination with Belaruskali through BPC.

Uralkali intends to increase its available production cost effectively to capture potential potash demand growth. Uralkali has already improved throughput at Mines 2 and 4 and at its processing plants to help offset the fall in production at prior throughput levels as a result of the flooding at Mine 1 (see "— Health, safety and environmental matters — Flooding of Mine 1"). Uralkali is seeking to continue to increase its available production and structural capacity to help serve the growth in potash demand it expects to occur and to enhance its margins on sales of potash products.

The Company believes it has the ability to achieve this increase through the addition of production assets at existing plants and mines, which the Company believes will allow it to add 2 million tonnes of available production with additional capital expenditures of RUR 9.3 billion from 30 June 2007 through 2010.

With over 4,000 million tonnes of potash Measured and Indicated Mineral Resources, the Company also believes it has the potash resources to support its planned available production and structural capacity increases. Uralkali's capacity plans include the addition of significant capacity for the production of Granular and significantly greater increases in capacity for the production of Pink MOP and White MOP. Granular can command higher margins than Pink MOP and White MOP. Uralkali's expectation is that demand for high value added Granular products will grow more than the other products. Based on certain industry data which includes planned capacity expansions confirmed by potash producers, if Uralkali is successful in putting in place its additional capacity plans, through 2010 it will have increased its available production in absolute terms more than any other producer. In addition, Uralkali is considering the possible development of a new mine, Mine 5, to expand its mining asset base. Based on the preliminary feasibility report, Mine 5 is estimated to contain approximately 1,300 million tonnes of potash resources, consisting of 485.0 million tonnes of Measured Mineral Resources and 816.3 million tonnes of Indicated Mineral Resources under JORC Code. Based on the Company's current production methods, the Company believes that these resources will support 30 to 40 years of production at approximately 3 to 4 million tonnes of production per annum. Uralkali intends to continue to follow a price over volume strategy whereby it will reduce its utilisation rate from time to time to match potential declines in demand. Uralkali believes that this will enable it to sustain its profitability in the long term.

Uralkali intends to maintain its operational excellence and implement cost savings initiatives. Uralkali believes that a key to success in the potash industry, which is a commodity industry, is to maintain low costs. Uralkali intends to enhance the efficiency of its production processes as part of its cost savings initiatives. The Company has established a subsidiary, LLC Uralkali Engineering, with a highly regarded German engineering company, ERCOSPLAN, as a 49% minority shareholder. LLC Uralkali Engineering and ERCOSPLAN have undertaken a thorough examination of Uralkali's production processes and through such examination have identified modernisation plans and production bottlenecks that the subsidiary believes are capable of being addressed. The subsidiary intends to use modern technological solutions in the execution of these initiatives. Other important elements of Uralkali's cost saving initiatives include the planned increase in outsourcing and restructuring of the repair and maintenance function so as to reduce Uralkali's headcount in the repair and maintenance department and also in other departments. Uralkali has outsourced the repair and maintenance of certain electrical production equipment and intends to outsource repair and maintenance of its main production plant and equipment when it is commercially advantageous to do so. Uralkali believes this work will in the future be capable of being done more cost effectively by external service providers. In addition, Uralkali is currently implementing a power generation programme to reduce the costs and its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas. The power generation programme consists of installation and operation of four electricity generation turbines at Plant 4. The two turbines are currently being tested and the Company expects them to be operational in 2008. The other two are yet to be installed and Uralkali expects them to be operational in 2009. Uralkali intends to use the electricity and heat generated by these turbines to supply more of its demand for electricity and heat for its major production processes. The Company believes that operation of the power generation facility will help reduce its production costs.

History

Uralkali's business was founded and developed as a large state-owned enterprise in 1930. In 1930, the construction of the Company's first industrial complex began in Berezniki in the Urals. The Company's four currently operating production divisions were commissioned and constructed between 1954 and 1987. For most of its operating history, all of Uralkali's production was sold domestically as part of the Soviet planned economy. In 1992, Uralkali was privatised and JSC Uralkali was established as the holding company for the various mining and production assets. Uralkali adapted to a market economy and the drop in domestic demand for its potash by commencing export activities through an independent trading company. In 1997, Uralkali shares were admitted to trading on the Russian Stock Exchange, Russian Trading System ("RTS"). Between 2000 and 2005, Uralkali invested in the construction and operation of BBT, for the transhipment of potash at the seaport at St. Petersburg.

After using independent traders and an in-house trader for export sales at different times during its history, Uralkali saw an opportunity to establish a 50/50 joint venture trading company with Belaruskali. During 2005, Uralkali acquired a 50% interest in the joint venture, BPC, for the export of potash produced by both companies starting 2006.

Mineral resources, ore reserves and mines

Resources and reserves

The table below summarises Uralkali's resources and reserves of sylvinite, a type of potash ore, for the production of its potash products according to international standards as at 1 January 2007.

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Resources:			
Measured	1,481.7	21.7	321.8
Indicated	2,560.2	21.4	547.2
Inferred	219.4	26.5	58.2
Total Measured + Indicated	4,042.0	21.5	869.0
Reserves:			
Proved	165.5	19.4	32.2
Probable	303.9	19.7	60.0
Total Reserves	469.4	19.6	92.2

Mines

Uralkali operates two potash mines both of which exploit a part of the Verkhnekamskoe Deposit. Uralkali's mining assets include: (i) Mine 2 at the Durymansky field, which has been in operation since 1970 and (ii) Mine 4, at the Bygelsko-Troitsky field, which has been in operation since 1987. Mines 2 and 4 encompass all the underground and auxiliary surface operations, and the processing plants. Mine 1 at the Bereznikovsky field and Mine 3 at the Balakhontsevsky field were abandoned in 2006 and 1986, respectively, due to flooding. See "— Health, safety and environmental matters — Flooding of Mine 1" and "Regulatory Matters — Environmental matters" sections.

Uralkali also has an exploration asset, Ust-Yaivinsky field, or Mine 5. This is a prospect for which Uralkali has commissioned feasibility studies to assess the viability of establishing a further operating mine via a vertical shaft system in a similar manner to that at the other mines. The results of the study are expected by the end of 2008. Until the feasibility study is completed, no firm decisions will be made about the development of Mine 5 and, accordingly, the costs involved in such development have not been included in Uralkali's capital expenditure projections. See "— Mineral resource and ore reserve reporting."

Uralkali's potash ores exist in solid beds at depths of between 250m and 400m below the earth's surface and are extracted by conventional mechanised room and pillar underground mining. The mining panels are developed by two or three main drives located in the halite underlying the target potash horizons. The rooms are arranged in right angles to the entry development and are generally mined in a retreat mode. The rooms are force ventilated by auxiliary ventilation systems. Separate exhaust airways in the panels channel the return air to the exhaust mains.

Potash ore from the mining face is moved by shuttle cars to conveyor systems for transfer to the processing plants and, if needed, to temporary storage areas.

Products

Potash is the common name for the fertiliser form of the element potassium. Potassium chloride (KCl), also known as muriate of potash, is the major source of potassium used in agriculture. Muriate of potash can be pink or white in colour. Muriates of potash can be used as fertiliser by themselves, for mechanical blending with nitrogen and phosphate products to make blended fertilisers or for chemical processing to produce compound fertilisers consisting of a combination of potassium, nitrogen and/or phosphorous, also commonly referred to as compound NPK fertilisers. The potash is mined from potash ore deep underground or extracted from brine and is milled on the surface.

Uralkali produces three main products: Granular, Pink MOP and White MOP (Pink MOP and White MOP are together referred to as "Standard MOP"), all of which are potash products.

- *Granular* is a premium product used mainly in countries with more advanced fertilising application methods. Granulation slows down the absorption of fertiliser nutrients into the soil and thus prolongs the action of fertilisers. It is primarily used for agricultural purposes. Uralkali Granular is primarily sold to Brazil and also to countries such as the United States and China where it is then supplied for direct application to the ground or mechanically blended with nitrogen and phosphate fertilisers and sold at a premium to other potash products.
- *Pink MOP* is a pink coloured potash product. Pink MOP is available as a single standard product and has potassium levels very similar to Granular. It is primarily used for agricultural purposes. It is applied directly to the ground and is primarily sold to China, India and Southeast Asia.
- *White MOP* is a white coloured potash product. White MOP is available as White Standard (which is the standard White MOP product) and White Fine (which is White MOP with a slightly higher level of potassium purity). Uralkali's White MOP is primarily used for agricultural purposes, including NPK compound fertiliser. White MOP is primarily sold to China, Russia and to countries in the EEA.

The table below shows revenues from each of Uralkali's main products, and their average prices, in the first half of 2007 and 2006 and for each of 2006, 2005 and 2004. During the periods under review, average prices have been significantly affected by the method of sale and delivery. See "Management's discussion and analysis of financial condition and results of operations." The increase in price between periods does not, therefore, necessarily reflect the change in the underlying prices of potash in the market, although the Company believes there was a significant increase in the underlying price between the relevant periods in most instances. The table below also shows Uralkali's Distribution costs per tonne of potash sold in those periods.

	As of and for the year ended 31 December			As of and for the six months ended 30 June	
	2004	2005	2006	2006	2007
	RUR (except where stated)				
Granular revenues (millions)	**2,992**	**7,224**	**5,081**	**2,245**	**3,489**
Average price per tonne	2,738	5,807	5,062	5,079	5,563
Distribution costs per tonne	301	1,531	1,637	1,376	1,653
Pink MOP revenues (millions)	**5,303**	**13,800**	**9,557**	**3,022**	**5,522**
Average price per tonne	2,111	5,027	4,960	4,938	5,237
Distribution costs per tonne	329	1,748	1,943	1,678	1,831
White MOP revenues (millions)	**3,015**	**6,056**	**6,696**	**3,227**	**3,764**
Average price per tonne	2,518	4,489	4,742	4,934	4,924
Distribution costs per tonne	744	1,370	1,416	1,523	1,452
Total potash revenues (millions)	**11,310**	**27,080**	**21,334**	**8,494**	**12,775**
Average prices across potash products	**2,355**	**5,074**	**4,912**	**4,973**	**5,223**

Uralkali also used to process its own carnallite from Mine 1 prior to its flooding in October 2006, which it used to supply to a local magnesium producer. Such carnallite production did not, however, constitute a core part of Uralkali's business and represented less than 3% of Uralkali's Cost of sales in 2006.

Uralkali also sells salt (sodium chloride), which is a by-product of potash production, to local customers for application to local roads in the winter to facilitate the clearance of ice on roads, and uses it to produce sodium chloride solution for sale to domestic soda ash production. Uralkali only does this with a small portion of the salt it produces as a by-product of potash producers. It stores the remainder of the salt that it produces as a by-product outside on open land in Berezniki. The sale of salt and production and sale of sodium chloride solution is not a core part of Uralkali's business. It represented less than 1% of Uralkali's revenues in 2006 and the first half of 2007. Expenses that would not otherwise have been incurred but for salt sales and sodium chloride solution production were near 2% of Uralkali's Costs of sales in each of 2006 and the first half of 2007.

Historical potash production and capacity

The table below shows Uralkali's actual production of its main products for the same periods.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	(thousand tonnes)				
Granular	1,174	1,243	935	472	627
Pink MOP	2,260	2,405	1,809	731	1,076
White MOP	1,556	1,731	1,421	709	823
Total	**4,990**	**5,379**	**4,165**	**1,912**	**2,525**

The table below shows Uralkali's utilisation rates (in terms of available production) at its plants for the production of its main products for the years ended 31 December 2006, 2005 and 2004 and for each of the six months ended 30 June 2007 and 2006.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
Granular	100%	100%	72.0%	57.8%	100%
Pink MOP	100%	100%	68.1%	81.2%	100%
White MOP	100%	100%	83.9%	71.4%	100%
Total	**100%**	**100%**	**73.7%**	**68.3%**	**100%**

Production Process

The production cycle for Uralkali's potash products uses several processes and includes production facilities consisting of two mines, and four refining plants. Set out below is an overview of the potash production processes of the Company.

Pink MOP

Pink MOP is produced at Uralkali's flotation enrichment plants (Plant 2 and Plant 3). See "— Production facilities." Once the potash ore is extracted, most of it is transported by conveyor belt to the nearest production facility, where it is crushed in preparation for subsequent processes. Some of the potash ore extracted from Mine 2 and Mine 4 is transported by rail or truck to the production facility at Plant 3 since its adjacent mine has been flooded. Once crushed to the correct size for the next stage, the crushed potash ore is deslimed, a process in which materials such as clays and sand are separated from the potash ore by agitation in hydrocyclone machines and slime flotation in flotation machines. The desliming process is completed by placing the partially cleaned potash ore in a flotation machine in which certain chemicals create bubbles that stick to the particles of potassium chloride and float those particles to the top of the mixture for separation. The foamy resulting mixture is cleaned in flotation machines three times to increase the concentration of potassium chloride.

To reduce moisture content, Uralkali uses vacuum filters and furnaces to reduce moisture content to 5%. Further drying in vertical pipe dryers or boiling layer dryers at high temperatures reduces moisture from 5% to approximately 0.1%. The potash is then treated with chemicals to help prevent the potash particles lumping together and also to help prevent production of dust on application of the Pink MOP to the soil. This production process creates waste products. See "Regulatory matters — Environmental matters."

White MOP and Pink MOP

White MOP is created in Uralkali's chemical enrichment plants (Plant 1B and Plant 4) using sylvinite ore. Potash ore from Mine 4 is transported by truck to Plant 1B and by conveyor belt to Plant 4, where it is crushed for subsequent processes. Once crushed to the correct size for the next stage, the crushed potash ore is mixed with a hot "mother liquor," a solution of magnesium chloride and potassium chloride, to undergo a process called leaching. The mother liquor dissolves the potash from the ore, thus increasing the concentration of potassium chloride in the liquor. The salt waste is removed and pumped to a separate chamber where it has the mother liquor removed from it. The mother liquor is pumped back to a leaching chamber.

The useful liquor that is created from the leaching process is clarified in a hot thickener, which separates and removes waste clay and salt slimes, leaving a hot thickened liquid. Some of the waste from this clarification process, which still contains a useful amount of potassium chloride, is pumped back to a leaching chamber to recover more of the potassium chloride. The hot thickened liquid is introduced into a crystallisation system, where it is cooled and subjected to further crystallisation processes. This process creates a further refined slurry of potash crystals which is dried with hydrocyclones and product centrifuges to produce a "cake" of potash. The cake is conveyed to a fuel oil and natural gas drum dryer for final water removal. The final product, dried White MOP, contains less than 0.2% moisture by weight. The preceding production process creates waste products. See "Regulatory matters — Environmental matters."

The White MOP produced at the chemical enrichment plant at Plant 1B and Plant 4 can be coloured pink and sold as Pink MOP to customers who expect to receive potash with a pink colour and who expect potash with at least the potassium purity of standard Pink MOP (White MOP is at least as pure as Pink MOP).

Granular

The process for making Granular potash is identical to that used in the production of Pink MOP, up to the end of the final drying stage. At this point, instead of being prepared for shipment, the dried potash powder is compressed into tile using roller presses. Hot granules of the correct size after crushing are separated through sieves, which are treated to remove sharp edges and cracks and hardened in furnaces to increase their strength. The resulting granules are treated with chemicals to help prevent lumping and also to help prevent production of dust on application to the soil, and are cooled in a vibrating furnace. A high level of dust production upon application is a sign of poor quality potash granules and results in high levels of wastage.

Uralkali currently produces Granular as an add-on process to its production of Pink MOP, but if demand for Granular continues to grow, Uralkali may adapt its White MOP production lines to make Granular as well.

The preceding production process also creates waste products. See "Regulatory matters — Environmental matters."

Production divisions

Uralkali has a total of six production divisions: Plant 1 (consisting of Plants 1A, 1B and 1C), Plant 2, Plant 3 and Plant 4. Plants 1B, 2, 3 and 4 process potash from its initial potash ore form through to the finished product. Plant 1A produces brine and Plant 1C produces magnesium chloride. Plant 1D has been closed down and is no longer in use. For more details regarding production divisions, see "Presentation of financial and other information."

The following table summarises certain aspects of Uralkali's production facilities:

Production Division	Year of Introduction	Type of Facility	Products	Available Production (thousand tonnes)	Structural Capacity (thousand tonnes)
Core facilities:					
1B	1954	chemical enrichment plant	White MOP	250	300*
2	1969-1970	flotation enrichment plant	Pink MOP Granular	1,712 Pink MOP or 1,300 Pink MOP and 400 Granular	1,870 Pink MOP or 1,360 Pink MOP and 490 Granular
3	1973-1974	flotation enrichment plant	Pink MOP Granular	1,777 Pink MOP or 880 Pink MOP and 870 Granular	1,883 Pink MOP or 780 Pink MOP and 1,070 Granular
4	1992	chemical enrichment plant	White MOP	1,300	3,000
Non-core facilities:					
1A	1963	flotation enrichment plant	brine	8.8 million cubic metres	N/a**
1C	1962	carnallite enrichment plant	magnesium chloride	600	600

* The projected capacity is 500 thousand tonnes, the available production is subject to ore availability and ore transportation capacity that could be increased.

** Currently produces brine, but after completion of filling of Mine 1 with brine the Company may consider the use of this plant for production of potash. Plant 1A has structural capacity of 900 thousand tonnes of Pink MOP.

The following table summarises structural capacities of potash by potash product.

Product Type	Available Production (thousand tonnes)	Structural Capacity (thousand tonnes)
Pink MOP (if no production of Granular)	3,489	3,753
Pink MOP (with maximum production of Granular)	2,180	2,140
Maximum production of Granular	1,270	1,560
Total White MOP	1,550	3,300
Total Potash (with no production of Granular)	5,039	7,053
Total Potash (with maximum production of Granular)	5,000	7,000

Plant 1

Plant 1A is a flotation enrichment plant with structural capacity of 900 thousand tonnes of Pink MOP and includes four parallel-operating production units. It is currently being used for the production of brine which is required to be pumped into Mine 1 since its flooding in October 2006 to minimise the dissolution of the mineral reserves. See "— Health, safety and environmental matters — Flooding of Mine 1" section. Once Mine 1 is completely filled with brine and when subsidence stabilises, which is expected in three to four years, the Company may revert to using Plant 1A for production of Pink MOP.

Plant 1B is a chemical enrichment plant with structural capacity of 300 thousand tonnes of White MOP, which is carried out on one production line. Because its associated mine was flooded in October 2006, this production facility now processes potash ore delivered from Mine 4 by truck.

Plant 1C does not form a core part of Uralkali's business. It is a carnallite enrichment plant which used to process Uralkali's carnallite from Mine 1 prior to its flooding in October 2006. This plant is now used by the Company to process carnallite from the ore supplied by Silvinit for OJSC VSMPO-Avisma, pursuant to a service contract with Avisma.

Uralkali intends to construct additional storage facilities at Plant 1 for approximately 5,000 tonnes of carnallite. See "— Logistics — Storage."

Plant 2

Plant 2 is a flotation enrichment plant with structural capacity of 1,870 thousand tonnes of Pink MOP or, if Granular production is maximised, structural capacity of 1,360 thousand tonnes of Pink MOP and 490 thousand tonnes of Granular.

Uralkali intends to construct additional storage facilities at this production plant for approximately 50 thousand tonnes of potash.

Plant 3

Plant 3 is a flotation enrichment plant with structural capacity of 1,883 thousand tonnes of Pink MOP, or, if Granular production is maximised, structural capacity of 780 thousand tonnes of Pink MOP and 1,070 thousand tonnes of Granular. Because its associated mine was flooded in 1986, this production facility processes potash ore delivered mainly from Mine 4 by rail but also from Mine 2 by truck.

By the end of 2006, Uralkali has increased available production of one of the sections of Plant 3 by approximately 440 thousand tonnes of Pink MOP and Granular.

Plant 4

Plant 4 is a chemical enrichment plant that began production in December 1992, and has structural capacity of 3,000 thousand tonnes of White MOP. This plant has a single production line for White MOP, but is also able to produce Pink MOP using a special division which colours the potash after it is processed to achieve the appearance of Pink MOP.

Energy

The potash production process requires significant amounts of electricity to power, for example, the various processing machines, and heat energy, for example, to dry the potash. Uralkali produces some of its own heat energy through its own boilers, which are powered by natural gas. Uralkali now sources all of its electricity externally. Uralkali is, however, currently implementing a power generation programme, which it expects to fully implement by the end of 2008, to reduce its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas. The electricity generation turbines will also produce heat as a by-product, which Uralkali intends to use to reduce, and then potentially eliminate, its demand for heat supplied externally. The power generation programme consists of installation and operation of four electricity generation turbines at Plant 4. Two turbines are currently being tested and Uralkali expects them to be operational in 2008. The other two are yet to be installed and Uralkali expects them to be operational in 2009. Uralkali estimates that the total cost of the programme will be RUR 2,711 million, of which approximately RUR 2,119 million was spent from 2006 through the first half of 2007. Uralkali expects its power generation programme to have a positive effect on total energy costs in the future, but since Uralkali will become more reliant on the prices of natural gas, which will power the turbines, the ultimate effect on the Uralkali's results of operations will depend on the future cost of natural gas. The Company estimates cost saving of approximately RUR 50 per tonne of potash production in 2011, assuming a 25% annual average increase in gas prices and a 16% annual average increase in electricity prices from the average 2006 price to 2011.

Repair and maintenance

Uralkali has historically undertaken repair and maintenance of its production equipment itself. In 2006, however, Uralkali entered into a number of outsourcing contracts with external repair and maintenance companies to outsource certain repair and maintenance of electrical production equipment. Uralkali believes this work will be capable of being done more cost effectively in the future by external service providers.

Uralkali also currently undertakes repair and maintenance of its logistical network, for example its rail cars, itself. Uralkali has repair and maintenance facilities with a repair capacity of 1,300-1,500 rail cars per year. Uralkali reorganised its business to transfer its railcar repair shop, together with railcar repair personnel, to its subsidiary, LLC Vagonnoe Depo Balakhonzi. Uralkali will consider disposing of this subsidiary in the future and entering into service contracts with it or with another external repair and maintenance business as part of its outsourcing strategy.

Key markets and customers

Uralkali makes sales to either its joint venture export trader, BPC, for eventual resale to the relevant customers in a particular market, or to these customers directly. In either case, the relationship between the relevant customers in each market and the persons involved in making the sale to those customers is crucial to Uralkali's business. Accordingly, it was of significant importance that, when Uralkali and

Belaruskali established the BPC joint venture, the Uralkali and Belaruskali employees with customer relationships joined BPC to continue and to develop these relationships. Uralkali believes that there are two primary threats to its, and any potash business's, customer base: aggressive pricing (especially on a long-term basis) from competitors and strategic partnerships among producers or traders and buyers. See "— Competition." Currently, there are few strategic partnerships among producers and buyers, although PotashCorp holds a 28% strategic stake in Arab Potash Company Ltd. ("APC") in Jordan, a 31.6% strategic stake in Sociedad Química y Minera de Chile ("SQM") in Chile, a 10% strategic stake in Israel Chemicals Ltd. ("ICL") in Israel, and a 19% strategic stake in Sinochem Hong Kong Holdings Limited ("Sinofert") in China. See "— Competition."

Below is a summary of the principal markets in which Uralkali's products are sold, and the principal customers of Uralkali products, both domestic and foreign. The geographic discussion below also describes the key features of those markets that are relevant to Uralkali's business.

Uralkali products are sold in the following main markets: China, Brazil, India, Russia, Southeast Asia and Bangladesh and the EEA, and in the United States in prior periods. The following table shows the main customers for Uralkali's products across all markets, as a percentage of total volumes of potash sold:

	Year ended 31 December 2006	Six months ended 30 June 2007
Top customer	17.9%	20.8%
Top two customers	26.2%	28.9%
Top five customers	41.6%	39.8%
Top ten customers	56.6%	57.0%

The following table shows a percentage breakdown of sales volumes in each of these main markets for 2006 and the first six months of 2007, and in each of these main markets, an indication of reliance on the key customers for its products:

	Year ended 31 December 2006	Six months ended 30 June 2007
	For each market % of total potash sold in tonnes, except as otherwise specified	
China	**40.7%**	**45.3%**
Top customer, as a percentage of Chinese sales volumes	44.1%	45.9%
Top two customers, as a percentage of Chinese sales volumes	64.3%	63.8%
Top five customers, as a percentage of Chinese sales volumes	86.7%	76.2%
Top ten customers, as a percentage of Chinese sales volumes	93.4%	89.9%
Brazil	**14.7%**	**20.8%**
Top customer, as a percentage of Brazilian sales volumes	17.1%	30.4%
Top two customers, as a percentage of Brazilian sales volumes	33.4%	50.8%
Top five customers, as a percentage of Brazilian sales volumes	60.0%	87.0%
Top ten customers, as a percentage of Brazilian sales volumes	85.4%	100%
India	**9.7%**	**4.2%**
Top customer, as a percentage of Indian sales volumes	5.9%	100%
Top two customers, as a percentage of Indian sales volumes	84.2%	—
Top five customers, as a percentage of Indian sales volumes	100%	—
Top ten customers, as a percentage of Indian sales volumes	—	—
Russia	**10.1%**	**2.2%**
Top customer, as a percentage of Russian sales volumes	44.2%	51.7%
Top two customers, as a percentage of Russian sales volumes	73.8%	76.0%
Top five customers, as a percentage of Russian sales volumes	88.8%	91.7%
Top ten customers, as a percentage of Russian sales volumes	97.2%	99.3%

	Year ended 31 December 2006	Six months ended 30 June 2007
	For each market % of total potash sold in tonnes, except as otherwise specified	
United States	**0.7%**	**0%**
Top customer, as a percentage of US sales volumes	100%	n/a
Top two customers, as a percentage of US sales volumes	—	n/a
Top four customers, as a percentage of US sales volumes	—	n/a
Top ten customers, as a percentage of US sales volumes	—	n/a
European Economic Area (EEA)	**11.6%**	**13.8%**
Top customer, as a percentage of EEA sales volumes	29.1%	39.2%
Top two customers, as a percentage of EEA sales volumes	47.9%	62.1%
Top five customers, as a percentage of EEA sales volumes	66.1%	86.6%
Top eight customers, as a percentage of EEA sales volumes	80.3%	99.3%
Southeast Asia and Bangladesh (SEA)	**11.1%**	**11.5%**
Top customer, as a percentage of SEA sales volumes	23.5%	12.3%
Top two customers, as a percentage of SEA sales volumes	42.8%	24.2%
Top five customers, as a percentage of SEA sales volumes	59.3%	57.1%
Top ten customers, as a percentage of SEA sales volumes	73.3%	93.6%
Total sales volumes (thousands of tonnes)	**4,342**	**2,446**

The following table shows the extent to which Uralkali is reliant on a particular market for sales of a particular product:

	Year ended 31 December 2006	Six months ended 30 June 2007
	Percentage of tonnes sold	
Granular, as a percentage of all potash volumes sold	**23.1%**	**25.6%**
China, as a percentage of all Granular volumes sold	14.5%	11.3%
Brazil	62.0%	77.0%
India	0%	0%
Russia	0%	0%
United States	3.2%	0%
European Economic Area	11.9%	6.5%
Southeast Asia and Bangladesh	4.7%	1.7%
Pink MOP, as a percentage of all potash volumes sold	**44.4%**	**43.1%**
China, as a percentage of all Pink MOP volumes sold	44.3%	54.1%
Brazil	0.9%	2.5%
India	20.8%	9.8%
Russia	7.3%	5.1%
United States	0%	0%
European Economic Area	3.5%	0.9%
Southeast Asia and Bangladesh	22.5%	25.7%
White MOP, as a percentage of all potash volumes sold	**32.5%**	**31.3%**
China, as a percentage of all White MOP volumes sold	54.4%	61.0%
Brazil	0%	0%
India	1.4%	0%
Russia	21.0%	0%
United States	0%	0%
European Economic Area	22.5%	37.5%
Southeast Asia and Bangladesh	0%	0%

Uralkali's products are also sold in Russia and exported to customers in numerous international markets. The discussion below is of the customers in each market to which Uralkali's products are sold.

See "— Sales and marketing" for a discussion of how the sales are and have been made in these markets since 2004.

China

40.7% of Uralkali's sales volumes of potash in 2006 and 45.3% in the first six months of 2007, respectively, were derived from sales to customers in China. Uralkali, through BPC and Uralkali Trading, has leading access to China.

In 2006, Uralkali Trading and BPC were the largest exporters to China in terms of sales with an approximate 45% share of sales in China based on Company and FERTECON data. Uralkali's potash accounted for 25% of the aggregate potash sales in China in 2006. Almost all the sales of Uralkali products to Chinese customers are made to local distributors. The Company's principal customer in China is Sinochem, the leading Chinese distributor. Sinochem has been a customer of Uralkali products for over ten years.

All three of Uralkali's products are sold in China. In 2006, 8.2% of its sales volumes in China were Granular, 43.5% were White MOP and 48.3% were Pink MOP. In the first six months of 2007, 6.4% of its sales volumes in China were Granular, 42.1% were White MOP and 51.5% were Pink MOP. See "— Competition." The Chinese government played a key role in the negotiations between BPC and Sinochem and CNAMPGC, the two largest Chinese customers of BPC. The Chinese government has pursued a pro-farmer economic policy for a number of years. For example, it has introduced a programme supporting agricultural development and farmers. Uralkali believes it is well placed to take advantage of Chinese governmental focus on agriculture and on the expected growth of the economy and population. See "Industry overview."

Uralkali products are sold to customers in China in two ways:

- For delivery by sea ("China Sea Sales") pursuant to large sales contracts with fixed prices and volumes entered into with Sinochem and CNAMPGC. In 2006, the contract was negotiated only with Sinochem and CNAMPGC. Approximately 33% of Uralkali's sales volumes to China in 2006 were China Sea Sales.
- For delivery by rail ("China Rail Sales") under contracts negotiated on a monthly basis, with terms conditional on minimum volumes for the year. These types of sales were the bigger portion of sales volumes to China in 2006 (67%), and they were made to many more customers than China Sea Sales.

In 2005, Uralkali, and from the beginning of 2006, BPC, undertook the negotiation with Sinochem and CNAMPGC of new contracts for China Sea Sales in 2006. The negotiations have, prior to 2006, generally been concluded towards the beginning of the year and China Sea Sales have usually been strong at the beginning of the year. However, in 2006, negotiations were not concluded until the end of July and, as a result, no China Sea Sales were made in 2006 until August. See "Management's discussion and analysis of financial condition and results of operations."

In 2007, however, negotiations with the Chinese customers were concluded in February and an agreement was reached for a higher price for 2007 deliveries. The China Sea Contracts with Sinochem and CNAMPGC provide for deliveries of 2.8 million tonnes in aggregate for 2007, of which 1.0 million tonnes per month is expected to be supplied by Uralkali as BPC Sales. See "Management's discussion and analysis of financial condition and result of operations — Structure of contracts, product mix and other pricing characteristics unique to certain markets." The prices agreed for the 2007 China Sea Contracts were US$5 per tonne higher than the prices per tonne in the annual contract with Sinochem for 2006 and US$30 per tonne higher than the prices per tonne agreed for 2005.

Sinochem is Uralkali's largest single customer, accounting for 17.9% of Uralkali's sales volumes in 2006. PotashCorp, one of Uralkali's competitors, acquired a 10% share in Sinofert, Sinochem's Hong Kong listed fertiliser operations, in 2005 and an additional 10% in 2006. Uralkali is attempting to diversify the customer base for its products in China. Uralkali's objective is to control the share of its total export to China so that its business does not become increasingly reliant on that market. Nevertheless, Uralkali considers its customers in China and the Chinese market to be of great importance to its business.

Brazil

14.7% and 20.8% of sales volumes of Uralkali in 2006 and the first six months of 2007, respectively, were derived from sales to customers in Brazil. Uralkali, through BPC and Uralkali Trading, has leading access to the Brazilian market. In 2006, Uralkali Trading and BPC were the largest exporters to Brazil in terms of sales with an approximate 31% share of sales in Brazil, based on FERTECON data, with Uralkali selling an aggregate of 640.3 thousand tonnes of its potash through either as BPC Sales or UKT Sales. See "— Competition." Overall in Brazil, customers for Uralkali products are distributors.

The vast majority of Uralkali's sales volumes destined for the Brazilian market is Granular potash. In 2006, the top two customers accounted for more than a third of sales volumes to Brazil and almost all sales volumes were made to the top ten customers. Typically, large customers buy with prices fixed for a particular bulk delivery by vessel or on a quarterly basis. Prices are typically set taking into account the indicative expected purchase volume for the relevant period. Small and medium size businesses, which represent most of the rest of the customers for Uralkali products in Brazil, typically purchase on a spot basis. Prices for these sales are affected by the prevailing prices for the large customers, although they are generally higher than those prevailing prices.

Uralkali believes that the potential growth of the Brazilian market is significant because farmers there are generally still using significantly less potash than scientific recommendations for optimal crop growth and the increased demand for crops used for biofuel production. Strong demand from the Brazilian market, especially for Granular, has allowed many suppliers to increase price for the third time in 2007, representing an increase of approximately 150% compared to 2006 prices. Uralkali intends to grow the market share for Uralkali's products in Brazil. Uralkali believes that the logistical advantages it has for deliveries there, such as lower shipping costs, compared to Canpotex, positions it well to take advantage of the potential growth of that market. Although Uralkali is reliant on a small number of customers in Brazil for a large proportion of sales destined for that market, Uralkali believes that customers in Brazil are more easily substituted than in many other markets.

India

9.7% and 4.2% of sales volumes of Uralkali in 2006 and the first six months of 2007, respectively, were derived from sales to customers in India. Uralkali, through BPC and Uralkali Trading, has leading access to the Indian market. In 2006, Uralkali Trading and BPC were the largest exporters to India in terms of sales with an approximate 26% share of sales in India, based on FERTECON data, with Uralkali selling an aggregate of 421.3 thousand tonnes of its potash either as BPC Sales or UKT Sales. See "— Competition." Overall in India, customers for Uralkali products are distributors.

Uralkali sells primarily Pink MOP in India. The market there is not yet prepared to pay a premium for Granular and White MOP and Uralkali does not see significant indications of that changing in the near future.

Negotiations with respect to sales in India are undertaken with IPL, the largest Indian customer. The terms of the agreements with the other large customers in India fall into line with the terms agreed with IPL. The terms of the contract are approved by the Indian government prior to execution of the contracts because the current Indian government is a heavy subsidiser of agriculture. Sales made to IPL accounted for more than 78.2% of sales in 2006 with the rest of Uralkali's Indian export being sold to three other customers. 100% of sales in India in 2006 were made pursuant to 6 to 12-month contracts with fixed prices and volumes with very large customers.

Since China is the largest market for potash, prices in certain other markets, particularly the Asian markets like India, are heavily influenced by prices set with the large customers in China. In both 2006 and 2007, new revised contracts with the large customers in India followed closely after the contracts with the large customers in China were concluded. In June 2007, revised annual contracts were agreed which provide for 300 thousand tonnes to be supplied by Uralkali as BPC Sales. For the first six months of 2007, Uralkali exported 103 thousand tonnes of potash, compared with 58 thousand tonnes for the first six months of 2006. The prices agreed for the 2007 contracts were agreed at the significant increase of US$50 per tonne to those set in the annual contracts for 2006. Contracts with other Indian distributors followed at similar prices.

Due to the need to increase crop yields from the falling arable land area per person in India, average prices in the Indian market have benefited from upward pressure in the last few years. Uralkali believes that the potential growth of the Indian market is significant and is a market of great importance to

Uralkali, because of the growth record of the economy there and also because of the current imbalance between a high use of nitrogen fertiliser and a comparatively low use of potash. The imbalance has mainly been because farmers there have historically underestimated the benefits of potash for their crop yields. Uralkali believes this is likely to be redressed with increased use of potash as potash producers and distributors have engaged in marketing efforts to educate farmers on the value of potash use.

Russia

Russian customers accounted for 10.1% of Uralkali's sales volumes in 2006 and 8.9% in the first six months of 2007. In 2006, Uralkali had a 31% market share based on sales in the Russian market, according to Company data. See "— Competition." Overall in Russia, the Company's major customers are compound NPK fertiliser producers, accounting for approximately 7.7% of sales in 2006 and 6.9% in the first six months of 2007, and farmers accounted for approximately 0.2% of sales in 2006 and 0.1% in the first six months of 2007. Sales to these customers are made directly by the Company. Since March 2007, Uralkali has started selling potash on the commodity section of the Moscow Stock Exchange, with contracted sales amounting to 6.2% of its total domestic sales in the first six months of 2007.

Mainly White MOP and Pink MOP is sold in Russia. In 2006, 21.0% of its total White MOP sales and 7.3% of total Pink MOP sales were made in Russia. In the first six months of 2007, 5.1% of the total Pink MOP sales and 21.5% of total White MOP sales were made in Russia and no Granular sales were made in Russia.

Although the Company does not expect Russian potash levels to reach old Soviet levels of demand, the Company does expect, consistent with Russian Ministry of Agriculture forecasts, Russian potash demand to increase. Regulatory issues have recently changed the complexion of Uralkali's participation in the Russian market by constraining its ability to negotiate on market terms with its customers. In July 2006, Uralkali was added to the register of entities holding market shares in excess of 35% in the Russian market that is maintained by the FAS for potassium chloride.

A number of obligations have been imposed on Uralkali from July 2006 by an additional FAS ruling, including the obligation to provide advance notice to FAS in respect of increases in export sales of more than 5% when such increases are to the detriment of supplies to the domestic market. In June 2007, the Company filed an application for removal from this register due to the fact that the Company believes that its current share of the Russian market was less than 35%. FAS responded to this filing and confirmed that the Company had had a market share of less than 35% in 2006, but the final decision has been postponed until 2007. Currently, Uralkali must, as a result of the FAS's ruling, for a period of five years:

- not unreasonably refuse to enter into agreement on the supply of potassium chloride with buyers in Russia if Uralkali has the capacity to produce or deliver the potash;
- give FAS prior notice of any proposed increase by more than 5% in the export supplies of potash produced by it to the detriment of the supplies to the domestic market;
- give FAS prior notice of any proposed aggregate increase in prices of potash for supply in Russia of more than 5% in any quarter compared to the previous base level, i.e. the price as of 1 July 2007 or the latest price notified to the FAS (as the case may be);
- not allow conditions to exist for the access to the commodities' market of potash that would put one or several business entities on conditions unequal to the conditions of another or other business entities, including in respect of the price for the sale of potash; and
- give prior notice to FAS of any proposed transactions or joint actions together with its competitors on the market of potassium chloride that may be aimed at strengthening the market power of Uralkali either on the domestic or foreign markets (FAS has noted in September 2006 that such obligation do not extend to Uralkali's ordinary business activities, including its export business, however, FAS may in the future reassess its position).

In April 2007, FAS established that Uralkali and Silvinit have a dominant position in the Russian potash market by holding more than 50% of the potash market and that they have violated the antimonopoly law by establishing a monopolistically high price for potash in the domestic market. The Company appealed this decision and on 9 October 2007, the Arbitration Court of Moscow ruled against FAS's findings and prescription. However, FAS may challenge this ruling in the appellate court. See "Risk factors — Risks related to regulations" and "— Claims relating to the Company."

European Economic Area (EEA)

11.6% of sales volumes of Uralkali in 2006 and 13.8% of sales volumes in the first six months of 2007 were derived from sales to customers in the EEA countries. Overall in the EEA, customers for Uralkali products are distributors and NPK producers. Most sales of Uralkali products in the EEA are sales of White MOP for industrial application and Granular for agricultural application, although small volumes of Pink MOP are also sold.

Negotiations with respect to sales in the EEA are undertaken by Uralkali Trading directly with the relevant customers. Contracts for approximately half the sales are generally based on a customer's minimum six month or annual purchase volume. The rest of the sales therefore are generally negotiated with customers on a spot basis.

Uralkali believes that the EEA presents a significant opportunity for Uralkali because of the recent relaxation of the anti-dumping measures imposed on imports of potash from Russia into the EEA. Until May 2004, the European Commission imposed a fixed anti-dumping duty of €19.61 to €40.63 per tonne for all imports of potash from Russia. However, the European Commission reviewed its anti-dumping measures against imports of potash from Russia and concluded in May 2004 that a modification of the anti-dumping measures should be made to avoid a sudden and excessively negative economic impact on importers and users in the 10 new Member States immediately following enlargement of the European Union in May 2005. The European Commission therefore entered into undertakings with certain companies, including Uralkali, pursuant to which such companies would not be subject to anti-dumping duties on imports into the 10 new Member States as long as the conditions of the undertakings were met. These undertakings were subsequently extended by the EU Council to cover imports into all 25 Members of the European Union on 11 July 2006. Pursuant to the undertaking currently in place with Uralkali, the Company's imports of potash into the European Union up to a quantitative ceiling are not subject to anti-dumping duties, provided that they are sold at or above the minimum import prices set by the undertaking and provided that the other conditions of the undertaking are satisfied. See "Regulatory matters" and "Risk factors — Uralkali faces protective trade restrictions in the export of its potash products to the European Union." Uralkali's proximity to the market gives it logistical advantages over many of its competitors.

Southeast Asia

11.1% of sales volumes of Uralkali in 2006 and 11.5% of sales in the first six months of 2007 were derived from sales to customers in Southeast Asia (including Bangladesh, Indonesia, Malaysia, Vietnam and Thailand). Overall in Southeast Asia, customers for Uralkali products are distributors.

Negotiations for sales in Southeast Asia are undertaken by BPC directly with the relevant customers. Contracts are generally based on a customer's minimum annual purchase volume. Most sales of Uralkali products in Southeast Asia and Bangladesh are sales of Pink MOP for agricultural application. See "— Competition."

Uralkali believes that Southeast Asia presents it with a significant growth opportunity. Uralkali's geographical proximity to the market gives it logistical advantages over many of its competitors. Uralkali intends to diversify the customer base for its products in Southeast Asia and sell to more private businesses directly rather than through distributors, particularly those involved in NPK production. Going forward, Uralkali is likely to sacrifice its supplies to Bangladesh to Belaruskali, which has logistical advantages for supply there, and concentrate its supplies through BPC elsewhere.

Uralkali also makes sales to Iran, a country that is subject to US economic sanctions, although these sales constituted a very small amount of sales in 2006 and the first half of 2007. In the future, Uralkali may make further sales to sanctioned countries to the extent its sales do not violate applicable laws.

United States

0.7% of sales volumes of Uralkali in 2006 were derived from sales to customers in the United States. No sales into the United States were made in the first half of 2007. See "— Competition." Overall in the United States, customers for Uralkali products are distributors. Barge trade, which is spot trading on the Mississippi River, is also very active in the US market. The main customers for Uralkali products resell some or all of the volume purchased through barge trade. Since Uralkali's potash is mainly sold in the United States for agricultural application, and farmers there demand high-grade potash, almost all of the sales of Uralkali potash is sales of Granular.

The United States has historically been a large and stable market. However, given the current demand climate, Uralkali intends to concentrate its export on other markets, particularly BRIC counties, where the demand for potash is high and pricing is more favourable. The US market may again become attractive to Uralkali, however, especially as the inverse seasonality of the US market helps moderate the seasonal declines in sales in Brazil.

Sales and marketing

The table below shows the sales volumes of Uralkali potash products by Uralkali in 2006, 2005 and 2004 and for the six months periods ended 30 June 2007 and 2006. The table shows sales volumes by Uralkali, domestically (which the Company makes directly) by Uralkali Trading (as UKT Sales), by BPC (as BPC Sales or BPC/UKT Resales), and to the third party export traders.

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	tonnes, thousands				
Domestic sales	217	199	438	467	423
UKT Sales	1,123	1,413	2,662	4,871	165
BPC Sales	1,106	96	1,243	—	—
Direct export sales by the Company	—	—	—	—	425
Third party traders:					
Sales to Fertexim	—	—	—	—	3,789
Total	**2,446**	**1,708**	**4,343**	**5,338**	**4,802**

BPC

In 2005, Uralkali acquired a 50% interest in BPC, a 50/50 joint venture with Belaruskali, for the export to certain markets of potash produced by both companies. In 2006 BPC and Uralkali Trading were together the largest exporters in the world potash market, with a 34% share of worldwide sales outside the country of production (excluding domestic sales and potash trade between Canada and the United States) and with exports to over 60 countries. BPC is one of only two major international traders, the other being Canpotex, a joint venture between PotashCorp, Mosaic and Agrium, North American fertiliser companies. Uralkali, Belaruskali and Canpotex in aggregate accounted for approximately 57% of sales outside the country of production (excluding potash trade between Canada and the United States) based on various industry sources. The BPC joint venture was established to undertake all of Uralkali's export sales (other than sales to EEA countries and China Rail Sales) and all of Belaruskali's export sales (other than sales to the Russian Federation).

However, in 2006, due to the Belorussian legal technicalities, which made it more difficult for sales to be made by BPC directly in certain jurisdictions, only 32% of Uralkali's export sales were undertaken through BPC with the reminder being sold through Uralkali Trading. During the same period, Belaruskali has sold 100% of its export sales of potash either through BPC directly to end customers or through BPC with a resale to Uralkali Trading, on a principal basis, and then to end customers. The sales undertaken by Uralkali or Belaruskali through BPC directly to end customers are referred to as "BPC Sales." The sales undertaken by Uralkali through Uralkali Trading are referred to as "UKT Sales" (Belaruskali did not undertake any such sales). The sales undertaken by Belaruskali through BPC with a resale to Uralkali Trading for sale to end customers are referred to as "BPC/UKT Resales" (Uralkali did not undertake any such sales). Notwithstanding that BPC/UKT Resales are entered into between BPC and Uralkali Trading legally on a principal basis, where Uralkali Trading does not take the risk with respect to sales it makes and the products it purchases from Belaruskali, the Company considers these transactions to be agent activity and therefore the Company's revenues that are reported are accounted net of the sales and costs related to these sales. See "Management's discussion and analysis of financial condition and results of operations — Quantitative and qualitative disclosures about market risk — Critical accounting policies — Revenue recognition." The Belorussian legal technicalities were resolved in the beginning of 2007 and in the first six months of 2007, approximately half of Uralkali's export sales were made as BPC Sales and the other half as UKT Sales. See "Risk factors — Risks relating to operations — Uralkali relies heavily on BPC for the generation of revenues, and any failure related to BPC could have an adverse effect on Uralkali's business."

BPC has offices in key export markets: India, Brazil, China, Singapore and the United States. Mr. Oleg Petrov, who has been a key person behind each of the trading arrangements Uralkali has used, is now a key employee at BPC. See "Risk factors — Risks relating to operations — Uralkali relies heavily on BPC for the generation of revenues and any failure related to BPC could have an adverse effect on Uralkali's business."

Prior to the commencement of export activities through BPC, in 2005, approximately 5.0 million tonnes of potash sold by Uralkali were exported by Uralkali Trading, of which 15.0% were China Rail Sales. After the commencement of export activities through BPC, in 2006 and in the first half of 2007, 1.2 million tonnes and 1.1 million tonnes, respectively, of potash produced by Uralkali were sold to BPC for export.

In 2006, Uralkali and Belaruskali set a joint annual budget for all export sales, and plan to continue doing so for annual budgets going forward. The 2006 budged detailed:

- the apportionment of volumes of each potash product of each joint venture partner that should be sold for the year, for each month, and for each country. The budget for sales to each country is currently based on (but will not necessarily be equal to) the proportions of historical sales recorded in each country by each joint venture partner. Adjustments have to be agreed to these base country sales proportions for each partner to take into account each partner's intentions for reductions and increases to each market. In 2006 and the first half of 2007, for example, the apportionment of sales to the United States and Brazil were adjusted to give Belaruskali more sales to the United States and less sales to Brazil because of certain logistical advantages that Belaruskali has over Uralkali for deliveries to the United States. See "Management's discussion and analysis of financial condition and results of operations — Six months ended 30 June 2007 compared to six months ended 30 June 2006 — Revenues — Revenues from the export segment and domestic segments." The budget for overall sales volumes of each joint venture partner through BPC assumes that all of the production possible under their respective production capacities will be sold, either through BPC or otherwise. To the extent that actual sales to a particular market are expected to fall short of budgeted amounts, each party's sales to that market are required to be reduced on a pro rata basis according to a ratio determined by the respective production capacities of each joint venture partner, reduced for Uralkali domestic sales and reduced for Belaruskali's by its budgeted domestic sales; and
- the margin that should be applied to sales by each joint venture partner to BPC. The margin is intended to cover General and administrative costs of BPC with a cushion to cover unexpected costs.

Trading staff at BPC negotiate volumes and prices with customers. Whether an Uralkali product or a Belaruskali product is delivered is determined based on meeting the agreed budget, although the joint venture partners have agreed that short-term variations from the budget should lead to adjustments in subsequent months to meet annual targets. Specifications of each joint venture partner's potash should not be a factor in determining whose product is delivered as both partners have the same types of potash products with very similar quality levels. Uralkali determines its monthly production levels based on the budget's planned sales as it stands at that time. Shortfalls in demand are adjusted for in the budget so that each partner is affected equally. If a customer wishes to have the potash delivered to it by rail, these orders are referred to Uralkali Trading or BPC.

If the contract between BPC and the customer provides for CFR terms, where BPC is liable for arranging and paying for shipping freight, the price BPC pays the joint venture partner is the BPC customer price, less the sum of the Freight costs to BPC, certain other costs (such as inspection and transaction costs) and the agreed margin. If the contract between BPC and the customer provides for FOB terms, where the customer arranges and pays for shipping freight, the price BPC pays the joint venture partner is the BPC customer price less the agreed margin and certain other costs (such as inspection and transaction costs).

BPC sometimes incurs unexpected costs, over and above its General and administrative costs. For example, the actual Freight costs for the delivery of one of the joint venture partner's product could be higher than the amount allowed for in setting the price between BPC and the relevant joint venture partner. In such a case, the unexpected cost is allocated to the joint venture partner whose product was being delivered. The partners have agreed that these allocated costs should be netted off from any dividends payable in respect of that period. For a summary of the BPC Charter, see "Material contracts."

The Company is unable to direct BPC's management to act in one way or another without the agreement of Belaruskali or its nominees, as the case may be. See "Risk factors — Risks relating to operations — Absence of positive management control."

Uralkali Trading

Starting in December 2004, Uralkali brought all of its export trading in-house and began exporting potash exclusively through Uralkali Trading, its wholly-owned subsidiary incorporated in Switzerland. Oleg Petrov joined the Uralkali group in 2001 and between December 2004 and December 2006 was the managing director of Uralkali Trading, with substantial experience in potash trading and longstanding relationships with customers of Uralkali products. After BPC was established in 2005, the Company has been transitioning its export trading to BPC, other than sales in EEA countries and Belarus market (due to competition law concerns) as well as China Rail Sales, which Uralkali Trading still conducts. In the first half of 2007, Uralkali exported 0.2 million tonnes to its BPC markets.

Fertexim

From 2002 through December of 2004 Uralkali exported all its potash products, other than potash exported to China for delivery by rail, exclusively through Fertexim Ltd., a Cypriot company established by Oleg Petrov, who was a major shareholder and a managing director. The Company believes that transactions with Fertexim were conducted by Uralkali on an arm's length basis in all material respects. Uralkali sold 3,789 thousand tonnes of potash to Fertexim in 2004. Uralkali earned RUR 8,137 million of revenues from these sales in 2004. Uralkali was responsible for delivering potash to Fertexim at the Berezniki rail freight terminal on an FCA Berezniki basis. Fertexim was, in turn, responsible for transporting the potash to the ultimate customer from that point. Uralkali's arrangement with Fertexim was ended by mutual agreement at the end of 2004. Uralkali believed it was in its interests for the arrangement to be terminated because Uralkali wanted greater control over export sales and was able to set up a foreign subsidiary to undertake these sales more easily than before because of changes in Russian law at the time. Fertexim was voluntarily liquidated in 2005, and there are no outstanding liabilities between Uralkali and Fertexim.

Logistics

Transportation

Uralkali uses different delivery methods for different types of sales. Uralkali makes three key types of sales for these purposes — (i) domestic sales, which it makes directly, (ii) China Rail Sales and sales to EEA countries, which it makes through Uralkali Trading, and (iii) exports everywhere else in the world, which it makes either as BPC Sales, UKT Sales or BPC/UKT Resales.

Domestic sales. Uralkali delivers domestic sales, which are made by the Company directly, on an FCA Berezniki basis. The products are transported by conveyor from the warehouse or processing plant to Uralkali's loading ports at the Berezniki train terminal. Once the potash is loaded on to the rail car for delivery to the customer, risk and ownership in the products passes to the customer. The rail cars on to which the potash is loaded generally do not belong to Uralkali. 10.1% and 8.9% in 2006 and in the first six months of 2007, respectively, of Uralkali's potash volumes were sold domestically and therefore transported in this way.

China Rail Sales. China Rail Sales are made on a DAF basis. The products are transported by conveyor from the warehouse or processing plant to Uralkali's loading ports at the Berezniki train terminal. The potash is loaded on to Uralkali's rail cars and transported by rail to a Russian border point station agreed with the customer. Once customs procedures are cleared by Uralkali, the loaded rail cars continue to be transported towards China, and at the border crossing, a Chinese locomotive picks up the loaded rail cars from the Russian locomotive. The loaded rail cars are taken to a border point station on the Chinese side of the border where the potash is transhipped to separate rail cars arranged by Uralkali's customer. The empty Uralkali rail cars are sent back across the border to the Russian border point station where the Russian locomotive picks them up and returns them back to Berezniki. Risk and ownership in the potash passes to the customer when the potash is placed at the disposal of the customer at the named place of delivery at frontier on the date stipulated, in each case in the contract of sale. 30.1% and 32.1% of Uralkali's potash sales volumes were sold to China through Uralkali Trading in 2006 and in the first six months of 2007, respectively, and transported in this way.

Sales to certain European destinations. Export sales to certain European destinations, such as Poland, Lithuania, Finland and Romania are made to the customer on a DAF basis if the potash is delivered by rail, or, if the potash is delivered by sea, on a FOB or CFR basis. 11.6% and 13.8% of Uralkali's potash volumes were sold to customers in EEA in 2006 and in the first six months of 2007, respectively. Of the sales volume to customers in EEA in the first six months of 2007, 74.8% was transported by rail on a DAF basis and 25.2% was delivered by Uralkali to the customer on an FOB or CFR basis for transport by sea.

All other export sales. Other export sales are made by rail in Uralkali's rail cars, principally to Uralkali's port terminal in St. Petersburg, BBT, and then by ship to the relevant country. Delivery of China Sea Sales and to other markets involving delivery by sea are made on an FOB basis to Uralkali's export trader and then on an FOB or CFR basis by the export trader to the ultimate customer. In all cases, Uralkali ceases to be at risk for the product when the potash passes the ship's rail. The contracts between Uralkali and its export trader and the contract between its export trader and its customers operate so that risk passes from Uralkali to its export trader simultaneously with risk passing from its export trader to its customers. Ownership of the potash passes from Uralkali to its export trader at the same time as risk passes to the export trader. Ownership in the potash passes from the relevant export trader to the customer at 10 pm on the day following the date on the bill of lading. The main difference between FOB terms and CFR terms for Uralkali's export trader is the cost arrangements between Uralkali's export trader and its customers, which affects Uralkali in terms of the price Uralkali receives. For CFR contracts, the export trader is responsible for arranging and paying for the freight costs. For FOB contracts, the customer is responsible for arranging and paying for the freight costs directly. Approximately 56% and 55% of Uralkali's potash volumes were exported by sea in 2006 and in the first six months of 2007, respectively.

Distribution assets

Uralkali's principal distribution assets are (i) railway transportation — a large fleet of potash product and potash ore carrying rail cars, (ii) sea transportation — JSC BBT, its wholly-owned subsidiary at the port of St. Petersburg, one of the largest ports in Russia and through which Uralkali ships most of its exports and (iii) storage facilities — strategically located warehousing capacity.

Railway Transportation. Railway transportation is key to Uralkali's deliveries to BBT for export by sea as well as China Rail Sales. Each of Uralkali's processing plants have outlets into the Berezniki train terminal for transportation of potash.

Rail transportation is organised either directly through the Russian Railways or through one of a number of freight and forwarding agents with whom Uralkali has contracts. However, most shipments of potash from Uralkali production facilities both for export and domestic sales are performed by rail transportation under freight and forward contracts. Under the terms of Uralkali's freight and forward contracts, a freight and forward company undertakes to provide for delivery and tracking of cargo, concluding agreements with carriers and freight and forward, settlement of accounts for transportation of cargo on behalf of Uralkali, and other transportation services at the request of Uralkali. The fee is either fixed at 1%-1.5%, or negotiated on a contract-by-contract basis. Freight and forward services are paid in full after services are rendered, although between 30% and 50% of the applicable fee shall be paid in advance.

Uralkali owns approximately 4,100 special rail cars for transportation of the finished potash product. Uralkali is one of the largest customers of Russian Railways. By owning its own fleet of rail cars, Uralkali is not dependent on the availability of rail cars from Russian Railways for its China Rail Sales and deliveries to BBT for export by sea. Uralkali does not rely on the availability of rail cars from Russian Railways for its domestic deliveries. Demand for rail cars from Russian Railways far outweighs supply, and companies who are reliant on their rail cars often suffer delays in transport. This is particularly challenging for companies such as Uralkali with production facilities in remote locations. Uralkali realises benefits from owing a fleet of rail cars for most of its deliveries.

Uralkali also has a logistics management system that monitors the movement of its rail cars and furnishes Uralkali's logistics staff with information about the location of each car. The information is updated twice a day.

In addition to special rail cars used for bulk potash shipment, Uralkali owns approximately 280 dumping cars to transport potash ore from Mine 4 to Plant 3.

Uralkali invested over RUR 1.2 billion in 2005 and approximately RUR 525 million in 2006 on purchasing 1,223 additional special mineral carrying freight rail cars. It intends to purchase more rail cars, in line with its expansion plans generally. See "— Strategy."

Sea Transportation. Uralkali's main shipping asset is the Shipping Complex operated by JSC BBT, its loading terminal which is specially designed to handle mineral fertilisers. In December 2004, the Company entered into an agreement with Ermina Ventures Limited, Levrasco Holdings Limited and Strianco Holdings Limited for the acquisition of 50% of the shares in JSC BBT for a total consideration of US$30 million. At the time of the agreement, the Company already owned the other 50% of JSC BBT shares. See "Management's discussion and analysis of financial condition and results of operations."

JSC BBT undertakes transhipment for Uralkali as well as for a third party NPK producer, which is also one of Uralkali's domestic customers for potash. Approximately 64% and 44% of JSC BBT's standalone revenues in 2006 and the first half of 2007, respectively, were from Uralkali and the balance was from this third party. The shipping capacity of the Shipping Complex is approximately 6.2 million tonnes of potash per year. The ship loading speed is up to 3,000 tonnes per hour. During 2006, the Shipping Complex's freight turnover decreased by 21% to 3.8 million tonnes, compared to 4.8 million tonnes in 2005, mainly as a result of Uralkali having invested in a second loading terminal at the Shipping Complex. For the 12 months ended 31 December 2006, the Shipping Complex handled 53.6 thousand rail cars with mineral fertilisers, which is a 24% decrease as compared with the preceding year (in 2005 BBT handled 70.1 thousand rail cars). In 2006, 112 sea vessels were loaded at BBT, compared to 180 in 2005. The 38% decrease in the number of sea vessels loaded at BBT primarily resulted from the decrease in sales volumes due to China contract negotiations. Uralkali believes the control it has over JSC BBT gives Uralkali significant efficiency and quality benefits. In particular, Uralkali, through its control of the Transhipment facility, is better able to safeguard quality of its potash, which can deteriorate if mishandled. It also has control over investments in the Shipping Complex and improvements in its efficiency.

Certain risks exist in respect of JSC BBT's title and rights for the loading terminal. See "Risk factors — Risks related to Uralkali's assets and business — JSC BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex."

Storage

Warehousing capacity is important to Uralkali's business because potash inevitably needs to be stored from time to time as immediate transportation away from production facilities upon production is not always possible. For example, transportation scheduling on the Russian Railways or freight timetables often necessitate storage.

The total current capacity of Uralkali's warehouses in Berezniki is 160 thousand tonnes of potash. Uralkali has three warehouses at Plant 1, with a total storage capacity of 29,000 tonnes of potash; three warehouses at Plant 2 with a total storage capacity of 40,000 tonnes of potash; three warehouses at Plant 3 with a total storage capacity of 43,000 tonnes of potash; and two warehouses at Plant 4 with a total storage capacity of 48,000 tonnes of potash. A key challenge to adequate warehousing capacity is that potash is subject to deterioration from exposure to the environment. Potash can generally be stored for three to six months although Uralkali does not typically store potash for this long. Each of Uralkali's warehouses at Berezniki is connected to the rail freight terminals by a system of belt conveyors, which are fully isolated from the environment. Different kinds of potash are stored in different warehouses. Uralkali also has two warehouse complexes at BBT with a combined storage capacity of approximately 240,000 tonnes of potash.

Uralkali has plans to make significant investments in its storage capacity, with an intention to increase it by over 260,000 tonnes of potash. Uralkali's strategy is to increase its storage capacity alongside planned increases in production capacity. Uralkali estimates that the cost of warehousing expansion will be approximately RUR 2.3 billion through 2011. However, Uralkali is at the planning stages for these warehouses and the actual required cost to increase its storage capacity might be significantly more than Uralkali's current estimates. Uralkali could, therefore, scale back this expansion plan. The Company's inventory is monitored and controlled by a customised ORACLE Business Suite (Inventory) that has been developed for the Company.

Competition

The Company believes that its key competitors in the main markets in which its products are sold are the following:

- China: Canpotex, Silvinit and ICL. PotashCorp, a key member of the Canpotex joint venture, recently purchased strategic stakes in Sinochem, to whom most of Uralkali's products in China were sold in 2006. See "— Sales and marketing."
- Brazil: Canpotex, Kali und Salz ("K + S"), ICL and Silvinit.
- India: Canpotex, ICL and Silvinit.
- Russia: Silvinit and Belaruskali.
- Southeast Asia: Canpotex and Silvinit.
- Europe: ICL and K + S.
- United States: PotashCorp, Mosaic and Agrium.

A brief description of these competitors is provided below.

Canpotex. Canpotex, headquartered in Canada, is a trading company that distributes potash to markets outside North America for PotashCorp, The Mosaic Company and Agrium Inc. It is BPC's, and therefore Uralkali's, main competitor in the main export markets for Uralkali's products. In 2006, Canpotex had a 17%, 26% and 19% market share in China, Brazil and India, respectively, based on IFA data. Canpotex markets potash principally to countries in Asia, Latin America, and Oceania. According to various industry sources, Canpotex had a 23% share of sales outside the country of production in 2006 (excluding trade between the United States and Canada). The three partners of Canpotex are described in summary below.

PotashCorp. Potash Corporation of Saskatchewan Inc, located in Canada, is the world's leading producer of potash and the world's largest fertiliser enterprise by capacity. It has five potash mines and for 2006 had reported capacity of 12.89 million tonnes and reported production of 7.0 million tonnes of potash. Unlike Uralkali, it is not a dedicated potash company, that is, it earns significant revenues from sales of other products, namely phosphate and nitrogen fertilisers. In 2006, according to PotashCorp's annual report, its net sales were US$3.4 billion; 33% of its total sales was attributable to potash, and 34% and 33% were attributable to phosphate and nitrogen, respectively.

Mosaic. The Mosaic Company, located in the United States, was formed in October 2004 following the merger of Cargill Incorporated and IMC Global Inc. Mosaic has four potash mines and for 2006/2007 had reported capacity of 10.4 million tonnes and reported production of 7.9 million tonnes of potash. Unlike Uralkali, Mosaic is not a dedicated potash company. Mosaic mines, manufactures, markets and distributes potash, phosphate and nitrogen, as well as a number of specialty products. In 2006/2007, according to Mosaic's annual report, its net sales were US$5.7 billion. According to its annual report, 24% of its net sales was attributable to potash, and 52% and 2% were attributable to phosphate and nitrogen, respectively. Mosaic is one of the largest producers and distributors of blended fertilisers in Brazil.

Agrium. Agrium Inc., located in Canada, is a retailer of agricultural products and services in the United States, Canada and Argentina and a global producer and wholesale marketer of nutrients for agricultural and industrial markets. Agrium has one potash mine and for 2006 had reported capacity of 2.1 million tonnes and reported production of 1.2 million tonnes of potash. Unlike Uralkali, Agrium is not a dedicated potash company. Agrium mines, manufactures, markets and distributes potash, phosphate and nitrogen, as well as a number of specialty products. In 2006, according to Agrium's annual report, its net sales were US$4.2 billion. According to information contained in its annual report, 5% of its net sales was attributable to potash, and 7% was attributable to phosphate and 33% were attributable to nitrogen, sulphate and other.

Belaruskali. Republican Unitary Enterprise Production Association Belaruskali, located in Belarus, is a dedicated potash company. Belaruskali is Uralkali's joint venture partner in BPC, their export trader. See "— Sales and marketing — BPC." Belaruskali's products are exported to all the markets Uralkali's products are exported to. Belaruskali has four mines and for 2006 had reported capacity of 7.9 million tonnes and reported production of 7.7 million tonnes of potash. Uralkali's joint venture with Belaruskali, involving the sharing of demand in their shared markets based on an annual agreed budget, means that Uralkali and Belaruskali do not compete any more in those markets.

ICL. Israel Chemicals Ltd., located in Israel, produces phosphate, potash, bromine, primary magnesium and specialty chemicals. ICL has evaporation ponds in Sodom for potash production and underground mines in England and Spain and had reported production of 5.1 million tonnes of potash in 2006. Unlike Uralkali, ICL is not a dedicated potash company. ICL's primary markets for potash are Europe, Asia-Pacific, the United States and South America. Uralkali considers ICL to be a significant competitor in Europe, India and Brazil in particular. ICL's sales in 2006 were approximately US$2.9 billion according to its annual report. According to information contained in its annual report, 28% of its sales was attributable to potash and 17% was attributable to phosphate. PotashCorp purchased a 10% stake in ICL.

Silvinit. Silvinit, located in Russia, is a dedicated potash company. Silvinit has three potash mines and for 2006/2007 it had reported capacity of approximately 6 million tonnes and reported production of 3.2 million tonnes of potash. According to Silvinit's annual report, its net sales were RUR 18.3 billion (US$672 million) in 2006. Uralkali considers Silvinit to be a major competitor not only in the Russian market, given its location and market share in Russia, but also in China and India. Mr. Rybolovlev, the Chairman of the Company's Board of Directors and ultimate beneficial controlling owner, beneficially owns 19.47% of the voting shares and 2.22% of the preferred shares in Silvinit. Mr. Shevtsov, a member of the Board of Directors, is a beneficial owner of 5.65% of the voting stock and 0.29% of the preferred shares in Silvinit. Vladislav Baumgertner, Uralkali's CEO, is a member of the board of directors of Silvinit. See "Principal and selling shareholders" and "Directors and Management."

Arab Potash Company. ("APC") located in Jordan, is a dedicated potash company. APC extracts potash from the Dead Sea. In 2006 APC had reported capacity of 1.8 million tonnes and reported production of 1.699 million tonnes of potash. APC's sales revenue in 2006 was approximately JD 210 million (US$299 million). Its main export markets, India and Malaysia comprise approximately 42% of APC's sales. All of APC's sales are attributable to the sale of potash products. PotashCorp holds a 28% strategic stake in APC.

Kali und Salz AG. K + S is a German potash and magnesium company with offices in Europe, the United States, South Africa, India, Singapore and Japan. The company operates six potash and magnesium mines around the world. In 2006 Kali and Salz had reported capacity of 8 million tonnes and reported production of 7.99 million tonnes of potash and magnesium. The company's largest market is in Europe. In 2006, according to Kali und Salz's annual report, its net sales were €2.5 billion. 21% of its net sales were attributable to potash and 38% to nitrogen (Fertiva and COMPO segments).

Mineral Resource and Ore Reserve reporting

The international consulting firm SRK was retained to conduct independent reviews of the Mineral Resources and Ore Reserves at 1 January 2007. These reviews included site visits to the mining properties in order to collect data and review the operations. Subsequent to the site visits, SRK reviewed the available information and conducted economic evaluations. SRK's evaluation of the mining assets is based on operations for the next 19 years, from 2007 to 2025. SRK has not reported Mineral Resources or Ore Reserves for either Mine 1 or Mine 3. Mine 3 production was brought to a halt in 1986 following the flooding of the mine. Mine 1 production was similarly brought to a halt in October 2006 due to flooding. Flooding of potash mines is a rare, but not unusual occurrence worldwide See "— Health, safety and environmental matters — Flooding of Mine 1" and "Regulatory Matters — Environmental matters" sections.

The SRK Report is dependent upon technical, financial and legal input from the Company. The technical information as provided to, and taken in good faith by, SRK, has not been independently verified by means of re-calculation. SRK has however:

- Conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets, which included:
  - inspection visits to the mining operations, processing facilities, surface structures and associated infrastructure, between May and June 2006 and in July 2007;
  - meetings and discussions with Uralkali management and staff;

- an examination of historical information and results made available by Uralkali in respect of the Mining Assets;
- a review and where considered appropriate by SRK, modification of the Company's estimates and classification of Mineral Resources and Ore Reserves as at 1 January 2007; and
- a review and where considered appropriate by SRK, modification of the Company's 19-year production forecasts contained in Uralkali's business plan.

- Accepted certain macro-economic parameters and commodity prices provided by the Company.
- Satisfied itself that such information is both appropriate and valid for use as reported in its report. SRK considers that with respect to all material technical-economic matters, it has undertaken all necessary investigations to ensure compliance with the JORC Code.
- SRK has placed reliance on Uralkali that the following information provided by the Company to SRK is both valid and accurate for the purpose of compiling its report:
  - all technical information; and
  - taxation and depreciation logic used in the valuation of the Company's mining assets.

Mineral resource classification

Russian methodologies. Uralkali's estimates were calculated using traditional Russian methodology. Each seam and each mine was treated separately in the resource estimation procedure. In each case these were divided and grouped into blocks, each with reasonably consistent borehole spacing and reflecting Uralkali's relative confidence in the estimated tonnes and grade. Each block was then evaluated using only the borehole intersections in that block. Blocks with a drillhole spacing of less than 1 km were classified as A class resources, those with a spacing of between 1 and 2 km as B class resources, those with a spacing of 2 km as C1 class resources and those with a spacing of over 2 km as C2 class resources. SRK has reviewed the estimation methodology used by Uralkali to derive its estimates included in this document and the geological assumptions made and reports in its Report that it considers them to be reasonable given the information available. SRK has stated in its report that it has undertaken specific re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions and has replicated the estimates derived by Uralkali to within 5%.

International methodologies. Mineral resources and Ore Reserves reported in this document shown under international standards comply with the 2004 edition of the Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves which is prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists, and Minerals Council of Australia, and is commonly referred to as the JORC Code. As at the date of this document, the 2004 edition of the JORC Code is in force.

SRK re-classified Uralkali's Mineral Resource estimates using the terminology and guidelines proposed in the JORC Code. Specifically, SRK reported those blocks classified as B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classified as C2 as Inferred.

Ore reserves

The JORC Code recognises a fundamental distinction between resources and reserves. Uralkali however reports according to Russian requirements and does not prepare reserve estimates as these are typically defined by reporting guidelines and terminology developed in Europe, North America, Australia and South Africa. Ore Reserves as defined by the JORC Code are estimates of the tonnage and grade of material that is planned to be delivered to the various processing plants. In preparing the audited statement of Ore Reserves contained in the Report, SRK derived estimates of Ore Reserves using information obtained by it with respect to the mining losses and dilution experienced by Uralkali historically. SRK restricted its Ore Reserves estimates to those areas planned to be mined by Uralkali's business plan for the next 19 years. Uralkali's business plan, and therefore SRK's Ore Reserves estimates, assume that Uralkali will successfully re-negotiate its Mining Licences in 2013. However, there can be no assurance that Uralkali will be able to extend its licences, or that its licences will not be withdrawn prior to their scheduled expiration. See "Risk Factors — Risks Relating to Uralkali — Uralkali's operations are dependent on having received the required licences, permits and approvals from governmental authorities. A decision by a government agency to deny any of Urakali's licences, permits and approvals or to impose restrictive conditions on Uralkali with respect to these licences, permits and approvals may have an adverse effect on its business.”

SRK’s audited Mineral Resource statements are reported inclusive of those mineral resources converted to Ore Reserves. The audited Ore Reserves are therefore not in addition to mineral resources.

As with its audited Mineral Resource statements, SRK’s Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code. The audited Ore Reserve statements are confined only to those seams that Uralkali is currently considering for mining.

With respect to Mines 2 and 4, SRK has classified:

- Measured Mineral Resources that are planned to be exploited within the first ten years of the business plan as Proved Ore Reserves; and
- Indicated Mineral Resources that are planned to be exploited within the 19-year period specified in the business plan, and Measured Mineral Resource that are planned to be mined during the second nine years of the business plan, as Probable Ore Reserves.

SRK has not classified any Measured Mineral Resources or Indicated Mineral Resources with respect to Mine 5 as Ore Reserves as no decision has been made with respect to development of Mine 5. In addition, no Inferred Mineral Resources have been classified as Ore Reserves.

The SRK Report confirms that the Ore Reserves set out therein, which have been excerpted below, have been derived from the resource blocks provided to SRK and incorporate sufficient estimates for ore losses and dilution based on actual historical data.

Uralkali’s licences

Russian subsoil licences are issued for defined boundaries and for specific periods. However, under the Subsoil Law, licences are to be extended by the relevant authorities at their scheduled termination at the initiative of the subsoil user if the extension is necessary to finish production in the field, provided that the licensee has not violated the conditions of the licence. See “Regulatory Matters — Licensing.”

SRK’s review of mining licences held by the Company has been restricted to confirming that the stated mineral resources and Ore Reserves fall within the respective licence areas and understanding the work required to be done by Uralkali to maintain the licences to ensure that these requirements are satisfied by Uralkali’s business plan. SRK has reviewed copies of the licences and confirms that the mineral resources and Ore Reserves stated in this report fall within the boundaries of such licences.

The Company’s mining licences give rights to develop Durymansky and Bygelsko-Troitsky fields of the Verkhnekamskoe Deposit, referred to as Mine 2 and Mine 4, respectively. Both of these licences were re-negotiated in 2001 and are valid until April 2013. A mining licence for Ust-Yaivinsky field, Mine 5, was issued to Uralkali in 2004 and is valid until 2024. Certain details of the Company’s mining licences are set out below.

Deposit	Registration No.	Period (Years)	Expiry Date	Licence Type	Area (Ha)
Mine 2	01362	12	April 2013	Mining-Potassium, and rock salts	6,725
Mine 4	01363	12	April 2013	Mining-Potassium, magnesium, and rock salts	18,360
Mine 5	12328	20	April 2024	Exploration and Mining — Potassium and rock salts	8,331

Mineral resources

Sylvinite mineral resources

The table below summarises SRK's understanding of the resource statements prepared by Uralkali according to Russian methodologies to reflect the status of its assets as of 1 January 2007.

	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 2			
A	10.4	31.1	3.2
B	52.9	22.7	12.0
C1	315.6	24.7	77.8
C2	—	—	—
A+B+C1	378.9	24.6	93.0
Mine 4			
A	316.1	22.4	71.0
B	617.3	22.8	140.7
C1	1,428.3	21.6	307.8
C2	219.4	26.5	58.2
A+B+C1	2,361.7	22.0	519.5
Mine 5			
A	173.5	19.1	33.1
B	311.5	19.8	61.8
C1	816.3	19.8	161.6
C2	—	—	—
A+B+C1	1,301.4	19.7	256.5
All Mines			
A	500.0	21.5	107.3
B	981.7	21.8	214.5
C1	2,560.2	21.4	547.2
C2	219.4	26.5	58.2
A + B + C1	4,042.0	21.5	869.0

The table below presents SRK's audited Mineral Resource statement as of 1 January 2007. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. Definitions for the different categories used by this reporting code are given in the glossary provided. See "Glossary of terms." For the purposes of the table below, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those mineral resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to this.

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 2			
Measured	63.3	24.0	15.2
Indicated	315.6	24.7	77.8
Inferred	—	—	—
Measured + Indicated	378.9	24.6	93.0
Mine 4			
Measured	933.4	22.7	211.7
Indicated	1,428.3	21.6	307.8
Inferred	219.4	26.5	58.2
Measured + Indicated	2,361.7	22.0	519.5

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 5			
Measured	485.0	19.6	94.9
Indicated	816.3	19.8	161.6
Inferred	—	—	—
Measured + Indicated	1,301.3	19.7	256.5
All Mines			
Measured	1,481.7	21.7	321.8
Indicated	2,560.2	21.4	547.2
Inferred	219.4	26.5	58.2
Measured + Indicated	4,042.0	21.5	869.0

Ore Reserves

Sylvinite ore reserves

As with its audited Mineral Resource statements, the Company's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code.

Specifically, for the operating mines, SRK has classed that material reported in the tables above as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the business plan, as a Proved Ore Reserve; and that material reported in the tables above as an Indicated Mineral Resource, and which is planned to be exploited within the business plan, and also that material reported above as a Measured Mineral Resource, but which is planned to be mined during the second 9 years of the business plan, as a Probable Ore Reserve.

SRK has not transferred any of the Measured or Indicated Mineral Resource at Mine 5 to Ore Reserve status, given that technical work, inclusive of feasibility studies are ongoing to confirm the potential economics of developing this as a separate mine. In addition, no Inferred Mineral Resources have been converted to Ore Reserve.

The significant difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed and partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by Uralkali's 19 year business plan.

	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 2			
Proved	22.2	20.4	4.5
Probable	110.9	21.0	23.3
Total	133.1	20.9	27.8
Mine 4			
Proved	143.3	19.3	27.7
Probable	193.0	19.0	36.7
Total	336.3	19.1	64.4
All Mines			
Proved	165.5	19.4	32.2
Probable	303.9	19.7	60.0
Total	469.4	19.6	92.2

Employees

As of 30 June 2007, Uralkali had approximately 11,400 employees (together with all of its subsidiaries on a consolidated basis) and by itself, employed approximately 8,500 employees. The chart below sets forth the number of employees for Uralkali and for Uralkali together with all of its subsidiaries on a consolidated basis.

Employees involved in the production of potash are all employed by the Company or its subsidiaries. Since 2004, employee productivity has increased by 30% for Uralkali (on a consolidated basis together with BPC), enabling it to reduce employee headcount over the period.

	As of 31 December			As of 30 June
	2004	2005	2006	2007
End of period				
Employees (consolidated)	14,600	13,438	11,544	11,393
Employees (Company only)	13,143	11,157	8,694	8,514
Average for period				
Employees (consolidated)	14,606	14,097	12,740	11,393
Employees (Company only)	13,143	12,357	10,174	8,514

There are three unions of which Uralkali employees are members. The Uralkali group union, which was created in 1971, is a part of Russian Chemical Workers Union. The BShSU Union was created in 2004 and the Avtotranskali Union was created in 2005. Uralkali has not experienced any labour problems resulting in a work stoppage and it believes that it has good relations with its employees. No stock option plans currently exist.

On 25 June 2007, the Company and its employees represented by the Uralkali group union signed a collective bargaining agreement, which is effective until June 2010. The collective bargaining agreement establishes basic principles of labour relations between the Company and its employees, their respective labour rights and obligations, as well as rights and obligations of the Company's trade union.

Research and development

As well as product research and development, Uralkali seeks to improve operations at its facilities, principally by improving operating and production efficiency and reliability, capacity and developing new methodologies. Most such efforts constitute incremental improvements to current activities, and as a result are undertaken in connection with regular operational maintenance and monitoring. Where appropriate, Uralkali seeks to register any rights to intellectual property that may result from these efforts. Uralkali does not believe that its research and development activities are significant to its results of operations.

Health, safety and environmental matters

Uralkali believes that it is in compliance with applicable environmental legislation, and is not aware of any past, current, pending or potential environmental claims against it. It did not record any material liabilities associated with environmental costs as of 30 June 2007. Uralkali does not carry third-party liability insurance in respect of environmental damage.

Ecological situation in the Urals region

Over many centuries the Urals region has been a major industrial centre of Russia, with numerous chemical, power, metallurgical and other industries built in the region during the period of the Soviet Union. State and public environmental programs are currently underway to rehabilitate the region, which is currently regarded as being an ecological risk zone. Industrial companies in the region have also taken the initiative to actively address potential problems, in light of the time it is taking for the government programmes to take effect.

Ecological safety system of Uralkali

Uralkali is implementing the following programme aimed at reducing the level of environmental pollution and ensuring the ecological rehabilitation of the regions: filling salt wastes, filling salt clay, using certain salt wastes to produce NaCl solution and switching from powering industrial potash dyers with fuel oil to using gas.

Flooding of Mine 1

In October 2006 the Company stopped production operations in Mine 1 due to a sudden, uncontrollable inflow of groundwater. The consequences of the flooding include the permanent loss of production and ore reserves at Mine 1 (which represented 13% of the pre-flooding proved and probable reserve of Uralkali) and damage to property, both of the Company and third parties, and to the environment associated with an accelerated and increased ground subsidence exacerbated by the flooding. The technical investigation of causes of the flooding by an ad hoc commission with the participation of the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) has concluded that the main cause of the flooding was a "previously unknown anomaly of geological structure" and has classified the circumstances preceding the accident as being "extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved." The flooding has also been classified by the Federal Chamber of Commerce and Industry and the Perm Chamber of Commerce and Industry as an "unpredictable force majeure event". This is the second major flooding incident experienced by the Company. In 1986, Mine 3 was flooded and it has not been operational since that time. The management continues to assess accident risks, consequences and costs that Uralkali may incur in the future from the subsidence within the City of Berezniki and contiguous area pursuant to the flooding of Mine 1. See "Management's discussion and analysis of financial condition and results of operations — Significant factors affecting results of operations — Costs and Expenses — Mine flooding costs", "— Liquidity and Capital Resources — Mine flooding costs" and "Risk Factors — Risks relating to operations — Uralkali has suffered significant flooding of two of its mines in the past which has resulted in such mines becoming inoperative and has exposed Uralkali to potential financial liabilities."

Insurance

Uralkali has obtained insurance for its mining and production facilities that it believes covers property and business interruption risks at industry standard levels. For instance, in September 2007 Uralkali obtained coverage of up to approximately RUR 4 billion for its underground production facilities (including buildings, constructions and equipment) from OJSC "Russian Insurance Company" for the period through August 2008. Uralkali has also obtained property insurance from OJSC "AIG Insurance and Reinsurance Company" for above-ground production facilities, railcars and business interruption risks for up to US$1,180 million through October 2007. In addition, Uralkali holds policies with OJSC "Russian Insurance Company" in order to cover business interruption risks for up to approximately RUR 4,400 million for the period through November 2007. Uralkali's civil liability as operator of dangerous industrial facilities (including mines) and of water development facilities is insured by LLC "Gruppa Renessans Strakhovanie" pursuant to a policy for the aggregate coverage of RUR 20.8 million valid through February 2008 and by "Ural-AIL" pursuant to a policy for the aggregate coverage of RUR 22.7 million valid through August 2008. Uralkali holds certain other insurance policies including obligatory insurance policies required by Russian law. Insurance against some risks (including liabilities for environmental pollution or interruption of certain business activities) may not be available at a reasonable cost or at all or may be excluded as being force majeure (e.g. flooding). See "Risk factors — Risk relating to operations — Uralkali is not insured against all potential losses and liabilities and could be seriously harmed by natural disasters, catastrophes and/or other risks that are not covered by its insurance policies."

Litigation

The Company is currently party to certain material judicial proceedings. Although from time to time, complaints are filed against the Company by third parties regarding the flooding of its Mine 1, other than as set forth in "— Claims relating to the Company", Uralkali is not, and has not been, involved in any governmental, judicial or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this document that may have, or have had, during the last 12 months preceding the date of this document a significant effect on the financial position or profitability of the Company or its subsidiaries as a whole.

Claims relating to the Company

In January 2007, FAS initiated proceedings against Uralkali and Silvinit, alleging violation of antimonopoly legislation by the abuse of dominant position in the Russian potash market, claiming that Uralkali and Silvinit set artificially high price for potash in the domestic market. See "Risk factors — Risks related to regulations — If FAS were to increase the level of control it exerts over certain of Uralkali's operations, Uralkali could face administrative sanctions, be required to divest certain assets or be subject to limitations in its operating flexibility." In the proceedings, FAS found that Uralkali and Silvinit together have a dominant position in the Russian potash market by holding more than 50% of the potash market, which it concluded was a relatively price-inelastic commodity. FAS also found that each of Uralkali and

Silvinit violated the antimonopoly law by abusing their dominant positions. In April 2007, as a result of these finding, FAS issued the following instructions to Uralkali:

- to terminate the abuse of the dominant position, namely:
  - to exclude costs not relating to its production and sale from the potassium chloride production cost for the domestic market (including expenses relating to transfer of property without compensation; expenses relating to interests in charter capitals of other organisations; and transfer of sums such as contributions, disbursements, etc. relating to charity);
  - to exclude the amount of profit tax from potassium chloride production cost for the domestic market; and
  - to establish by 1 July 2007 an average weighted potassium chloride price for the domestic market for 2007 not exceeding RUR 2,950 per tonne;
  - by 31 December 2007 and for the next five years to provide FAS with an approved investment plan (or a similar document) for each coming year; and
  - based on the results for the year determined before 1 April of the year following the reporting period, to provide FAS with information on a fulfilment of the investment budget, including all supporting documentation;
- to pay (not later than 1 October 2007) an amount of RUR 62,165,483.44 (approximately US$2,400,000) to the Russian federal budget (calculated by reference to the Company's sales figures for the first quarter of 2007), as a penalty for the breach of the antimonopoly law.

The Company appealed this decision and on 9 October 2007 the Arbitration Court of Moscow invalidated FAS's findings, prescription and penalties. FAS may challenge this decision in courts of higher instances, however, and if FAS's appeal is successful, the Company would be required to comply with the FAS prescription. Even if FAS's appeal is unsuccessful, FAS would not be precluded from issuing further prescriptions.

Claims relating to BBT

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 null and void an agreement between JSC BBT and FGUP Rosmorport ("Rosmorport"), pursuant to which JSC BBT currently leases berth No. 107, one of the two berths used by BBT on the grounds that this lease agreement was executed without the appropriate consent of state authorities and in violation of established procedures. On 21 August 2007, the Arbitration Court of St. Petersburg and Leningrad Region, which is the court of first instance, dismissed the claim due to expiration of limitation periods. However, the court acknowledged that there exist grounds for the agreement to be declared null and void, because the parties did not provide evidence confirming the fact that they obtained the consent of the owner for entering into the agreement. The court judgment was appealed to the appellate instance and the decision on the appeal is pending. The Company believes that if the agreement is rendered null and void, it will be feasible to enter into a new agreement with Rosmorport. JSC BBT and Rosmorport are currently negotiating the terms and conditions of a new agreement. See also "Risk Factors — Risks relating to Uralkali's assets and business — BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex."

Other

From time to time, Uralkali is involved in litigation in the ordinary course of its business activities. Uralkali believes that such ordinary course litigation is immaterial and is unlikely to affect Uralkali's operating results or financial position significantly. Currently, Uralkali is involved in several lawsuits that Uralkali believes are not material in the context of the Offering.

RELATED PARTY TRANSACTIONS

The following is a summary of Uralkali's most significant transactions with related parties for the years ended 2006, 2005 and 2004 and the six months ended 30 June 2007. For further details of these transactions, see note 6 to the annual consolidated financial statements and Note 6 to the condensed consolidated interim financial statements.

In the ordinary course of its business, Uralkali has engaged, and continues to engage, in transactions with parties that are under common control with Uralkali or that are otherwise related parties to Uralkali including parties who are members of the Company's Board of Directors. Transactions with entities under common control with Uralkali constitute transactions with parties that have the same beneficial owners as Uralkali. See "Directors and management — Board of directors" and "Principal and selling shareholders." Other than the transactions with entities that are under common control or otherwise constitute related parties to Uralkali described herein, Uralkali did not engage in any other material transactions with related parties during the periods under review.

Russian law requires a company that enters into so-called "interested party transactions" to obtain specific approvals. See "Description of share capital and certain requirements of Russian legislation — Certain requirements of Russian legislation — Interested party transactions" for a discussion of the relevant procedures.

Uralkali seeks to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk factors — Risks relating to Uralkali's assets and business — Any successful challenge to certain interested party transactions or major transactions by minority shareholders of the Company or its subsidiaries could result in a court invalidating such transactions" and "Risk factors — Risks relating to Uralkali's assets and business — Vaguely drafted Russian transfer pricing rules and other tax laws as well as a lack of reliable pricing information may have an adverse effect on Uralkali's business."

Significant transactions with related parties during the years ended 2006, 2005 and 2004 and the six months ended 30 June 2007 are set out below:

Loans and payments to controlling beneficial owner or companies controlled by the Company's controlling beneficial owner

In 2005, the Selling Shareholder and Uralkali entered into a loan agreement under which the Selling Shareholder initially borrowed US$57.1 million. In December 2005, the loan was repaid in full. In 2006, Uralkali provided a further facility to the Selling Shareholder under the same loan agreement, the principal amount of which was approximately US$130 million as at 30 June 2007. The loan agreement provides for an interest rate of 5% with final maturity in 2010.

In 2004, 2005, 2006 and in the first six months of 2007, Uralkali provided unsecured loans to LLC "Permgeologodobycha," a company controlled by Mr. Rybolovlev. The balance on these loans as at 30 June 2007, was approximately RUR 396 million plus accrued interest. These loans are denominated in roubles and bear interest at a rate of 4% to 6% annually. Promissory notes have also been issued by LLC "Permgeologodobycha" in 2003, of which an aggregate principal amount of RUR 20 million were outstanding as at 30 June 2007. The outstanding amount of these loans and promissory notes will be repaid with the proceeds of this Offering. See "Use of proceeds."

Loans to BBT

- In January 2005, prior to its acquisition of the remaining 50% of JSC BBT shares the Company transferred funds in the amount of RUR 840 million to JSC BBT in order to settle a loan received by JSC BBT from Ermina, the former shareholder of JSC BBT. The loans were given at an interest rate of 6%. In the first half of 2007, JSC BBT repaid the remaining outstanding balance of its loan from Ermina in full. RUR 20 million has been repaid and the outstanding amount is repayable in December 2008.
- In August 2004, the Company transferred funds on an interest free basis in the amount of RUR 22 million to JSC BBT which was repaid by JSC BBT in January 2005.

- Between 2000 and 2003, the Company provided loans to JSC BBT in the aggregate amount of RUR 1,255 million. As at 30 June 2007 RUR 1,023 million was outstanding and is to be repaid sometime in 2007 to 2009.

Other

In addition, the Company and Silvinit both participate in the share capital of OJSC "Galurgiya," which provides engineering services to Uralkali on a regular basis.

Distribution costs

In 2004 and until February 2005, JSC BBT was a joint venture and rendered transhipment services to Uralkali. As a result all Transhipment costs invoiced to Uralkali from JSC BBT during this period were recorded as expenses in Uralkali's consolidated statement of income.

Cross shareholding

At 30 June 2006, LLC SP Kama, a 100% owned subsidiary of the Company, owned 1.14% of the ordinary shares of the Company. Shares owned by LLC SP Kama are accounted for as treasury shares, but retain their voting rights and rights to dividends.

Managements' compensation

Compensation of key management personnel consisted of remuneration paid to members of the Board of Directors, members of the Management Board and key employees for their services in full or part time positions. Compensation is comprised of annual remuneration plus a performance bonus depending on operating results.

Total compensation of key management personnel, in the form of short-term employee benefits, amounted to RUR 48 million and RUR 64 million for the six months ended 30 June 2007 and 2006 respectively, and to RUR 163 million, RUR 103 million and RUR 51 million for the years ended 31 December 2006, 2005 and 2004, respectively.

Dividends

The Company has declared numerous dividends during the years ended 31 December 2006, 2005 and 2004, all of which involved dividends to the Selling Shareholder, through which Mr. Rybolovlev is the controlling beneficial owner of the Company. See "Dividend policy." In addition, there is a risk that travel and jet charter expenses related to business travel of Uralkali's management, including Mr. Rybolovlev, could be qualified by tax authorities as a deemed dividend. This could also result in withholding tax being payable by Uralkali in respect thereof.

REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing the operation of the fertiliser industry and the activities of mineral fertiliser producing and manufacturing companies. The production, sale and distribution of mineral fertilisers in the Russian Federation are regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

Regulatory bodies

At the federal level, regulatory supervision over Uralkali's business is divided primarily between the Ministry of Industry and Energy, the Ministry of Economic Development and Trade and the Ministry of Natural Resources of the Russian Federation. The Ministry of Industry and Energy is responsible for the development of the governmental policy in the industry and general and industrial standards regulation. The Ministry of Economic Development and Trade is responsible for encouraging investment, foreign trade and support of scientific research. The Ministry of Natural Resources is responsible for the development of governmental policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and environment.

In addition to the ministries, various federal services are responsible for oversight of compliance with regulations and various federal agencies are responsible for the management of state property and the provision of state services. The federal services and agencies that regulate Uralkali's business include: the Federal Agency for Subsoil Use, the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Agency for Technical Regulation and Metrology, the Federal Antimonopoly Service, the Federal Customs Service and the Federal Tariff Service.

The Federal Agency for Subsoil Use organises tenders and auctions, issues licenses for the use of natural resources and approves design documentation for subsoil use.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of subsoil licenses and certain matters of environmental legislation and controls geological exploration, use and protection of subsoil, as well as forms special committees to effectuate official ecological examination of project papers.

The Federal Service for Environmental, Technological and Nuclear Supervision oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures relating to the installation, deployment and operation of technical devices and machinery used in Uralkali's business and the procedures for maintaining production and technological processes. It also (i) issues licenses and permissions for certain industrial activities and activities relating to safety and environmental protection, such as licenses for exploitation of fire risk mining works and conduct of explosive operations, surveyor's works and use of dangerous wastes; (ii) registers dangerous objects; and (iii) establishes limits for waste disposal.

The Federal Labour and Employment Service controls and supervises Uralkali's compliance with labour legislation.

The Federal Agency for Technical Regulation and Metrology determines obligatory industrial standards.

The Federal Antimonopoly Service ("FAS") (i) supervises compliance with antimonopoly legislation; (ii) investigates violations of antimonopoly legislation; (iii) prevents monopolistic activity, unfair competition and other violations of antimonopoly legislation; and (iv) exercises state control over business concentration. The Federal Antimonopoly Service, inter alia, oversees the acquisition of controlling stakes in companies and dominant market position by business enterprises.

The Federal Tariffs Service determines and implements state regulation of prices (tariffs) on goods (services), and regulates natural monopolies. The Federal Tariffs Service, among other things, takes decisions to include a business entity in the register of natural monopolies and to establish prices for goods produced or services rendered by natural monopolies. See "— Natural monopoly."

The Federal Customs Service, inter alia, oversees compliance with prohibitions and limitations in respect of goods being moved through the customs frontier set forth by Russian legislation and international treaties, and effectuates customs clearance and customs control.

In addition to the above federal executive bodies, which are directly involved in the regulation of and supervision over Uralkali's business, there are a number of other governmental bodies and agencies with authority over general issues connected to Uralkali's business, including justice, rail transport and tax enforcement.

Regional and local authorities usually control land-use allocations and exercise certain taxation powers.

Licensing

Uralkali is required to obtain licenses, authorisations and permits from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities dated 8 August 2001, as amended (the "Licensing Law"), as well as other laws and regulations, list activities which can only be performed subject to licenses issued by the relevant Russian authorities and establish procedures for issuing such licenses. In particular, to conduct its operations, Uralkali is required to obtain licenses and permits to carry out certain activities, inter alia:

- use of subsoil, See "— Subsoil licensing";
- use of water resources;
- discharge of pollutants into the environment;
- handling of hazardous waste;
- storage and use of explosive materials;
- operation of explosive and flammable production facilities;
- surveyor's works;
- construction and design of buildings and other structures;
- exploitation of electricity networks;
- fire prevention and fighting; and
- various transportation activities.

As of the date of this document, Uralkali held 43 licenses and permits necessary to conduct material aspects of its operations.

The licenses are usually issued for a minimum period of five years. Licenses for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a license may be extended upon application of the licensee but usually subject to prior compliance with regulations. Certain types of licenses may be issued for the expected operational life of the relevant field, and certain licenses may have unlimited terms.

A license may be suspended or terminated if a licensee repeatedly makes material breaches of the terms and conditions of such license. If a licensee fails to mitigate any breach of a license granted to it within the period established by a licensing authority, that authority may apply to court for the termination of the license. A court may also terminate the license in certain other cases (for example, if the breach of the terms and conditions of a license by the licensee damaged the rights, legal interests or health of individuals). However, the licensing authorities have the authority to terminate subsoil licenses by unilateral action beyond a court procedure. See "— Subsoil licensing — Maintenance and termination of licenses."

Licensing regulations and the terms of its licenses and permits require Uralkali to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil licensing

In Russia, minerals mining requires a subsoil license issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

The primary law regulating subsoil licensing is the Law on Subsoil of 21 February 1992, as amended (the "Subsoil Law"), and the regulations adopted thereunder, which set out the regime for granting licenses for the exploration and production of mineral resources and subsoil use regime. Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licenses, in particular abolishing the joint grant of licenses by federal and regional authorities.

Currently production licenses and combined exploration and production licenses are awarded by tender or auction conducted by special commissions of the Federal Agency for Subsoil Use. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licenses. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licenses may also be issued without holding an auction or tender, for instance, to holders of exploration licenses that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licenses for "common" mineral resources, such as clay, sand or limestone.

There are two major types of licenses: (1) exploration licenses, which are non-exclusive licenses granting the right of geological exploration and assessment within the license area, and (2) production licenses, which grant the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined (exploration and production) licenses, which grant the right to explore, assess and produce minerals from the license area, which is defined in terms of latitude, longitude and depth.

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and currently is set at 3.8% for silvinite and 5.5% for carnallite (however, Uralkali has not extracted carnallite since November 2006). In 2006, Uralkali incurred the mineral extraction tax in the amount of RUR 71,048 thousand, and RUR 39,751 thousand in the first half of 2007.

The term of the license is set forth in the license. Prior to January 2000, exploration licenses had a maximum term of five years, production licenses a maximum term of 20 years, and combined exploration, assessment and production licenses a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licenses have a maximum term of five years; production licenses are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the license may be issued for a term of one year; and combined licenses can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments do not affect the terms of licenses issued prior to January 2000, but permit licensees to apply for extensions of such licenses for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided that the licensee complies with the license terms. The term of a subsoil license runs from the date the license is registered with the Federal Agency for Subsoil Use.

Issuance of licenses

The Federal Agency for Subsoil Use or its regional authorities issue subsoil licenses. Most of the currently existing production licenses owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations or (ii) tender or auction procedures held in the post-Soviet period. The Subsoil Law and related regulations contain the major requirements relating to tenders and auctions.

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of a production license in order to complete the production from the subsoil plot covered by the license or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the license and the relevant regulations. In order to change any condition of a subsoil license, including extension of its term, a company must file an application with the federal authorities to amend the license.

The Order of the Ministry of Natural Resources No. 439-R, of 31 October 2002, recommends that the following issues be considered by the relevant governmental authorities when determining whether to approve an extension: (i) the grounds for the extension with specific information as to how the extension may impact payments by the licensee to the federal and local budgets; (ii) compliance of the licensee with the conditions of the license; and (iii) the technical expertise and financial capabilities that would be required to implement the conditions of the extended license.

The factors that may, in practice, affect a company's ability to obtain an extension of a license include (i) its compliance with the license terms and conditions; and (ii) its management's experience and expertise relating to subsoil issues. For a description of additional factors that may affect the Company's ability to extend its licenses, see "Risk factors — Risks relating to regulations — Uralkali's operations are dependent on having received the required licenses, permits and approvals from governmental authorities. A decision by a government agency to deny any of Uralkali's licenses, permits and approvals or to impose restrictive conditions on Uralkali with respect to these licenses, permits and approvals may have an adverse effect on Uralkali's business."

Transfer of licenses

Licenses may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licensee or in the event that an initial licensee establishes a new legal entity and transfers its license to such legal entity, provided that it holds at least a 50% ownership interest in such legal entity, the transferee is incorporated under the laws of the Russain Federation and possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred license.

Maintenance and termination of licenses

A license granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil license and certain environmental, safety and production commitments, including bringing the field into production by a certain date; extracting an agreed-upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the license areas from damage; providing geological information and data to the relevant authorities; and/or submitting on a regular basis formal progress reports to regional authorities. The license agreement may also contain commitments with respect to social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a license are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

If the subsoil licensee fails to fulfil the license's conditions, upon notice, the license may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a license due to material changes in circumstances, it may apply to amend the relevant license conditions, as discussed above, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area or upon the occurrence of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material license terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (as opposed to the levels set up in the licensing agreement) would also be likely to constitute violations of material license terms. In addition, certain licenses provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and the Federal Service for Environmental, Technological and Nuclear Supervision, undertake periodic reviews for ensuring compliance by subsoil license users with the terms of their licenses and applicable legislation.

A licensee can be fined for failing to comply with the conditions of the subsoil license and the subsoil license can be revoked, suspended or limited in certain circumstances, including:

- a breach or violation of material terms and conditions of the license by the licensee;
- repeated violation of the subsoil regulations by the licensee;
- the failure of licensee to commence operations within a required period of time or to produce required volumes, as specified in the license;
- the occurrence of an emergency situation (natural disasters, war, etc.);
- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the license;
- the liquidation of the licensee; and
- the non-submission of reporting data in accordance with the legislation.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a license suspension or termination or the refusal to re-issue an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such three-month period, no termination or other action may be taken.

As a general rule under the Subsoil Law, the subsoil user pays expenses of conservation and liquidation of goafs and other underground equipment connected with subsoil works. In addition, the Subsoil Law specifically establishes that in the event of early termination of the license, the subsoil user pays such expenses if the user's faults imposes direct threat to human life and health and if there were material or repeated violations resulted in early termination of the license or if the license is terminated at the user's request. The state pays conservation and liquidation expenses if the license is terminated due to an emergency situation, such as natural disasters, flooding, war and other similar circumstances, or in the event of direct threat to human life and health if there is no user's fault.

Land use rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction on a land plot without obtaining appropriate land use rights. Land use rights are obtained for the parts of the license area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, (the "Land Code"), companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation is owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other rights of use to the land to third parties.

Companies having a right of perpetual use of land that was obtained prior to the enactment of the Land Code are required, by 1 January 2008, either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority-owner of the land.

In 2003 and 2004, Uralkali purchased most of the land relating to its mineral fertilisers production and manufacturing facilities and with respect to the remaining land plots Uralkali has entered into long-term lease agreements. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the lease agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental matters

Uralkali is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air, water and soil, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law on Environmental Protection of 10 January 2002, as amended (the "Environmental Protection Law"), as well as by a number of other federal and regional legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime which is enforced by federal and regional authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Environmental, Technological and Nuclear Supervision has set limits for emission and disposal of substances as well as for waste disposal. A company may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of emissions or disposals must be developed by the Company and cleared with the appropriate governmental authority. Fees, as set forth in Regulation of the Russian government No. 344 "On Rates of Payments for Pollutant Emissions Into the Air by Stationary and Mobile Sources, Pollutant Disposals Into Surface and Underground Waters, Disposal of Production and Consumption Waste" of 12 June 2003, as amended, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits. The lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2006, Uralkali incurred fees in the amount of approximately RUR 4 million in 2006 and approximately RUR 2 million in the first half of 2007.

Ecological approval

Any activities that may affect the environment are subject to evaluation of the negative impact on the environment and to state ecological expertise by relevant federal authorities in accordance with the Federal Law on Ecological Expert Examination of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological expertise may result in the negative consequences described in "— Environmental liability." However, under the Environmental Protection Law the positive state ecological expertise does not exclude the obligation to compensate damage caused to the environment.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate proceedings for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend such operations or a court action may be brought to limit or ban such operations and require the Company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. A court may impose an obligation to finance and conduct reclamation measures pursuant to an expert report approved by a court. See also "— Reclamation."

As a general rule under the Environmental Protection Law, a legal entity or individual that caused damage to the environment by its pollution, depletion, deterioration, contamination or by irrational use of natural resources, degradation or destruction of environmental systems, natural complexes or physical landscape is obliged to compensate such damage in the full amount. The compensation of harm is paid voluntarily or pursuant to a court decision. Under applicable Russian law, compensation of harm is generally payable, provided that fault of a person who caused the harm is proved. Russian law may establish instances in which a person causing harm is liable without fault. In particular, if a company's activity is connected with increased danger (such as performance of construction works, use of mechanical devices or high voltage electricity, explosive substances or in any other circumstances based on court findings), such company is obliged to compensate harm caused by its activity, unless the harm is proved to be a result of force majeure.

The compensation for damages caused to the environment is calculated pursuant to rates or estimating procedures approved by environmental authorities. If the relevant rates or estimating procedures do not exist, courts calculate an amount of damages based on the principle of full compensation of all costs for recovery of losses, including any lost profit.

The Environmental Protection Law provides that mandatory environmental insurance can be introduced in the Russian Federation. Currently, it is not mandatory under Russian law or the terms of Uralkali's production licenses, but voluntary environmental insurance is possible. The Ministry of Natural Resources recommended in its Sample Regulation on Procedure for Voluntary Environmental Insurance in the Russian Federation approved on 3 December 1992, under No. 04-04/72-6132, that a voluntary environmental insurance policy should cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low, but failure to comply with the clean-up requirements may lead to suspension of mining works.

Reclamation

Uralkali conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Ministry of Natural Resources and the Land Resources and Development Committee of the Russian Federation. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. The Company has not prepared closure and post closure plans for its mining and production plants in accordance with any acceptable international standards. The Company believes it has complied in all material respects with the environmental standard of, and is in the process of closing Mine 1 in line with the requirements agreed with, the appropriate regulatory authorities in the Russian Federation. In contrast to the requirements in some other countries, the Company has not been specifically requested by such regulatory authorities to develop a closure plan (other than in respect of Mine 1) nor to establish a liquidation fund for its remaining facilities and operations. Should such a closure plan be developed in accordance with acceptable international standards, for example, as stipulated in the World Bank guidelines and indicated in the Equator Principles, SRK estimates in its report to a conceptual level that the closure liabilities would be as follows:

- Should closure have occurred at 1 January 2007, closure and post-closure liabilities would have been of the order of US$115 million (comprising US$100 million biophysical liability and US$15 million terminal benefits liability, for example, redundancy payments),
- Should closure occur on depletion of the Ore Reserves, closure and post-closure liabilities would be of the order of US$165 million (comprising US$150 million biophysical liability and US$15 million terminal benefits liability, for example, redundancy payments).

Environmental protection programmes

Uralkali has been developing and implementing environmental protection programmes. The programmes include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial technologies, construction of purification and filtering facilities, repair and reconstruction of industrial water supply systems, installation of metering systems, reforestation and recycling of water and industrial waste.

Energy production

Uralkali is currently implementing a power generation programme, which it expects to fully implement in 2009, to reduce its reliance on external sources of electricity by building its own power generation facility using electricity turbines powered by natural gas. The electricity generation turbines will also produce heat as a by-product, which Uralkali intends to use to reduce, and then potentially eliminate, its demand for heat supplied externally. The power generation programme consists of installation and operation of four electricity generation turbines at Plant 4. The two turbines are currently being tested and Uralkali expects them to be operational in 2008. The other two are yet to be installed and Uralkali expects them to be operational in 2009. Generally, construction of a gas turbine generating station in Russia is subject to obtaining various approvals from the state supervisory authorities, including positive opinion of state ecological expertise; approval of project documentation by the Federal Service for Environmental, Technological and Nuclear Supervision; receipt of a decision "to put the object into operation" by a special acceptance commission, which is formed on an ad hoc basis of representatives of various branches of the federal and regional authorities; and registration of such gas turbine generating station as a dangerous production facility with the state.

Health and safety

Much of the Company's business activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used and where certain types of mining are carried out. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for mining and production operations that Uralkali conducts.

Uralkali's activities also include operation of certain hazardous industrial sites regulated by the Federal Service for Environmental, Technological and Nuclear Supervision. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia of 30 December 2001, as amended (the "Labour Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to record and notify the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which would summarise the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The procedure for such investigation is set out in Regulation of Rosgortekhnadzor No. 40 of 8 June 1999. The company operating the industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate a company's operations or impose administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for loss of earnings, as well as health-related damages and in certain cases its activity may be suspended.

The Federal Law on Technical Regulation of 27 December 2002, as amended (the "Technical Regulation Law"), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation. The Technical Regulation Law supersedes the Laws of the Russian Federation on Certification of Goods and Services of 10 June 1993 and on Standardisation of 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. The Technical Regulation Law provides for a seven-year (2003-2010) transition period, during which Russia will carry out such revision of existing legislation and technical rules. During the development of this new system, Russia's existing certification and licensing system will generally remain in effect. Currently, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of mining and production operations that relate to Uralkali's operations.

The System of Management of Industrial Safety and Labour Protection

Uralkali approved internal Regulation on a System of Management of Industrial Safety and Labour Protection (the "Safety Regulation"), effective from 1 September 2003, which summarises the risks associated with Uralkali's facilities and production processes and establishes an internal set of rules for the safe operation of hazardous equipment, maintenance of a safe working environment and accident prevention. The Safety Regulation provides for the overseeing of these safety practices as well as methods of related risk assessment and management and employee training. The Safety Regulation contains a detailed description of the responsibilities of the Company's officers. Failure to comply with these guidelines may result in personal liability of a non-complying employee under Russian law.

Furthermore, pursuant to the Federal Law on Safety of Hydrotechnic Constructions of 21 July 1997, as amended, Uralkali is required to prepare an industrial safety declaration with respect to each hydrotechnic construction operated by Uralkali. Therefore, Uralkali prepares such declarations with respect to its four sludge reservoirs.

Regulation of competition

The antimonopoly legislation of the Russian Federation is based primarily on the Federal Law on Protection of Competition of 26 July 2006 (the "Competition Law") and other federal laws and regulations governing antimonopoly issues. Uralkali is subject to regulation by the Federal Antimonopoly Service, both in connection with acquisitions as well as a result of its market position in certain market segments.

The Federal Antimonopoly Service keeps a register of companies which have more than a 35% share in a particular commodity market (both federal and regional). Under the Competition Law a company holding a market share on a particular commodity market that exceeds 50% is presumed to hold a dominant position in that market (and a company holding a market share in a particular commodity market that exceeds 35% could be recognised as holding a dominant position on that market). A company holding a dominant position is prohibited from abusing such a position, which includes activities that are characterised as restraining or eliminating the competition. The Federal Antimonopoly Service is authorised to issue binding orders on companies holding a dominant position for example, requiring companies to treat customers equally or imposing pricing restrictions. In addition, the Federal Antimonopoly Service has the power to require in limited circumstances a spin-off or split of companies, and even a mandatory liquidation of a company that systematically abuses a dominant position.

The Competition Law provides for a mandatory pre-approval by the antimonopoly authorities or mandatory post — transactional notification of the antimonopoly authorities in case of certain transactions. See "Description of share capital and certain requirements of Russian legislation — Certain requirements of Russian legislation — Approval of the Russian antimonopoly authorities."

Furthermore, the Competition Law establishes a regulatory framework for each company holding a dominant position on a particular market, aimed at protection of competition at the relevant markets.

The Competition Law establishes several criteria for determining whether an entity together with its group has a dominant position on a particular commodity market.

- An entity (together with its group) has a dominant position on a particular commodity market if: (a) the entity (together with its group) has a market share on a particular commodity market in excess of 50%, unless it is specifically established that the entity (together with its group) does not have a dominant position; or (b) the entity has a market share on a particular commodity market in excess of 35% (but less than 50%) and it is specifically established by the Federal Antimonopoly Service that the entity (together with its group) has a dominant position based on the following factors: (i) the share of the entity on the relevant commodity market is permanent or is subject to insignificant changes as compared to competitors' shares on the same commodity market; (ii) there is a low likelihood for new competitors to enter the relevant commodity market; or (iii) other criteria characterising the commodity market that the Federal Antimonopoly Service deems relevant.
- Several unrelated entities (always considered together with their respective groups) have a dominant position if: (a) the aggregate share of not more than the leading three entities exceeds 50% or of not more than the leading five entities exceeds 70% of a particular commodity market, but this provision does not apply if the share of one of the entities is less than 8%; and (b) during a significant period of time (not less than one year or, if shorter, the life of the particular commodity market), the respective shares of such entities remain constant or are subject to insignificant changes and entry into the particular commodity market is difficult; and (c) the relevant commodity goods cannot be easily substituted and demand for the commodity is price-inelastic.
- Any "natural monopoly" of a particular commodity has a dominant position on the relevant commodity market ("natural monopolies" are created by specific legislation and include the gas and electricity markets).

An entity holding a dominant position on a particular commodity market is prohibited from abusing such a position through, inter alia, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation, which results in price increases; (iii) dictating to a counterparty terms unfavourable to it or not relevant to the subject-matter of the agreement; (iv) reducing or terminating the production of certain goods for other than economic or technological reasons, if there is a demand for such goods or orders are placed for the supply of such goods, provided the goods can be produced at a profit, and also if such reduction or termination is not explicitly provided for by corresponding legal or judicial acts; (v) refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement for reasons other than on economic or technical grounds, provided there are possibilities for the production or supply of the relevant goods, and also if such refusal or avoidance is not explicitly provided for by corresponding legal or judicial acts; (vi) fixing various prices (tariffs) for the same goods for other than economic or technological reasons or otherwise, unless provided for by federal laws; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; (ix) violation of established pricing rules; and (x) any other activities that result or may result in preventing, limiting or eliminating competition and/or infringing upon other participants on such market by any entity holding a dominant position in a particular commodity market.

Russian legislation grants the Federal Antimonopoly Service ample powers necessary for the performance of the functions and cope with violations of antimonopoly legislation. The Federal Antimonopoly Service is, inter alia, authorised:

- to initiate or examine cases regarding violation of antimonopoly legislation;
- to issue statutory prescriptions to business entities in cases specified in the Competition Law regarding, for instance, (i) termination of agreements and/or of coordinated acts of business entities limiting the competition, and performance of actions aimed at ensuring the competition; (ii) termination of the abuse of its dominant position by a business entity, and performance of actions aimed at ensuring the competition; (iii) mitigation of effects of the violation of the antimonopoly legislation; (iv) entry into agreements, amendments of the terms or cancellation of agreements in the event that during the examination by the antimonopoly agency of the case regarding violation of the antimonopoly legislation by persons whose rights have been or may be

infringed, a relevant motion has been made or in case of performance by the antimonopoly legislation of state supervision over the economic concentration; (v) transfer to the federal budget any income received as a result of violation of antimonopoly legislation;

- to bring commercial and non-commercial organisations, their officers to responsibility for violating antimonopoly laws in the instances and in the procedure that is established by Russian legislation; and
- to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including, inter alia, invalidating in full or in part any agreements that do not correspond to the antimonopoly legislation.

Natural Monopoly

The Natural Monopoly Law defines a natural monopoly as a situation on the commodities market where a demand for particular products or services is satisfied more effectively in the absence of competition and where the monopoly product or service cannot be easily replaced by another one.

The government of the Russian Federation, the Federal Antimonopoly Service and the Federal Tariffs Service are currently the main regulatory authorities for natural monopolies. The principal ways of regulating the activities of natural monopolies by the relevant authorities are:

- regulating prices; and
- requiring natural monopolies to provide certain levels of products or services to certain consumers.

The Natural Monopoly Law, inter alia, provides that natural monopolies cannot refuse to enter into contracts with particular consumers for the production or sale of goods and provision of services that fall within the regulation of the Natural Monopoly Law.

The supervisory authorities have the right (i) to regulate natural monopolies; (ii) to instruct natural monopolies to enter into contracts with consumers entitled to obligatory services; (iii) to instruct natural monopolies to modify existing contracts; (iv) to instruct natural monopolies to transfer revenues from activities which contravene the Natural Monopoly Law to the federal budget; (v) to fine natural monopolies; and (vi) to perform other acts contemplated by federal laws.

The Natural Monopoly Law and FAS Order No. 54 of 16 March 2006 ("FAS Order No. 54") set forth the provisions when natural monopolies are obliged to receive prior approval of the regulatory authorities or notify them on different issues.

Pursuant to FAS Order No. 54, natural monopolies are obliged to receive prior approval of FAS for the following:

- entering into any transactions, where the natural monopoly acquires the right of ownership on any assets not directly aimed at the production of goods, which are regulated under the Natural Monopolies Law;
- investments in production of goods that are not regulated under the Natural Monopolies Law;
- sale, lease or other transactions where the business entity acquires the right of ownership or use in relation to a part of assets of a natural monopoly used for the production of goods that are regulated under the Natural Monopolies Law, provided that the balance value of such assets exceeds 10% of the value of the own capital of the natural monopoly as per the last approved balance sheet.

FAS Order No. 54 also requires that FAS should be notified of the following:

- acquisition by a person or a group of persons of shares (participation interests) in the charter capital of natural monopoly or entering into other transactions (including surety, trust management, pledge) relating to acquisition of more than 10% of the natural monopoly's voting shares, as well as in all events of change of the owned voting rights;
- acquisition by the natural monopoly of shares (participation interests) in the charter capital of other business entity, representing more than 10% of the total amount of voting rights, as well as in all events of change in the amount of owned voting rights.

The applications for prior approval or notification are filed by the natural monopoly.

See "Risk Factors — Risks related to Regulations — If the Russian Federal Tariffs Service were to include JSC BBT in the register of natural monopolies, JSC BBT could be subject to limitations in its operating flexibility." See also "Risk Factors — Risks relating to regulations — *Competition regulation in numerous jurisdictions, to which Uralkali and BPC are subject, may have an adverse effect on Uralkali's business" and "— Uralkali faces protective trade restrictions in the export of its potash products to the European Union*."

Employment and labour

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

Employment contracts

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts (for example, this applies to contracts with top managers).

An employer may terminate an employment contract only on the basis of the specific grounds provided for in the Labour Code, including:

- liquidation of the enterprise or redundancy of staff;
- failure of the employee to comply with the position's requirements due to incompetence confirmed by an appraisal;
- systematic failure of the employee to fulfil his or her duties, provided that such employee was subject to disciplinary sanction that is continuing;
- any single gross violation by the employee of his or her duties (for example, breach of work safety rules, which knowingly creates the risk of serious accident);
- provision by the employee of false documents prior to entry into the employment contract;
- single gross violation of employment duties by the head or deputy head of the company (or its branch or representative office); and
- grounds specified in the employment agreement with the head of the company or members of the management board.

An employee dismissed from an enterprise due to redundancy or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides for protections of specified categories of employees. For example, except for a limited number of circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18, or other persons caring for a child under the age of 14 or a disabled child under the age of 18 without a mother.

Any termination by an employer of an employment contract in violation of the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week of 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

Annual paid vacation leave is 28 calendar days but may be extended for certain categories of employees. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 6 to 36 working days.

Work pensions and retirement are regulated by the Federal Law on Work Pensions in the Russian Federation of 17 October 2001.

The retirement age in the Russian Federation is 60 years for men and 55 years for women. However, in certain cases the retirement age is below the abovementioned, for example, the retirement age for men who have worked in underground mines for at least 10 years, and women who have worked in underground mines for at least 7.5 years, is 50 and 45 years, respectively, and for men who have worked in underground mines for at least 12.5 years and women who have worked in underground mines for at least 10 years is 55 and 50 years, respectively. Persons who have worked full working days as miners in open-pit mines and/or underground mines for at least 25 years (and for leading specialists — 20 years) may also retire, regardless of their age.

Salary

The minimum salary in Russia, as established by federal law and guaranteed by the government, is calculated on a monthly basis and was RUR 800 per month from 1 September 2005 (approximately US$30), it increased to RUR 1,100 (approximately US$41) from 1 May 2006 and to RUR 2,300 (approximately US$85) from 1 September 2007. Although the law requires that the minimum salary be at or above a minimum subsistence level, the current minimum salary is considered to be substantially less than a minimum subsistence level. According to Rosstat, the minimum subsistence level in the second quarter of 2007 as of 21 August 2007 was RUR 3,913 per month for Perm region, RUR 5,772 per month for Moscow and RUR 3,800 per month in St Petersburg.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for termination of an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of an employment contract.

Trade unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, Uralkali's management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of its business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended (the "Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that are incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian law requires that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain additional guarantees.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Although the Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

MATERIAL CONTRACTS

Material contracts establishing BPC

On 7 April 2005 JSC Belarusian Potash Company ("BPC") was established in accordance with instructions from the President of Belarus issued on 17 February 2005 for the sale of potassium fertilisers on the world market. On 31 October 2005, BPC was reorganised from an open joint stock company into a closed joint stock company. In October 2005, the Company acquired a 50% stake in BPC pursuant to two share sale and purchase agreements with OJSC Grodno Azot (whereby the Company acquired 2% of the share capital of BPC for BYR 2,000,000) and with Belaruskali (whereby the Company acquired 48% of the share capital of BPC for BYR 48,000,000).

Joint Venture Agreement

On 10 August 2005, Belarusian State Concern of Oil and Chemistry ("Belneftekhim") and Uralkali entered into an agreement that provided for the Company and Belaruskali to create a joint venture company — BPC — through the acquisition by the Company of a 50% stake in BPC. Joint sales through BPC were planned to commence on 1 January 2006. This agreement also provides for the possible future admittance of OJSC Silvinit as a joint venture partner. In practice, the Joint Venture Agreement in respect of BPC is implemented through the provisions of the BPC Charter and export contracts concluded with BPC. See "Related party transactions."

BPC Charter

The currently effective BPC Charter was approved by the general shareholders meeting of BPC on 29 June 2007 and registered on 9 August 2007. The purpose of BPC's operations is to (i) exercise the state right to engage in the foreign trade of potash fertilisers in order to ensure the interests of the Republic of Belarus, and (ii) carry out business activities in order to gain and distribute profit to satisfy the interests of BPC's shareholders — Belaruskali (50%) and the Company (50%). BPC may exercise the state right to engage in the foreign trade of potash fertilisers on the basis of the Decree of the President of Republic of Belarus No. 398 of 25 August 2005. According to the BPC Charter, the share capital of BPC is BYR 100 million, divided into 100,000 ordinary shares each with a nominal value of BYR 1,000. Under the BPC Charter, BPC's governing bodies are: (i) the general shareholders' meeting (the "GSM"); (ii) the supervisory council; and (iii) the general director.

General Shareholders' Meeting

According to the BPC Charter, the competence of the GSM includes, inter alia:

- Making amendments to the BPC Charter;
- Election of the supervisory council;
- Approval of annual reports, financial statements and profit and loss statements;
- Distribution of profit and losses;
- Increase/decrease of charter capital;
- Approval of the amount of supervisory council members' remuneration; and
- Liquidation and reorganisation of BPC.

Under the BPC Charter, the GSM satisfies quorum if shareholders holding in aggregate more than 50% of voting rights are present at the GSM. The BPC Charter stipulates that decisions at GSMs must be taken by a simple majority vote of shareholders participating in the GSM, save for the decisions to amend the BPC Charter, decisions on reorganisation and liquidation and decisions to alter the size of the charter capital, which must be made by at least 75% of votes of the shareholders participating in the GSM.

Supervisory Council

The BPC Charter specifies that the supervisory council conducts the general management of BPC. The supervisory council's competence under the BPC Charter includes, among others:

- Appointment and dismissal of the general director of BPC with the consent of the President of the Republic of Belarus;

- Giving consent on the appointment and dismissal of the deputy general directors of BPC (the candidate for the first deputy general director is nominated by the general director and candidates for the other deputy general directorships are nominated by the chairman of the supervisory council);
- Approval of BPC's budget and annual sales plan;
- Approval of BPC's transactions which exceed 25% of the balance sheet value of BPC's assets; and
- Approval of the acquisition and disposal of shares and interests in other companies.

The BPC Charter stipulates that members of the supervisory council are elected for a term of five years and can be re-elected an unlimited number of times. For as long as the BPC shareholders are Belaruskali (50%) and the Company (50%), the supervisory council shall consist of six members — three from each shareholder. The BPC Charter stipulates that the Company has the right to nominate the chairman of the supervisory council; however, the BPC Charter does not vest any right to a casting vote to the chairman of the supervisory council. Not less than two thirds of the supervisory council members are required to attend the meeting in order to have quorum. The BPC Charter prescribes that decisions of the supervisory council be taken by a simple majority vote of present members. The composition of the supervisory council is as follows:

- Semashko V.I. — Deputy Prime Minister of the Republic of Belarus;
- Svorob N.K. — Deputy Chairman of the Committee for the State Security of the Republic of Belarus;
- Bashura A.N. — General Director of Belaruskali;
- Rybolovlev D.E. — Chairman of the Company's Board of Directors;
- Baumgertner V.A. — the Company's general director; and
- Lebedev A.A. — Vice-President for Legal Matters of the Company.

General director

According to the BPC Charter, the general director manages the day-to-day activities of BPC. The BPC Charter stipulates that the general director shall be nominated by Belaruskali and agreed upon with the President of the Republic of Belarus. The general director is appointed by the supervisory council for a term of five years.

Separate accounting

Under the BPC Charter, BPC performs a separate accounting of business operations related to the sale of products of Belaruskali and the Company. The BPC Charter stipulates that the following items are subject to separate accounting with respect to each shareholder:

- Proceeds and revenues from the products' sales;
- Expenses related to purchase and sale of products (including costs of sold products and expenses for delivery and transportation of products);
- Receivables and credit indebtedness with respect to sold products;
- Receivables and credit indebtedness related to purchase of products for their further resale;
- Receivables and credit indebtedness with respect to transportation and delivery expenses;
- Stock of finished goods;
- Profit from sold products;
- Loans made from the funds received from the products' sale;
- Interest from placement of funds received from the sale of products;
- Other assets, liabilities, proceeds and expenses under the regulation on separate accounting.

Under the BPC Charter, each of the shareholders receives profit from the sale of its goods in the form of dividends after deduction of sales' expenses, administrative expenses and applicable taxes.

Deposit agreement

See "Terms and conditions of the Global Depositary Receipts."

Underwriting agreement

See "Plan of distribution."

Material contracts of BBT

In October 2000, JSC BBT entered into a joint operating agreement (the "Joint Operating Agreement") with St. Petersburg Sea Port that was amended and restated in February 2003. Pursuant to that agreement, the parties agreed to carry out joint activity for the construction and use of the universal mineral fertiliser shipping complex, a combined unit of real estate comprised of various loading, warehouse and transhipment assets (the "Shipping Complex"). The allocation in the Joint Operating Agreement provides that JSC BBT holds a 98% interest in the project, and St. Petersburg Sea Port holds the remaining 2%. The agreement also provides that JSC BBT's contribution to the project is required to be the payment of 100% of the expenses related to the construction of the Shipping Complex, while the contribution of St. Petersburg Sea Port consists of providing certain engineering documentation for the construction of the Shipping Complex (such as designs and blueprints) and, more importantly, of providing the right to the lease in respect of the land plot underlying the Shipping Complex (the "Land Plot") and by making certain payments, including lease payments for the Land Plot.

The Joint Operating Agreement also provides that following the completion of the construction of the Shipping Complex, JSC BBT and St. Petersburg Sea Port shall register their joint ownership title to the Shipping Complex in proportion to their respective interests in the project. In addition, the agreements between the parties provide that, following the completion of construction and registration of title to the Shipping Complex, St. Petersburg Sea Port is to enter into a long-term agreement with the relevant state authorities for the lease of the Land Plot for 49 years, and then immediately thereafter transfer its rights under such long-term lease agreement to JSC BBT.

In addition to the Joint Operating Agreement, JSC BBT and St. Petersburg Sea Port in December 2001 entered into a preliminary agreement for the sale of St. Petersburg Sea Port's 2% share in the joint ownership of the Shipping Complex, as subsequently amended in June 2004 (the "Preliminary Sale Agreement"). Pursuant to the Preliminary Sale Agreement, JSC BBT and St. Petersburg Sea Port also undertake, following the transfer of rights under the long-term lease agreement for the Land Plot referred to above, to enter into an agreement for the sale by St. Petersburg Sea Port of its 2% share in the joint ownership of the Shipping Complex to JSC BBT for approximately RUR 45 million. Pending that acquisition, all profits and losses generated by the Shipping Complex (to be operated by JSC BBT) were agreed to be allocated between JSC BBT and St. Petersburg Sea Port in proportion to their respective interests in the project.

The implementation of these agreements is still pending. The authorisations governing the construction of the Shipping Complex initially provided that the construction should be completed by December 2006, but this has been extended until 30 June 2007 and JSC BBT is in the process of extending the term further in order to finalise the title registration. The actual construction of the Shipping Complex was completed, and certain parts of the Shipping Complex were registered as joint ownership of JSC BBT and St. Petersburg Sea Port in a proportion of 98:2, respectively. St. Petersburg Sea Port leased the land plot of approximately 15 hectares for the construction of the Shipping Complex from the City Property Management Committee of St. Petersburg under the lease agreement for a term of 31 December 2003. Under the general provisions of Russian law, if the term of a lease expires and the lessee continues to use the property following the expiration but the lessor makes no objections, the lease is deemed extended on the same terms for an indefinite period. St. Petersburg Sea Port has continued to use the original land plot following 2003, and the City Property Management Committee of St. Petersburg has not raised any objections yet. Russian law also provides that a lease concluded for an indefinite period may be terminated by either party at any time upon a three-months' notice to that effect. In December 2004, the St. Petersburg Government issued a resolution allowing St. Petersburg Sea Port to expand the original land plot to 23 hectares. However, St. Petersburg Sea Port did not enter into a lease agreement covering such additional land. St. Petersburg Sea Port is in the process of consolidating the original land plot with the additional land to create the Land Plot underlying the entire Shipping Complex and ensuring the cadastre registration of the Land Plot, which is a prerequisite for the conclusion of a lease agreement in respect of the Land Plot. Thus, certain formalities in respect of the completion of the construction and obtaining registered rights to the Land Plot remain outstanding, and the complete registration of a title to the Shipping Complex and a lease to the Land Plot and other events contemplated by JSC BBT and St. Petersburg Sea Port have not yet taken place.

See "Risk Factors — Risks relating to the Uralkali's assets and business — JSC BBT, a subsidiary of the Company, faces risks and uncertainties in respect of various property rights essential for the operation of its fertiliser shipping complex."

Customer contracts

From time to time, Uralkali, directly or indirectly, enters into contracts for the sale of potash to its ultimate customers. See "Description of business — Key markets and customers."

DIRECTORS AND MANAGEMENT

Governance bodies

The Company's management structure consists of the General Shareholders' Meeting, the Board of Directors, the Management Board and the General Director, the last two of which are responsible for the day-to-day management of the Company.

General Shareholders' Meeting

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in the Company's Charter. See "Description of share capital and certain requirements of Russian legislation — General shareholders' meetings."

Board of Directors

The General Shareholders' Meeting elects directors of the Board of Directors by cumulative voting until the next annual General Shareholders' Meeting, and directors can be re-elected for an unlimited number of terms. All directors can be removed by a vote of the General Shareholders' Meeting. The Board of Directors currently consists of nine members, each of whom was elected at the annual General Shareholders' Meeting on 22 June 2007. The Company considers one of the nine directors, Mr. Yuzhanov to be independent within the meaning of the corporate governance code approved by the Federal Commission for Securities Market (the predecessor of FSFM) on 4 April 2002 (the "FSFM corporate governance code"). In addition to the existing independent director, the Company intends to appoint three independent directors not later than the next annual General Shareholders' Meeting in 2008.

The Board of Directors directs the Company's strategy and policy between General Shareholders' Meetings and is responsible for general management matters, with the exception of those matters designated by law and the Company's Charter as being the exclusive responsibility of the General Shareholders' Meetings. See "Description of share capital and certain requirements of Russian legislation — Board of Directors." Members of the Board of Directors do not serve pursuant to a contract.

Board of Directors committees

The Company's Board of Directors has approved internal regulations regarding corporate governance (collectively, the "Corporate Governance Regulations"), which incorporate certain provisions of the FSFM corporate governance code. Pursuant to the Corporate Governance Regulations the Board of Directors has established the following committees of the Board of Directors:

Audit Committee. The Audit Committee currently consists of four members, Messrs. Rybolovlev, Gavrilov, Zuev and Yuzhanov, who were elected on 22 June 2007. The Committee is chaired by Mr. Yuzhanov who the Company believes to be an independent director within the meaning of the FSFM corporate governance code. The Committee's terms of reference include the following functions: to prepare recommendations to the Board of Directors with respect to independent auditor's candidacy, amount of independent auditor's remuneration and terms of agreement with the independent auditor, to oversee the quality and integrity of the Company's financial statements and internal control procedures and other matters. In 2007, the Audit Committee held several meetings mainly in relation to appointment of an independent auditor to review RAS annual statements of the Company. However, the Company intends to improve and extend the activities of its Audit Committee by involving it in matters relating to the appointment, compensation, retention and supervision of the Company's independent auditors. Furthermore, such auditors will be required to provide the Audit Commission with timely reports containing information regarding critical audit, accounting and internal control matters. In addition to the Audit Committee, the Company maintains an Audit Commission in accordance with the requirements of the Joint Stock Companies Law. See "— Audit Commission."

Disclosure Committee. The Disclosure Committee currently consists of three members, Messrs. Starkov, Lebedev and Gavrilov, who were elected on 22 June 2007. The Disclosure Committee is chaired by Mr. Gavrilov and performs the following main functions: monitors the changes in the legislation regarding disclosure requirements under applicable laws, prepares disclosure documents, oversees the compliance with disclosure procedures and other matters.

In order to improve its corporate governance the Company intends to establish a remuneration committee and a nomination committee in 2008, in addition to the existing committees.

Board of Directors membership

As of the date of this document, members of the Company's Board of Directors are as follows:

Dmitry Rybolovlev. Mr. Rybolovlev is the Chairman of the Board of Directors. Mr. Rybolovlev was born in 1966 and graduated from Perm Medical Institute in 1990 with a degree in medical care. Since 1994, Mr. Rybolovlev has served on the Board of Directors of the Company. Since 2002, Mr. Rybolovlev has served as a director of the Selling Shareholder. Since 2005, Mr. Rybolovlev has also served as the Chairman of the Supervisory Board of BPC. Mr. Rybolovlev is an acting member of Russian Union of Industrialists and Entrepreneurs.

Anatoly Lebedev. Mr. Lebedev is the Deputy Chairman of the Board of Directors. Mr. Lebedev was born in 1974 and graduated from Moscow State Lomonosov University in 1996 with a degree in law. In 2000 and 2001, he served as the Head of the Legal Department and as a member of the Management Board of OJSC Perm Motor Plant. In 2001, Mr. Lebedev also served on the boards of directors of various companies affiliated with OJSC Perm Motor Plant. In 2002, Mr. Lebedev was appointed as Adviser on Legal Matters to the General Director of the Company. In 2002-2003 Mr. Lebedev served on the board of directors of JSC BBT. Since 2004, he has served as the Vice-President for Legal Matters and a member of the Board of Directors of the Company. Since 2005, Mr. Lebedev has also served on the Supervisory Board of BPC.

Vladimir Shevtsov. Mr. Shevtsov was born in 1951 and graduated from Lenin Military and Political Academy in 1982 with a degree in history and social science. He has a Ph.D. in economics. Since 1994, Mr. Shevtsov has served on the Board of Directors of the Company. From 1999-2001, Mr. Shevtsov served on the board of directors of OJSC Silvinit. During 2000-2001, he served as the Chairman of the Supervisory Board of OJSC Commercial Bank "Uralsky Finansovy Dom," and in 2001 as a member of the board of directors of LLC Mineral Trading.

Alexander Zuev. Mr. Zuev was born in 1957 and graduated from Perm State University in 1988 with a degree in law. From 2002-2004, Mr. Zuev has served as the Chairman of the Supervisory Board of OJSC Commercial Bank "Uralsky Finansovy Dom." From 2000-2002, he was deputy General Director and then General Director of LLC SP Kama. In 2002-2004, he was General Director and Development Director of LLC Permgeologodobycha and since 2003, he has been the Chairman of the board of directors of LLC Permgeologodobycha. In 2000, Mr. Zuev was the Transport and Logistic Director of the Company and from 2004-2005, he was the Vice-President for the Resources Base Development of the Company. Since 2002, Mr. Zuev has been on the Board of Directors and currently he also serves as the Vice-President for Regional Development of the Company.

Vladislav Baumgertner. Mr. Baumgertner was born in 1972 and graduated from Ural State Technical University in 1994 with a degree in electrical engineering. In 2000, he graduated from Kingston Business School with a MBA degree and in 2003, from University of London with a MSc degree in financial management. From 1998-2002, Mr. Baumgertner served as General Director of LLC ABB Moselektroschit. From 2002-2003, he was Executive Director in LLC NPK "Sim-Ross." In 2003, Mr. Baumgertner joined the Company as Commercial Director and in 2004, he was elected a member of the Board of Directors. Since 2004, Mr. Baumgertner has served as the President of the Company and member of the Management Board and, since 2005, as the General Director and Chairman of the Management Board of the Company. In 2004, Mr. Baumgertner served on the board of directors of JSC BBT. Since 2005, Mr. Baumgertner has also served on the board of directors of LLC Permgeologodobycha and on the Supervisory Board of BPC. Since 2006, he has also served on the board of directors of OJSC Silvinit.

Ilya Yuzhanov. Mr. Yuzhanov was born in 1960 and graduated from Leningrad State University in 1982 with a degree in economics. He has a Ph.D. in economics. From 1993-1997, he held various executive positions in state agencies of St. Petersburg. From 1997-1998, Mr. Yuzhanov headed the State Committee on Land Resources and Land Utilisation of the Russian Federation. In 1998, he chaired the Ministry on Land Policy, Construction and Utilities of the Russian Federation. From 1999-2004, he was the Minister of Antimonopoly Policy and Entrepreneur Support of the Russian Federation. From 2000-2003, Mr. Yuzhanov served on the board of directors of OJSC Gazprom. From 2003-2004, Mr. Yuzhanov served on the board of directors of OJSC Russian Railways. Since 2000, he has served on the board of directors of OJSC RAO UES Russia. From 2004-2006, he held the position of the Chairman of the Supervisory Board of CJSC Nomos-Bank and since 2006, he served as a member of the Supervisory Board of CJSC

Nomos-Bank. Since 2006, he has also served on the board of directors of OJSC Novatek. Mr. Yuzhanov joined the Board of Directors of the Company in 2006.

Kuzma Marchuk. Mr. Marchuk was born in 1973 and graduated from Plekhanov Academy of Economics in 1995 with a degree in economics. In 1996, he graduated from Moscow State Lomonosov University with a degree in physics. From 1994-2004, Mr. Marchuk held various finance positions at Deloitte & Touche, Rosexpertiza, Norilsk Nickel and Protek. In 1998, Mr. Marchuk was appointed Deputy CFO, and in 1999, became CFO of Protek. Mr. Marchuk joined the Company as CFO (Vice-President of Finance) in 2004 and currently holds this position at the Company. From 2005-2007, Mr. Marchuk was a member of the board of directors of JSC BBT. Currently he is a member of the boards of directors of LLC BShSU, LLC Autotranskali and LLC Uralkali-Engineering.

Yuri Gavrilov. Mr. Gavrilov was born in 1969 and graduated from Perm State Technical University in 1994 with a degree in mechanics. In January-April 2001, Mr. Gavrilov served on the board of directors of OJSC Commercial Bank "Uralsky Finansovy Dom." Since 2000, Mr. Gavrilov has served as General Director of CJSC Investment Company "Finansovy Dom" and, since 2002, he has served on the supervisory board of CJSC Registrator "Intrako." Mr. Gavrilov has served on the Board of Directors of the Company since 2000.

Alexey Starkov. Alexey Starkov was born in 1962. In 1988 he graduated from Perm Polytechnical Institute with a degree in aircraft engines. From 1995-1996 he served as Executive Director of non-governmental pension fund "Capital." Since 1998 he has served as General Director of OAO "Kamennyi Poyas." Alexey Starkov is a member of the Disclosure Committee of the Board of Directors of Uralkali and a member of the supervisory board of CJSC Registrator "Intrako."

The business address of the members of the Company's Board of Directors is 21st Floor, 23A Taras Shevchenko Embankment, Moscow 121151, Russian Federation.

Management Board

The Company's Management Board currently consists of thirteen members. Members of the Management Board are appointed for a term equal to the term of the members of the Board of Directors that appointed the respective member of the Management Board. The members of the Management Board were elected on 22 June 2007. The General Director of the Company chairs the Management Board. The Board of Directors may terminate at any time appointment of any member of the Management Board.

As of the date of this document, the members of the Company's Management Board are as follows:

Vladislav Baumgertner. See "— Board of Directors."

Andrey Alexandrov. Mr. Alexandrov was born in 1974 and graduated from Novosibirsk State Academy of Water Transport in 1996 with a degree in engineering and electrical mechanics. He also graduated from Perm State Technical University in 2001 with a degree in mining machinery and equipment. Since 1997, Mr. Alexandrov has held various managerial positions in the Company and in 2006, was appointed as the Director for Orders' Management. From 2005-2006, Mr. Alexandrov served as a member of the board of directors of LLC BShSU.

Alexander Kleiman. Mr. Kleiman was born in 1973 and graduated from St. Petersburg Military Engineering and Construction Institute in 1997 with a degree in construction. From 2001-2006, Mr. Kleiman held various managerial positions at OJSC Brewing Company "Baltica." Since 2006, he has served as the Director for Construction and Management of Fixed Assets in the Company and as the Director of LLC Volga — Kali. He is also a member of the board of directors of CJSC New Real Estate.

Igor Vyletok. Mr. Vyletok was born in 1964 and graduated from Perm Polytechnic Institute with a degree in mechanical engineering in 1990. Mr. Vyletok has served as the Director for repairs and replacement of the equipment of the Company and has been a member of the Management Board of the Company since 2006. Since November 2006, he is a Chairman of the Board of Directors of LLC BshSU, and, since December 2006, he is a Chairman of the Board of Directors of CJSC New Real Estate.

Vladimir Shanin. Mr. Shanin was born in 1955 and graduated from Bereznikovskiy Chemical and Mechanical Secondary Technical School in 1979 and from Perm Polytechnical Institute in 1989 with degrees in chemical engineering and engineering, respectively. He joined the Company in 1985 and since that time has held various working and managerial positions. In 2006, Mr. Shanin was appointed the Company's Director for Production.

Sergey Diakov. Mr. Diakov was born in 1956 and graduated from Perm Polytechnical Institute in 1978 with a degree in automation and electrification of mining works. From 2000-2002, Mr. Diakov was General Director and Chairman of the Management Board of the Company and from 2001-2004, served on the Board of Directors of the Company. From 2002-2003, he served on the board of directors of OJSC Kopeisk Machinery Plant. Since 2001, Mr. Diakov has served on the board of directors of OJSC Galurgiya and since 2002, on the board of directors of LLC Machinery Enterprise "Kurs." From 2002-2004, Mr. Diakov served as a member of the board of directors of LLC Persil. From 2002-2005, Mr. Diakov was Technical Director of the Company and since 2006, he has served as Deputy General Director. In 1998, Mr. Diakov was awarded the 3rd degree title of Mining Honour and in 2004, he received the 2nd degree title of Mining Honour.

Sergey Durnovtsev. Mr. Durnovtsev was born in 1958. In 1982, he graduated from Perm Polytechnical Institute with a degree in automation and complex mechanisation of chemical and technological processes. In 1999, he ran a retraining course of economics and management in the retraining centre of Perm State Technical University. Between 1984-1992, Mr. Durnovtsev worked for various energy companies. In 1993-1994, he held the position of Head of Division and subsequently Deputy Director in Russian-German JV ABB Ural Controlsystem. In 1994-2004, he held several executive positions in JSC Permskaya GRES. In 2004-2005, Mr. Durnovtsev served as Head of Information Technologies Department of Uralkali. Since 2006, he has held the position of General Director of the Company's subsidiary, LLC Satellit Service, in order to maintain the Company's program of services outsourcing. In February 2007, Mr. Durnovtsev was appointed Information Technologies Director and member of the Management Board of the Company.

Elena Samsonova. Ms. Samsonova was born in 1976 and graduated from Perm State University in 1998 with a degree in English language and philology. In 2000, she graduated from Durham University Business School with a Master's degree in management. From 1997-2003, Ms. Samsonova worked at LLC Permtex holding various positions, including Head of HR Department. In 2003, she was appointed Deputy HR Director of the Company and since 2004, Ms. Samsonova has served as HR Director.

Victor Belyakov. Mr. Belyakov was born in 1973 and graduated from Tver Polytechnical Institute in 1995 with a degree in computer engineering. In 1997, he graduated from Tver State Technical University with a degree in economics. Mr. Belyakov holds a CMA (Certified Management Accountant) degree and an MBA degree from Kingston University (UK). Before 1999, Mr. Belyakov worked in the banking sphere. From 1999-2002, he served as CFO of LLC ABB Moselectroschit. In the period between 2002-2004, Mr. Belyakov was the financial controller of LLC Yukos-Moscow. Mr. Belyakov joined the Company as the head of department in 2004. In 2005 — February 2007, Mr. Belyakov was a member of the Board of Directors of JSC BBT. In the end of 2005, he was appointed Deputy CFO of BPC and he held this position until November 2006. Since 2007, Mr. Belyakov has been the Director of Economy and Finance of the Company. Since 2007, he is a member of the boards of directors of LLC SMT BshSU, LLC Vagonnoe Depo Balahontsi and LLC Avtotranskali.

Irina Yamilova. Ms. Yamilova was born in 1973 and graduated from Perm State Technical University with a degree in automatic systems of information processing and administration. In 2007, she received an MBA degree from Kingston University (UK) and a degree in dusiness administration from the Academy of National Economy under the Government of the Russian Federation. Ms. Yamilova joined the Company in 2002 as the chief specialist of logistics department. During 2004-2006, she held positions as of Head of Sales and Head of Department for Foreign Economic Relations of the Company. In January 2007, Mrs. Yamilova was appointed as Transport and Logistics Director of the Company. Since March 2007, she is a member of the board of directors of LLC Vagonnoe Depo Balahontsi.

Marina Shvetsova. Ms. Shvetsova was born in 1972 and graduated from Perm State University in 1994 with a degree in law. From 1995-2001, she was a Senior Lawyer of JSC Perm Project and Construction Corporation. From 2001-2005, Ms. Shvetsova worked at CJSC Sibur-Khimprom holding various positions, including Head of Legal Department. Since 2002, Ms. Shvetsova has been Senior Lecturer at Regional Interindustrial Retraining Centre at Perm State Technical University. Since 2005, Ms. Shvetsova has been a member of the board of directors of LLC Avtotranskali. From 2005-2006, she served as the Head of the Legal Department and in 2006, was appointed the Legal and Corporate Director of the Company.

Eduard Koridorov. Mr. Koridorov was born in 1969 and graduated from Ural State University in 1992 with a degree in journalism. From 1993-2005, Mr. Koridorov worked at CJSC Informational and Publishing Center "Ekaterinburg Week-93" at various positions, including Deputy Chief Editor. In 2005, Mr. Koridorov joined the Company as the Deputy Head of State and Public Relations Department. In November 2005, he was appointed the deputy PR Director, and in June 2006, the PR Director of the Company. Since 2006, Mr. Koridorov has served on the board of directors of LLC Media-Sfera.

Irina Zaitseva. Ms. Zaitseva was born in 1976 and graduated from Perm State University in 1998 with a degree in law. She graduated from State University — Higher school of economics with a degree in finances & credit in 2001 and the Open University of Great Britain in 2006 (awarded with a professional diploma in management). Ms. Zaitseva was appointed as Director on procurement in April 2007 having prior experience with Uralkali as Deputy Director on procurement since 2004. Ms. Zaytseva is a member of the board of directors of LLC Avtotranskali since March 2007.

The Company also considers Mr. Petrov, Ms. Batarina and Mr. Bogdanov to be key executive officers.

- *Oleg Petrov.* Mr. Petrov was born in 1963 and graduated from the Military Institute of the Ministry of Defence of the USSR in 1989 with a degree in interpretation of Portuguese and English. In 1998, he graduated from Plekhanov Academy of Economics with a degree in economics. From 1991-2001, Mr. Petrov held various managerial positions including Sales Director in a representative office of Philips Consumer Electronics. From 2001-2002, he worked at Bermont Trading SA holding various positions, including Managing Director. From 2002-2004, Mr. Petrov served as Managing Director of Fertexim Ltd. In 2004-2006, he served as Managing Director of Uralkali Trading, and since 2005, serves as first Deputy General Director of BPC.

- *Anna Batarina.* Ms. Batarina was born in 1980 and graduated from the Finance Academy under the Government of the Russian Federation in 2002 with a degree in finance and credit. Ms. Batarina holds CFA charter. From 2001-2003, Ms. Batarina served as a senior consultant for Ernst & Young (Moscow). During 2003-2004, she served as financial analyst of Alfa-Eco. Since 2004, Ms. Batarina has held various managerial positions in the Company, including senior financial analyst and head of the investment department and in August 2006, was appointed a Corporate Finance Director of the Company. Ms. Batarina is also a member of the board of directors of JSC BBT since February 2007.

- *Yuri Bogdanov.* Mr. Bogdanov was born in 1980 and graduated from the Finance Academy under the Government of the Russian Federation in 2002 with a degree in economics. Mr. Bogdanov has passed 4 CPA (Certified Public Accountant) exams and is now applying for Certification as a CPA and for regular membership of the American Institute of Certified Public Accountants (AICPA). From 2001-2002, Mr. Bogdanov served as a specialist for Arthur Andersen (Moscow), and in 2002-2004 as a senior consultant for Ernst & Young (Moscow). Since 2004, Mr. Bogdanov has held various managerial positions in the Company and in January 2006 was appointed a Corporate Financial Controller (Head of Reporting and Controlling).

Other than Mr. Rybolovlev and Mr. Shevtsov, the aggregate percentage of shares owned by the Company's key employees listed above and their close relatives amounts to less than 1% of the Company's charter capital.

General Director

The General Director is the Company's chief executive officer who serves pursuant to an employment contract. See "Description of share capital and certain requirements of Russian legislation — General Director." The Board of Directors appoints the Company's General Director for a term of up to two years. The General Director may be re-elected for an unlimited number of terms. The current General Director, Vladislav Baumgertner, has served at this position since 2005.

Audit Commission

The Company's Audit Commission, which differs from the Audit Committee of the Board of Directors, oversees and coordinates audits of the Company's financial and economic activity. See "Description of share capital and certain requirements of Russian legislation — Audit Commission."

Management's compensation

Compensation of key management personnel consists of remuneration paid to members of the Board of Directors, members of the Management Board and key employees for their services in full or part time positions. Compensation is comprised of annual remuneration plus a performance bonus depending on operating results. See "— Incentive Schemes" below.

Total compensation of key management personnel, in the form of short-term employee benefits, amounted to RUR 48 million and RUR 64 million for the six months ended 30 June 2007 and 2006 respectively, and to RUR 163 million, RUR 103 million and RUR 51 million for the years ended 31 December 2006, 2005 and 2004, respectively.

Incentive schemes

Except for the employment contract with the General Director, which has a term of two years, the Company enters into employment contracts for indefinite periods with its senior executive officers.

The Company launched incentive schemes in 2003 in order to encourage its key employees to meet the Company's annual business plans and motivate them to achieve higher professional goals. Before 1 January 2007, certain senior executive officers, in addition to their regular salary, were entitled to annual or five-year individual incentive schemes. Effective from 1 January 2007, the Company launched a unified bonus system, under which bonuses vary depending on seniority and are tied to the results of professional performance. This new system is supposed to replace individual incentive schemes.

According to the currently effective scheme, participants may receive an annual bonus, the amount of which depends on fulfilment by the officer of key performance indicators agreed at the beginning of the year with the General Director (or, in respect of the General Director, with the Chairman of the Board of Directors). Bonuses may be as high as 150% of such officer's annual salary for the preceding year.

According to five-year individual incentive schemes, senior executive officers receive 80% of their annual bonuses during the first four years, while payment of the remaining 20% of the bonuses for these years is made at the end of the fifth year of the scheme. Any senior executive officer, however, loses the right to receive a bonus for a particular year if he or she leaves the office for any reason before the end of that year.

Furthermore, the Company has an additional incentive scheme launched on 3 March 2007 and effective until 31 December 2009, which is designed for senior and mid-level officers and relates to the Company's success under its production improvement programme. Pursuant to this scheme, the Company's senior and mid-level officers are entitled to personal bonuses that are calculated based on an amount of potassium chloride actually produced in relation to the budgeted amount.

Insurance

Pursuant to employment contracts, the Company provides life and disability insurance for senior executive officers and health insurance for these officers and members of their families. AIG and ROSNO, a Russian insurance carrier, are the insurance providers for these plans. The maximum insurance coverage under the life and disability insurance provided by AIG is equal to US$500,000 and shall be paid in case of death or permanent or partial disability of a senior executive officer.

Corporate governance

The Company's shares have been listed on the RTS since 21 April 2006 and the Company expects trading in its ordinary shares on the MICEX to commence after the Closing Date. As a result, the Company is required to comply with a number of corporate governance requirements within one year from the listing date. Such requirements include, among others:

- at least one independent director on the Board of Directors at all times;
- establishment of an Audit Committee of the Board of Directors chaired by an independent non-executive director;
- adoption of a bylaw on insider trading;
- establishment of internal control procedures;

- a provision in the Company's bylaws requiring the Company's General Director, members of the Board of Directors, the Management Board and its officers to disclose information concerning their ownership, sale and purchase of securities issued by the Company; and
- a provision in the Company's Charter that notification of each annual General Shareholders' Meeting is made not less than 30 days before the date on which such meeting is held.

The Company is in full compliance with these requirements necessary for the listing at a Russian stock exchange.

Litigation statement about directors and officers

At the date of this document, for at least the previous five years, none of the members of the Board of Directors, members of the Management Board or key employees referred to above:

(i) had any convictions (whether spent or unspent) in relation to offences involving fraud or dishonesty;

(ii) been adjudged bankrupt or been the subject of any individual voluntary arrangement;

(iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);

(iv) been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company;

(v) been a partner in a partnership which, while they were a partner or within 12 months of their ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement, or had a receiver appointed over any partnership asset;

(vi) had a receiver appointed with respect to any assets belonging to them; or

(vii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which they were a director of that company or within 12 months after their ceasing to be a director.

There are no potential conflicts of interest between any duties owed to the Company by the members of the Board of Directors, the Management Board and the key employees referred to above and their private interests and/or other duties, except for potential conflicts of interest of Mr. Rybolovlev, Mr. Shevtsov and Mr. Baumgertner. See "Risk factors — Risks relating to the Selling Shareholder and Management — Uralkali has been and will continue to be controlled by Uralkali's majority shareholder, whose interests may conflict with those of other shareholders" and "— The Company's chief executive officer is also on the board of directors of Silvinit, Uralkali's direct competitor (albeit in a non-executive role)."

PRINCIPAL AND SELLING SHAREHOLDERS

The table below sets forth certain information regarding the ownership of ordinary shares of the Company (i) as of the date of this document and (ii) as of the Closing Date, as adjusted to give effect to the sale of Shares and Shares in the form of GDRs by the Selling Shareholder in the Offering. All information given in this section assumes that the Over-allotment Option is exercised in full.

	Before the Offering		After the Offering	
Shareholders	**Number of ordinary shares**	**% of share capital**	**Number of ordinary shares**	**% of share capital**
Madura Holding Limited	1,699,512,000	80.00	1,394,130,937	65.63
Management and directors[1]	3,385,500	0.16	3,385,500	0.16
Other	421,492,500	19.8	726,873,563	34.2
Total	**2,124,390,000**	**100.00**	**2,124,390,000**	**100.00**

(1) Ordinary shares of the Company owned by members of the Company's Board of Directors, Management Board and key executives and their close relatives described more fully below.

(2) Includes 24,791,794 shares held by LLC SP Kama. LLC SP Kama is a wholly-owned subsidiary of the Company. Shares owned by LLC SP Kama are accounted for as treasury shares but retain their voting and dividends rights.

Madura Holding Limited (the "Selling Shareholder") is a company organised under the laws of Cyprus and which acts and has historically acted in accordance with the instructions of Mr. Rybolovlev. Mr. Rybolovlev is the Chairman of the Company's Board of Directors. See "Directors and management." Mr. Rybolovlev indirectly beneficially owns approximately 77.9% of the Company's ordinary shares. Mr. Shevtsov, a member of the Board of Directors of the Company indirectly beneficially owns approximately 2.1% of the Company's ordinary shares, which interest Mr. Rybolovlev is in the process of acquiring. The Selling Shareholder's registered office is at 199 Neocleous House, Arch. Makariou III, 3030 Limassol, Cyprus.

To the Company's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Company.

The table below sets forth information as of the date of this document regarding ordinary shares of the Company owned by members of the Company's Board of Directors, Management Board and key executives and their close relatives. See "Directors and management."

	Shares Owned Before the Offering		Shares Owned After the Offering Assuming Exercise of Over-Allotment Option	
Beneficial Owner	**Number of ordinary shares**	**% of share capital**	**Number of ordinary shares**	**% of share capital**
Sergey Diakov[1][2]	3,275,000	0.15	3,275,000	0.15
Oleg Petrov	40,000	*	40,000	*
Sergey Durnovtsev[3]	7,500	*	7,500	*
Igor Vyletok[4]	63,000	*	63,000	*

(1) Mr. Diakov is the Deputy General Director.

(2) A close relative of Mr. Diakov owns 104,000 of the 3,275,000 ordinary shares.

(3) Mr. Durnovtsev is the Information Technologies Director.

(4) Mr. Vyletok is the Director for Repairs and Replacement of the Equipment of the Company and a close relative of Mr. Vyletok owns 52,000 of the 63,000 ordinary shares.

* Holding is less than 0.01%.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

The following describes the Company's ordinary shares, the material provisions of the Company's Charter and certain requirements of Russian legislation. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and applicable Russian laws.

Corporate purpose

Article 1.11 of the Charter provides that the Company's purpose is to earn profit.

Description of share capital

General matters

Pursuant to the Joint Stock Companies Law, the Company has the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Under Russian law, share capital refers to the aggregate nominal value of the issued and outstanding shares. The Company's share capital currently consists of 2,124,390,000 issued, fully paid and outstanding ordinary shares, each with a nominal value of RUR 0.5. In addition, the Company is authorised by the Charter to issue an additional 1,500,000,000 ordinary shares. No preferred shares are authorised or outstanding. Preferred shares may only be issued if amendments have been made to the Charter pursuant to a resolution of the general meeting of shareholders.

The Company has not issued any shares over the past three financial years.

The Joint Stock Companies Law requires the Company to dispose of any of its shares that the Company acquires within one year of their acquisition or, failing that, reduce the Company's share capital. For the purposes hereof such shares are referred to as treasury shares. Russian legislation does not allow voting rights in relation to such treasury shares. Any shares that are owned by the Company's subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares), and such subsidiaries are able to exercise voting rights relating to such shares and dispose of such shares without the need for any further corporate actions by the Company's shareholders or the Board of Directors. Currently the Company does not have any treasury shares (as referred to herein). However, LLC SP Kama, a 100% subsidiary of the Company, owns 24,791,794 of the Company's ordinary shares, which represents 1.17% of the Company's share capital. Accordingly, the Company's ordinary shares held by LLC SP Kama may vote at any general shareholders meeting of the Company and are entitled to dividends paid by the Company.

The Company's ordinary shares are listed on the RTS under the symbol "URKA" and the Company expects trading in its ordinary shares on the MICEX to commence after the Closing Date.

Rights attaching to ordinary shares

Holders of the Company's ordinary shares have the right to vote at all general shareholders' meetings. As required by the Joint Stock Companies Law and the Charter, all of the Company's ordinary shares have the same nominal value and grant to their holders identical rights. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- freely transfer the ordinary shares without the consent of other shareholders;
- receive dividends;
- participate in general shareholders' meetings and vote on all matters within the competence of general shareholders' meetings;
- transfer rights to vote on a general shareholders meeting to its representative pursuant to a power of attorney;
- if holding, alone or with other holders, 2% or more of the voting shares, within 30 days after the end of the Company's fiscal year, make proposals for the annual general shareholders' meeting and nominate candidates to the Board of Directors, Management Board, General Director and Audit Commission;

- if holding, alone or with other holders, 10% or more of the voting shares, demand that the Board of Directors call an extraordinary general shareholders' meeting or an unscheduled audit by the Audit Commission;
- demand repurchase by the Company of all or some of the Company's ordinary shares if the shareholder voted against or did not participate in the voting on the decision approving any:
  - reorganisation of the Company,
  - conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the Company; or
  - amendment to the Charter or approval of a new edition of the Charter in a manner that restricts shareholder's rights;
- upon liquidation of the Company, receive a proportionate amount of its property after fulfilment of obligations by the Company;
- have access to certain of the Company's documents, receive copies for a reasonable fee, and if holding alone or with other holders, 25% or more of the voting shares, have free access to accounting documents and minutes of the Management Board meetings; and
- exercise other rights of a shareholder provided by the Charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with its competence.

Pre-emptive rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed, in proportion to their existing shareholdings. The Company must provide shareholders with written notice of the proposed sale of shares or securities convertible into shares at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of offered shares or securities convertible into shares is determined after expiration of the pre-emptive right period, the Company must provide shareholders with written notice of the proposed sale of shares or securities convertible into shares at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Share acquisition above certain thresholds and anti-takeover protection

Pursuant to the Joint Stock Companies Law, a person intending to acquire more than 30% of the voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to other shareholders of the company (a voluntary offer). Within 35 days after acquiring by any means more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (a mandatory offer).

The acquirer's payment obligations arising from both voluntary and mandatory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration of the payment period as indicated in the offer.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers respectively) to purchase the number of shares and at a price greater than or equal to that offered in the respective voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, once a voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of a voluntary or mandatory offer, the company's shareholders' meeting will have the sole power to make decisions on share capital increase through additional share issuance, approval of interested party and certain other transactions and on certain other significant matters.

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and
- purchase their shares upon request of each minority shareholder.

In addition, instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

An offer of the kind described in any of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to comply with the rules.

As a general rule, such new buy-out mechanisms became effective as of 1 July 2006 and will be available to persons that acquired such shares pursuant to a voluntary or a mandatory offer after such date. In addition, until 1 August 2008, such mechanisms are available to the majority shareholders that own, as of 1 July 2006 more than 95% of the voting shares or, owned, as of 1 July 2006, more than 85% of the voting shares and having acquired less than 10% became the owner of more than 95% of the same through a voluntary offer made after such date. However, in each such case, the determination of the purchase price will require both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers.

Dividends

The Joint Stock Companies Law and the Charter set forth the procedure for determining the dividends that the Company distributes to its shareholders. Under the Charter, the Company may declare dividends based on its first-quarter, six-month, nine-month or annual results. A majority of the Board of Directors recommends the amount of dividends to a general shareholders' meeting, which then approves such amount by a majority vote. The dividend amount approved at a general shareholders' meeting may not be more than that recommended by the Board of Directors. A decision on quarterly, six-month and nine-month dividends must be taken within three months of the end of the respective quarter at a general shareholders' meeting; a decision on annual dividends must be taken at the annual general shareholders' meeting. The Company only pays dividends to shareholders of record as of the record date for the shareholders' meeting that approved such dividends. See "— General shareholders' meeting — Notice and participation." Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption of the decision to pay dividends (and would not become insolvent as a result of the proposed dividend payment);
- the value of the company's net assets, calculated under Russian accounting standards, on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- other requirements of Russian legislation.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under Russian accounting standards, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian legislation.

Distributions to shareholders on liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and the Charter allow the Company to be liquidated:

- by a three-quarters majority vote of a general shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage the Company's affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a general shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation, as amended (the "Civil Code") gives creditors the following order of priority during liquidation:

- First priority — to individuals owed compensation for injuries or deaths or moral damages;
- Second priority — to employees and copyright claims;
- Third priority — to federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- Fourth priority — to other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the Company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of those creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank pari passu with claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a pro rata basis.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and only bear the risk of loss of their investments. This may not be the case, however, when one person or entity (the "effective parent") is capable of determining decisions made by another entity (the "effective subsidiary"). If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for a transaction concluded by an effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction; and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent's ability to determine decisions of the effective subsidiary arises).

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, the shareholders will not be personally liable for the Company's debts or those of the Company's effective subsidiaries unless such shareholders control the business of the Company and/or its effective subsidiaries, and the conditions set forth above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary's insolvency is caused by the wilful misconduct or negligence of such effective parent.

Share capital increase

The Company may increase its share capital by:

- issuing new shares, or
- increasing the nominal value of previously issued shares.

According to Joint Stock Companies Law, a decision to increase the share capital by increasing the nominal value of issued shares requires a majority vote at a general shareholders' meeting. A decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders' meeting. Otherwise, as provided in the Charter, a decision to increase the share capital by issuance of additional shares requires unanimous decision of the Board of Directors. In addition, the issuance of shares above the number of authorised shares provided in the Charter necessitates a Charter amendment, which requires a three-quarters majority vote of a general shareholders' meeting.

The Joint Stock Companies Law requires that the placement price of the newly issued shares be determined by the Board of Directors based on their market value but not less than their nominal value. Placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than by 10% of the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The Board of Directors may, but is not required to, involve an independent appraiser to set the placement price of the shares. There is a specific requirement for determining the placement price of securities, for which prices are regularly published, that the Board of Directors shall take into account such prices. The Board of Directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- adoption of a decision on increase of share capital by placement of additional shares;
- adoption of a decision on share issuance;
- prior registration of a share issuance with FSFM;
- placement of the shares;
- registration of the report or filing of the notification on the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

Share capital decrease; Share repurchases

The Company has the right to, and under certain circumstances, is statutorily required to, decrease its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUR 100,000 for an open joint stock company. The Joint Stock Companies Law requires that any decision to reduce the share capital of the Company, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a general shareholders' meeting. In addition, within 30 days of a decision to reduce the Company's share capital, the Company must issue a written notice to its creditors and publish this decision. The Company's creditors would then have the right to demand, within 30 days of such notice or publication, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows a company to decrease the share capital only if the following conditions have been met:

- the company's share capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent, as a result of the proposed decrease of share capital;
- the value of company's net assets on the date of adoption of the decision to decrease the share capital is not less (and would not become less, as a result of the proposed decrease of share capital) than the sum of its share capital, the reserve fund and the difference between the liquidation value and nominal value of the company's issued and outstanding preferred shares;
- the company has paid all declared and unpaid dividends (for decrease of nominal value of shares); and
- other requirements of Russian legislation.

Russian legislation provides that the company's shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganisation of the company;
- conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company; or
- amendment to the charter or approval of a new edition of the charter in a manner that restricts the shareholder's rights.

The company may spend up to 10% of its net assets calculated under Russian accounting standards for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of net assets of the company, it will repurchase shares from each such shareholder on a pro rata basis.

Registration and transfer of shares

The Company's shares are all ordinary shares in registered form. Russian legislation requires that a joint stock company holds a register of its shareholders. A register of shareholders may be held by a company itself or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be held by a specialised registrar. Ownership of the Company's shares is evidenced solely by entries made in the shareholders' register or on the books of a Russian licensed depositary. Any shareholder of the Company may obtain an extract from the Company's or the depositary's register, as the case may be certifying the number of shares that such shareholder holds. Since July 1998, CJSC Registrator "Intrako", in which the Company together with its affiliates currently owns 13.47% of the share capital, located at 64 Lenina Str., Perm, Russia, has held the shareholders register of the Company.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholders' register, or the registration of the transfer with a depositary if shares are held through a depositary. The registrar or depositary may not require any documents in addition to those required by

Russian legislation in order to register a transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed and may be challenged in court.

Reserve fund

Russian legislation requires each joint stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The Charter provides for a reserve fund of 15% of the Company's share capital, funded through mandatory annual transfers of at least 5% of net profits of the Company until the reserve fund has reached the 15% requirement. The Company has also established a savings fund for financing of investment activity and formation of operating assets. Under the Charter, the Board of Directors is entitled to use the Company's funds.

Disclosure of information

Russian securities regulations require the Company to make the following public disclosures and filings on a periodical basis:

- filing with the FSFM, and publishing on the Company's website, quarterly reports containing information about the Company, its shareholders, the structure of the Company's management bodies, the members of the Board of Directors, the Company's branches and representative offices, the Company's shares, bank accounts and statutory auditors, important developments during the reporting quarter, and other information about the Company's financial and business activity;
- filing with the FSFM and publishing in newswire as well as on the Company's website, and in the event of issue of shares with the registration of a prospectus — in a periodical print publication, any information concerning material facts and changes in financial and business activity of the Company, including among other things:
  - reorganisation of the Company;
  - certain changes in the amount of the Company's assets;
  - certain facts related to share issuances;
  - decisions of the general shareholders' meetings;
  - inclusion in the Company's shareholders' register of a shareholder that has acquired 5% or more of the Company's issued ordinary shares and any circumstance which resulted in a change in the quantity the Company's issued ordinary shares held by such shareholder above or below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold;
- the information on any of the following documents received by the Company:
  - a voluntary offer (including any competing offer);
  - a mandatory offer (including any competing offer);
  - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the ordinary shares;
  - a request that minority shareholders sell their shares to the person that has acquired more than 95% of the ordinary shares;
- disclosing information at various stages of share issuances through publication of certain data as required by the securities regulations;
- disclosing the Company's annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of the Company's affiliated persons and disclosing the same on website of the Company, on the same basis; and
- other information as required by applicable Russian securities legislation.

Corporate governance

The Company's shares have been listed on the RTS since 31 April 2006 and the Company expects trading in its ordinary shares on the MICEX to commence after the Closing Date. In order to maintain the listing, the Company must be in compliance with the following, among others, requirements:

- at least one independent director on the Board of Directors at all times;
- establishment of an Audit Committee of the Board of Directors chaired by an independent non-executive director;
- adoption of a bylaw on insider trading;
- establishment of internal control procedures; and
- a provision in the Company's bylaws obligating the Company's general director, members of the Board of Directors, the Management Board and its officers to disclose information concerning their ownership, sale and purchase of securities issued by the Company.

As of the date of this document, the Company is in full compliance with these requirements.

General shareholders' meetings

Procedure

The powers of a general shareholders' meeting are set forth in the Joint Stock Companies Law and in the Charter. A general shareholders' meeting may not decide issues that are not included in the list of its powers by the Joint Stock Companies Law and the Charter. Among others, the shareholders have the power to decide on:

- amendments to the Charter;
- the reorganisation or liquidation, appointment of the liquidation commission and approval of interim and final liquidation balances;
- determining the number of the members of the Board of Directors, election and early termination of powers of the Board of Directors;
- determining the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in the Company's share capital, excluding instances when it falls within the competence of the Board of Directors;
- the appointment and early termination of powers of the external auditor and of the members of the Audit Commission of the Company;
- the approval of certain interested party transactions and major transactions;
- distribution of profits, including approval of dividends;
- redemption by the Company of issued shares in circumstances provided for by the Joint Stock Companies Law;
- participation in groups and other associations;
- approval of annual reports and financial statements;
- approval of certain internal documents; and
- other issues, as provided for by the Joint Stock Companies Law and the Charter.

Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a general shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- charter amendments;

- reorganisation or liquidation, appointment of the liquidation commission and approval of interim and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- determination of the number, nominal value and type of authorised shares and the rights granted by such shares;
- repurchase by the Company of its issued shares in cases provided for by the Joint Stock Companies Law;
- any issuance of shares or securities convertible into ordinary shares by closed subscription;
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of issued ordinary shares; and
- decrease of share capital by means of change of the nominal value of shares.

The quorum requirement for a general shareholders' meeting of the Company is met if shareholders' (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be scheduled and the quorum requirement will be satisfied if shareholders' (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The Board of Directors must convene the annual general shareholders' meeting between 1 March and 30 June of each year, and the agenda must include the following items:

- determination of the number and election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends (if any);
- approval of an independent auditor; and
- election of the members of internal Audit Commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued ordinary shares may introduce proposals for the agenda of the annual general shareholders' meeting and may nominate candidates for the Board of Directors, Management Board, General Director and Audit Commission. Any agenda proposals or nominations must be provided to the Company no later than 30 days after the preceding financial year-end.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganisation or spin-off, an increase or decrease of share capital or a splitting or consolidation of shares (the "Validity Period"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become null and void; and subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

Extraordinary general shareholders' meetings may be called by the Board of Directors on its own initiative, or at the request of the Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued ordinary shares as of the date of the request.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues of the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the Audit Commission;
- approval of the Company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends (if any).

Notice and participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in a form of a meeting or by absentee ballot, not less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, under the Joint Stock Companies Law if it is an extraordinary general shareholders' meeting to elect the Board of Directors or to approve any reorganisation in the form of a merger, spin-off or demerger, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in the shareholders' register of the Company on the date determined by the Board of Directors, which date shall neither be earlier than the date of adoption of the resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Shareholders may exercise their right to participate in a general shareholders' meeting by:

- personally participating in the discussion of agenda items and voting thereon;
- sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- absentee ballot; or
- delegating the right to fill out the absentee ballot to an authorised representative.

Board of Directors

The Charter provides that the entire Board of Directors must be elected at each annual general shareholders' meeting and that the Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. A majority vote of a general shareholders' meeting may at any time remove the directors as a group without cause before the expiration of their term.

The Joint Stock Companies Law requires at least a five-member Board of Directors for all joint stock companies, at least a seven member Board of Directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member Board of Directors for a joint stock company with more than 10,000 holders of voting shares. The actual number of directors is determined by the Charter or a decision of a general shareholders' meeting. Because the total number of the Company's shareholders as of the date hereof has exceeded 10,000, the Charter provides that the Board of Directors shall consist of nine members. Only natural persons (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be shareholders of the Company.

The Board of Directors elects the chairman of the Board of Directors from its members and has the right to remove its chairman at any time. However, the General Director of the Company may not be elected as the chairman of the Board of Directors. The chairman of the Company's Board of Directors organises its work, calls and presides over meetings of the Board of Directors and performs other functions provided by Russian law, the Charter and Company's internal documents.

The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of a general shareholders' meeting. The Board of Directors has the power to perform the general management of the company, and to decide, among other things, the following issues:

- approval of strategic plans of the Company;
- determination of business priorities for the Company;
- approval of the annual budget of the Company;
- increase of share capital through issuance of additional shares, except in certain circumstances specified in the Joint Stock Companies Law;
- convening annual and extraordinary general shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting and determination of the record date for shareholders entitled to participate in a general shareholders' meeting;
- placement of bonds and other securities by the Company, in cases specified in the Joint Stock Companies Law;
- determination of the price of property and securities of the Company to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of Company's shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- election and removal of the Company's general director, approval of terms of contract concluded with the general director;
- determination of the number of members and election of the Management Board;
- recommendations to the general shareholders' meeting on the amount of remuneration and compensation to be paid to members of Audit Commission of the Company;
- determination of the amount of the fees payable for the services of an independent auditor;
- recommendations to the general shareholders' meeting on the amount of the dividend on shares and the payment procedure thereof;
- the use of Company's reserve fund and other funds;
- approval of Company's internal documents, except for those documents whose approval falls within the competence of shareholders or executive bodies of the Company;
- the creation of branches and representative offices;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- appointment of share registrar of the Company;
- approval of decisions on share issuances and reports on the results of such share issuances; and
- other issues, as provided for by the Joint Stock Companies Law and the Charter.

Meetings of the Board of Directors are called by its chairman on his or her own initiative, or at the request of a member of the Board of Directors or a member of the Audit Commission, the Management Board, auditor or General Director of the Company. A Board of Directors' meeting is considered duly assembled and legally competent to act when five of nine elected directors are present.

The Charter generally requires a majority vote of the members of the Board of Directors present for an action to pass, with the exception of actions for which Russian legislation requires a qualified or unanimous vote, as described therein. In the case of a tied vote, the chairman of the Board of Directors shall have a casting vote.

Management Board

The Management Board is a collective executive body responsible for the day-to-day management of the Company. The Charter provides that the Board of Directors elects the members of the Management Board for a term corresponding to the term of the Board of Directors, i.e., until the next annual or extraordinary general shareholders' meeting elects new members of the Board of Directors. The Board of Directors may at any time terminate the powers of any member of the Management Board. Under the Joint Stock Companies Law no more than 25% of the members of the Board of Directors are allowed to be members of the Management Board. The duties of the Management Board include, among other things:

- determination of the short-term purposes of the Company;
- recommendations to the Board of Directors regarding participation in other organisations;
- preliminary approval of annual budget and annual business plan of the Company;
- approval of terms of collective agreement;
- monitoring budget and business-plan performance;
- oversight over activities of subdivisions and units of the Company; and
- other issues provided for in the Charter.

Meetings of the Management Board are called by its chairman on his or her own initiative, or at the request of a member of the Board of Directors or a member of the Management Board. The Charter requires a majority vote of the members of the Management Board present for an action to pass, provided that majority of elected members are present at the meeting. In the case of a tied vote, the chairman of the Management Board shall have a casting vote. Members of the Management Board are not required to be shareholders of the Company.

General Director

The Company's general director is the Company's chief executive officer and is in charge of the Company's day-to-day activities. The general director exercises executive authority over all activities of the Company, except for issues assigned to the exclusive competence of the general shareholders' meeting, the Board of Directors and the Management Board. Under the Charter, the Board of Directors elects the general director for a period of up to two years and may at any time resolve to terminate his or her powers. The general director chairs the Management Board. The general director acts on behalf of the Company without a power of attorney; he/she may also be held liable for losses caused to the Company.

Audit Commission

The principal duties of the Audit Commission are ensuring that the Company's operations comply with applicable laws and the Company's accounting under RAS does not contain any material misstatements.

The Audit Commission's role is mainly limited to reporting to the Board of Directors and the Company's shareholders with respect to the RAS annual financial statements of the Company. In particular, opinions of the Audit Commission are provided to the Company's shareholders before and during each annual General Shareholders' Meeting. Furthermore, the Audit Commission is entitled to request that the Board of Directors convene an extraordinary General Shareholders' Meeting and suggest an agenda for such meeting. If the Board of Directors fails to convene an extraordinary General Shareholders' Meeting upon the Audit Commission's request, the Audit Commission is entitled to convene such meeting independently. The Audit Commission does not actively participate in the implementation of internal control procedures of the Company.

At the General Shareholders' Meeting members of the Audit Commission are elected for a term of one year. Members of the Board of Directors and the General Director may not serve on the Audit Commission.

Certain requirements of Russian legislation

Interested party transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of a company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive officer and/or the company's managing organisation), any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of any management body of a management organisation of such a company; or
- in other cases, provided by the Russian legislation.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, the general director, a member of any executive body or an affiliate of the company except for being its director, or a member of any management body of the company's management organisation or a person whose relatives held positions on management bodies of a company or the managing company or were sole manager of such company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the placement by subscription or secondary market sale of shares in the amount exceeding 2% of the company's issued ordinary shares and ordinary shares, in which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the placement by subscription of issued securities convertible into shares that may be converted into ordinary shares constituting more than 2% of the company's issued ordinary shares and ordinary shares, in which issued convertible securities may be converted;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

The approval of an interested party transaction is not required if:

- the company has only one shareholder that simultaneously performs the functions of the company's sole executive body;
- all shareholders of the company are deemed interested in the transaction;
- the shareholders are executing their pre-emptive rights to purchase newly issued shares or securities converted into shares;
- the company is repurchasing its issued shares;

- the company is merging with or into another company; or
- the company is required by the federal legislation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by appropriate state authorities.

Any interested party transaction shall be approved prior to its execution. Upon a claim by a company or any of its shareholders, a court may invalidate any interested party transaction entered into in breach of the above requirements.

Major transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement of ordinary shares through a subscription (sale of ordinary shares), or with the placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at the general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to the claim of the company or any of its shareholders.

Approval of the Russian antimonopoly authorities

The Competition Law provides for a mandatory pre-approval by FAS of the following actions:

- an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (⅓ participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares (½ and ⅔ participation interest in a limited liability company); or
- acquisition by a person (or its group) of the core production assets and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or
- obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group),

if any the following thresholds are met:

(i) aggregate asset value of an acquirer (its group) together with a target (or its group) exceeds RUR 3 billion (approximately US$112 million) and at the same time the total asset value of the target (its group) exceeds RUR 150 million (approximately US$5.6 million); or

(ii) the total annual revenues of an acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUR 6 billion (approximately US$224 million) and at the same time the total asset value of the target (its group) exceeds RUR 150 million (approximately US$5.6 million); or

(iii) if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the register of entities having a market share in excess of 35% on a particular commodity market maintained by the Federal Antimonopoly Service.

The Competition Law provides for a mandatory post — transactional notification (within 45 days of the closing) of the Federal Antimonopoly Service in connection with certain actions specified above, if any the following thresholds are met:

(i) the aggregate asset value or total annual revenues of an acquirer (its group) and a target (its group) for the preceding calendar year exceed RUR 200 million (approximately US$7.5 million) and at the same time the total asset value of the target (its group) exceeds RUR30 million (approximately US$11.1 million); or

(ii) if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the register of entities having a market share in excess of 35% on a particular commodity market maintained by the Federal Antimonopoly Service.

Furthermore, the Competition Law provides for a mandatory pre-approval by the Federal Antimonopoly Service of the following actions:

- mergers and consolidations of entities, if any the following thresholds are met:
  - (i) their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUR 3 billion (approximately US$112 million); or
  - (ii) total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUR 6 billion (approximately US$224 million); or
  - (iii) if one of these entities is included into the register of entities having a market share in excess of 35% on a particular commodity market maintained by the Federal Antimonopoly Service; or
- foundation of an entity, if any the following thresholds are met:
  - (i) its charter capital is paid by the shares (participation interest) and/or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in the Competition Law, provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RUR 3 billion (approximately US$112 million); or
  - (ii) total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUR 6 billion (approximately US$224 million); or
  - (iii) if an entity whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity is included in the register of entities having a market share in excess of 35% on a particular commodity market maintained by the Federal Antimonopoly Service.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Currency control

Russian currency control restrictions with regard to such instruments as GDRs and ordinary shares are set forth in the Currency Law and respective regulations of the CBR.

Pursuant to the Currency Law, currency operations with GDRs and ordinary shares between residents and non-residents may be conducted without limitations in both roubles and in foreign currencies.

Under the Currency Law, currency operations with ordinary shares between non-residents may be conducted either in roubles or in foreign currencies without limitations, subject to compliance with Russian securities and antimonopoly laws and regulations.

Finally, non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31, of 31 March 2005) and roubles. Dividends declared and paid in roubles may be freely converted through Russian authorised banks and remitted outside of Russia.

Notification of foreign ownership

Foreign persons and foreign companies that acquire shares in a Russian joint stock company, regardless of whether they are registered with the Russian tax authorities, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of the ordinary shares or GDRs.

Notification of acquisition of certain thresholds

Pursuant to Russian securities legislation, each holder of ordinary shares must notify a company and the FSFM of acquisition of 5% or more of the ordinary shares and any subsequent change in the number of the ordinary shares above or below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. As a general rule, such notifications must be given within five days after the ordinary shares have been transferred to such shareholder's securities account.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("GDRs") represented by this certificate are each issued in respect of 5 (five) ordinary shares of nominal value RUR 0.5 each (the "Shares") in JOINT STOCK COMPANY URALKALI (the "Company") pursuant to and subject to an agreement dated 15 August 2006 and made between the Company and The Bank of New York in its capacity as depositary (the "Depositary") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions of the GDRs (the "Conditions"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, and references to the "Custodian" are to ING Bank (Eurasia) or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement (which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and further issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part B (Certificate and Agreement of Person Receiving Deposited Property upon Withdrawal In Relation to the Rule 144A GDRs Pursuant to Condition 1 and Clause 3.6 of the Deposit Agreement) to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of: (a) SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement (which is described in the following paragraph) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) SCHEDULE 4, Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement (which is described in the second following paragraph) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. However, the Depositary shall (unless otherwise notified by the Company), restrict acceptance of such deposit of Shares where the Company notifies the Depositary in writing that such deposit would result in the Company's incompliance with the securities laws in any jurisdiction. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States.

The certificate to be provided in the form of SCHEDULE 4, Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions."

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different rights from the Shares corresponding to the outstanding GDRs or any further such GDRs which are otherwise not fungible with the outstanding GDRs, will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the"Pre-Releasee") that such person, or its customer, (i) owns the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be, other than in satisfaction of such Pre-Release), (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by GDRs outstanding at any time as a result of Pre-Release will not normally exceed thirty per cent. of the total number of Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case-by-case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part A (Certificate and Agreement of Acquirers of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 3 (Certificate and Agreement of persons acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement), of the Deposit Agreement.

2. Suspension of issue of GDRs and of withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a US Securities Exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and ownership

The GDRs are in registered form, each representing 5 (five) Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). There shall be no transfer of Regulation S GDRs by an owner thereof to a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "QIB") except in a transaction meeting the requirements of Rule 144A and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.6 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8 (Conversion of Foreign Currency). The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23 (Notices), specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 (*Distribution of any Payments*) and 11 (*Withholding Taxes and Applicable Laws*); provided that:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (Cash Distributions) to the Holders entitled thereto.

6. Distributions other than in cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 (Cash Distributions) to the Holders entitled thereto.

7. Rights issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23 (Notices), of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (Cash Distributions) to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "Primary GDR Rights Offering"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in United States dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated pro rata on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Company nor the Depositary shall be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of foreign currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the

Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any payments

9.1 Any distribution of cash under Condition 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (Capital Reorganisation) will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23 (Notices), in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8 (*Conversion of Foreign Currency*)) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Luxembourg, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relevant Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*) and 9 (*Distribution of any Payments*) with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding taxes and applicable laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), or 10 (*Capital Reorganisation*) or to be subscribed under Condition 7 (*Rights Issues*) or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed that, to the extent permitted by applicable laws, it shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to take such action as may be required in obtaining or filing the same, to the extent that doing so is reasonably practicable and does not involve unreasonable expense to the Company. The Depositary shall not distribute GDRs representing such Shares, Shares, other securities or other property to be deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company, and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting rights

12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with the terms of this Condition 12 (*Voting Rights*) and Clause 5 (voting of shares) of the Deposit Agreement. The Company will notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in Condition 12 (*Voting Rights*).

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date for the Shares set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23 (Notices). The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that the relevant portion of the Deposited Shares will be voted for and the relevant portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by a Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall have no obligation to, and shall not, exercise any voting rights attaching to such Deposited Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall appoint the Custodian or any other person designated by the Depositary as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 (Voting Rights) if (i) it requests that the Company procures that the Depositary receives an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that the vote cast under such voting arrangement is valid and binding on the Company under Russian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 (Voting Rights) but that in doing so the Depositary will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 (*Voting Rights*) and Clause 5 (voting of shares) of the Deposit Agreement as each may be amended from time to time in order to comply with applicable Russian law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Documents to be furnished, recovery of taxes, duties and other charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise, at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16 (Depositary's Fees, Costs and Expenses), and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23 (Notices).

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*), 10 (*Capital Reorganisation*), 13 (*Documents to be Furnished, Recovery of Taxes, Duties and Other Charges*) and 21 (*Termination of Deposit Agreement*) or any such conversion as is referred to in Condition 8 (*Conversion of Foreign Currency*) in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof. The Company shall, subject to all applicable laws, have no responsibility whatsoever to any Holders, or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22 (*Amendment of Deposit Agreement and Conditions*), be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the general director of the Company or by a person duly authorised by the general director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and provided that the Depositary shall exercise reasonable care in the selection of any delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition, which includes the power to sub-delegate, shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3 (*Transfer and Ownership*), the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and delivery of replacement GDRs and exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's fees, costs and expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not represented by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US$0.05 or less per GDR;

(vii) a fee of US$0.02 or less per GDR for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, *provided however* that no fee will be assessed under this provision to the extent a fee of US$0.02 per GDR was charged in such calendar year pursuant to paragraph (iv) above; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions, together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, and where the Company can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listing is suspended, to use its reasonable efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian provided that the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary, provided that, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23 (Notices). Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and termination of appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the

Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (Notices) and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; provided that no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (Notices) in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as Depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the resigning Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 (*Resignation and Termination of Appointment of the Depositary*) and the Deposit Agreement that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23 (Notices).

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to (i) the provisions of Condition 1.1 and upon compliance by it with Condition 1, (ii) payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and (iii) payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 (*Amendment of Deposit Agreement and Conditions*) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22 (*Amendment of Deposit Agreement and Conditions*), an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares, provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted for trading on the London Stock Exchange or another stock exchange, all notices to be given to Holders generally will also be published in accordance with the rules of the London Stock Exchange or such other stock exchange, as the case may be.

24. Reports and information on the Company

24.1 The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, send to the Depositary six copies in the English language by mail, or one copy in the English language by facsimile or electronic transmission as agreed between the Company and the Depositary (and shall make available to the Depositary, Custodian and any Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the London Stock Exchange, or any other EEA Regulated Market, in accordance with Clause 7.1 and Condition 18 (*Listing*), as soon as practicable following the publication or availability of such communications.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary in English on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in SCHEDULE 3 (Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement) and SCHEDULE 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the

Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Corporation Service Company as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with the Bank of New York, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited. The Master Rule 144A will be registered in the name of Cede & Co as nominee for DTC, and will be held by The Bank of New York, London branch, as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Terms and Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Terms and Conditions of the Global Depositary Receipts shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances descried in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

(i) Euroclear or Clearstream, Luxembourg, or any successor to them (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) notifies the Company in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive registered form (provided that the Depositary shall have no obligation to so determine or to attempt to so determine).

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Condition 3, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, distributions and voting rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR represented by the Master Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall he satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee of the common depositary (or its nominee) for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR and to DTC with respect to the Master Rule 144A GDR for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of material US federal income, UK and Russian tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this document. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Securities. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this document, and of any actual changes in applicable tax laws after such date.

Certain US Federal income tax considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S.FEDERAL INCOME TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPAY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

This section is a summary, under current law, of certain US federal income tax considerations relevant to beneficial owners of GDRs that are eligible for benefits as US residents under the current income tax convention between the United States and Russia (the "Treaty") in respect of their investment in the GDRs ("US shareholders"). In general, a US shareholder will be eligible for such benefits if the US shareholder:

- is
  - an individual US citizen or resident;
  - a US corporation; or
  - a partnership, estate, or trust to the extent the shareholder's income is subject to taxation in the United States as the income of a resident, either in the shareholder's hands or in the hands of the shareholder's partners or beneficiaries;
- is not also a resident of Russia for Russian tax purposes;
- is the beneficial owner of the GDRs (and the dividends paid with respect thereto);
- holds the GDRs as a capital asset for US federal tax purposes;
- does not hold the GDRs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Russia; and
- is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules (including, without limitation, a dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a bank, a life-insurance company, a tax-exempt organisation, a person that holds GDRs for a short term, as part of a hedge, straddle or conversion transaction for tax purposes, a person whose functional currency for tax purposes is not the U.S. dollar, or a person that owns or is deemed to own 10% or more of any class of the Shares or GDRs). This summary is based upon the assumption that prospective US shareholders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject.

Investors should consult their own tax advisers in determining the tax consequences to them of investing in the GDRs, including the application to their particular situation of the US federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

In general, for US federal income tax purposes, US shareholders will be treated as the beneficial owners of the Shares underlying their GDRs.

Taxation of dividends

US shareholders must include the gross amount of cash dividends paid in respect of the GDRs, without reduction for Russian withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in roubles into US dollars using the exchange rate in effect on that date. Dividends paid on GDRs generally will constitute foreign-source income and will not be eligible for the dividends received deduction available to U.S. corporate shareholders.

Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by a non-corporate US shareholder in respect of the GDRs before 1 January 2011 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received in respect of the GDRs will be qualified dividends if the Company:

- is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

The Treaty has been approved for the purposes of the qualified dividend rules. Based on relevant market data, the Company believes that it was not treated as a PFIC for US federal income tax purposes with respect to its 2006 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, the Company does not anticipate becoming a PFIC for its 2007 taxable year.

Russian tax withheld from dividends will be treated, but only up to the 5% or 10% rate, as applicable, provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under US tax law, generally is eligible for credit against the US federal income tax liability of US shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See "— Russian Federation tax considerations — Taxation of dividends — Non-resident holders" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depositary. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in the GDRs and may not be allowed in respect of certain arrangements in which a U.S. holder's expected economic profit is insubstantial. New foreign tax credit regulations have been recently proposed by the US Department of the Treasury and the IRS, and it is uncertain whether, if adopted in final form, they could affect the ability of the US shareholders to credit the Russian tax withheld from dividends against their US federal income tax liability.

In the case of any refund of Russian withholding tax pursuant to the Treaty, fluctuations in the rouble-US dollar exchange rate between the date that a US shareholder is treated as receiving a dividend and the date that it receives the related refund of Russian withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for US tax purposes.

Taxation of sales or other taxable dispositions

Sales or other taxable dispositions by US shareholders generally will give rise to capital gain or loss equal to the difference between the US dollar value of the amount realised on the disposition and the US shareholder's US dollar basis in the GDRs. Any such capital gain or loss generally will be U.S. source and, provided the GDRs were held for more than one year, constitute long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

Dividends paid in respect of GDRs, and payments of the proceeds of a sale of GDRs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A holder that is not a U.S. person generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

UK tax considerations

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice as of the date of this document, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the "UK Treaty"), each of which is subject to change, possibly with retrospective effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of GDRs and any dividends paid in respect of them (in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income, and not the income of some other person) who are resident and (in the case of individuals) ordinarily resident and domiciled solely in the United Kingdom for tax purposes ("UK holders").

In addition, the summary: (a) only addresses the principal UK tax consequences for UK holders who hold the GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (b) does not address the tax consequences for UK holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organisations or persons connected with the Company; (c) assumes that the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the share capital or voting power of the Company; (d) assumes that the UK holder does not carry on business in Russia through a permanent establishment or fixed base therein; (e) assumes that the UK holder acquires the GDRs as an initial investor in the offering; (f) assumes that the UK holder is, for UK tax purposes, beneficially entitled to the underlying shares and to the dividends on those shares; and (g) assumes that the UK holder has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law, HM Revenue & Customs practice and the UK Treaty, of the acquisition, ownership and disposal of GDRs in their own particular circumstances, by consulting their own tax advisers.

Taxation of dividends

UK holders will, in general, be subject to income tax or corporation tax (as applicable) on the gross amount of any dividends paid on their GDRs before the deduction of any Russian withholding taxes, subject to the availability of any credit for Russian tax withheld.

When the Company pays dividends to UK holders, generally it must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See "— Russian Federation tax considerations — Taxation of dividends." Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see "— Russian Federation tax considerations — Taxation of dividends — Non-resident holders" and "— Russian Federation tax considerations — Tax treaty procedures" regarding, among other things, the procedures for obtaining a refund, certain uncertainties relating thereto and the position that the Company intends to take in respect of its obligation to withhold tax on dividends that it pays to the Depositary.

A UK holder will in principle be entitled to a tax credit against UK income or corporation tax (as the case may be) payable in respect of dividends paid on the GDRs for Russian tax withheld from such dividends, up to the maximum rate of Russian withholding tax permitted under the UK Treaty, subject to the UK rules generally governing the availability of credits for foreign withholding taxes. However, if there is any excess of such Russian withholding tax over the UK tax payable, it is generally not refundable.

The Company is not required to make any deduction from payments of dividends for or on account of UK tax.

Taxation of capital gains

The disposal or deemed disposal of GDRs by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the United Kingdom. Any gains or losses in respect of currency fluctuations over the period of holding the GDRs would also be brought into account on the disposal.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the GDRs.

No UK stamp duty reserve tax will be payable on any transfer of the GDRs, and no UK stamp duty will be payable where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, Clearstream, Luxembourg and DTC.

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Federation tax considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Shares or the GDRs and to the purchase, ownership and disposition of such Shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this document. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the Shares and the GDRs are characterised by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "non-resident holder" means:

- A physical person, actually present in the Russian Federation for less than 183 days in 12 consecutive months (excluding days of arrival into Russia, but including days of departure from Russia) that holds Securities; or
- A legal person or organisation, in each case not organised under Russian law, that holds and disposes of Securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "Russian resident holder" means:

- A physical person, actually present in the Russian Federation for 183 days or more in 12 consecutive months (excluding days of arrival into Russia, but including days of departure from Russia) that holds Securities;
- A legal person or organisation, in each case organised under Russian law, that holds Securities; or
- A legal person or organisation, in each case organised under a foreign law, that holds and disposes of Securities through its permanent establishment in Russia.

The residency rules may be affected by an applicable double tax treaty. Furthermore, the Russian tax residency rules applicable to legal entities may change in the future and plans were announced by the Ministry of Finance of the Russian Federation to introduce a management and control criterion for determination of tax residency.

Taxation of dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status (i.e. a legal entity or physical person, etc.) and tax residence of the dividend's recipient.

Russian resident holders

Dividends paid to Russian-resident holders of Shares are generally subject to withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that the Company should calculate this tax by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Company to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the Company in the current and preceding tax periods from other entities (although this procedure will be amended with effect from 1 January 2008).

It is not clearly stated in the Russian Tax Code which rate of withholding tax should apply to dividends payable to a holder of the Shares that is a Russian permanent establishment of a foreign legal entity (or organisation). According to the explanations of the Russian tax authorities, dividends attributed to a Russian permanent establishment of a foreign legal person or organisation are subject to withholding tax at a rate of 9%, provided that there is a double tax treaty between Russia and the jurisdiction of tax residency of the relevant foreign legal entity and that treaty contains provisions regarding non-discrimination of tax residents of the relevant state as compared to Russian tax residents. Otherwise 15% rate should apply. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate, no assurance can be given that the application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by the Russian tax authorities.

There are uncertainties in relation to withholding tax on dividends payable to Russian-resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance issued a number of private clarifications stating that holders of global depositary receipts (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the holders of the global depositary receipts is duly confirmed. In the absence of any official interpretative guidance on the beneficial ownership concept in Russia and the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the Shares under Russian law, the dividends payable to the Depositary will likely be subject to withholding tax at applicable domestic rates on dividends payable to non-resident holders. There is also no established procedure for the refund of tax withheld from dividends payable through the Depository to Russian resident holders of GDRs.

In view of the foregoing, Russian residents are urged to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the Shares or the GDRs.

Non-resident holders

Dividends paid to non-resident holders of the Company's Shares generally will be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organisations; and
- 30% in the case of dividends paid to non-resident individual holders (15% with effect from 1 January 2008).

These rates may be reduced under the terms of double tax treaties to which Russia is a party. For example, the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, or the "United States — Russia Tax Treaty", provides for reduced withholding rates on dividends paid to US holders who qualify as US tax residents entitled to benefit under this treaty and are beneficial owners of the dividends. Under this treaty a 5% rate applies to dividends payable to US holders that are companies owning not less than 10% of the Company's voting shares and a 10% rate applies to dividends paid to other US holders. The Convention between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, or the "UK — Russia Tax Treaty", also provides for a 10% withholding tax rate on dividends paid to UK holders who qualify as UK tax residents entitled to benefit under this treaty and are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom. However, because the beneficial ownership concept is not developed in the Russian law, it is not clear whether the Depositary (the legal holder of the Shares) or a GDR holder should be treated for purposes of such treaties as the beneficial owner of the Shares underlying the GDRs.

Unless the Company receives adequate clarification from the Russian tax authorities that, subject to certain certification and documentation requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at a reduced rate, under the relevant treaties instead of at the domestic rates applicable to such payments and these certification requirements are satisfied, the Company intends to withhold Russian withholding tax at the domestic rate applicable to such dividends (15%), regardless of whether the Depositary (the legal owner of the Shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under an applicable double tax treaty of a portion of the amount withheld by the Company, the Company cannot make any assurances that the Russian tax authorities will grant any refunds.

Taxation of capital gains

Russian resident holders

Legal entities and organisations

Capital gains arising from the sale of Shares or GDRs by any Russian resident holder that is a legal entity or organisation will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the Shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer licence. Transactions with the Shares and the GDRs will also be subject to transfer pricing rules established by the Russian Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the Shares or the GDRs by individuals who are Russian resident holders must be declared on the holder's annual tax declaration and will be subject to tax at a rate of 13% on an amount equal to the sales price less the documentary confirmed acquisition cost of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a Russian professional dealer or broker, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the documentary confirmed acquisition cost of the securities and other related and documented expenses. The tax agent would be required to report to the Russian tax authorities the income realised by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made by an individual holder to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realised and apply for a deduction of acquisition and other relevant expenses, based on the provision of supporting documentation.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organisations and individuals) on the sale, exchange or other disposition of the Shares or the GDRs is not entirely clear, the Company urges Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the Shares or the GDRs.

Non-resident holders

Legal entities and organisations

The Russian Tax Code provides for a special exemption for capital gains realised by foreign legal entities or organisations, otherwise than through their permanent establishment in Russia, on the disposal of shares of Russian companies or GDRs that are circulated (i.e. listed and traded) on a foreign stock exchanges if such shares or GDRs were disposed of on that foreign stock exchange. Therefore, as long as the GDRs remain listed on the Official List and admitted to trading on the London Stock Exchange, gains arising from the sale, exchange or other disposal of GDRs on the London Stock Exchange by non-resident holders that are legal entities or organisations that have no permanent establishment in Russia to which such disposal could be connected, should not be subject to taxation in Russia.

The remainder of this section applies only to Shares and GDRs that are not traded on a foreign stock exchange.

A non-resident holder generally should not otherwise be subject to any Russian taxes in respect of capital gains realised on a sale, exchange or other disposal of the Shares or GDRs, if the Company's immovable property located in Russia represents 50% or less of its assets.

The Company believes that its immovable property located in Russia does not currently, and will not in the future, constitute more than 50% of the Company's assets. However, because the determination of whether the immovable property located in Russia constitutes more than 50% of the assets of the company or not is inherently factual and should be made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not in the future, constitute more than 50% of the Company's assets.

If more than 50% of the assets of the company were to consist of immovable property located in Russia, a non- resident holder of the Shares or GDRs that is a legal entity or organisation will be subject to a 20% Russian withholding tax on gross proceeds from the sale, exchange or other disposition of the Shares or GDRs or 24% tax on capital gains realised from the sale, exchange or other disposal, being the difference between the sale price and the acquisition cost (which needs to be evidenced by a proper supporting documents) of the Shares or GDRs.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for non-resident holder-legal entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of Shares or GDRs by U.S. holders should be exempt from taxation in Russia, unless 50% or more of the fixed assets of the Company consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the United States-Russia Tax Treaty referred to above, is no more beneficial for a U.S. holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such non-resident holders-legal entities to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares or GDRs.

Under the UK-Russia Tax Treaty, capital gains from the sale of shares by U.K. holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that the tax agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the non-resident holders — legal entities selling the Shares or GDRs. If there is an applicable double tax treaty, non-resident holders — legal entities may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained.

Unless the Shares or GDRs are sold by a non-resident holder-legal entity to a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the relevant tax could be withheld and remitted to the Russian tax authorities.

Individuals

A non-resident holder, who is an individual, generally should not be subject to Russian tax in respect of capital gains realised on a sale, exchange or other disposal of the Shares or GDRs, provided that the proceeds of such sale, exchange or disposal are not received from a source within Russia. The only criterion for labelling income from disposal of securities as received from a Russian source is their disposal in the Russian Federation. In the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities there is a risk that income from the disposal of Russian securities may be considered as received from a Russian source. However, in practice, it is unlikely that the tax authorities would impose tax when the sale is transacted outside of Russia by non-residents. In the event that proceeds from a sale, exchange or disposal of the Shares or GDRs are received from a source within Russia, a non-resident holder that is an individual may be subject to Russian tax in respect of such proceeds at a rate of 30% of the gain (such gain being computed as the sales price less any available documented cost deduction, including the acquisition cost).

Personal income tax on the disposal of the Shares or GDRs may be reduced or eliminated in accordance with the provisions of an applicable double taxation treaty. For example, holders of Shares or GDRs that are eligible for benefits of the United States-Russia Tax Treaty are generally not subject to tax in Russia on their capital gains from the Shares or GDRs, provided that the gain is not attributable to a permanent establishment or a fixed base that is or was located in Russia and provided further that less than 50% of the Company's fixed assets consist of immovable property situated in Russia (as defined in the treaty). The UK-Russia Tax Treaty provides for an exemption from tax on capital gains received from the sale of shares by UK resident holders unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange.

U.S. or U.K. non-resident holder-individuals whose income from the sale, exchange or other disposition of the Shares or GDRs is taxed at source by withholding at a 30% rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice these procedures are very time consuming and more complicated than those for corporate holders, and a successful outcome for individuals is less likely.

In order to apply the treaties, the non-resident holder-individual must receive clearance from the Russian tax authorities. Advance treaty clearance is not provided for by the current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities to claim the refund of tax.

Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Shares or GDRs.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Shares or the GDRs, the currency of sale of the Shares or the GDRs and Roubles.

Tax Treaty Procedures

Where proceeds from the disposition of the Shares or GDRs are received from a Russian source, in order for the non-resident holder, whether an individual or a legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, a holder would need to provide to the payer a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain treaty benefits on receipt of proceeds from a source within Russia.

For a holder which is not an individual and for which double tax treaty relief is available, advance treaty relief may be available, subject to the requirements and conditions of the laws of the Russian Federation.

Refund of tax withheld

If double tax treaty relief is available, and Russian withholding tax on income was withheld at the source of payment, a claim for refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld.

For an individual holder for which double tax treaty relief is available, if Russian withholding tax on income was withheld at the source of payment, a claim for refund of such tax may be filed within one year after the end of the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code.

Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties.

PLAN OF DISTRIBUTION

The Offering consists of an offering of 270,847,953 ordinary shares in the form of ordinary shares and GDRs. All of the Shares in the Offering will be offered through a Russian licensed broker. The GDRs will be offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia under Regulation S, and Shares will be offered to institutional investors outside the United States and Russia and to investors in Russia under Regulation S.

Under the terms of, and subject to, the conditions contained in an Underwriting Agreement dated 12 October 2007 (the "Underwriting Agreement") entered into among the Company, the Selling Shareholder and the Managers, the Managers named below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Shares (including a portion in the form of GDRs) indicated below. The Selling Shareholder has agreed to make available, at the Offer Price, to the Managers, the number of Shares (including a portion in the form of GDRs) indicated below:

Name	Shares
Citigroup Global Markets Limited	90,282,651
Renaissance Securities (Cyprus) Limited	90,282,651
UBS Limited	90,282,651
Total	270,847,953

The Underwriting Agreement contains, among others, the following provisions:

- The Selling Shareholder has granted to the Managers an Over-allotment Option to acquire up to 34,533,110 additional Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder from UBS Limited on behalf of the Managers, at any time during the Stabilisation Period. If UBS Limited, on behalf of the Managers, exercises this option, the Selling Shareholder will be obligated to sell, and each Manager will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase or procure purchasers for, a number of additional Shares in the form of GDRs proportionate to that Manager's initial amount reflected in the table above.
- The Managers will deduct from the proceeds of the Offering:
  - (i) certain costs and expenses incurred by the Managers in connection with the Offering; and
  - (ii) certain commissions, including an incentive fee, payable by the Selling Shareholder, of 3.25% of the amount equal to the Offer Price multiplied by the number of Shares. Such commissions will equate to a total of US$30,808,955 with respect to the number of Shares sold in the form of Shares and GDRs indicated in the table above and, with respect only to any additional Shares in the form of GDRs acquired by the Managers as a result of the exercise of the Over-allotment Option, a total of an additional US$3,928,141 (on the assumption that the Over-allotment Option is exercised in full).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. The Managers may terminate the Underwriting Agreement prior to the Closing Date in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the Group's condition (financial or otherwise), prospects, results or operations or properties, as well as certain changes in financial, political, economic or market conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the Closing Date, then the Offering will lapse.
- The Company has given certain representations and warranties to the Managers including in relation to the Group's business, the Group's accounting records and the Group's legal compliance, in relation to Shares and GDRs and in relation to the contents of this document. The Selling Shareholder has also given certain warranties to the Managers in relation to the Group's business, the Group's accounting records, the Group's legal compliance, in relation to Shares and GDRs and

in relation to the contents of this document, as well as in relation to its capacity, its good title to the Shares and GDRs and its conduct.

- The Company and the Selling Shareholder have given certain indemnities to the Managers in connection with the Offering.
- If a Manager defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Managers may be increased or the Underwriting Agreement may be terminated.
- The Company, the Selling Shareholder, and certain of the Group's directors, managers and affiliates have agreed, as part of the Underwriting Agreement, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in the Company or securities convertible or exchangeable into or exercisable for any shares in the Company or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, for a period of 180 days from the Closing Date, without the prior written consent of the Managers.

In connection with the Offering, the Stabilising Manager or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited after the issue date. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

The Managers will be soliciting non-binding indications of interest in acquiring the Shares and the GDRs under the Offering from prospective institutional investors. Prospective institutional investors will be required to specify the number of Shares and/or Shares in the form of GDRs which they would be prepared to acquire at the Offer Price (subject to it being determined). This process is known as book-building.

Shares and GDRs allocated under the Offering will, following determination of the Offer Price, be fully underwritten by the Managers as described in this section, "Plan of distribution." Allocations will be determined at the sole discretion of the Managers after non-binding indications of interest from prospective institutional investors have been received in the book-building process.

The Offer Price has been determined by the Managers with the agreement of the Company and the Selling Shareholder. A number of factors have been considered in deciding the Offer Price and the bases of allocation under the Offering, including the level and the nature of the demand for the Shares and the GDRs and the objective of encouraging the development of an orderly after-market in the Shares and the GDRs. The Managers have established the Offer Price at a level determined in accordance with these arrangements, taking into account indications of interest received from persons (including market-makers and fund managers) connected with the Managers.

All Shares and Shares in the form of GDRs issued or sold pursuant to the Offering will be issued or sold at the relevant Offer Price.

Application has been made (i) to the Financial Services Authority for a block listing of up to 424,878,000 GDRs, consisting of up to 46,044,152 GDRs to be issued on or about the Closing Date, up to 6,906,622 additional GDRs to be issued pursuant to the Over-allotment Option, and additional GDRs to be issued from time to time against the deposit of Shares with The Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Prior to the Closing Date there has not been any public market for the GDRs. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 15 October 2007 and unconditional trading through the IOB will commence on or about

19 October 2007. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Investors wishing to enter into transactions in the GDRs prior to the Closing Date of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on 18 October 2007 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional. In addition, the GDRs are expected to be eligible for trading in PORTAL. However, the Company cannot assure you that an active public or other market will develop Shares or GDRs or that a liquid trading market will exist for the Shares or GDRs. The Company does not intend to list the GDRs or Shares on any US national securities exchange or to seek the admission thereof to trading on the Nasdaq National Market System.

Some of the Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company or members of the Group. They have received customary fees and commissions for these transactions and services.

SELLING RESTRICTIONS

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any Shares or GDRs which are the subject of the Offering contemplated by this document may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Shares or GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares or GDRs shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares and GDRs to be offered so as to enable an investor to decide to purchase any Shares or GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russia

Each of the Managers has represented and agreed that it has not offered or sold and will not offer or sell any GDRs to or for the benefit of any persons resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia, unless and to the extent permitted by Russian law.

Since neither the issuance of the GDRs nor a Russian securities prospectus in respect of the GDRs has been registered, or is intended to be registered, with the FSFM, at no time should any person carry out any activities in breach of the restrictions set forth above.

United Kingdom

Each Manager has represented and agreed that it has:

- only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Shares and GDRs are being offered to investors outside the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may through their respective US broker-dealer affiliates arrange for the offer and resale of Shares and GDRs within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Shares and the GDRs, an offer or sale of Shares or GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Japan

Each of the Managers has represented and agreed that the Shares and GDRs have not been and will not be registered under the Financial Instruments and Exchange Law of Japan and that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Shares or GDRs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and agreements by purchasers

The Offering is being made in Canada only in the Canadian provinces of British Columbia, Ontario and Québec (the "Canadian Jurisdictions") by way of a private placement of Shares and GDRs. The Offering in the Canadian Jurisdictions is being made pursuant to this document through the Managers named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the Shares or the GDRs will be deemed to have represented to the Company, the Selling Shareholder and the Managers that: (1) the offer and sale was made exclusively through this document and was not made through an advertisement of the Shares or the GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has reviewed the terms referred to below under "Canadian resale restrictions"; (3) where required by law, such investor is, or is deemed to be, acquiring the Shares or the GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; (4) such investor or any ultimate investor for which such investor is acting as agent is entitled under applicable Canadian securities laws to acquire the Shares or the GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (i) in the case of an investor resident in British Columbia or Québec, without the Manager having to be registered; (ii) in the case of an investor resident in British Columbia or Québec, such investor is an "accredited investor" as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* ("NI 45-106"); and (iii) in the case of an investor resident in Ontario, such investor, or any ultimate investor for which such investor is acting as agent (a) is an "accredited investor," other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of Regulation 1015 to the *Securities Act* (Ontario) (the "OSA") may sell the Shares or the GDRs or (b) is an "accredited investor," including an individual, as defined in NI 45-106 who is purchasing the Shares or the GDRs from a fully registered dealer within the meaning of section 204 of Regulation 1015 to the OSA; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the Shares or the GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the Shares or the GDRs will be deemed to have represented to the Company and the Managers that such investor: (a) has been notified by the Company (i) that the Company is required to provide information ("personal information") pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any Shares or GDRs purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the "OSC") in accordance with NI 45-106; (iii) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorised the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of Shares or GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of British Columbia or Québec who purchases the Shares or the GDRs hereby acknowledges to the Company and the Managers that its name and other specific information, including the aggregate amount of the Shares or the GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the Shares or the GDRs, each Canadian investor consents to the disclosure of such information.

Selling restrictions

Each Manager has agreed that (a) no prospectus has been issued or will be issued in respect of the Shares or the GDRs for distribution to the public under applicable Canadian securities laws, and (b) the Shares and the GDRs may not be offered or sold, directly or indirectly, in Canada except with the consent of the Managers and in compliance with applicable Canadian securities laws. Accordingly, any sales of Shares or GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and (ii) pursuant to an exemption from the prospectus requirements of such laws.

Language of document

Each purchaser of Shares or GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such Shares or GDRs be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

Canadian resale restrictions

The distribution of the Shares and the GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the Shares or the GDRs must be made (i) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of Shares or GDRs are advised to seek legal advice prior to any resale of Shares or GDRs.

The Company is not, and may never be, a "reporting issuer," as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which the Shares and the GDRs will be offered and there currently is no public market for any of the securities of the Company in Canada, including the Shares and the GDRs, and one may never develop. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Shares or the GDRs to the public in any province or territory of Canada. Canadian investors are advised that the Company currently has no intention to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Shares or the GDRs to the public in any province or territory in Canada.

Rights of action for damages or rescission (Ontario)

Securities legislation in Ontario provides investors in Shares or GDRs pursuant to this document with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this document or any amendment to it, contains a "Misrepresentation." Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the OSA provides that every purchaser of securities pursuant to an offering memorandum (such as this document) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer, provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;

(b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling security holder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of the OSA provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

  (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

  (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this document) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the "accredited investor exemption") if the prospective purchaser is:

(a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which the Company and the Selling Shareholder may rely. *Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.* The enforceability of these rights may be limited as described herein under "Enforcement of legal rights."

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant Manager of the purchase price for the Shares or the GDRs. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law.

Enforcement of legal rights

All of the directors and officers (or their equivalents) of the Company and the Selling Shareholder, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholder or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholder and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company, the Selling Shareholder or such experts in Canada or to enforce a judgment obtained in Canadian courts against the Company, the Selling Shareholder or such experts outside of Canada.

Canadian tax considerations and eligibility for investment

This document does not address the Canadian tax consequences of ownership of the Shares or the GDRs. Prospective purchasers of Shares or GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the Shares or the GDRs for investment by purchasers under relevant Canadian legislation.

Currency

The financial statements and certain other financial information disclosed in this document are presented in Russian roubles unless indicated otherwise. The following table sets out for the periods indicated, the period-end and average Canadian Noon Rates between the Canadian dollar ("CAD") and the Russian rouble (expressed in CAD per RUR 1.00):

Period(2)	Period-end	Average
2002	0.04944	0.05005
2003	0.04420	0.04564
2004	0.04342	0.04518
2005	0.04057	0.04284
2006	0.04427	0.04173

(1) The term "Canadian Noon Rate" means the Bank of Canada noon exchange rate.

(2) Each reference to a year is a year ended 31 December.

On 11 October 2007, RUR 1.00 was equal to CAD 0.03915, based on the Canadian Noon Rate.

These exchange rates are provided only for the convenience of the reader. No representation is made that the Russian rouble amounts could have been converted into Canadian dollars at the above rates on any of the dates indicated or at any other rate.

For information on legislation relating to withholding taxes in respect of the Shares and the GDRs, please refer to the section entitled "Taxation."

General

Each of the Managers has represented and agreed that no action has been taken or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession or distribution of this document or any other material relating to the Offering or the Shares and GDRs, in any jurisdiction where action for such purpose is required. Accordingly, the Shares and GDRs, may not be offered or sold, directly or indirectly, nor may this document or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulation of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this document, and, if given or made, such information or representation must not be relied upon as having been authorised by us or any Manager. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained in this document is correct as of a date after its date.

TRANSFER RESTRICTIONS

None of the Shares or the GDRs has been or will be registered under the Securities Act and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Shares and GDRs are being offered and sold only:

(a) to QIBs in compliance with Rule 144A; and

(b) in offshore transactions in compliance with Regulation S. As used in this document, the term "offshore transaction" has the meaning given to it in Regulation S.

Rule 144A GDRs

Each purchaser of Rule 144A GDRs or Shares in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

1. The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs or Shares has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A or Shares GDRs for its own account or for the account of a QIB.

2. The purchaser is aware that the Rule 144A GDRs and the Shares represented thereby or the Rule 144A Shares have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the GDRs and the Shares represented thereby or the Rule 144A Shares are subject to significant restrictions on transfer.

3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby or the Rule 144A Shares, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, as applicable, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

   THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT, THE ORDINARY SHARES OF JOINT STOCK COMPANY URALKALI (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs AND SHARES, AGREES FOR THE BENEFIT OF JOINT STOCK COMPANY URALKALI THAT THE GDRs AND THE SHARES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs OR SHARES WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY

RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS MASTER GDR, AGREES, FOR THE BENEFIT OF JOINT STOCK COMPANY URALKALI AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE, HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE GENERALLY NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGEMENTS OBTAINED IN THE COURTS OF ENGLAND.

4. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Rule 144A GDRs or Shares will be deemed to have acknowledged that the Company, the Selling Shareholder the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Rule 144A GDRs or Shares are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Rule 144A GDRs or Shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs and Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs and Shares

Each purchaser of Regulation S GDRs or Shares in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the Regulation S GDRs, the Shares represented thereby or the Regulation S Shares from the Company or an affiliate thereof in the initial distribution of Regulation S.

2. The purchaser is aware that the Regulation S GDRs, the Shares represented thereby have not been and will not be registered under the Securities Act, and are being offered outside the United States in reliance on Regulation S and are subject to significant restrictions on transfer.

3. The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs or Shares, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

4. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs, the Shares represented thereby or the Regulation S Shares, such Regulation S GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, as applicable, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

   THIS MASTER REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JOINT STOCK COMPANY URALKALI (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

   THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS MASTER GDR, AGREES, FOR THE BENEFIT OF JOINT STOCK COMPANY URALKALI AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

   IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE, HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OR LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

   THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE GENERALLY NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGEMENTS OBTAINED IN THE COURTS OF ENGLAND.

5. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Regulation S GDRs or Shares will be deemed to have acknowledged that the Company, the Selling Shareholder, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Regulation S GDRs or Shares are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Regulation S GDRs or Shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND TRANSFER

Clearing and settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York in New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear, Clearstream, Luxembourg and the nominee for DTC. The Depositary in the case of master GDRs, will make a distribution according to usual practice between the Depositary and Clearstream Luxembourg, Euroclear and DTC, as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Settlement and delivery of Shares

Each purchaser of Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such purchasers on or about 7 November 2007. In order to take delivery of the Shares, potential purchasers may be required to have a deposit account at one or more depositaries designated by the Company. Upon taking delivery of the Shares, purchasers may choose to hold the Shares though a direct account with the Company's share registrar; however, directly held Shares are ineligible for trading on the RTS. In addition, in order to trade your Shares on the RTS, you may have to further transfer your Shares to an account at a different depositary.

Global clearance and settlement procedures

Initial settlement

The GDRs will be in global form evidenced by the two master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary market trading

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see "Transfer restrictions."

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least two business days prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to US, English and Russian law by Cleary Gottlieb Steen & Hamilton LLP. Certain legal matters with respect to Cypriot law will be passed upon for us by Andreas Neocleous & Co. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to US and English law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP and Russian law by Skadden, Arps, Slate, Meagher & Flom LLP.

INDEPENDENT AUDITORS

ZAO PricewaterhouseCoopers Audit ("PwC"), independent auditors, Kosmodamianskaya Nab. 52, Bld. 5, 115054 Moscow, Russian Federation, has audited the Group's consolidated financial statements as of and for the years ended 31 December 2006, 2005 and 2004 and provided an unqualified audit opinion on those consolidated financial statements. With respect to the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2007, included in this document, PwC reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 7 September 2007 appearing herein, states that they did not audit and they do not express an opinion on that unaudited condensed consolidated interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PwC is a member of the Russian Chamber of Auditors (Auditorskaya Palata Rosii) and the Institute of Professional Accountants of Russia (Institut Professionalnih Buhgalterov Rossii).

EXPERTS

SRK, independent experts with respect to mining assets, have prepared the SRK Report regarding the Company's reserves and resources and has prepared the SRK Information. Their registered address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. The SRK Report and the SRK Information has been included in the form and context in which it is included with the consent of that person who has authorised the contents of that report for the purposes of responsibility under the Prospectus Rules.

ERCOSPLAN, independent experts with respect to mining assets, have prepared the ERCOSPLAN Report regarding the Company's mining safety measures in Mine 2 and Mine 4 in comparison with flooded Mine 1 and the environmental impact of the flooding of Mine 1 and have prepared the ERCOSPLAN Information. Their registered address is Arnstädter Straße 28, 99096 Erfurt Germany. The ERCOSPLAN Report and the ERCOSPLAN Information has been included in the form and context in which it is included with the consent of that person who has authorised the contents of that report for the purposes of responsibility under the Prospectus Rules.

GLOSSARY OF TECHNICAL TERMS

"5GR"* — Annual report lodged with governmental agencies, indicating the resources depleted during the previous year.

"argillite"† — Sedimentary rock containing mainly clays.

"assaying" — The analysis of minerals, rocks and mine products to determine and quantify their constituent parts.

"available production" — The Company's estimate of its capacity for potash production (taking into account projected stoppages for planned repair and maintenance) in the relevant annual or other specified period.

"back-filling"† — Filling of mined out-workings with solid or liquid material.

"bischofite"† — Salt mineral, $MgCl_2$ x 6 H_2O.

"bunker cars"† — Trailers used together with shuttle cars for transporting ore from ore cutting machines (situated in underground mining rooms) to a loading point. They have no separate engines.

"carbonate rocks"† — Sedimentary rocks containing mainly carbonate materials such as limestone or dolomite.

"carnallite"† — Salt mineral, $KMgCl_3$ x 6 H_2O.

"carnallitite"† — A salt rock consisting mainly of the mineral carnallite.

"Competent Person"* — As defined in the JORC Code, a "Competent Person" is a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists, or of a "Recognised Overseas Professional Organisation" ("ROPO") with a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which that person is undertaking.

"conventional mining"† — Underground extraction by drilling-and-blasting and/or underground cutting technology, in contrast to solution mining where no personnel is working underground.

"conveyors" or **"conveyor belts"†** — Underground belt systems transporting the ore from the loading point to the discharging point or to the surface.

"ERCOSPLAN Report" — The report prepared by ERCOSPLAN consisting of the following sub-reports:

(i) Expert statement on mining safety of Mine BKPRU-2 and Mine BKPRU-4 (referred to elsewhere in this document as Mine 2 and Mine 4) in comparison to the flooded Mine BKPRU-1 (referred to elsewhere in this document as Mine 1); and

(ii) Expert statement on the environmental impact of flooding Mine BKPRU-1;

copies of which are attached as Annex C to, and forms part of, this document.

"Evaporite"* — Sediment deposited from a saline solution as a result of extensive or total evaporation of water.

"feasibility study"* — A detailed study of the economics of a project based on technical calculations and specific mine designs undertaken to determine whether to open a new mine.

"g/t" — Grammes per tonne.

"GMOP" or **"Granular"** — Granular muriate of potash.

"Geotechnics"*	A branch of engineering which determines the factors influencing the stability of excavations.
"Grade"*	The quantity of ore of metal in a specific quantity of rock.
"Grade Factor"*	A factor applied when converting resources to reserves, which considers the ore losses and dilution associated with the mining operation and reduces the predicted grade to reflect this.
"Indicated Mineral Resources"*	As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as sub outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
"Inferred Mineral Resources"*	As defined in the JORC Code, that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as sub-outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability.
"intermediate bunkers"†	Transitory underground ore storages, where the ore is hauled to before it is transported to the surface.
"International Environmental Standards"*	These environmental and social standards are derived from a number of documents including but not limited to, the World Bank Group (WBG) Pollution Prevention and Abatement Handbook, the International Finance Corporation (IFC) Performance Standards and the WBG/IFC environmental health and safety guidelines. In addition, there are various supporting documents generated by these organisations and major mining companies and associations that provide further guidance on acceptable practice in the mining industry.
"JORC Code"*	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, setting out minimum standards, recommendations and guidelines, as outlined in the 2004 edition prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
"LoMp"*	Life of mine plan.
"long-wall room-and-pillar mining"†	The commonly applied mining method in flat bedded ores is the room-and-pillar method, where pillars remain for stabilising the underground. Longwall room-and-pillar mining is characterised by extracting panels over a long distance at once and removing the stabilising pillars for extraction. A collapse behind the extracted pillars is acceptable.
"marl"†	Mudstone containing mainly clays, calcite or aragonite.

"Measured Mineral Resources"*	As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
"Ore"*	Mineral bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediate foreseeable economic conditions.
"Ore loss" or **"Extraction Factor"***	A factor applied when converting resources to reserves, which considers the non-recoverable in-situ ore, which is in turn a function of the mine design and mining method. In this instance, the loss is essentially the ore left behind in the pillars of the room and pillar mining method.
"Ore Reserves"*	The economically mineable material derived from a Measured/Indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified. Mineral Reserves are subdivided in order of increasing confidence into Probable Mineral Reserves and Proved Mineral Reserves.
"pillar configuration"†	Summarises all geometric arrangement of the room-and-pillar system, as height and width of pillars and extraction rooms.
"PMOP" or **"Pink MOP"**	Pink muriate of potash.
"Probable Ore Reserves"*	Economically mineable material derived from a Measured/Indicated Mineral Resource. It is estimated with a lower level of confidence than a Proved Ore Reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
"Proved Ore Reserves"*	Economically mineable material derived from a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
"RoM"*	Run of Mine. Used to describe the ore which is mined and transported to the processing plant or stockpiles.
"ROPO"*	Recognised Overseas Professional Organisation.

"Russian reporting system"*	The Russian system for reporting resources, centred on the TEO (technical economic characterisations) and the TER (technical economic calculations), under the guidelines of the GKZ (State Commission for Mineral Reserves). This is the equivalent of, for example, the JORC Code.
"sandstone"†	Sedimentary rock containing mainly quartz or feldspar in sand-size.
"shuttle cars"†	Vehicles used for hauling ore from the underground cutting machines to a loading point, such as a conveyor belt feeder. Their engine may be running on diesel or electricity.
"solution mining"†	Mining method for soluble minerals in which a solvent (usually water) is brought into contact with the commodity, which is dissolved and the resulting fluid is processed at a facility to retrieve the valuable material.
"SRK Report"	The report regarding the Company's mineral resources and ore reserves prepared by SRK Consulting (UK) Ltd, an independent mineral experts, with respect to mining assets, a copy of which is attached as Annex B to, and forms part of, this document.
"structural capacity"	The maximum production capacity that the Company believes could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if the Company were able to process all the ore that could be mined using the Company's existing mine shaft structures after certain improvements to the ore hoisting and shaft ventilation systems. Available production is less than structural capacity, as the Company does not currently have the processing equipment to process, and does not have the hoisting and ventilation systems to lift, all of the ore it could mine using the existing mine shaft structures.
"sylvinite"†	Evaporite containing the main minerals sylvite and halite.
"sylvite"†	Salt mineral KCl.
"tachyhydrite"†	Salt mineral, $CaMg_2Cl_6$ x 12 H_2O.
"TEC"*	Total employee costed.
"WMOP" or **"White MOP"**	White muriate of potash.

GENERAL INFORMATION

(1) The Company was organised in Russia as open type Joint Stock Company Uralkali, an open joint stock company, and was registered under the laws of Russia on 14 October 1992. In 1996, the Company was renamed as Open Joint Stock Company Uralkali. The registered address of the Company is Pyatiletki Street 63, Berezniki, Perm Krai, 618426, Russian Federation, telephone no. +7(495)7302372. The Company is registered in the Unified State Register of Legal Entities in Russia under main state registration number 1025901702188.

(2) The following is a list of the Company's principal subsidiaries and joint ventures, their date of establishment, registered addresses, and principal business activities, together with the Company's direct and indirect ownership of the share capital or ownership interests, as the case may be.

Entity	Date of Establishment (incorporation)	Registered office address	Activity	Direct or indirect ownership (%)
Subsidiaries				
Uralkali Trading S.A.	04.11.2004	Avenue Des Margines 12, Lancy, Switzerland	Trading	100
Uralkali Trading (Gibraltar) Limited	01.12.2004	57/63 Line Wall Road, Gibraltar	Administrative services	100
LLC Uralkali Engineering	26.12.2005	Lenina Street 64, Perm 614990, Russia	Engineering	51
LLC SP Kama	03.06.1991	Pyatiletki Street 63, Berezniki, Perm Region, 618426 Russia	Leasing	100
LLC BshSU	03.10.2003	Lokomotivny pereulok 8, Berezniki, Perm Region, 618400, Russia	Construction	100
JSC Uralkali-Technology	27.07.2005	Sverdlova Street 74, Berezniki, Perm Region, 618426 Russia	Dormant	100
JSC Baltic Bulker Terminal	28.04.2000	Elevatornaya ploshadka 28-AS, Ugolnaya Gavan, Saint-Petersburg, 198096 Russia	Maritime terminal	100
SP Terminal	22.03.1995	Transportnaya Street 3, Ilyichevsk, Odessa Region, Ukraine	Dormant	98
LLC Depo	15.04.1992	BRMZ, Nartovka, Berezniki, Perm Region, 618411, Russia	Repairs	75
LLC Avtotranskali	16.06.2005	Parizhskoj kommuny Street 4, Berezniki, Perm Region, 618400, Russia	Transportation	100
LLC Satellit-Service	08.08.2005	Pyatiletki Street 63, Berezniki, Perm Region 618426, Russia	IT services	51
LLC Vagonnoe Depo Balahontsi	09.05.2003	Pyatiletki Street 63, Berezniki, Perm Region, 618426 Russia	Repairs	100
LLC Novaya Nedvizhimost	14.05.2007	Lokomotivny pereulok 8, Berezniki, Perm Region, 618400, Russia	Repair and maintenance	100
Joint-ventures				
JSC Belarusian Potash Company	20.12.2005	Melnikaite Street 2, Minsk, 1805a Belarus	Trading	50

(3) On 16 June 2006, the Company's Board of Directors resolved to submit the issue concerning the corporate approval of the Underwriting Agreement for the consideration of the extraordinary general shareholders meeting of the Company. On 1 August 2006, the Company's extraordinary general meeting of shareholders approved the Underwriting Agreement and vested the General Director with the power to finalise the terms and conditions of the Underwriting Agreement and any other documents connected thereto. On 12 September 2007, the Company's Board of Directors acknowledged the corporate approval of the Underwriting Agreement by the general shareholders

meeting of the Company on 1 August 2006, and confirmed that the Underwriting Agreement can be executed by the Company as contemplated in that corporate approval.

(4) Admission to the Official List of the UK Listing Authority and to trading on the London Stock Exchange market for the GDRs is expected to take place on 19 October 2007, following closing and settlement on 18 October 2007, subject only to the issue of the Master GDRs.

(5) There has been no significant change in the financial or trading position of the Company or the Group since 30 June 2007. See — "Management's discussion and analysis of the financial condition and results of operations — Structure of contracts, product mix and other pricing characteristics unique to certain markets."

(6) The SRK Report has been prepared by SRK Consulting (UK) Ltd, engineers and scientists, of 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK has given and not withdrawn its written consent to the inclusion of the SRK Report in this document, in the form and the context in which it appears, and has authorised the contents of those parts of this document that consist of the SRK Report for the purpose of Prospectus Rule 5.5.4R(2)(f).

(7) The ERCOSPLAN Report has been prepared by ERCOSPLAN, independent experts with respect to mining assets, of Arnstädter Straße 28, 99096 Erfurt, Germany. ERCOSPLAN has given and not withdrawn its written consent to the inclusion of the ERCOSPLAN Report in this document, in the form and the context in which it appears, and has authorised the contents of those parts of this document that consist of the ERCOSPLAN Report for the purpose of Prospectus Rule 5.5.4R(2)(f).

(8) Copies of the following will be available for inspection for the life of this document, and may be obtained free of charge, during normal business hours on any weekday, at the office of the Company:

- the Company's articles of association;
- the Deposit Agreement and Deed Poll;
- the Underwriting Agreement;
- Financial Statements; and
- a copy of this document.

In addition, this document will be available at the offices of UBS Limited, located at 1 Finsbury Avenue, London, EC2M 2PP, United Kingdom.

(9) The Company prepares annual consolidated financial statements in accordance with IFRS and condensed consolidated interim financial statements in accordance with IAS 34. Copies of the Company's future annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company.

(10) There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.

(11) The GDRs have no nominal or par value. The Offer Price was determined based on the results of the book building exercise conducted by the Managers.

(12) If certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

(13) The Company has had 2,124,390,000 ordinary shares (including ordinary shares held by LLC SP Kama, a wholly owned subsidiary of the Company) outstanding throughout the period for which Financial Statements have been included in the Prospectus.

(14) The total fees and expenses of the Company in connection with the Offering are estimated to be no greater than US$4.6 million.

(15) The ISIN for the Regulation S GDRs is US91688E2063, the Common Code for the Regulation S GDRs is 026803543, the CUSIP number for the Regulation S GDRs is 91688E206 and the SEDOL for the Regulation S GDRs is B1FLM08.

(16) The ISIN for the Rule 144A GDRs is US91688E1073, the Common Code for the Rule 144A GDRs is 026803446, the CUSIP number for the Rule 144A GDRs is 91688E107 and the LDN SEDOL for the Rule 144A GDRs is B1FLLV2 and the US SEDOL for the Rule 144A GDRs is B282249.

(17) The London Stock Exchange trading symbol is URKA and the PORTAL identification number is P91688E107.

INDEX TO FINANCIAL STATEMENTS

URALKALI GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND REVIEW REPORT

June 30, 2007

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

Review report of Independent Accounts

To the Shareholders and Board of Directors of open joint stock company "Uralkali"

Introduction
We have reviewed the accompanying consolidated condensed balance sheet of OJSC "Uralkali" and its subsidiaries (together, the "Group") as of 30 June 2007 and the related consolidated condensed statements of income, cash flows and changes in equity for the six-month period then ended. Management is responsible for the preparation and presentation of these consolidated condensed interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial statements based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
September 7, 2007

(in millions of Russian Roubles unless otherwise stated)

URALKALI

	Note	June 30, 2007	December 31, 2006
ASSETS			
Non-current assets:			
Property, plant and equipment	8	21,683	20,162
Goodwill		366	366
Intangible assets	10	148	171
Restricted cash	13	-	80
Related parties loans	6	3,430	2,659
Financial assets		241	248
Total non-current assets		**25,868**	**23,686**
Current assets:			
Inventories	11	1,574	1,481
Trade and other receivables	12	5,133	4,375
Current income tax prepayments		4	253
Related parties loans	6	443	431
Cash and cash equivalents	13	1,381	2,812
Total current assets		**8,535**	**9,352**
Total assets		**34,403**	**33,038**
Equity:			
Share capital	14	648	648
Treasury shares	14	(12)	(9)
Share premium		(841)	(514)
Revaluation reserve		150	150
Cumulative translation reserve		(268)	(195)
Retained earnings		21,367	17,549
Equity attributable to the Company's equity holders		**21,044**	**17,629**
Minority interest		**27**	**21**
Total equity		**21,071**	**17,650**
LIABILITIES			
Non-current liabilities:			
Borrowings	16	3,004	3,555
Provision for mine flooding	15	574	679
Deferred income tax liability	26	450	423
Total non-current liabilities		**4,028**	**4,657**
Current liabilities:			
Borrowings	16	6,515	8,040
Trade and other payables	17	2,417	2,515
Current income tax payable		68	10
Other taxes payable		304	166
Total current liabilities		**9,304**	**10,731**
Total liabilities		**13,332**	**15,388**
Total liabilities and equity		**34,403**	**33,038**

Approved on behalf of the Board of Directors
September 3, 2007

President

Finance Vice-President

The accompanying notes on pages 5 to 23 are an integral part of these condensed consolidated interim financial statements

(in millions of Russian Roubles unless otherwise stated)

	Note	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues	18	13,323	8,925
Cost of sales	19	(3,119)	(2,399)
Gross profit		**10,204**	**6,526**
Distribution costs	20	(3,741)	(2,633)
General and administrative expenses	21	(1,067)	(813)
Taxes other than income tax		(135)	(125)
Other operating expenses	23	(212)	(248)
Operating profit		**5,049**	**2,707**
Mine flooding costs	25	(77)	-
Finance income	24	552	445
Finance expense	24	(764)	(509)
Profit before income tax		**4,760**	**2,643**
Income tax expense	26	(936)	(557)
Profit for the year		**3,824**	**2,086**
Profit is attributable to:			
Equity holders of the Company		3,818	2,084
Minority interest		6	2
Net profit for the year		**3,824**	**2,086**
Earnings per share – basic and diluted (in RR)	27	**1.82**	**0.99**

(in millions of Russian Roubles unless otherwise stated)

	Note	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from operating activities			
Profit before income tax and minority interest		4,760	2,643
Adjustments for:			
Depreciation and amortisation		982	1,041
(Gains)/losses less loss/(gain) on disposal of property, plant and equipment		97	(16)
Loss on fixed assets disposed on mine flooding	25	10	-
Impairment of trade and other receivables		11	23
Net change in provision for earth replacement and mine flooding		(105)	(92)
Finance costs, net		270	212
Foreign exchange gains	24	(156)	(161)
Amortisation of syndication fees		7	-
Operating cash flows before working capital changes		**5,876**	**3,650**
Increase in trade and other receivables		(818)	(1,008)
Increase in inventories		(94)	(1,109)
(Decrease)/increase in accounts payable, accrued expenses and other creditors		(76)	387
Increase/(decrease) in other taxes payable		136	(91)
Cash generated from operations		**5,024**	**1,829**
Interest paid		(394)	(194)
Income taxes paid		(446)	(345)
Net cash generated from operating activities		**4,184**	**1,290**
Cash flows from investing activities:			
Purchase of intangible assets	10	(10)	(9)
Purchase of property, plant and equipment		(2,453)	(1,837)
Proceeds from sales of property, plant and equipment		19	155
Sale of investments, net		-	8
Increase in restricted cash balances		(103)	-
Loans issued to related party		(753)	(3,033)
Dividends and interest received		28	54
Net cash used in investing activities		**(3,272)**	**(4,662)**
Cash flows from financing activities			
Repayments of borrowings		(6,353)	(3,257)
Proceeds from borrowings		4,470	8,387
Acquisition of treasury shares	14	(57)	(68)
Finance lease payments		(19)	(19)
Dividends paid to shareholders		(547)	(5,184)
Net cash used in financing activities		**(2,506)**	**(141)**
Effect of foreign exchange rate changes on cash and cash equivalents		(20)	93
Net decrease in cash and cash equivalents		**(1,614)**	**(3,420)**
Cash and cash equivalents at the beginning of the period, net of restricted cash	13	**2,767**	**4,076**
Cash and cash equivalents at the end of the period, net of restricted cash	13	**1,153**	**656**

(in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital (Note 14)	**Treasury shares (Note 14)**	**Share premium**	**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	-	-	-	-	(157)	-	(157)	-	(157)
Net income recognised directly in equity	-	-	-	-	(157)	-	(157)	-	(157)
Net income for the year	-	-	-	-	-	2,084	2,084	2	2,086
Total recognised income for the period	-	-	-	-	(157)	2,084	1,927	2	1,929
Acquisition of treasury shares (Note 14)	-	(1)	(67)	-	-	-	(68)	-	(68)
Balance at June 30, 2006	**648**	**(7)**	**(355)**	**150**	**(112)**	**19,493**	**19,817**	**23**	**19,840**
Balance at January 1, 2007	**648**	**(9)**	**(514)**	**150**	**(195)**	**17,549**	**17,629**	**21**	**17,650**
Translation movement	-	-	-	-	(73)	-	(73)	-	(73)
Net income recognised directly in equity	-	-	-	-	(73)	-	(73)	-	(73)
Net income for the year	-	-	-	-	-	3,818	3,818	6	3,824
Total recognised income for the period	-	-	-	-	(73)	3,818	3,745	6	3,751
Acquisition of treasury shares (Note 14)	-	(3)	(327)	-	-	-	(330)	-	(330)
Balance at June 30, 2007	**648**	**(12)**	**(841)**	**150**	**(268)**	**21,367**	**21,044**	**27**	**21,071**

The accompanying notes on pages 5 to 23 are an integral part of these condensed consolidated interim financial statements

1 The Uralkali Group and its operations

JSC “Uralkali” (the “Company”) and its subsidiaries (together the “Group”) produce mineral fertilizers 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 range of potash fertilizers.. The Group produces approximately 8.3% of the global volumes of potassium fertilisers and is the biggest manufacturer in the Russian Federation. For the six months ended June 30, 2007 approximately 91% (for the year ended December 31, 2006: 90%) of production is exported.

The parent company, JSC “Uralkali”, 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 and JSC “Belorussian potash Company“, a company incorporated in Belorussia.

As of June 30, 2007 the majority shareholder of the Company was Madura Holdings Limited, company registered in Cyprus. 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 June 30, 2007 the Group employed approximately 11.6 thousand employees (December 31, 2006: 11.5 thousand).

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended June 30, 2007 has been prepared in accordance with IAS 34, ‘Interim Financial Reporting’. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006.

Certain reclassifications have been made to prior year balances in the condensed consolidated balance sheet, statement of income and cash flows to conform to the current period presentation

3 Adoption of new or revised standards and 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 condensed consolidated financial statements:

- IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007). No disclosures have been provided in these condensed consolidated interim financial statements.
- IFRIC 7, Applying the Restatement Approach under IAS 29 (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, 2007 or later periods and which the entity has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 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. Management is currently assessing what impact the Standard will have on segment disclosure in the Group’s financial statements.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007). The Interpretation addresses the issues whether the transactions under the requirements of IFRS 2 should be accounted for as equity-settled or as cash-settled and concerns share-based payment arrangements that involve two or more entities within the same group.

4 New accounting pronouncements (continued)

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008). The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Interpretation does not specify the accounting for infrastructure that was held and recognised as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of IFRSs (set out in IAS 16) apply to such infrastructure. The Interpretation has no material impact on these condensed consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008). The Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Interpretation addresses accounting by the entity that grants award credits to its customers. The Interpretation has no material impact on these condensed consolidated financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirments and their Interaction (effective for annual periods beginning on or after January 1, 2008). The Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. For the purpose of this Interpretation, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan. The Interpretation has no material impact on these condensed consolidated financial statements.

IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). The amendment proposed the elimination of the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Interpretation has no material impact on these condensed 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 28).

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 403 should be assessed for impairment in 2013.

Land. All facilities of JSC "Baltic Bulker Terminal" (a transshipment marine terminal located in port of St. Petersburg) situated on land occupied on an annual lease basis, but the management plans to purchase it or to sign long-term rent agreement with municipal authorities. If the Group can not secure long-term use of this land, net assets of RR 3,034 should be assessed for impairment (Note 7).

Provisions for earth replacement and mine flooding. From 2002 to the end of October 2006 the Company 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 15). The provision was estimated as the present value of future additional cash outflows relating to the Company'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 Company in determining the fair value of the earth replacement reserve in 2006 is 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.

(in millions of Russian Roubles unless otherwise stated)

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

On October 28, 2006 the Company stopped production operations in Mine 1 due to natural groundwater inflow increase to the level when it can not be controlled by the Company. According to the act of a governmental commission, the pre-flooding circumstances, in terms of their sources, magnitude and intensity, were force majeure and unavoidable under the existing conditions, and beyond the control of the Company.

Following the closure of the Mine 1 on October 28, 2006, the Company 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 are 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 filling operations, that has been prepared for 2007 and will be updated annually, is based on current Group's maximum brine production capacity. Based on the 2007 technical plan and its best estimates, the management estimated a provision for present value of cash outflows to be incurred in the next 3 years (Note 15).

The actual volume of natural groundwater inflow has varied since the date of the flooding. According to weekly monitoring activities average inflow of the groundwater in the first six months of 2007 was around 2,630 cubic metres per hour. If the volume of the natural groundwater inflow will continue to be at this average level, the period in which the mine is expected to be filled with groundwater will increase from expected 3 years to 3,4 years and the Group will incur additional brine injection costs of RR 87.

Management is currently assessing 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 June 30, 2007 the amount of expenses the Group can incur in the future in relation to flooding risks, however the amount could be significant for the Group. As of June 30, 2007 the Company incurred additionally RR 77 in relation to activities directed to minimize consequences of the flood in Mine 1 (December 31, 2006: 2,054).

Inventory. The Company 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.

6 Related parties

For the purposes of these financial statements, 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 June 30, 2007 and 2006 respectively and December 31, 2006 are detailed below.

At June 30, 2007 and 2006 respectively and December 31, 2006 the outstanding balances and transactions with related parties were as follows:

Balance sheet caption	Relationship	June 30, 2007	December 31, 2006
Other payables	Entities under common control	26	26
Loans to related parties	Entities under common control	443	431
Loans to related parties	Majority shareholder	3,430	2,659
Financial assets	Entities under common control	19	19

Statement of income caption	Relationship	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest income	Majority shareholder	73	42
Interest income	Entities under common control	10	9

Loans to related parties

Loans to LLC "Permgeologodobycha" are denominated in RR, unsecured and bear 4% to 6% annual interest (for the six months ended June 30, 2006: 4% to 6%). The loans are repayable till December 2007, January – May 2008.

(in millions of Russian Roubles unless otherwise stated)

6 Related parties (continued)

Loans to majority shareholder

In 2006 the Group provided a 5% loan in amount of RR 4,029 (USD 146 million) to Madura Holdings Limited, the Group's majority shareholder, of which RR 1,194 (USD 45 million) was repaid within the year. During six months ended June 30, 2007 the Group provided an additional tranche in amount of RR 753 (USD 29 million). The loan is repayable in 2010-2011.

Financial assets

As of June 30, 2007 and December 31, 2006 financial assets are represented by interest free promissory notes received from LLC "Permgeologodobycha".

Cross shareholding

At June 30, 2007 LLC "Kama", a 100% owned subsidiary of the Group, owned 1.14% of the ordinary shares of the Company (December 31, 2006: 0.85%). Shares owned by LLC "Kama" are accounted for as treasury shares (Note 14).

Managements' compensation

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

Total key management personnel's compensation is represented by short-term employee benefits and included in general and administrative expenses in the statement of income amounted to RR 48 and RR 64 for the six months ended June 30, 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 and India and exports to developed countries are mainly to the customers located in USA and European countries.

The segment results for six months ended June 30, 2007 are as follows:

	Export			**Domestic**			**Unallocated**	**Total**
	Developing countries	**Developed countries**	**Total export**	**Potash sales**	**Other sales**	**Total domestic**		
Tons (thousands)	2,056	173	**2,229**	217	-	**217**	-	**2,446**
Revenues	11,152	862	**12,014**	761	548	**1,309**		**13,323**
Segment result/operating profit	4,192	354	**4,546**	360	224	**584**	(81)	**5,049**
Finance costs & net foreign exchange gain	-	-	-	-	-	**-**	(212)	(212)
Mine flooding costs (Note 25)	-	-	**-**	-	-	**-**	(77)	(77)
Profit before taxation							-	4,760
Income tax							(936)	(936)
Net profit								3,824

The segment results for six months ended June 30, 2006 are as follows:

	Export			**Domestic**			**Unallocated**	**Total**
	Developing countries	**Developed countries**	**Total export**	**Potash sales**	**Other sales**	**Total domestic**		
Tons (thousands)	1,288	221	**1,509**	199		**199**	-	**1,708**
Revenues	6,833	1,085	**7,918**	576	431	**1,007**	-	**8,925**
Segment result/operating profit	2,084	327	**2,411**	248	82	**330**	(34)	**2,707**
Finance costs & net foreign exchange loss	-	-	**-**	-	-	**-**	(64)	(64)
Profit before taxation							-	2,643
Income tax							(557)	(557)
Net profit								2,086

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

The total depreciation and amortization costs included in the statement of income for six months ended June 30, 2007 and June 30, 2006 are as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Six months ended June 30, 2007	825	69	**894**	88	-	982
Six months ended June 30, 2006	720	123	**843**	198	-	1,041

The total loss on disposal of fixed assets at nil consideration included in the statement of income for six months ended June 30, 2007 and June 30, 2006 is as follows:

	Export	Domestic	Unallocated	Total
Six months ended June 30, 2007	-	-	101	101
Six months ended June 30, 2006	-	-	72	72

The segment assets and liabilities as at June 30, 2007 and December 31, 2006 and capital expenditure for six months ended June 30, 2007 and June 30, 2006 are as follows:

June 30, 2007	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	2,634	3,954	23,697	4,118	34,403
Liabilities	(10)	(636)	(2,651)	(10,035)	(13,332)
Capital expenditure	2,495	96		-	2,591

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 June 30, 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 periods ended June 30, 2007 and December 31, 2006 can be presented based on the location of the assets as follows:

June 30, 2007	Russia	Switzerland	Unallocated	Total
Assets	24,050	6,235	4,118	34,403
Capital expenditure	2,495	96	-	2,591

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	-	-	-	284	2,307	-	-	**2,591**
Transfers	47	114	691	-	(904)	52	-	**-**
Disposals	(12)	(32)	(208)	(56)	(49)	(3)	-	**(360)**
Balance as of June 30, 2007	**8,071**	**5,366**	**11,862**	**4,104**	**8,306**	**486**	**179**	**38,374**
Accumulated Depreciation								
Balance as of December 31, 2006	**3,409**	**4,582**	**6,650**	**1,094**	-	**246**	-	**15,981**
Depreciation charge	129	73	578	159	-	16	-	**955**
Disposals	(6)	(17)	(181)	(39)	-	(2)	-	**(245)**
Balance as of June 30, 2007	**3,532**	**4,638**	**7,047**	**1,214**	**-**	**260**	**-**	**16,691**
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 June 30, 2007	**4,539**	**728**	**4,815**	**2,890**	**8,306**	**226**	**179**	**21,683**

(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	-	-	-	402	1,451	-	-	1,853
Transfers	3	11	558	-	(578)	6	-	-
Disposals	(18)	(3)	(275)	(197)	(8)	(43)	-	(544)
Balance as of June 30, 2006	**8,461**	**5,970**	**12,915**	**3,659**	**5,445**	**420**	**174**	**37,044**
Accumulated Depreciation								
Balance as of December 31, 2005	3,443	4,967	7,422	1,144	-	230	-	17,206
Depreciation charge	132	97	618	143	-	16	-	1,006
Disposals	(4)	(1)	(237)	(141)	-	(17)	-	(400)
Balance as of June 30, 2006	**3,571**	**5,063**	**7,803**	**1,146**	-	**229**	**-**	**17,812**
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 June 30, 2006	**4,890**	**907**	**5,112**	**2,513**	**5,445**	**191**	**174**	**19,232**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

Depreciation

For six months ended June 30, 2007 and 2006 respectively the depreciation was allocated to statement of income as follows:

	Six months ended June 30, 2007	Six months ended June 30, 2006
Cost of sales	695	748
Distribution costs	119	115
Transhipment costs	41	50
General and administrative expenses	94	93
Loss on disposal of fixed assets (Note 25)	5	-
Total depreciation expense	**954**	**1,006**

In 2007 the Group incurred depreciation amounting to RR 1 (2006: nil) directly related to construction of new fixed assets. These expenses were capitalized on the balance sheet in accordance with the Group accounting policy and included in assets under construction.

Fully depreciated assets still in use
As of June 30, 2007 and December 31, 2006 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 7,175 and RR 6,752 respectively.

Assets pledged under loan agreements
As of June 30, 2007 and December 31, 2006 the carrying value of property, plant and equipment pledged under bank loans was RR 8,710 and RR 8,142 respectively (Note 16).

Land
The assets transferred to the Group upon privatization did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated, with the exception of the land on which the Head Office is situated. As a result of changes in legislation in 2001 all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The Group has exercised this option and purchased the land under the Group's production facilities.

9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	June 30, 2007 % share	June 30, 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 Baltic Bulker Terminal	Russia	Maritime terminal	100	100
LLC Autotranskali	Russia	Transportation	100	100
LLC Vagonnoe Depo Balakhonzi	Russia	Repairs	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	-
LLC Novaya Nedvizhimost'	Russia	Repair and maintenance	100	-
Joint-ventures				
JSC Belorussian Potash Company	Belorussia	Trading	50	50

(in millions of Russian Roubles unless otherwise stated)

9 Principal subsidiaries and joint-ventures (continued)

In November 2006 LLC "Vagonnoe Depo Balakhonzi" was detached in a separate legal entity, and provides railcars repair and maintenance services to the Group. However, the entity is controlled by the Group and, therefore, is consolidated.

In March 2006 the Group sold a 49% share in LLC "Specgorkhimproekt" for consideration of RR 490 thousand without any losses or gains on disposal. However, the entity is controlled by the Group and, therefore, is consolidated. In January 2007 LLC "Specgorkhimproekt" was renamed LLC "Uralkali Engineering".

In December 2006 LLC "Novaya Nedvizhimost'" was detached in a separate legal entity, and provides repair and maintenance services to the Group. However, the entity is controlled by the Group and, therefore, is consolidated.

In October 2005, Uralkali acquired a 50% interest in Belorussian Potash Company (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 Company through BPC are accounted as a jointly controlled operation.The statement of income reflects the revenue from sales by BPC of Uralkali's products, together with the related costs of sale and distribution and administrative costs.

10 Intangible assets

	Software	Other	Total
Cost at January 1, 2006	304	20	**324**
Accumulated amortization	(112)	-	**(112)**
Carrying amount at January 1, 2006	192	20	**212**
Additions	9	-	9
Amortization charge	(35)	-	(35)
Cost at June 30, 2006	**313**	**20**	**333**
Accumulated amortization	**(147)**	**-**	**(147)**
Carrying amount at June 30, 2006	**166**	**20**	**186**
Cost at January 1, 2007	**327**	**20**	**347**
Accumulated amortization	**(176)**	**-**	**(176)**
Carrying amount at January 1, 2007	**151**	**20**	**171**
Additions	10	-	10
Amortization charge	(33)	-	(33)
Cost at June 30, 2007	**337**	**20**	**357**
Accumulated amortization	**(209)**	**-**	**(209)**
Carrying amount at June 30, 2007	**128**	**20**	**148**

The balances of intangible assets reported in these condensed consolidated financial statements at June 30, 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 28). In 2004 the Company acquired a license for mineral exploration and extraction of potassium and magnesium salts in the "Verhnekamskoe" mine "Ust'-Yaivinskoe" district. The license expires in 2024.

(in millions of Russian Roubles unless otherwise stated)

11 Inventories

Inventories consist of the following:

	June 30, 2007	December 31, 2006
Raw materials	1,027	1,063
Finished products	462	398
Work in progress	85	20
Total inventories	**1,574**	**1,481**

At June 30, 2007 the balance of finished goods includes inventories bought for resale. As of June 30, 2007 no inventories were pledged as security for bank loans (December 31, 2006: RR 1,322) (Note 16).

12 Trade and other receivables

	June 30, 2007	December 31, 2006
Trade receivables	3,074	1,752
Less: impairment loss provision	(29)	(20)
Trade debtors, net	**3,045**	**1,732**
VAT recoverable	900	1,330
Other taxes receivables	663	536
Advances to suppliers	375	354
Prepaid expenses	99	88
Other receivables	111	421
Less: impairment loss provision	(60)	(86)
Total trade and other receivables	**5,133**	**4,375**

As of June 30, 2007 and December 31, 2006 trade receivables of RR 2,929 and RR 1,677 net of impairment loss provision are denominated in foreign currency, mainly in US dollars and Euro.

13 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2007	December, 31 2006
RR denominated cash on hand and bank balances (interest rate: from 1.25 % p.a. to 5.5 % p.a. (2006: from 0.5 % p.a. to 6.2 % p.a.))	155	1,404
USD denominated bank balances	870	607
Other currencies denominated balances	128	26
USD term deposits (interest rate: - (2006: from 2,5% p.a. to 4.95% p.a.))	-	430
RR term deposits (interest rate: - (2006: 8 % p.a))	-	300
Cash and cash equivalents, net of restricted cash	**1,153**	**2,767**
Restricted cash		
Non-current limited guarantee deposit (Note 29 i)	-	80
Limited guarantee deposit (Note 29 i)	80	-
Three month fixed interest rates (from 3.66% p.a. to 6.01% p.a. (2006: from 4.8% p.a. to 6.19% p.a.)) bank deposits	148	45
Total restricted cash	**228**	**125**
Total cash and cash equivalents	**1,381**	**2,892**

Term deposits have original maturities of less than three months.

(in millions of Russian Roubles unless otherwise stated)

14 Shareholders' equity

	Number of ordinary shares	Ordinary shares	Treasury shares	Total
At January 1, 2006	**2,124**	**648**	**(6)**	**642**
Treasury shares purchased	-	-	(1)	**(1)**
At June 30, 2006	**2,124**	**648**	**(7)**	**641**
At January 1, 2007	**2,124**	**648**	**(9)**	**639**
Treasury shares purchased	-	-	(3)	**(3)**
At June 30, 2007	**2,124**	**648**	**(12)**	**636**

The number of unissued authorised ordinary shares is 1,500 mln. (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 June 30, 2007 treasury shares comprise 24,441,811 ordinary shares of the Company (December 31, 2006: 17,966,905) with a nominal value per share of 0.5 Roubles held by LLC "Kama", a wholly owned subsidiary of the Group. Purchase price of shares acquired during six months ended June 30, 2007 amounted to RR 327 (six months ended June 30, 2006: 68), comprised consideration paid in cash of RR 57 and non-cash of RR 270 (six months ended June 30, 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.

Russian legislation identifies the basis of distribution as the net profit. For the six months ended June 30, 2007, the current period net statutory profit for the Company as reported in the published semi-annual statutory reporting forms was RR 2,913 (six months ended June 30, 2006: RR 2,001) and the closing balance of the accumulated profit including the current period net statutory profit totalled RR 15,353 (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 financial statements.

Dividends. In December 2006 the General Meeting of Shareholders of the Company has approved interim dividends (based on the financial results for the first nine months of 2006) amounting to RR 3,378 (1.59 Roubles per share).

15 Mining provisions

Earth replacement provision

	Note	2007	2006
Balance as of January 1		**-**	**196**
Reduction of reserve for cavities filled during the period	19	-	(67)
Change in estimate	19	-	(37)
Increase in provision as a result of passage of time	24	-	12
Balance as of June 30		-	**104**

During six months ended June 30, 2006 the local authorities in Berezniki and regional authorities in Perm reimbursed a part of the operating costs incurred by the Company in filling-up cavities under the city of Berezniki ursuant to the Law of the Perm Region W381-69 passed on October 25, 2002. The reimbursement amounted to RR 17.

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

Provision for mine flooding

	Note	2007	2006
Balance as of January 1		**679**	**-**
Reduction of reserve for cavities filled during the period	25	(139)	-
Increase in provision as a result of passage of time	24	34	-
Balance as of June 30		**574**	**-**

(in millions of Russian Roubles unless otherwise stated)

16 Borrowings

	June 30, 2007	December, 31 2006
Bank loans	9,146	11,088
Company loans	45	179
Finance lease payable	328	328
Total borrowings	**9,519**	**11,595**

As at June 30, 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 comprise a short-term unsecured interest-free loan from JSC “Sea Port St. Petersburg” in the amount of RR 45 (December 31, 2006: RR 45). In 2006 the Group rescheduled its repayments for this loan from December 31, 2006 to July - December 2007.

JSC “Baltic Bulker Terminal” leases a dock from JSC “Sea Port St. Petersburg” under a finance lease for 49 years. As of June 30, 2007 the leased dock was included in buildings, with a net book value of RR 284 (December 31, 2006: RR 286) (Note 8).

	2007	2006
Balance at 1 January	**11,088**	**3,484**
Bank loans received, denominated in US$	4,470	8,200
Bank loans received, denominated in RR	-	187
Bank loans repaid, denominated in US$	(6,069)	(3,257)
Bank loans repaid, denominated in RR	(150)	-
Interest accrued	378	222
Interest paid	(394)	(195)
Recognition of syndication fees	(12)	-
Amortization of syndication fees	19	-
Currency translation difference	(184)	(306)
Balance at 30 June	**9,146**	**8,335**

Table below provides interest rates at June 30, 2007 and December 31, 2006 and split of the bank loans between short-term and long-term.

Short-term borrowings

	Interest rates	June 30, 2007	December, 31 2006
Bank loans in USD – fixed interest	7.5% (2006: from 7.6% to 8%)	1,780	1,781
Bank loans in USD – floating interest	From Libor +1.95% to Libor +3% (2006: from Libor +2% to Libor +3%)	4,690	5,930
Bank loans in RR – fixed interest	9.60%	-	150
Total short-term bank loans		**6,470**	**7,861**

Long-term borrowings

	Interest rates	June 30, 2007	December 31, 2006
Bank loans in USD – floating interest	from Libor +1.95% (2006: from Libor +2.25% to Libor +3%)	2,676	3,227
Total long-term bank loans		**2,676**	**3,227**

USD denominated bank loans bear a weighted average interest of 7.71% (December 31, 2006: 7.81%)

During the six months ended June 30, 2007 the Group received borrowings from the following banks:

Lender	Maturity date	Amount, RR
International Moscow Bank	May, 2010	2,686
Sberbank	April-May 2008	1,784
Total bank loans received		**4,470**

(in millions of Russian Roubles unless otherwise stated)

16 Borrowings (continued)

During the six months ended June 30, 2007 the Group repaid the following loans:

Lender	Maturity date	Amount, RR
ABN AMRO Bank (partial repayment)	February 2008	528
International Moscow Bank (partial repayment)	February-September 2007	1,469
Sberbank	May 2007	1,891
Bank of Moscow	July 2007	2,331
Total bank loans repaid		**6,219**

As at June 30, 2007 and December 31, 2006 loans, including short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 11).

The Group's bank borrowings mature as follows:

	June 30, 2007	December 31, 2006
- within 1 year	6,470	7,861
- between 2 and 5 years	2,676	3,227
Total bank loans	**9,146**	**11,088**

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

	June 30, 2007	December 31, 2006
- within 1 year	38	38
- between 2 and 5 years	152	152
- after 5 years	1,504	1,523
Minimum lease payments at the end of the period	**1,694**	**1,713**
Less future finance charges	(1,366)	(1,385)
Present value of minimum lease payments	**328**	**328**

17 Trade and other payables

	June 30, 2007	December 31, 2006
Trade payables	1,748	695
Accrued liabilities	279	809
Deferred consideration of subsidiary acquisition	143	143
Dividends payable	84	632
Other payables and advances received	163	236
Total Trade and other payables	**2,417**	**2,515**

18 Revenues

	Six months ended June 30, 2007	Six months ended June 30, 2006
Export		
Potassium chloride	8,525	5,673
Potassium chloride (granular)	3,489	2,245
Domestic		
Potassium chloride	761	576
Karnalite	-	167
Other	61	64
Transportation and other revenues	487	200
Total revenues	**13,323**	**8,925**

During six months ended June 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.

(in millions of Russian Roubles unless otherwise stated)

19 Cost of sales

	Note	Six months ended June 30, 2007	Six months ended June 30, 2006
Labour		791	843
Fuel and energy		748	653
Depreciation		695	748
Materials and components used		582	445
Repairs and maintenance		264	111
Transportation between mines		141	77
Utilities		14	13
Change in provision for earth replacement	15	-	(104)
Change in work in progress, finished goods and goods in transit	11	(124)	(401)
Other		8	14
Total cost of sales		**3,119**	**2,399**

20 Distribution costs

	Six months ended June 30, 2007	Six months ended June 30, 2006
Railway tariff	1,864	1,297
Freight	1,232	814
Transport repairs and maintenance	166	77
Transhipment	127	116
Depreciation	119	115
Travel expenses	55	55
Labour	33	43
Commissions	14	28
Other	131	88
Total selling and marketing costs	**3,741**	**2,633**

21 General and administrative expenses

	Six months ended June 30, 2007	Six months ended June 30, 2006
Labour	419	330
Depreciation and amortization	127	128
Consulting, audit and legal services	116	39
Insurance	90	92
Security	41	38
Mine-rescue crew	41	36
Communication and IS services	32	23
Bank charges	29	32
Other	172	95
Total general and administrative expenses	**1,067**	**813**

22 Labor costs

For six months ended June 30, 2007 and 2006 total labour costs comprised RR 1,243 and RR 1,216 respectively. Labour costs are mainly represented by salaries, wages, bonuses and benefits, employee related payments to the state budget and post retirement benefits.

23 Other operating expenses

	Six months ended June 30, 2007	Six months ended June 30, 2006
Provision for impairment of receivables	11	23
Loss/(gain) on disposal of fixed assets	97	(16)
Social cost and charity	72	108
Net result on sale of Belaruskali goods	(16)	33
Other expenses	48	100
Total other operating expenses	**212**	**248**

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

(in millions of Russian Roubles unless otherwise stated)

24 Finance income and expense

The components of finance income and expenses were as follows:

	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest income	110	93
Fair value gains on investments	16	10
Foreign exchange gain	426	342
Finance income	**552**	**445**

	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest expense	377	229
Change in provision as a result of passage of time	34	12
Finance lease expense	19	19
Foreign exchange loss	270	181
Fair value losses on investments	-	12
Letters of credit fees	64	56
Finance expense	**764**	**509**

25 Mine flooding costs

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

	Note	Six months ended June 30, 2007	Six months ended June 30, 2006
Dismantling costs		67	-
Loss on disposal of fixed assets		10	
Brine injection costs		139	-
Change in provision for mine flooding	15	(139)	-
Total mine flooding costs		**77**	**-**

Dismantling costs are mainly represented by labour costs, depreciation and costs paid to service organisations for dismantling of equipment.

26 Income tax expense

	Six months ended June 30, 2007	Six months ended June 30, 2006
Current income tax expense	909	594
Deferred tax	27	(37)
Income tax expense	**936**	**557**

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

	Six months ended June 30, 2007	Six months ended June 30, 2006
Profit before income tax	4,760	2,643
Theoretical tax charge at effective statutory rates*	1,142	635
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-deductible expenses	49	56
- non-taxable income	-	(2)
Difference in tax rates	(113)	(77)
Regional tax allowance	(148)	(106)
Other	6	51
Consolidated tax charge	**936**	**557**

* Profit before taxation on Switzerland and Gibraltar operations is assessed based on effective rate of 8% (June 30, 2006: 8%).

(in millions of Russian Roubles unless otherwise stated)

26 Income tax expenses (continued)

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 that reduced income tax rate from 24% to 20% for companies with average number of personnel exceeding 10 persons and income, calculated in accordance with the statutory Tax Code exceeding RR 0,1.

In 2006 and 2005 the Company had capital expenditures of more than 20% of taxable net income during the six months ended June 30, 2007 and 2006 respectively 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 six months ended June 30, 2007 and 2006 respectively at a rate 20% instead of standard rate of 24%. Deferred tax has been computed in these condensed 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	June 30, 2007
Tax effects of taxable temporary differences:			
Property, plant and equipment	(659)	56	(603)
Investments	(54)	(1)	(55)
Inventories	(59)	(15)	(74)
Borrowings	(25)	(6)	(31)
	(797)	34	(763)
Tax effects of deductible temporary differences:			
Finance lease	79	-	79
Mine flooding reserve	163	(25)	138
Accounts receivable	10	3	13
Accounts payable	57	(41)	16
Other	65	2	67
	374	(61)	313
Total net deferred tax liability	**(423)**	**(27)**	**(450)**

	December 31, 2005	Charged/ (credited) to profit or loss	June 30, 2006
Property, plant and equipment	(909)	75	(834)
Investments	(15)	(6)	(21)
Inventories	(87)	(104)	(191)
Borrowings	(28)	2	(26)
Accounts payable	-	(44)	(44)
	(1,039)	(77)	(1,116)
Tax effects of deductible temporary differences:			
Finance lease	79	-	79
Earth replacement reserve	47	(22)	25
Accounts receivable	8	136	144
Other	30	-	30
	164	114	278
Total net deferred tax liability	**(875)**	**37**	**(838)**

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 (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.

27 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 period, excluding treasury shares (Note 14). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	Six months ended June 30, 2007	Six months ended June 30, 2006
Net profit	3,824	2,086
Weighted average number of ordinary shares in issue (millions)	2,102	2,111
Basic and diluted earnings per share (expressed in RR per share)	**1.82**	**0.99**

28 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 Saint-Petersburg filed a claim with the Arbitration Court of Saint-Petersburg and Leningrad Region seeking to render null and void an agreement between BBT and FGUP Rosmorport, pursuant to which 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 the court hearing held on the August 21, 2007 the Arbitration Court of Saint-Petersburg and Leningrad Region dismissed the prosecutor's claim.

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 condensed 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) and 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 includes companies incorporated outside of Russia that are subject to respective tax jurisdictions. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated. However, it may be significant.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices.The impact of any challenge by the tax authorities cannot be reliably estimated. However, it may be significant.

The Group's management believes that its interpretation of the legislation of the jurisdictions where the Group operates is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at June 30, 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.

28 Contingencies, commitments and operating risks (continued)

iii Insurance policies

The Company holds insurance policies with CJSC "AIG Russia Insurance Company" and JSC "Russia Insurance Company". These agreements cover 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 premiums related to abovementioned agreements of RR 90 was recognized as an expense for the six months ended June 30, 2007 (for the six months ended June 30, 2006: RR 92) (Note 21).

iv Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. 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.

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 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 June 30, 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 2,050 (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 these commitments.

vii Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. At June 30, 2007 the Group issued guarantees in favour of third parties in the amount of RR 33 (December 31, 2006: RR 12).

viii Operating licenses

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 (Note 10), 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.

29 Financial risk management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment provision, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although 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.

29 Financial risk management (continued)

During six months ended June 30, 2007 and in 2006 receivables from Brazilian customers represented by promissory notes were usually negotiated to the bank upon receipt. Insurance of non-collection risk covers 90% of the promissory notes amount. The remaining 10% is covered by a limited guarantee deposit held by the bank maturing in March 2008.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

iii 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 dollars.

The Group attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Consequently, the movement in exchange rates between the local currency and foreign currency significantly influences the operating margin in these financial statements.

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

From March 2007 the Group has certain arrangements with banks to hedge the Group's foreign exchange risk exposure covering up to USD 175 mln of cash flow (mainly future export revenue) exercisable during the period ending February 2008.

iv Cash flow and fair value 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 and variable component linked to LIBOR (Note 16). The Group has interest-bearing assets which are at fixed interest rates (Note 6).

v Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 16). Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

30 Events after balance sheet date

Legal proceedings

In April 2007 the Federal Antimonopoly Service concluded that the Group breached the Federal Law "On defence of competition" in respect of prices on potassium chloride set for 2007 for domestic customers. According to the decision of the Federal Antimonopoly Service the Group is obliged to sell potassium chloride to domestic customers on prescribed prices (2,950 roubles per ton) and pay a fine of RR 62 to the federal budget. In July 2007 the Group has contested this decision in the Arbitration Court of Moscow. Court hearings were postponed until September 2007.

URALKALI®

URALKALI GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR`S REPORT

To the 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 at December 31, 2006, 2005 and 2004 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the years 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, 2006, 2005 and 2004 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Compliance statement

7 For the purposes of the Prospectus Rules 5.5.4R(2)(f), we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Directive Regulation.

/s/ ZAO PricewaterhouseCoopers Audit

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
October 12, 2007

(in millions of Russian Roubles unless otherwise stated)

	Note	December 31, 2006	December 31, 2005	December 31, 2004
ASSETS				
Non-current assets:				
Property, plant and equipment	8	20,162	18,529	11,851
Goodwill	11	366	366	-
Intangible assets	12	171	212	200
Restricted cash	15	80	-	-
Investments accounted for using the equity method		-	-	1,422
Related parties loans	6	2,659	-	145
Financial assets		248	180	137
Total non-current assets		**23,686**	**19,287**	**13,755**
Current assets:				
Inventories	13	1,481	1,433	1,165
Trade and other receivables	14	4,375	4,514	1,772
Current income tax prepayments		253	419	186
Related parties loans	6	431	407	101
Cash and cash equivalents	15	2,812	4,076	750
Total current assets		**9,352**	**10,849**	**3,974**
Total assets		**33,038**	**30,136**	**17,729**
Equity:				
Share capital	16	648	648	648
Treasury shares	16	(9)	(6)	-
Share premium		(514)	(288)	-
Revaluation reserve		150	150	-
Cumulative translation reserve		(195)	45	2
Retained earnings		17,549	17,409	14,054
Equity attributable to the Company's equity holders		**17,629**	**17,958**	**14,704**
Minority interest		**21**	**21**	**49**
Total equity		**17,650**	**17,979**	**14,753**
LIABILITIES				
Non-current liabilities:				
Borrowings	18	3,555	2,763	370
Provision for earth replacement	17	-	196	283
Provision for mine flooding		679	-	-
Deferred income tax liability	28	423	875	929
Total non-current liabilities		**4,657**	**3,834**	**1,582**
Current liabilities:				
Borrowings	18	8,040	1,214	671
Trade and other payables	19	2,515	6,915	598
Current income tax payable		10	13	4
Other taxes payable		166	181	121
Total current liabilities		**10,731**	**8,323**	**1,394**
Total liabilities		**15,388**	**12,157**	**2,976**
Total liabilities and equity		**33,038**	**30,136**	**17,729**

Approved on behalf of the Board of Directors
October 1, 2007

/s/
President

/s/
Finance Vice-President

(in millions of Russian Roubles unless otherwise stated)

	Note	2006	2005	2004
Revenues	20	22,290	27,976	12,095
Cost of sales	21	(6,307)	(5,497)	(5,213)
Gross profit		**15,983**	**22,479**	**6,882**
Distribution costs	22	(6,691)	(8,544)	(2,045)
General and administrative expenses	23	(2,058)	(1,286)	(891)
Taxes other than income tax		(258)	(283)	(261)
Other operating expenses	25	(426)	(635)	(401)
Operating profit		**6,550**	**11,731**	**3,284**
Finance income	26	914	380	287
Finance expense	26	(1,084)	(771)	(270)
Mine flooding costs	27	(2,054)	-	-
Share of (loss)/profit of investments accounted for using the equity method		-	(3)	8
Profit before income tax		**4,326**	**11,337**	**3,309**
Income tax expense	28	(832)	(1,908)	(763)
Profit for the year		**3,494**	**9,429**	**2,546**
Profit is attributable to:				
Equity holders of the Company		3,494	9,430	2,544
Minority interest		-	(1)	2
Net profit for the year		**3,494**	**9,429**	**2,546**
Earnings per share – basic and diluted (in RR)	29	**1.66**	**4.45**	**1.20**

(in millions of Russian Roubles unless otherwise stated)

	Note	2006	2005	2004
Cash flows from operating activities				
Profit before income tax and minority interest		4,326	11,337	3,309
Adjustments for:				
Depreciation and amortisation		2,008	1,854	1,549
(Gains)/losses less loss/(gain) on disposal of property, plant and equipment		(2)	351	68
Loss on fixed assets disposed on mine flooding	27	1,208	-	-
Impairment/(reversal of impairment) of trade and other receivables		20	(36)	63
Net change in provision for earth replacement and mine flooding		483	(87)	(73)
Finance costs/(gains), net		317	121	(70)
Foreign exchange (gains)/losses		(286)	110	16
Share of loss/(income) of investments accounted for using the equity method		-	3	(8)
Operating cash flows before working capital changes		**8,074**	**13,653**	**4,854**
Decrease/(increase) in trade and other receivables		9	(2,006)	267
Increase in inventories		(48)	(229)	(511)
Increase in accounts payable, accrued expenses and other creditors		118	376	355
(Decrease)/increase in other taxes payable		(18)	51	(29)
Cash generated from operations		**8,135**	**11,845**	**4,936**
Interest paid		(521)	(214)	(59)
Income taxes paid		(998)	(2,167)	(797)
Net cash generated from operating activities		**6,616**	**9,464**	**4,080**
Cash flows from investing activities:				
Purchase of intangible assets		(23)	(66)	(59)
Purchase of property, plant and equipment		(5,232)	(5,654)	(2,100)
Proceeds from sales of property, plant and equipment		351	41	69
Sale of investments, net		27	3	9
Acquisition of subsidiaries, net of cash acquired	10	-	(615)	-
Acquisition of additional interest in subsidiaries	9	-	(9)	-
Increase in restricted cash balances		(125)	-	-
Loans issued to joint-venture		-	(818)	-
Loans issued to related party		(4,034)	(148)	(246)
Repayment of loans issued to related party		1,194	-	-
Dividends and interest received		196	92	32
Net cash used in investing activities		**(7,646)**	**(7,174)**	**(2,295)**
Cash flows from financing activities				
Repayments of borrowings		(3,808)	(2,660)	(2,784)
Proceeds from borrowings		11,934	4,941	2,655
Capitalised bank charges paid		(33)	-	-
Acquisition of treasury shares	16	(234)	(289)	-
Finance lease payments		(38)	(28)	-
Dividends paid to shareholders		(7,959)	(877)	(1,159)
Net cash (used in)/generated from financing activities		**(138)**	**1,087**	**(1,288)**
Effect of foreign exchange rate changes on cash and cash equivalents		(141)	(51)	6
Net (decrease)/increase in cash and cash equivalents		**(1,309)**	**3,326**	**503**
Cash and cash equivalents at the beginning of the period, net of restricted cash	15	**4,076**	**750**	**247**
Cash and cash equivalents at the end of the period, net of restricted cash	15	**2,767**	**4,076**	**750**

(in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital (Note 16)	**Treasury shares (Note 16)**	**Share premium**	**Revaluation reserve**	**Cumulative translation reserve**	**Retained earnings**	**Total attributable to equity holders**	**Minority interest**	**Total equity**
Balance at January 1, 2004	**648**	**-**	**-**	**-**	**-**	**12,702**	**13,350**	**47**	**13,397**
Translation movement	-	-	-	-	2	-	2	-	2
Net income recognised directly in equity	-	-	-	-	2	-	2	-	2
Net income for the year	-	-	-	-	-	2,544	2,544	2	2,546
Total recognised income for 2004	-	-	-	-	2	2,544	2,546	2	2,548
Dividends declared (Note 16)	-	-	-	-	-	(1,192)	(1,192)	-	(1,192)
Balance at December 31, 2004	**648**	**-**	**-**	**-**	**2**	**14,054**	**14,704**	**49**	**14,753**
Translation movement	-	-	-	-	43	-	43	-	43
Net income recognised directly in equity	-	-	-	-	43	-	43	-	43
Net income for the year	-	-	-	-	-	9,430	9,430	(1)	9,429
Total recognised income for 2005	-	-	-	-	43	9,430	9,473	(1)	9,472
Dividends declared (Note 16)	-	-	-	-	-	(6,075)	(6,075)	-	(6,075)
Acquisition of treasury shares (Note 16)	-	(6)	(288)	-	-	-	(294)	-	(294)
Acquisition of subsidiary	-	-	-	150	-	-	150	-	150
Acquisition of additional interest in subsidiary	-	-	-	-	-	-	-	(27)	(27)
Balance at December 31, 2005	**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 2006	-	-	-	-	(240)	3,494	3,254	-	3,254
Dividends declared (Note 16)						(3,354)	(3,354)	-	(3,354)
Acquisition of treasury shares (Note 16)	-	(3)	(226)	-	-	-	(229)	-	(229)
Balance at December 31, 2006	**648**	**(9)**	**(514)**	**150**	**(195)**	**17,549**	**17,629**	**21**	**17,650**

The accompanying notes on pages 5 to 36 are an integral part of the financial statements

1 The Uralkali Group and its operations

JSC "Uralkali" (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers 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 range of potash fertilizers. The Group produces approximately 8.3% of the global volumes of potassium fertilisers and is the biggest manufacturer in the Russian Federation. Approximately 90% (2005: 91%, 2004: 92%) 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 license for "Ust'-Yaivinskoe" field of the "Verhnekamskoe" deposit (Note 12), 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 parent company, JSC "Uralkali", 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 and JSC "Belorusian Potash Company", a company incorporated in Belorussia.

As of December 31, 2006 the majority shareholder of the Company was Madura Holdings Limited, company registered in Cyprus. 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, 2006 the Group employed approximately 11.5 thousand employees (2005: 13.8 thousand, 2004: 14 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 of the Group for the years ended December 31, 2006, 2005 and 2004 have been prepared for inclusion in the Prospectus for an offering of ordinary shares of the Company and global depository receipts, representing interest in ordinary shares of the Company, by Madura Holding Limited.

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 and JSC "Belorusian Potash Company". Uralkali Trading SA and Uralkali Trading (Gibraltar) Ltd. maintain its accounting records in US Dollars ("USD") and prepare their financial statements in accordance with IFRS. SP Terminal maintains its accounting records in Ukrainian hryvnya ("UAH"). JSC "Belorusian Potash Company" (BPC) maintains its accounting records in Belorusian Roubles ("BYR"). 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

Prior to January 1, 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at December 31, 2002 are treated as the basis for the carrying amounts in these financial statements.

2 Basis of preparation and significant accounting policies (continued)

2.3 Reclassifications

Certain reclassifications have been made to prior year balances in the consolidated balance sheet and statement of income to conform to 2006 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. 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 de-consolidated 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 operations

Jointly controlled operations are operations which involve the use of the assets and other resources of the ventures. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. Under the agreement between the venturers the revenue from the sales of the products and any expenses incurred in common are shared among the ventures. In respect of its interests in jointly controlled operations, the Group recognizes in its financial statements:

(a) the assets that it controls and liabilities that it incurs; and

(b) the share of the revenue, distribution and administrative costs from the sale of goods and services by the 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.

(in millions of Russian Roubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

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 income statement, 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.

If revaluated item of property, plant and equipment is derecognized, the revaluation surplus included in equity in respect of this item of property, plant and equipment is transferred directly to retained earnings.

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

2 Basis of preparation and significant accounting policies (continued)

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 Intangible assets

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

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

2.13 Classification of financial assets

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

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

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

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

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

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

2.14 Initial recognition of financial instruments

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

Change in fair value is 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 Basis of preparation and significant accounting policies (continued)

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 JSC "Belorusian Potash Company". The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

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

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

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

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

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

2.18 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of preparation and significant accounting policies (continued)

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 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 are shown separately from cash and cash equivalents for the purposes of the balance sheet. Balances restricted from being exchanged or used to settle liability for at least twelve months after the balance sheet date are included in non-current assets.

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 recognised 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 financial statements are authorised for issue.

2.24 Value added tax

Effective for periods ended December 31, 2005

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases, except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Effective for periods beginning on or after January 1, 2006

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 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 Basis of preparation and significant accounting policies (continued)

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.

Site restoration and reclamation costs were accrued specifically in relation to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities.

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

2.27 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, 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation (CBRF), was US dollar 1 = Rouble 26,33 (December 31, 2005: US dollar 1 = Rouble 28.78; December 31, 2004: US dollar 1 = Rouble 27.75). The official Euro to RR exchange rate at December 31, 2006, as determined by the CBRF, was Euro 1= Rouble 34.69 (December 31, 2005: Euro 1 = Rouble 34.18; December 31, 2004: Euro 1 = Rouble 37.81). Exchange restrictions and currency controls exist relating to converting the Russian Roubles into other currencies. At present, the Russian Rouble is in practice not convertible in most countries outside of the Russian Federation.

2.28 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.

2.29 Transshipment costs

Transshipment costs disclosed by the Group within distribution costs include transshipment services rendered by JSC "Baltic Bulker Terminal" in 2004 and the first three months ended March 31, 2005 as a joint venture and costs incurred by JSC "Baltic Bulker Terminal" during the further nine months ended December 31, 2005 and the year ended December 31, 2006 when results of its operations were consolidated.

JSC "Baltic Bulker Terminal" is a 100% subsidiary (Note 10) whose activity is related to transshipment of fertilizers produced by the Group. Its costs include depreciation, payroll, material expenses and various general and administrative expenses.

2 Basis of preparation and significant accounting policies (continued)

2.30 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.

2.31 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.

2.32 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. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income.

2.33 Earnings per share

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

2.34 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.

2.35 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

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:

- IAS 39 (Amendment) – The Fair Value Option (effective from January 1, 2006).
- IAS 39 (Amendment) – Financial Guarantee Contracts (effective from January 1, 2006)
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from January 1, 2006)
- IAS 19 (Amendment) - Employee Benefits (effective from January 1, 2006)
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from January 1, 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from January 1, 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after December 1, 2005, that is from January 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 January1, 2007 or later periods and which the entity has not early adopted:

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 introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. Management is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 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. Management is currently assessing what impact the Standard will have on segment disclosure in the Group's financial statements.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after March 1, 2006, that is from January 1, 2007). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after May 1, 2006, that is from January 1, 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006). The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Interpretation shall be applied retrospectively. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006). The Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007). The Interpretation addresses the issues whether the transactions under the requirements of IFRS 2 should be accounted for as equity-settled or as cash-settled and concerns share-based payment arrangements that involve two or more entities within the same group. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008). The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Interpretation does not specify the accounting for infrastructure that was held and recognised as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of IFRSs (set out in IAS 16) apply to such infrastructure. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). The amendment proposed the elimination of the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008). The Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Interpretation addresses accounting by the entity that grants award credits to its customers. The interpretation is not expected to significantly affect the Group's consolidated financial statements.

4 New accounting pronouncements (continued)

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). The Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. For the purpose of this Interpretation, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan. The interpretation is 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 11).

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 471 should be assessed for impairment in 2013.

Land. All facilities of JSC "Baltic Bulker Terminal" situated on land occupied on an annual lease basis, but the management plans to purchase it or to sign long-term rent agreement with municipal authorities. If the Group can not secure long-term use of this land, net assets of RR 3,084 should be assessed for impairment.

Provisions for earth replacement and mine flooding. From 2002 to the end of October 2006 the Company 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 17). The provision was estimated as the present value of future additional cash outflows relating to the Company'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 Company in determining the fair value of the earth replacement reserve is 9.99% (2005: 12.15%; 2004: 12.15%). The provision for earth replacement contains "change in estimates" as a component of calculation. The "change in estimates" consist of changes in anticipated volume and timing of the earth replacement work and changes in the associated costs.

On October 28, 2006 the Company stopped production operations in Mine 1 due to natural groundwater inflow increase to the level when it can not be controlled by the Company. 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 Company (force majeure).

Following the closure of the Mine 1 on October 28, 2006 (Note 27), the Company 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 are 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 filling operations, that has been prepared for 2007 and will be updated annually, is based on current Group's maximum brine production capacity. Based on the 2007 technical plan and its best estimates, the management estimated a provision for present value of cash outflows to be incurred in the next 3 years.

The actual volume of natural groundwater inflow has varied since the date of the flooding. According to weekly monitoring activities average inflow of the groundwater in the first four months of 2007 was around 2,000 cubic metres per hour. If the volume of the natural groundwater inflow will continue to be at this average level, the period in which the mine is expected to be filled with groundwater will increase from expected 3 years to 3,8 years and the Group will incur additional brine injection costs of RR 138.

(in millions of Russian Roubles unless otherwise stated)

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

As of December 31, 2006 the Company incurred RR 2,054 of mine flooding expenses in closing the mine. Management is currently assessing 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, 2006 the amount of expenses the Group can incur in the future in relation to flooding risks, however the amount could be significant for the Group.

Inventory. The Company 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.

6 Related parties

For the purposes of these financial statements, 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 Group reanalysed its related party relationships in order to apply the revised IAS 24 with effect from 1 January 2005. As a result, transactions with Fertexim in 2004 are no longer presented as related party transactions. These transactions are now disclosed in Note 7 as a part of the description of the Group operations. There are no similar transactions in 2005. The comparative amounts have been restated accordingly. This reclassification had no effect on the results or the Group or its balance sheets in any of the years presented.

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, 2006, 2005 and 2004 are detailed below.

At December 31, 2006, 2005 and 2004 the outstanding balances, shareholder's equity caption and transactions with related parties were as follows:

Balance sheet caption	Relationship	December 31, 2006	December 31, 2005	December 31, 2004
Other payables	Joint venture	-	-	23
Other payables	Entities under common control	26	5	-
Loans to related parties	Entities under common control	431	407	246
Loans to related parties	Majority shareholder	2,659	-	-
Financial assets	Entities under common control	19	18	18
Dividends payable	Majority shareholder	-	4,181	-
Shareholder's equity caption		**2006**	**2005**	**2004**
Dividends declared	Majority shareholder	2,701	4,817	890
Statement of income caption	**Relationship**	**2006**	**2005**	**2004**
Distribution costs	Joint venture	-	125	23
Interest income	Majority shareholder	122	-	-
Interest income	Entities under common control	18	17	-

Loans to related parties

Loans to LLC "Permgeologodobycha" are denominated in RR, unsecured and bear 4% to 6% annual interest (2005: 4% to 6%; 2004: 4% to 6%). The loans are repayable in December 2007, January – May 2008.

Loans to majority shareholder

In 2005 the Group entered into an interest free loan agreement with Madura Holdings Limited, majority shareholder, for RR 1,615 (USD 57.1 million) that was repaid in full in December 2005. In 2006 the Group provided 5% loan in amount of RR 4,029 (USD 146 million) to Madura Holdings Limited of which RR 1,194 (USD 45 million) was repaid within the year. The loan is repayable in 2010-2011.

6 Related parties (continued)

Loans to joint-venture

In January 2005 the Company transferred funds in the amount of RR 840 to JSC "Baltic Bulker Terminal" in order to settle a loan received from "Ermina Ventures Limited", the former shareholder of JSC "Baltic Bulker Terminal".

In August 2004 the Company transferred funds in the amount of RR 22 to JSC "Baltic Bulker Terminal" which was repaid by JSC "Baltic Bulker Terminal" in January 2005.

In 2004 JSC "Baltic Bulker Terminal" was accounted as a joint-venture with investments and loans recorded in the balance sheet as investments in joint-ventures.

Financial assets

As of December 31, 2006, 2005 and 2004 financial assets are represented by interest free promissory notes received from LLC "Permgeologodobycha".

Distribution costs

In 2004 and during the first quarter 2005 JSC "Baltic Bulker Terminal" was a joint-venture and rendered transhipment services to the Group. As a result all transhipment costs incurred by the Group from JSC "Baltic Bulker Terminal" during this period were recorded as expenses in the statement of income.

Cross shareholding

At December 31, 2006 LLC "Kama", a 100% owned subsidiary of the Group, owned 0.85% of the ordinary shares of the Company (2005: 0.6%). 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 statement of income amounted to RR 163, RR 103 and RR 51 for the years ended December 31, 2006, 2005 and 2004 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 and India and exports to developed countries are mainly to the customers located in USA and European countries.

In 2004 the majority of the Group's export sales were carried out through Fertexim Ltd. (87%), a trading company incorporated in Cyprus.

Under the agreements between the Company and Fertexim Ltd. in 2004 the following arrangements existed:

- the goods were delivered to Fertexim Ltd. which, in accordance with FCA terms, incurred freight, railway tariff and related services, wagons, transshipment, insurance and other costs;
- the Company arranged railway related services which it charged at cost to Fertexim Ltd. amounted to RR 289;
- selling prices were determined on a shipment-by-shipment basis;
- selling prices were inclusive of wagon related costs, when provided by the Company.

All balances with Fertexim Ltd were settled by the end of December 2004.

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

In December 2004 the Group established a wholly owned subsidiary Uralkali Trading SA, a trading company incorporated in Switzerland. From December 2004 to April 2006 all export sales of the Group were made through Uralkali Trading SA. With effect from December 2004 the Group received the price charged to the final customer and the abovementioned distribution costs were incurred by the Group. Consequently distribution costs recognized in the statement of income in 2005 include RR 6,408 that would have been incurred by Fertexim Ltd. if 2004 trading arrangements had continued.

The balances and the results of the operations of Uralkali Trading SA for the years ended December 31, 2006 and 2005 and for the period from its establishment date till December 31, 2004 respectively were included in the consolidated financial statements of the Group. In October 2005 the Group acquired 50% of the share capital of JSC "Belorusian Potash Company" (Note 9). Starting from April 2006 export sales of the Group are made partly through Uralkali Trading SA where related distribution costs are incurred by the Group and partly through JSC "Belorusian Potash Company" where related distribution costs are incurred by JSC "Belorusian Potash Company".

The segments results for the year ended December 31, 2006 are 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
Operating profit	5,222	836	**6,058**	381	104	**485**	7	6,550
Finance costs & net foreign exchange gain	-	-	-	-	-	**-**	(170)	(170)
Mine flooding costs	-	-	**-**	-	-	**-**	(2,054)	(2,054)
Profit before taxation							-	4,326
Income tax							(832)	(832)
Net profit								3,494

The segments results for the year ended December 31, 2005 are as follows:

	Export			Domestic			Unallocated	Total
	Developing countries	**Developed countries**	**Total export**	**Potash sales**	**Other sales**	**Total domestic**		
Tons (thousands)	4,096	775	**4,871**	467	**-**	**467**	-	5,338
Revenues	21,951	3,991	**25,942**	1,138	896	**2,034**	-	27,976
Operating profit	9,456	1,895	**11,351**	559	197	**756**	(376)	11,731
Finance costs & net foreign exchange loss	-	-	**-**	-	-	**-**	(391)	(391)
Share of loss of investments accounted for using the equity method	-	-	**-**	-	-	**-**	(3)	(3)
Profit before taxation							-	11,337
Income tax							(1,908)	(1,908)
Net profit								9,429

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

The segments results for the year ended December 31, 2004 are as follows:

	Export				Domestic			Unallocated	Total
	Fertexim Ltd	Developing countries	Developed countries	Total export	Potash sales	Other sales	Total domestic		
Tons (thousands)	3,789	576	14	**4,379**	423	-	423	-	4,802
Revenues	8,137	2,508	39	**10,684**	643	768	1,411	-	12,095
Operating profit	2,396	627	3	**3,026**	218	108	326	(68)	3,284
Finance costs & net foreign exchange loss	-	-	-	**-**	-	-	-	25	25
Profit before taxation								-	3,309
Income tax								(763)	(763)
Net profit									2,546

The total depreciation and amortization costs included in the statement of income for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Export				Domestic	Unallocated	Total
	Fertexim Ltd	Developing countries	Developed countries	Total export			
Year ended December 31, 2006	-	1,576	250	**1,826**	204	-	2,030
Year ended December 31, 2005	-	1,370	254	**1,624**	230	-	1,854
Year ended December 31, 2004	1,147	174	4	**1,325**	224	-	1,549

The total loss on disposal of fixed assets at nil consideration, including write-off of fixed assets in connection with flooding on Mine 1 (Note 27), included in the statement of income for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Export	Domestic	Unallocated	Total
Year ended December 31, 2006	-	-	1,367	1,367
Year ended December 31, 2005	-	-	392	392
Year ended December 31, 2004	-	-	108	108

The segment assets and liabilities as at December 31, 2006, 2005 and 2004 and capital expenditure for the years then ended are as follows:

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

2005	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	1,930	3,793	23,408	1,005	30,136
Liabilities	-	(778)	(6,514)	(4,865)	(12,157)
Capital expenditure	-	16	5,712	-	5,728

2004	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	515	453	16,192	569	17,729
Liabilities	-	(19)	(983)	(1,974)	(2,976)
Capital expenditure	-	2	2,062	-	2,064

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

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, 2006, 2005 and 2004 the Group is organized in one operating segment: extraction, manufacture and sale of potassium fertilizers.

The segment assets and capital expenditure for periods ended December 31, 2006, 2005 and 2004 can be presented based on the location of the assets as follows:

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

2005	Russia	Switzerland	Unallocated	Total
Assets	23,788	5,343	1,005	30,136
Capital expenditure	5,712	16	-	5,728

2004	Russia	Switzerland	Unallocated	Total
Assets	16,608	552	569	17,729
Capital expenditure	2,062	2	-	2,064

(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, 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)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of December 31, 2004	6,915	5,937	10,725	2,008	1,766	466	176	27,993
Additions	-	-	-	1,509	4,219	-	-	5,728
Transfers	45	59	1,313	59	(1,496)	20	-	-
Acquisition of subsidiary (Note 10)	1,939	-	1,164	18	98	17	-	3,236
Disposals	(423)	(34)	(570)	(140)	(7)	(46)	(2)	(1,222)
Balance as of December 31, 2005	**8,476**	**5,962**	**12,632**	**3,454**	**4,580**	**457**	**174**	**35,735**
Accumulated Depreciation								
Balance as of December 31, 2004	3,286	4,758	6,908	948	-	242	-	16,142
Depreciation charge	263	237	994	282	-	24	-	1,800
Disposals	(106)	(28)	(480)	(86)	-	(36)	-	(736)
Balance as of December 31, 2005	**3,443**	**4,967**	**7,422**	**1,144**	**-**	**230**	**-**	**17,206**
Net Book Value								
Balance as of December 31, 2004	**3,629**	**1,179**	**3,817**	**1,060**	**1,766**	**224**	**176**	**11,851**
Balance as of December 31, 2005	**5,033**	**995**	**5,210**	**2,310**	**4,580**	**227**	**174**	**18,529**

(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 January 1, 2004	6,802	5,929	10,099	1,810	1,401	432	174	26,647
Additions	-	-	-	322	1,740	-	2	2,064
Transfers	142	17	1,141	11	(1,366)	55	-	-
Disposals	(29)	(9)	(515)	(135)	(9)	(21)	-	(718)
Balance as of December 31, 2004	**6,915**	**5,937**	**10,725**	**2,008**	**1,766**	**466**	**176**	**27,993**
Accumulated Depreciation								
Balance as of January 1, 2004	3,089	4,502	6,523	876	-	224	-	15,214
Depreciation charge	208	264	839	170	-	28	-	1,509
Disposals	(11)	(8)	(454)	(98)	-	(10)	-	(581)
Balance as of December 31, 2004	**3,286**	**4,758**	**6,908**	**948**	**-**	**242**	**-**	**16,142**
Net Book Value								
Balance as of January 1, 2004	**3,713**	**1,427**	**3,576**	**934**	**1,401**	**208**	**174**	**11,433**
Balance as of December 31, 2004	**3,629**	**1,179**	**3,817**	**1,060**	**1,766**	**224**	**176**	**11,851**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

Depreciation

As of December 31, 2006, 2005 and 2004 the depreciation was allocated to statement of income as follows:

	2006	2005	2004
Cost of sales	1,441	1,344	1,272
Distribution costs	215	220	166
Transhipment costs (Note 2.29)	105	89	-
General and administrative expenses	183	147	71
Loss on disposal of fixed assets (Note 27)	22	-	-
Total depreciation expense	**1,966**	**1,800**	**1,509**

In 2006 the Group incurred depreciation amounting to RR 47 (2005 and 2004: nil) directly related to construction of new fixed assets. These expenses were capitalized on the 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, 2006, 2005 and 2004 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 6,752, RR 6,733 and RR 6,170 respectively.

Assets pledged under loan agreements
As of December 31, 2006, 2005 and 2004 the carrying value of property, plant and equipment pledged under bank loans was RR 8,142, RR 2,950 and RR 2,850 respectively (Note 18).

Land
The assets transferred to the Group upon privatization did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated, with the exception of the land on which the Head Office is situated. As a result of changes in legislation in 2001 all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The Group has exercised this option and purchased the land under the Group's production facilities.

9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	December 31, 2006 % share	December 31, 2005 % share	December 31, 2004 % share
Subsidiaries					
Uralkali Trading SA	Switzerland	Trading	100	100	100
Uralkali Trading (Gibraltar) Limited	Gibraltar	Administrative services	100	100	100
LLC Kama	Russia	Finance services and leasing	100	100	92
LLC BshSU	Russia	Construction	100	100	100
LLC Uralkali-Technology	Russia	Research and development	100	100	100
JSC Baltic Bulker Terminal	Russia	Maritime terminal	100	100	-
LLC Autotranskali	Russia	Transportation	100	100	-
LLC Vagonnoe Depo Balakhonzi	Russia	Repairs	100	-	-
SP Terminal	Ukraine	Dormant	98	98	98
LLC Depo	Russia	Repairs	75	75	75
LLC Satellit-Service	Russia	IT services	51	51	-
LLC Specgorkhimproekt	Russia	Research and development	51	100	-
LLC Plast	Russia	Production	-	-	100
LLC Bereznikovsky Brick Plant	Russia	Production	-	-	100
Joint-ventures					
JSC Belorusian Potash Company	Belorussia	Trading	50	50	-
JSC Baltic Bulker Terminal	Russia	Maritime terminal	-	-	50

9 Principal subsidiaries and joint-ventures (continued)

Uralkali Trading SA was established in December 2004 and became the Group's exclusive export sales company. Uralkali Trading (Gibraltar) Limited is an 100% owned subsidiary of Uralkali Trading SA and was established for rendering of administrative services to Uralkali Trading SA.

In September 2005 the Group acquired 8,5% of the share capital of LLC "Kama" and increased its share in this subsidiary to 100%. Total purchase consideration amounted to RR 9 and was paid in cash. Negative goodwill comprised RR 22. The significant amount of assets in LLC "Kama" is represented by short-term loans given to JSC "Permgeologodobycha", which is a related party (Note 6).

LLC "Kama" holds the majority stake in the equity of SP "Terminal". The Company tested the investments in SP "Terminal" for impairment and recognized 100% impairment provision for assets of SP "Terminal" in 2006.

LLC "BShSU" was formerly part of the Company. It was detached in a separate legal entity in 2004 and performs construction works for the Group. In 2005 LLC "Autotranskali" has been also detached in a separate legal entity and provides transportation services for the Group. However, both entities are controlled by the Group and, therefore, are consolidated.

JSC "Baltic Bulker Terminal" (the "BBT") was founded as an entity jointly controlled by the Group (50% of charter capital) and the First Stevedore Company (50% of charter capital) for the purpose of constructing and operating a maritime terminal dedicated to handling fertilizers. In December 2004 the Group entered into agreement to acquire the remaining 50% of the BBT shares, which was executed during 2005 (Note 10). During the first quarter 2005 the Group accounted for the investments in the "BBT" using the equity method.

In November 2006 LLC "Vagonnoe Depo Balakhonzi" was detached in a separate legal entity, and provides railcars repair and maintenance services to the Group. However, the entity is controlled by the Group and, therefore, is consolidated.

In March 2006 the Group sold a 49% share in LLC "Specgorkhimproekt" for consideration of RR 490 thousand without any losses or gains on disposal. However, the entity is controlled by the Group and, therefore, is consolidated.

In December 2005 the Group sold shares in LLC "Bereznikovsky Brick Plant" and LLC "Plast" for cash consideration of RR 24 with loss on disposal of RR 19.

In October 2005, Uralkali acquired a 50% interest in JSC "Belorusian Potash Company" (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 Company through BPC are accounted as a jointly controlled operation. 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 (Note 2.6).

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. This treatment has been applied during 2006.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

10 Business combinations

In February 2005 the Group acquired 50% of the share capital of JSC "Baltic Bulker Terminal". The acquired subsidiary contributed revenue of RR 105 and net profit of RR 14 to the Group for the period from the date of acquisition to December 31, 2005. If the acquisition had occurred on January 1, 2005, Group revenue and profit for 2005 would not change significantly as most of the transactions would be eliminated.

(in millions of Russian Roubles unless otherwise stated)

10 Business combinations (continued)

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		104	104
Property, plant and equipment		2,839	3,236
Other assets		369	369
Borrowings		(2,434)	(2,434)
Trade and other payables		(39)	(39)
Deferred income tax liability		(147)	(244)
Fair value of net assets of subsidiary		692	992
Less: investments in BBT previously accounted for by the equity method of accounting		-	(496)
Fair value of acquired interest in net assets of subsidiary		-	496
Goodwill arising from the acquisition	11	-	366
Total purchase consideration		-	862
Less: deferred purchase consideration	19	-	(143)
Less: cash and cash equivalents of subsidiary acquired		-	(104)
Outflow of cash and cash equivalents on acquisition		-	615

The purchase consideration comprises cash and cash equivalents paid of RR 719, and deferred consideration of RR 143.

Fair value of assets and liabilities acquired are based on discounted cash flow models. The valuation of identifiable assets was performed by an independent professional appraiser.

11 Goodwill

	Note	2006	2005	2004
Carrying amount at January 1		366	**-**	**-**
Acquisition of subsidiary		-	366	-
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":

	2006	2005	2004
JSC "Uralkali"	366	366	-
Total carrying amount of goodwill	**366**	**366**	**-**

The recoverable amount of the goodwill was determined based on cash flow projections approved by management covering a five-year period and analysis of synergies performed by independent appraiser. The growth rates are in line with the growth rates of the markets the goods are sold (Note 7).

Pre-tax discount rate of 9.99% (2005: 13%) that reflects risks relating to JSC "Uralkali" was used in the calculation of the recoverable value.

(in millions of Russian Roubles unless otherwise stated)

12 Intangible assets

	Software	Other	Total
Cost at January 1, 2004	179	1	**180**
Accumulated amortization	(18)	-	**(18)**
Carrying amount at January 1, 2004	**161**	**1**	**162**
Additions	59	19	78
Amortization charge	(40)	-	(40)
Cost at December 31, 2004	238	20	**258**
Accumulated amortization	(58)	-	**(58)**
Carrying amount at December 31, 2004	**180**	**20**	**200**
Additions	66	-	66
Amortization charge	(54)	-	(54)
Cost at December 31, 2005	304	**20**	**324**
Accumulated amortization	(112)	**-**	**(112)**
Carrying amount at December 31, 2005	**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**

The balances of intangible assets reported in these consolidated financial statements at December 31, 2006, 2005 and 2004 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. In 2004 the Company acquired a license for mineral exploration and extraction of potassium and magnesium salts in "Ust'-Yaivinskoe" field of the "Verhnekamskoe" deposit. The license expires in 2024.

13 Inventories

Inventories consist of the following:

	2006	2005	2004
Raw materials	1,063	959	786
Finished products	398	457	356
Work-in-progress	20	17	23
Total inventories	**1,481**	**1,433**	**1,165**

At December 31, 2006 the balance of finished goods includes inventories bought for resale. As of December 31, 2006 the value of circulating finished goods valued at market prices pledged as security for bank loans was RR 1,322 (2005 and 2004: nil) (Note 18).

14 Trade and other receivables

	2006	2005	2004
Trade receivables	1,752	2,406	436
Less: impairment loss provision	(20)	(35)	(32)
Trade debtors, net	**1,732**	**2,371**	**404**
VAT recoverable	1,330	1,277	576
Other taxes receivables	536	370	151
Advances to suppliers	354	280	322
Prepaid expenses	88	50	76
Other receivables	421	230	350
Less: impairment loss provision	(86)	(64)	(107)
Total trade and other receivables	**4,375**	**4,514**	**1,772**

As of December 31, 2006, 2005 and 2004 trade receivables of RR 1,677, RR 1,931 and RR 370 respectively net of impairment loss provision are denominated in foreign currency, mainly in US dollars and Euro.

(in millions of Russian Roubles unless otherwise stated)

15 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2006	2005	2004
RR denominated cash on hand and bank balances (interest rate: from 0.5 % p.a. to 6.2 % p.a. (2005 and 2004: from 1.25 % p.a. to 6 % p.a.))	1,404	922	447
USD denominated bank balances	607	975	181
Other currencies denominated balances	26	385	5
USD term deposits (interest rate: from 2.5% p.a. to 4.95% p.a. (2005: 4.32% p.a.; 2004: 3.70% p.a.))	430	1,644	17
RR term deposits (interest rate: 8 % p.a. (2005 and 2004: from 7% p.a. to 7.5 % p.a.))	300	150	100
Cash and cash equivalents, net of restricted cash	**2,767**	**4,076**	**750**
Restricted cash			
Non-current limited guarantee deposit (Note 31 i)	80	-	-
Three month fixed interest rates (4.8% to 6.19%) bank deposits	45	-	-
Total restricted cash	**125**	**-**	**-**
Total cash and cash equivalents	**2,892**	**4,076**	**750**

Term deposits have original maturities of less than three months.

16 Shareholders' equity

	Number of ordinary shares	Ordinary shares	Treasury shares	Total
At January 1, 2004	**2,124**	**648**	**-**	**648**
Treasury shares purchased	**-**	**-**	**-**	**-**
At December 31, 2004	**2,124**	**648**	**-**	**648**
Treasury shares purchased	-	-	(6)	(6)
At December 31, 2005	**2,124**	**648**	**(6)**	**642**
Treasury shares purchased	-	-	(3)	**(3)**
At December 31, 2006	**2,124**	**648**	**(9)**	**639**

The number of unissued authorised ordinary shares is 1,500 mln. (2005: 1,500 mln.; 2004: 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, 2006 treasury shares comprise 17,966,905 ordinary shares of the Company (2005: 12,612,701; 2004: nil) with a nominal value per share of 0.5 Roubles owned LLC "Kama", wholly owned subsidiary of the Group. Purchase price of shares acquired during the year ended December 31, 2006 amounted to RR 229 (2005: 294; 2004: nil). All shares have been fully paid. 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 2006, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 3,706 (2005: RR 7,642; 2004: RR 2,893) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 12,440 (2005: RR 12,112; 2004: 10,545). 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 financial statements.

Dividends. In December 2006 the General Meeting of Shareholders of the Company has approved interim dividends (based on the financial results for the first nine months of 2006) amounting to RR 3,378 (1.59 Roubles per share).

In June 2005 the Annual General Meeting of Shareholders of the Company approved dividends for the year ended December 31, 2004 in the amount of RR 850 (0.40 Roubles per share). In December 2005 the General meeting of Shareholders of the Company approved interim dividends (based on the financial results for the first 9 months of 2005) amounting to RR 5,225 (2.46 Roubles per share).

(in millions of Russian Roubles unless otherwise stated)

16 Shareholders' equity (continued)

In April 2004 the Annual General Meeting of Shareholders of the Company declared dividends for the year ended December 31, 2003 in the amount of RR 446 (0.21 Roubles per share). In October 2004 the General meeting of shareholders of the Company declared interim dividends (based on the financial results for the first 9 months of 2004) amounting to RR 746 (0.35 Roubles per share).

17 Provision for earth replacement

	Note	2006	2005	2004
Balance as of January 1		**196**	**283**	356
Reduction of reserve for cavities filled during the period		(146)	(173)	(123)
Change in estimate		(69)	52	6
Increase in provision as a result of passage of time	26	19	34	44
Balance as of December 31		**-**	**196**	**283**

During the year ended December 31, 2006 and 2005 the local authorities in Berezniki and regional authorities in Perm reimbursed a part of the operating costs incurred by the Company 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 57 (2005: RR 39; 2004: RR 40).

18 Borrowings

	2006	2005	2004
Bank loans	11,088	3,484	1,041
Company loans	179	165	-
Finance lease payable	328	328	-
Total borrowings	**11,595**	**3,977**	**1,041**

As at December 31, 2006, 2005 and 2004 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 foreign currency obligations or interest rate exposures.

Company loans are represented by a short-term unsecured interest-free loans received from Ermina Ventures Limited in the amount of RR 134 (2005: RR 120; 2004: nil) and from JSC "Sea Port St. Petersburg" in the amount of RR 45 (2005: RR 45; 2004: nil). In 2006 the Group reconsidered repayment schedule for these loans from December 31, 2006 to April - December 2007. Company loans are unsecured.

JSC "Baltic Bulker Terminal" leases a dock from JSC "Sea Port St. Petersburg" under a finance lease for 49 years. As of December 31, 2006 the leased dock was included in buildings, with a net book value of RR 286 (2005: RR 293, 2004: nil) (Note 8).

	2006	2005	2004
Balance at 1 January	**3,484**	**1,041**	**1,238**
Bank loans received, denominated in US$	11,664	4,941	2,653
Bank loans received, denominated in RR	270	-	2
Bank loans repaid, denominated in US$	(3,688)	(2,607)	(2,784)
Bank loans repaid, denominated in RR	(120)	(2)	-
Interest accrued	560	223	59
Interest paid	(521)	(214)	(59)
Recognition of syndication fees	(43)	-	-
Amortization of syndication fees	10	-	-
Currency translation difference	(528)	102	(68)
Balance at 31 December	**11,088**	**3,484**	**1,041**

Table below provides interest rates at December 31, 2006, 2005 and 2004 and split of the bank loans between short-term and long-term.

Short-term borrowings

	Interest rates	2006	2005	2004
Bank loans in USD – fixed interest	from 7.6% to 8% (2005: 5.5%)	1,781	180	-
Bank loans in USD – floating interest	from Libor +2% to Libor +3% (2005 and 2004: from Libor + 2.7% to Libor + 3.75%)	5,930	869	669
Bank loans in RR – fixed interest	9.6%	150	-	2
Total short-term bank loans		**7,861**	**1,049**	**671**

(in millions of Russian Roubles unless otherwise stated)

18 Borrowings (continued)

Long-term borrowings

	Interest rates	2006	2005	2004
Bank loans in USD – floating interest	from Libor +2.25% to Libor +3% (2005 and 2004: from Libor + 2.95% to Libor + 3.75%)	3,227	2,435	370
Total long-term bank loans		**3,227**	**2,435**	**370**

USD denominated bank loans bear a weighted average interest of 7.81% (2005: 6.9%, 2004: 4.9%).

During the year ended 31 December 2006 the Group received borrowings from the following banks:

Lender	Maturity date	Amount, RR
International Moscow Bank	September 2007, March 2008	2,891
Sberbank	March-November 2007	2,351
Bank of Moscow	July 2007, June 2008	5,307
ABN AMRO Bank	November 2007, March 2008	1,385
Total bank loans received		**11,934**

During the year ended 31 December 2006 the Group repaid the following loans:

Lender	Maturity date	Amount, RR
International Moscow Bank (partial repayment)	January 2006, February 2007	339
Sberbank (partial repayment)	November 2007	388
EBRD	June 2006	3,081
Total bank loans repaid		**3,808**

As at December 31, 2006, 2005 and 2004 loans, including short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 13).

The Group's bank borrowings mature as follows:

	2006	2005	2004
- within 1 year	7,861	1,049	671
- between 2 and 5 years	3,227	2,435	296
- after 5 years	-	-	74
Total bank loans	**11,088**	**3,484**	**1,041**

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

	2006	2005	2004
- within 1 year	38	38	-
- between 2 and 5 years	152	152	-
- after 5 years	1,523	1,561	-
Minimum lease payments at the end of the period	**1,713**	**1,751**	**-**
Less future finance charges	(1,385)	(1,423)	**-**
Present value of minimum lease payments	**328**	**328**	**-**

19 Trade and other payables

		2006	2005	2004
Trade payables		695	480	337
Accrued liabilities		809	780	48
Deferred consideration of subsidiary acquisition	10	143	143	-
Dividends payable		632	5,237	39
Other payables and advances received		236	275	174
Total Trade and other payables		**2,515**	**6,915**	**598**

(in millions of Russian Roubles unless otherwise stated)

20 Revenues

	2006	2005	2004
Export			
Potassium chloride	14,949	18,718	7,675
Potassium chloride (granular)	5,081	7,224	2,992
Complex fertiliser	-	-	17
Domestic			
Potassium chloride	1,304	1,138	643
Karnalite	303	422	409
Other	154	150	121
Transportation and other revenues	499	324	238
Total revenues	**22,290**	**27,976**	**12,095**

During 2006 and 2005 the Group's export sales were primarily on Cost and Freight (CFR), Free on Board (FOB) or Delivered At Frontier (DAF) terms (2004: FCA and DAF terms). All domestic sales were carried out on FCA Berezniki terms.

21 Cost of sales

	Note	2006	2005	2004
Labour costs		1,665	1,456	1,584
Depreciation		1,441	1,344	1,272
Fuel and energy		1,307	1,335	1,223
Materials and components used		1,301	1,235	1,255
Repairs and maintenance		312	106	125
Transportation between mines		174	165	120
Utilities		25	30	32
Change in provision for earth replacement	17	(137)	(121)	(117)
Change in work in progress, finished goods and goods in transit	13	188	(108)	(307)
Other costs		31	55	26
Total cost of sales		**6,307**	**5,497**	**5,213**

22 Distribution costs

	2006	2005	2004
Freight	2,218	4,163	178
Railway tariff	3,050	2,966	1,342
Transhipment	349	358	27
Transport repairs and maintenance	251	209	158
Depreciation	215	220	166
Travel expenses	110	91	-
Labor cost	100	104	-
Commissions	37	77	-
Other	361	356	174
Total selling and marketing costs	**6,691**	**8,544**	**2,045**

23 General and administrative expenses

	2006	2005	2004
Labour cost	774	462	309
Consulting, audit and legal services	269	75	50
Depreciation and amortization	247	201	111
Insurance	177	177	158
Communication and IS services	84	46	43
Security	85	35	9
Mine-rescue crew	72	62	46
Bank charges	34	30	57
Other	316	198	108
Total general and administrative expenses	**2,058**	**1,286**	**891**

24 Labor costs

As of December 31, 2006, 2005 and 2004 total labour costs composed RR 2,539; RR 2,022 and 1,893 respectively. Labour costs are mainly represented by salaries, wages, bonuses and compensations, employee related payments to the state budget and post retirement benefits.

(in millions of Russian Roubles unless otherwise stated)

25 Other operating expenses

	2006	2005	2004
Provision/(reversal of provision) for impairment of receivables	20	(36)	63
(Gain)/loss on disposal of fixed assets	(2)	351	68
Social cost and charity	236	187	139
Net result on sale of Belaruskali goods	(5)	24	-
Other expenses	177	109	131
Total other operating expenses	**426**	**635**	**401**

The Group entered in sales agreement with BPC for processing of sales of Beloruskali goods through Uralkali Trading SA in 2006 and 2005 respectively to overcome certain drawbacks in Belorusian export legislation.

26 Finance income and expense

The components of finance income and expenses were as follows:

	2006	2005	2004
Interest income	215	137	152
Fair value gains on investments	131	6	-
Foreign exchange gain	568	236	126
Other finance income	-	1	9
Finance income	**914**	**380**	**287**

	2006	2005	2004
Interest expense	576	236	59
Change in provision as a result of passage of time	19	34	44
Finance lease expense	38	28	-
Foreign exchange loss	282	347	139
Fair value losses on investments	49	-	28
Letters of credit fees	120	126	-
Finance expense	**1,084**	**771**	**270**

27 Mine flooding costs

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

	2006	2005	2004
Loss on disposal of fixed assets	1,300	-	-
Mine flooding expenses	153	-	-
Change in provision for accident liquidation	601	-	-
Total Mine flooding costs	**2,054**	**-**	**-**

Loss on disposal of fixed assets includes VAT reversed amounted to RR 92. Mine flooding expenses are mainly represented by labour costs, depreciation expenses and costs of materials and components used in brine injection (Note 5).

28 Income tax expense

	2006	2005	2004
Current income tax expense	1,284	2,206	834
Deferred tax	(452)	(298)	(71)
Income tax expense	**832**	**1,908**	**763**

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

	2006	2005	2004
Profit before income tax	4,326	11,337	3,309
Theoretical tax charge at effective statutory rates*	1,038	2,721	794
Tax effect of items which are not deductible or assessable for taxation purposes:			
- non-deductible expenses	185	120	110
- non-taxable income	(5)	(5)	(26)
Difference in tax rates	(161)	(474)	(28)
Regional tax allowance	(225)	(401)	(79)
Other	-	(53)	(8)
Consolidated tax charge	**832**	**1,908**	**763**

* Profit before taxation on Switzerland and Gibraltar operations is assessed based on effective rate of 8% (December 31, 2005 and 2004: 5%).

(in millions of Russian Roubles unless otherwise stated)

28 Income tax expense (continued)

In March 2006 the parliament of the Perm region in the Russian Federation, where the Company is located, approved an amendments 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.

In 2006 and 2005 the Company had capital expenditures of more than 20% of taxable net income during the year ended December 31, 2006 and 2005 respectively (2004: 20%) that qualifies for reduced to 20% income tax rate approved by the parliament of the Perm region (2004: 22%).

As the Company qualified for the above amendments it was taxed during the year ended December 31, 2006 and 2005 respectively at a rate 20% instead of standard rate of 24% (2004: 22%) 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, 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)**

	December 31, 2004	Charged/ (credited) to profit or loss	Business combination	December 31, 2005
Tax effects of taxable temporary differences:				
Property, plant and equipment	(891)	248	(266)	(909)
Investments	(68)	53	-	(15)
Inventories	(65)	(22)	-	(87)
Borrowings	-	29	(57)	(28)
	(1,024)	308	(323)	(1,039)
Tax effects of deductible temporary differences:				
Finance lease	-	-	79	79
Earth replacement reserve	68	(21)	-	47
Accounts receivable	17	(12)	3	8
Other	10	23	(3)	30
	95	(10)	79	164
Total net deferred tax liability	**(929)**	**298**	**(244)**	**(875)**

(in millions of Russian Roubles unless otherwise stated)

28 Income tax expense (continued)

	December 31, 2003	Charged/ (credited) to profit or loss	December 31, 2004
Tax effects of taxable temporary differences:			
Property, plant and equipment	(1,084)	193	(891)
Investments	(8)	(60)	(68)
Inventories	(6)	(59)	(65)
	(1,098)	74	(1,024)
Tax effects of deductible temporary differences:			
Earth replacement reserve	85	(17)	68
Accounts receivable	7	10	17
Other	6	4	10
	98	(3)	95
Total net deferred tax liability	**(1,000)**	**71**	**(929)**

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 (2005: RR 39; 2004: RR 44). The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

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

	2006	2005	2004
Net profit	3,494	9,430	2,544
Weighted average number of ordinary shares in issue (millions)	2,110	2,121	2,124
Basic and diluted earnings per share (expressed in RR per share)	**1.66**	**4.45**	**1.20**

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 Saint-Petersburg filed a claim with the Arbitration Court of Saint-Petersburg and Leningrad Region seeking to render null and void an agreement between BBT and FGUP Rosmorport, pursuant to which 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 the court hearing held on the August 21, 2007 the Arbitration Court of Saint-Petersburg and Leningrad Region dismissed the prosecutor's claim.

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.

30 Contingencies, commitments and operating risks (continued)

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 includes companies incorporated outside of Russia that are subject to respective tax jurisdictions. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated. However, it may be significant.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated. However, it may be significant.

The Group's management believes that its interpretation of the relevant legislation of the jurisdictions where the Group operates is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at December 31, 2006, 2005 and 2004 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 177 was recognised as an expense for the year ended December 31, 2006 (2005: RR 177; 2004: RR 158) (Note 23).

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 (Note 2.26).

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 against it, nor expects any, but can not estimate the likelihood or amount of the economic outflows arising from subsidence, which could be significant.

30 Contingencies, commitments and operating risks (continued)

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, 2006 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 879 (2005: RR 1,421; 2004: 274).

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.

31 Financial risk management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment provision, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although 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.

During 2006 receivables from Brazilian customers represented by promissory notes were usually negotiated to the bank upon receipt. Insurance of non-collection risk covers 90% of promissory notes amount. The rest 10% are covered by limited guarantee deposit held in bank with the maturity period until March 2008.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

iii Foreign exchange risk

The Group operates internationally and exports approximately 90% 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 primary in US dollars. Starting from 2005 foreign entities' expenses mainly distribution costs are denominated in foreign currency.

The Group attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Consequently, the movement in exchange rates between the local currency and foreign currency significantly influences the operating margin in these financial statements.

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Group does not have arrangements in place to mitigate this risk.

iv Cash flow and fair value 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 and variable component linked to LIBOR (Note 18). The Group has interest-bearing assets which are at fixed interest rates (Note 6).

v Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 18). Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

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.

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 18.

33 Events after balance sheet date

Assets pledged under loan agreements
In January 2007 the Group entered into pledge agreements with Bank of Moscow. The Group collateralized bank loan amounted to RR 2,889 (USD 110 million) by future export proceeds of the Group under sales contract with BPC acceptable to the bank. The Group opened an account with the bank to maintain a certain level of cash receipts. In addition the Group pledged property, plant and equipment with pledged value amounted to RR 4,332.

Borrowings
In April 2007 the Group entered into short-term loan agreement with Sberbank for approximately RR 1,030 (USD 40 million) at a fixed interest rate of 7.5%.

In April 2007 the Group repaid the short-term unsecured interest-free loan received from Ermina Ventures Limited in the amount of RR 134.

Treasury shares
In January - May 2007 LLC "Kama", a wholly owned subsidiary of the Group, acquired 6,902,039 shares of the Company with a nominal value per share of 0.5 Roubles for RR 349. These ordinary shares carry voting rights in the same proportion as other shares.

Legal proceedings
In April 2007 the Federal Antimonopoly Service concluded that the Group breached the Federal Law "On defence of competition" in respect of prices on potassium chloride set for 2007 for domestic customers. According to the decision of the Federal Antimonopoly Service the Group is obliged to sell potassium chloride to domestic customers on prescribed prices (2,950 roubles per ton) and pay a fine of RR 62 to the federal budget. In July 2007 the Group has contested this decision in the Arbitration Court of Moscow. Court hearings were postponed until September 2007.

Exhibit A

SRK Consulting
Engineers and Scientists

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2006

SRK Consulting (UK) Ltd
5th Floor, Churchill House
17 Churchill Way
Cardiff
United Kingdom
CF10 2HH
e-mail: cardiff@srk.co.uk
URL: www.srk.co.uk
Tel: + 44 (0)29 20 34 81 50
Fax: + 44 (0)29 20 34 81 99

Our Ref: U3357 Uralkali short

The Board of Directors
Joint Stock Company Uralkali
21st Floor
23A Taras Schevchenko Embankment
Moscow 121151
Russian Federation

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP
England
United Kingdom
(on behalf of themselves and the other Managers)

Renaissance Securities (Cyprus) Limited
2-4 Archi Bishop Makarios III Avenue
Capital Centre
9th Floor
Nicosia 1505
Cyprus
(on behalf of themselves and the other Managers)

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London
EC2V 5EH
England
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London
E14 5LB
United Kingdom

Skadden, Arps, Slate, Meagher & Flom (UK) LLP
40 Bank Street
Canary Wharf9
London
E14 5DS
United Kingdom

11 September 2007

Dear Sirs

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

This is a letter to confirm that SRK Consulting (UK) Limited ("SRK") has reviewed all of the key information on which the most recently (1 January 2007) reported Mineral Resource and Ore Reserve statements (the "Statements") for the mining assets (the "Mining Assets") of Joint Stock Company Uralkali ("Uralkali" – hereinafter referred to as the "Company") are based.

The primary purpose of this letter is to comment upon the compliance of the Company's Statements with *The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* (the "JORC Code") as published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

SRK has been informed by the Company that this letter is required in support of certain declarations regarding the Company's Mineral Resource and Ore Reserve statements as included in the prospectus (the "Prospectus") relating to an offering of ordinary shares of the Company. SRK has been informed that the Prospectus in which this letter is reproduced has been prepared in accordance with the prospectus rules (the "Prospectus Rules") of the UK Financial Services Authority

SRK Consulting (UK) Ltd.
Registered in England and Wales
Reg. No. 1575403

Registered Address:
21 Gold Tops,
Newport,
Gwent.
NP9 4PG

Offices in:
Australia
North America
Southern Africa
South America
United Kingdom

(the "Financial Services Authority") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). The Prospectus will be made available to the public in accordance with the Prospectus Rules.

1 INTRODUCTION

SRK is part of the international group holding company, SRK Global Limited (the "SRK Group"). SRK has been commissioned by the board of directors of the Company to review (the "SRK Review") the Mineral Resource and Ore Reserve statements for the Company dated 1 January 2007.

The tables in this letter (the "Letter") summarise SRK's reviewed statements of Mineral Resources and Ore Reserves (the "Statements"). The terms and definitions are those defined and used in the JORC Code.

2 THE MINING ASSETS

The Mining Assets (all of which are 100% owned by OJSC Uralkali) that were the subject of the SRK Review are set out in Table 1 below. The Mining Assets are located in the Perm Krai Administrative Division, Volga Federal District of the Russian Federation.

The Mining Assets comprise underground room and pillar mining operations (Table 2) which mine potash ores (primarily sylvinite) which are further processed to produce three main potash products which are subsequently sold for use in the agricultural sectors as fertilisers. All the mines exploit the Verkhnekamskoye potassium and magnesium bearing deposit, which comprises a thick sedimentary sequence of flat to gently dipping bedded evaporites. The three principal products are white murate of potash ("WMOP" – not less than 97%KCl); pink murate of potash ("PMOP" – approximately 95.6%KCl); and granular murate of potash ("GMOP"). The process routes comprise both flotation (PMOP and GMOP) and leaching (WMOP) separately. The leached WMOP product can also be further processed to produce GMOP and coloured WMOP (pink). A proportion of the PMOP is further processed to produce GMOP. Carnallite is processed using the leaching process.

Table 1: Mining Assets(1)

Mining Assets	Development Status
Durymansky Mine (Mine 2)	Operational
Bygelsko-Troitsky Mine (Mine 4)	Operational
Ust-Yaivinsky Mine (Mine 5)	Feasibility Study Stage

(1) Mines 1 & 3 have been excluded as these have been closed due to flooding.

Table 2: Mining Assets – Infrastructure(1),(2),(3),(4),(5)

Mining Assets	Construction	Current Design Capacity	Operating Throughput 2006
	(Year)	(kt/yr)	(kt/yr)
Mining Operations		**21,000**	**16,219**
Bereznikovsky Mine (Mine 1)	1954	–	3,910
Durymansky Mine (Mine 2)	1970	7,680	4,524
Bygelsko-Troitsky Mine (Mine 4)	1987	13,320	7,785
Ust-Yaivinsky Mine (Mine 5)			
Processing Operations		**24,000**	**16,219**
Plant 1	1954	6,000	3,910
Plant 2	1970	6,000	4,154
Plant 3	1973	6,000	4,334
Plant 4	1987	6,000	3,821

(1) Sylvinite ore is processed at Plant 1, Plant 2, Plant 3 and Plant 4. Carnallite ore is only processed at Plant 1.

(2) Process routes at the processing plants are: Plant 1 (flotation and leaching); Plant 2 (flotation); Plant 3 (flotation); and Plant 4 (leaching).

2 THE MINING ASSETS (continued)

(3) With the exception of Mine 5 all infrastructure is projected to be operational for the Life-of-Mine plan ("LoMp") which is assumed for 19 years to cessation in 2025.

(4) The Mining Assets are supported by various additional surface infrastructure including: tailings storage facilities; electrical and gas power supply; railcars and a bulk terminal at the port of Saint Petersburg, Northwestern Federal District, Russian Federation.

(5) Mine 1 has been included as this operated for part of 2006.

Table 3 presents the historical operational performance of the Company for Fiscal 2004, 2005, 2006 and the first half of 2007.

Table 3: Mining Assets Operational Performance

Operating Statistics	Units	2004	2005	2006	1h 2007
RoM Processed	**(kt)**	**19,743**	**21,579**	**16,774**	**9,389**
Sylvinite Ore	(kt)	18,957	20,813	16,219	9,288
Carnallite ore	(kt)	786	766	555	101
Sales	**(kt)**	**5,196**	**5,742**	**4,613**	**2,547**
Sylvininte	(kt)	4,774	5,338	4,343	2,446
Carnallite	(kt)	422	404	270	101
Sales Revenue	**(US$m)**	**422.9**	**957.0**	**755.3**	**493.8**
Sylvininte	(US$m)	408.1	942.3	744.8	489.7
Carnallite	(US$m)	14.8	14.7	10.6	4.1
Operating Expenditure	**(US$m)**	**315.3**	**601.7**	**619.0**	**346.2**
Depreciation	(US$m)	53.8	66.2	73.9	37.7
Cost of Sales(1)	(US$m)	136.8	146.8	179.0	92.9
General and administration expenses(1)	(US$m)	26.2	37.7	66.6	36.0
Distirbution Costs	(US$m)	65.2	291.2	234.4	137.3
Taxes other than income tax	(US$m)	9.1	10.0	9.5	5.1
Other operating expenses	(US$m)	14.8	22.5	15.7	8.1
Interest Expense	(US$m)	9.4	27.3	39.9	29.0
Capital Expenditure	**(US$m)**	**74.5**	**199.3**	**187.6**	**99.3**
Total Employees Costed	(No)	14,253	13,816	13,537	11,393
Unit Statistics					
Yield – Sylvinite	(%)	25.2%	25.6%	26.8%	26.3%
Yield – Carnalite	(%)	53.7%	52.7%	48.6%	100.0%
Producitivty – Sylvinite	(t_{sales}/TEC/month)	28	32	27	36
Net Sales Basis(2)					
Sales Price – Sylvininte	(US$/t)	72	122	118	144
Cash Costs – Sylvinite(5)	(US$/t)	38	43	69	68
Gross Sales Basis(2)					
Sales Price – Sylvinite	(US$/t)	85	177	171	200
Cash Costs – Sylvinite	(US$/t)	52	98	123	124
International Benchmark Gross Prices					
FOB Vancouver	(US$/t)	137	161	175	193
FOB Baltic	(US$/t)	123	153	164	190
Exchange Rate(6)	(US$:Rub)	28.82	28.29	27.19	26.09

(1) Depreciation excluded.

(2) Productivity is measured in Sylvinite Sales tonnage per total employees costed ("TEC") per month.

(3) In accordance with standard reporting employed by its international peers, Uralkali reports its historical unit operating statistics on a net sales basis. SRK notes that the international benchmarks for potash prices are reported on a Free on Board basis, specifically Vancouver and Baltic. In order to facilitate comparisons with these international benchmark

2 THE MINING ASSETS (continued)

prices and to identify the unit cash costs which are necessarily incurred by Uralkali on a unit sales basis SRK has also reported these historical operating statistics on a gross sales basis. Depreciation is excluded from the distribution costs deducted from the gross sales price to arrive at the net sales price.

(4) International Benchmark Prices are based on the average of monthly historical prices (Source Fertecon).

(5) Cash costs for sylvinite include all cash expenditure necessary to secure the sales revenue, exclude depreciation charges and consider carnallite sales as a by-product credit.

(6) The exchange rates quoted for each year are the average of the daily exchange rates as quoted by the Central Bank of Russia for business days and assuming that the exchange rate on non-business days is the same as that quoted by the Central Bank of Russia on the most recent business day.

3 SRK REVIEW PROCESS

The SRK Group comprises over 500 staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, Competent Persons' Reports and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs. SRK also has specific experience in commissions of this nature.

The review was undertaken by a team of consultants (Table 4) sourced from SRK's United Kingdom practice over a two-month period. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, underground and open-pit mining, metallurgical processing, tailings management, infrastructure, environmental management and mineral economics.

Table 4: Areas of Responsibility

Area of Responsibility	Name	Registration and Qualifications
Overall Responsibility	Dr. Michael Armitage	C. Geol., C. Eng., FGS, MIMMM, PhD.
Geology & Mineral Resources	Dr. Michael Armitage	C. Geol., C. Eng., FGS, MIMMM, PhD.
Mining & Ore Reserves	Mr. John Miles	MIMMM, CEng.
Metallurgical Processing	Mr. Graham Holyfield	MIMMM, BSc.
Environmental	Mr. Craig Watt	C. Eng., MEng.
Mineral Economics	Mr Nick Fox	GradIMMM, ACA, MSc.

In accordance with the JORC Code, the opinion of compliance with the JORC Code (the "Compliance Opinion") expressed herein has been prepared under the direction of Dr. Michael Armitage, CEng, CGeol and Managing Director of SRK. Dr. Michael Armitage is the Competent Person who assumes overall professional responsibility for the Compliance Opinion.

The results of the review contained in SRK's Report and this letter are published by SRK, the commissioned entity, and accordingly SRK assumes responsibility for the views expressed herein. Consequently with respect to all references to the Competent Person and SRK: 'all references to SRK mean the Competent Person and vice-versa'.

The information in this letter that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled under the direction of Dr. Michael Armitage, who is a Member the Institute of Materials, Metals and Mining ("IMMM") which is a 'Recognised Overseas Professional Organisation' ("ROPO") included in a list promulgated by the Australian Stock Exchange ("ASX") from time to time.

Dr. Michael Armitage is a full time employee and the Managing Director of SRK.

3 SRK REVIEW PROCESS (continued)

Dr. Michael Armitage has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr. Michael Armitage consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

4 MINERAL RESOURCE AND ORE RESERVE STATEMENTS

Table 5 presents the Mineral Resource and Ore Reserve statements for the Company (in accordance with the terms and definitions as given in the JORC Code) where all material is sourced from the underground mining operations. Reporting of Mineral Resources and Ore Reserves is constrained to Sylvinite ores and Carnallite ores are specifically excluded due to their relatively minor contribution.

In presenting the Mineral Resource and Ore Reserve statements the following points apply:

- Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves;
- The Mineral Resources have not been subdivided into those which have been modified to produce Ore Reserves and those which have not. Consequently SRK wish to highlight that future potential will largely be sourced from Mine 4 and Mine 5;
- SRK has verified that the Ore Reserves have been determined from a LoMp which is technically achievable and economically viable. In this instance SRK considers the LoMp to be equivalent to at least a pre-feasibility study level and that all technical disciplines are materially compliant with this level of study. Further, the LoMp from which the Ore Reserves are derived, is based solely on Measured and Indicated Mineral Resource categories;
- Ore Reserve estimates are based on many factors, including in this case data with respect to drilling and sampling. Ore Reserves are derived from estimates of future technical factors, future production costs, future capital expenditure, future product prices and prevailing macro-economic considerations (exchange rate and inflation). The Ore Reserve estimates contained in this letter should not be interpreted as assurances of the economic life of the Mining Assets or the future profitability of operations. As Ore Reserves are only estimates based on the factors and assumptions described herein, future Ore Reserve estimates will need to be revisited as assumptions change. For example if production costs increase or product prices decrease, a portion of the current Mineral Resources, from which the Ore Reserves are derived, may become uneconomical to recover and would therefore result in lower estimated Ore Reserves. The Ore Reserves for the Mining Assets are based on assumptions which are forward looking statements and involve a number of risks and uncertainties which if different could cause actual results to differ materially from those presented in this letter. The principal assumptions used to derive the Ore Reserves are:
  - An average sylvinite product net sales price of US$125/t (US$179/t gross sales price) which is derived from the 2.5 year historical average to 31 July 2007. This can be compared with a realised net sales price of US$144/t (US$200/t gross sales price) for H1 2007,
  - Assumed increase of 58% in overall mining capacity from current 21,000ktpa to 33,120ktpa by 2013 at an overall capital expenditure of US$421.5m. Some 45% of this capital expenditure is directly attributable to Mine 4 and Plant 4 where mining capacity is planned to increase from 13,320ktpa to 21,600ktpa,
  - Assumed improvements in labour productivity from the current 36t/TEC/month for H1 2007 to 62t/TEC/month by 2013,
  - Assumed modifying factors for conversion of Mineral Resources to Ore Reserves: Grade Factor of 85%; and Extraction Rate of 35% and 37% for Mine 2 and Mine 4 respectively and ore losses of 65% and 63% for Mine 2 and Mine 4 respectively,

4 MINERAL RESOURCE AND ORE RESERVE STATEMENTS (continued)

  - Assumed changes in product specific process recoveries: WMOP (Plant 1) from 86.5% (2006) to 89.7% (2010); PMOP (Plant 2) from 82.1% (2006) to 86.6% (2010); PMOP (Plant 3) from 84.2% (2006) to 86.0% (2010); and WMOP (Plant 4) from 89.3% (2006) to 90.3% (2010);

- SRK has tested the economic variability of the Ore Reserves and accordingly notes the following:

  - Based on a unit sales analysis (break-even), that the Ore Reserve is dependent on the assumption that the net sales price is higher than US$56/t (the average LoMp real terms unit operating expenditure less the costs of distribution). The equivalent comparison for gross sales prices is US$140t,

  - Based on a positive NPV analysis (the sales price required to return a negative NPV, at a nominal discount factor of 10%, determined from the financial model accompanying the LoMp) the Ore Reserves is dependent on the assumption that the net sales price is higher than US$55/t. The equivalent comparison for gross sales prices is US$139/t.

  The above analysis of the Ore Reserves is based on a LoMp which includes the projected improvements in production capacity, productivity and process plants efficiencies. The performance for H1 2007 (which excludes these projected improvements) indicates that provided the gross sales price remains higher than US$128/t (operating expenditure inclusive of distribution and depreciation) the LoMp from which the Ore Reserves are derived will remain economic;

- SRK recognises that the Company has stated its material compliance with the environmental standard of, and is in the process of closing Mine 1 in line with the requirements agreed with, the appropriate regulatory authorities in the Russian Federation. SRK also recognises that, in contrast to the requirements in some other countries, the Company is not required by any of these regulatory authorities to develop a closure plan nor establish a liquidation fund for its remaining operations and facilities. Should, however, such a closure plan be developed for the operation as a whole and in accordance with acceptable international standards, SRK estimates to a conceptual level that the closure liabilities are as follows:

  - Should closure occur at 1 January 2007, liabilities would be of the order of US$115m (US$100m biophysical liability; US$15m terminal benefits liability),

  - Should closure occur on depletion of the Ore Reserves, liabilities would be of the order of US$165m (US$150m biophysical liability; US$15m terminal benefits liability);

- The Mineral Resources and Ore Reserves in Table 5 are not reported on an attributable basis.

- No Mineral Resources have been reported for either Mine 1 or Mine 3, as both of these have been flooded and are unlikely to be re-opened, and no Ore Reserves have been reported for Mine 5, as further work is required to confirm the viability of exploiting the Mineral Resources reported for this asset.

- The Mineral Resources in Table 5 and Ore Reserves in Table 6 reflect the status as of January 2007 and are based on the most recent estimates derived by the Company as part of its annual planning cycle. While these have not been depleted to reflect the publication date of this letter SRK has reviewed production information from the operations which is up to date as of the end of August 2007 and satisfied itself that these estimates are still reliable.

- Based on the current LoMp and operating practice, SRK considers that there is limited mining selectivity and accordingly Ore Reserves are generally insensitive to movements in the gross price of potash. That is to say that Ore Reserves will remain economic should the gross price remain above the unit operating costs reported on a gross basis. Notwithstanding this statement SRK notes that upon completion of additional technical work at Mine 4 and Mine 5 there is further potential to convert further Mineral Resources to Ore Reserves.

4 MINERAL RESOURCE AND ORE RESERVE STATEMENTS (continued)

Table 5: Audited Mineral Resources – 1 January 2007

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 2			
Measured	63.3	24.0	15.2
Indicated	315.6	24.7	77.8
Inferred	–	–	–
Measured + Indicated	378.9	24.6	93.0
Mine 4			
Measured	933.4	22.7	211.7
Indicated	1,428.3	21.6	307.8
Inferred	219.4	26.5	58.2
Measured + Indicated	2,361.7	22.0	519.5
Mine 5			
Measured	485.0	19.6	94.9
Indicated	816.3	19.8	161.6
Inferred	–	–	–
Measured + Indicated	1,301.3	19.7	256.5
All Mines			
Measured	1,481.7	21.7	321.8
Indicated	2,560.2	21.4	547.2
Inferred	219.4	26.5	58.2
Total Measured + Indicated	**4,042.0**	**21.5**	**869.0**

Table 6: Audited Ore Reserves detail 1 January 2007

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Mine 2			
Proved	22.2	20.4	4.5
Probable	110.9	21.0	23.3
Total	133.1	20.9	27.8
Mine 4			
Proved	143.3	19.3	27.7
Probable	193.0	19.0	36.7
Total	336.3	19.1	64.4
All Mines			
Proved	165.5	19.4	32.2
Probable	303.9	19.7	60.0
Grand Total	**469.4**	**19.6**	**92.2**

5 CONCLUSIONS

SRK has concluded that the Mineral Resource and Ore Reserve statements as included herein are materially compliant with the JORC Code and are valid as at 1 January 2007.

SRK hereby consents to the inclusion in the Prospectus of the above Mineral Resource and Ore Reserve statements as being materially compliant with the JORC Code and reference to SRK's Review thereon.

SRK considers that should the Ore Reserves as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this letter, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

Dr Mike Armitage
Managing Director
SRK Consulting (UK) Limited

Exhibit B

ERCOSPLAN
Ingenieurgesellschaft
Geotechnik und Bergbau mbH
Beraten - Begutachten - Planen

ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH
Arnstädter Strasse 28 - 99096 Erfurt

OAO URALKALI, Berezniki, RUSSIA
UBS Limited, London, UNITED KINGDOM
Citigroup Global Markets Limited, London, UNITED KINGDOM
Renaissance Securities (Cyprus) Limited, Nicosia, CYPRUS
Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, UNITED KINGDOM
Cleary Gottlieb Steen & Hamilton LLP, London, UNITED KINGDOM

Your Reference	**Your Message Dated**	**Our Reference**	**Date**
		EGB-HR/SOp	2007-09-10

Expert Statement on Mining Safety of Mine BKPRU-2 and BKPRU-4 in Comparison to the Flooded Mine BKPRU-1
EGB 07-030

This is a letter to confirm that ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH ("ERCOSPLAN") has reviewed all of the key information made available for compiling the Expert Statement on Mining Safety of Mine BKPRU-2 and Mine BKPRU-4 in Comparison to the Flooded Mine BKPRU-1 ("ESMS").

The primary purpose of this letter is to opine upon the compliance of the ESMS in accordance with the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES[1] as well as the best practice in international potash mining. ERCOSPLAN has been informed by URAL-KALI that this letter is required in support of the ESMS.

1 URALKALI PRODUCTION UNITS

OAO URALKALI ("URALKALI" or "the Company") operated four production units next to the city of Berezniki, Perm region, Russian Federation. There sylvite and carnallitite potash ore were extracted from the Verkhnekamskoye Deposit. Each production unit consisted of an underground mine where the ore was extracted to feed the related processing plant at the surface. Potash mining in the Berezniki area started in the 1930's with the first mine, Mine BKPRU-1.

During the 1960's URALKALI developed the second production unit BKPRU-2, which started extraction in 1969. During the 1970's the third unit, BKPRU-3 was established and during the 1980's the fourth unit BKPRU-4 was established.

2 INTRODUCTION

In October 2006 URALKALI was forced to abandon the oldest Mine BKPRU-1 due to a detected strong brine inflow and the related safety risks for continuation of the mining operation[2]. The incident followed the flooding and abandonment of Mine BKPRU-3 in 1986.

[1] London Stock Exchange AIM (2006): GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES.- 13 pages, 2 Appendices; March 2006.

[2] For definition and explanation of scientific and technical terms see the footnotes within the document.

Telefon: +49-(0)361-3810-220
Telefax: +49-(0)361-3810-402
e-mail: mining@ercosplan.com
www.ercosplan.com

Sparkasse Mittelthüringen
BLZ 820 510 00
Kto. 6000 20 819

USt-IdNr.: DE 812 357 054
Steuer-Nr.: 151/108/08221
Finanzamt Erfurt

Geschäftsführer:
Dr. Henry Rauche
Amtsgericht Jena
HRB 109822

2 INTRODUCTION (continued)

Presently, URALKALI is considering an offering of its shares in the form of ordinary shares and global depository receipts, with a listing of global depository receipts on the London Stock Exchange ("LSE"). In the context of these offering procedures, URALKALI must demonstrate its business ability as well as the results of risk analysis by independent experts. Therefore, URALKALI contracted the independent consulting company, ER-COSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, Erfurt/Germany to review the expected future impact of flooding of Mine BKPRU-1 on the natural and infra-structural environment of URALKALI's production facilities.

ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH ("ERCOSPLAN") is part of the German holding company, ERCOSPLAN Erfurter Consulting und Planungsbüro GmbH ("ERCOSPLAN Group"), which is the successor of the former KALI-INGENIEURBÜRO ERFURT as the central planning and consulting department of the East German potash producer KOMBINAT KALI.

The ESMS is to assess URALKALI's mining practice and the mining safety standards in the two operating mines, BKPRU-2 and BKPRU-4. The ESMS addresses in particular the potential risk of flooding, which includes among other things, an analysis on a technical discipline basis of

- the overall mine layout,
- the water inflow prevention measures,
- the hydrogeology and tectonics in the overburden strata

as well as

- the thickness and homogeneity of the hydrogeological protective layer on top of the potash deposit

and

- their integrity during mining-induced deformation of the overburden strata

by a Competent Person's Report (CPR) according to the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES[1] and the best known practice in international potash mining.

Accordingly, the identified risks should be divided into general risk factors and specific risk factors, latter especially affecting the applicant URALKALI. These specific risk factors should be set out within the ESMS ahead of any general risks.

The risk of flooding exists in general for conventional underground[3] potash and/or rock salt mining due to the water soluble nature of the ore itself and its host rocks. The risk of losing a mine due to flooding is, therefore, a general risk for all such mining operations. In particular, during the early history of potash mining many conventional underground potash mines were lost due to flooding. Before the flooding incident of Mine BKPRU-1, the most recent lost underground potash mines were the Potacan Potash Mine in New Brunswick/CANADA in 1997, the Patience Lake Potash Mine in Saskatchewan/CANADA in 1987 and URALKALI's Mine BKPRU-3 in Berezniki/RUSSIA in 1986.

Keeping this in mind, the report must demonstrate in particular, if a specific risk exists for operation of URALKALI's Mines BKPRU-2 and BKPRU-4.

3 ERCOSPLAN REVIEW PROCESS

The ERCOSPLAN Group comprises 130 staff, offering potash and other mineral salt geology, rock mechanics, mining and processing as well as environmental issues expertise worldwide. ERCOSPLAN's independence from any potash producer and/or equipment supplier in the world is ensured by the fact that the company and the company's shareholders do not hold any equity in mineral projects and/or mining companies.

[3] Conventional mining means underground extraction by drilling-and-blasting and/or continuous mining technology, in contrast to solution mining where no personnel is working underground.

3 ERCOSPLAN REVIEW PROCESS (continued)

ERCOSPLAN has a demonstrated track record in undertaking independent assessment studies, project evaluations, and independent feasibility evaluations to bankable standards for potash and other mineral salt projects on behalf of the project owners and/or financial institutions worldwide.

The review was undertaken by a team of six experts (Table 1) over a period of one month. These individuals are senior geologist/senior engineers and specialists in the fields of potash and other mineral salt geology, rock mechanics, mining safety, mining and processing as well as environmental issues and are all well experienced.

The principal author of the ESMS is EurGeol, Dr **Henry Rauche**. Dr Rauche is the Managing Director & C.E.O. of ERCOSPLAN. Dr Rauche has over 20 years of experience with rock salt and potash mining and, in particular with Mining Safety issues and risk assessment studies for industrial potash mines. Dr Rauche is a registered European Geologist in good standing.

As ERCOSPLAN has been involved in URALKALI's modernisation and capacity extension tasks for consulting and engineering service since 2001, more background data and local experience than provided by documents and interviews during the review period was incorporated.

Table 1 ERCOSPLAN's experts and their fields of responsibility

Area of responsibility	Name	Registration and Qualification
Overall Responsibility	Dr Henry Rauche	Eur Geol, Graduate Geologist, PhD
Mining Geology	Mr Andreas Jockel	Graduate Geologist
Hydrogeology	Dr Sebastiaan van der Klauw	Graduate Geologist, PhD
Rock Mechanics	Mr Juergen Kaufmann	Graduate Mining Engineer
Mining Safety	Dr Henry Rauche	Eur Geol, Graduate Geologist, PhD
Mining Induced Subsidence, Mine Surveying	Mr Carsten Ackermann	Mine Surveyor, Graduate Engineer
Mining Methods	Mr Thomas Teichert	Graduate Mining Engineer

During the recent review period these experts conducted site visits and/or interviews with URALKALI's key personnel and/or further document analyses.

The entire review procedure considered the items listed under paragraphs 4 to 6 listed below. In the following, the preliminary results of this review are briefly described.

3.1 Verification, Validation and Reliance

This ESMS is dependent upon technical and legal input from the Company. The technical information as provided to, and taken in good faith by ERCOSPLAN, has not been independently verified by means of re-calculation. ERCOSPLAN has however:

- conducted a review and assessment of all material technical issues likely to influence the future development of the situation of the shafts, the main industrial, municipal and public surface infrastructure and the schematic housing situation of the city of Berezniki due to the flooding
- accepted certain parameters provided by the Company and relied on these as inputs;

and

- satisfied itself that such information is both appropriate and valid as reported herein.

ERCOSPLAN considers that with respect to all material technical matters, it has undertaken all necessary investigations to ensure compliance with the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES.

ERCOSPLAN has placed reliance on URAKALI that the all technical information provided by URAKALI to ERCOSPLAN is both valid and accurate for the purpose of compiling this ESMS.

3 ERCOSPLAN REVIEW PROCESS (continued)

3.2 Limitations

The Company has agreed that, to the extent permitted by law, it will indemnify ER-COSPLAN and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of any material negligence, wilful misconduct or breach of law. The Company has also agreed to indemnify ERCOSPLAN and its employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except to the extent ERCOSPLAN or its employees and officers have been materially negligent or acted with wilful misconduct or in breach of law in which case ER-COSPLAN shall bear such costs.

The Company has confirmed in writing to ERCOSPLAN that to its knowledge the information provided by the Company was complete and not incorrect or misleading in any material aspect. ERCOSPLAN has no reason to believe that any material facts have been withheld and the Company has confirmed to ERCOSPLAN that it believes it has provided all material information.

3.3 Reliance on Information

ERCOSPLAN's opinion of the Company's specific risks is effective at 10 September 2007 and is based on information provided by the Company throughout the course of ERCOSPLAN's investigations, which in turn reflects various technical conditions prevailing at the date of this report. These and the underlying Technical Economic Parameters (TEPs) can change significantly over relatively short periods of time.

3.4 Declarations

ERCOSPLAN will receive a fee for the preparation of this ESMS in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the listing and ERCOSPLAN will receive no other benefit for the preparation of this report. ERCOSPLAN does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Environmental Impact of Flooding Mine BKPRU-1.

ERCOSPLAN's independence from any potash producer and/or equipment supplier in the world is ensured by the fact that the company and the company's shareholders do not hold any equity in potash properties and/or potash mining companies.

ERCOSPLAN does not have, at the date of this report, and has not had within the previous two years, any shareholding in the Company or the Mining Assets and consequently considers itself to be independent of the Company. This independence is not influenced or limited by the Joint Venture URALKALI Engineering where URALKALI and ER-COSPLAN are shareholders.

3.5 Consent and Copyright

ERCOSPLAN consents to the issuing of this report in the form and context in which it is to be included in the preliminary and final prospectuses for an international offering of securities of the Company. Neither the whole nor any part of the ESMS nor any reference thereto may be included in any other document without the prior written consent of ERCOSPLAN regarding the form and context in which it appears.

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive intellectual property of ERCOSPLAN. The intellectual property reflected in the contents resides with ERCOSPLAN and shall not be used for any activity that does not involve ERCOSPLAN, without the written consent of ERCOSPLAN.

4 Outline of Potash Mining in the Verkhnekamskoye Potash District

To outline the geological and mining characteristics of the Verkhnekamskoye potash district it is necessary to give an introduction to

- the Geological Setting of the Potash Deposit by description of the regional geology;
- the Mining History and the Current Mining Practice by description of the mining methods and the general mine layout;
- the Mining Safety Regulation Framework by description of the rock mechanical conditions, the room-and-pillar design

and, in particular to

- the specific regulations for prevention of mine flooding and gas outburst are presented in the ESMS.

4.1 Mining Geology

The potash ore occurs in several layers (seams) inside an evaporite sequence which was formed in the **Verkhnekamskoye** (Upper Kama) **Basin**[4] which is known as the second largest potash resource in the world. The mineral properties of URALKALI are located in the southernmost sub basin. The Lower Permian evaporite sequence (formed approximately 275 million years ago) can reach a total thickness of > 500m and is overlain by marls, carbonate rocks and varied coloured argillite and sandstone. These cover rocks are the **groundwater-bearing strata**.

The **potash section** occurs in the upper part of the evaporite sequence: in the lowermost four potash horizons the potash mineralisation is Sylvite[5], whereas the upper horizons are mineralised by Carnallite[6] with varying amounts of Sylvite, especially in its lower part. Beside the potash minerals the potash layers contain Halite[7]. The sylvinite[8,9] and carnallitite[10] horizons are separated by rock salt layers of varying thickness. The **mining horizons** are the lowermost sylvinite horizons, the so-called seam KrII as well as seam AB and, in some parts of the deposit the carnallitite horizon B (W). Inside the evaporite sequence and, in particular in carnallitite sections small amounts of hydrocarbon gas may be accumulated.

Since host rocks of potash deposits are soluble in water, such deposits survive in the Earth history only if they are covered by **impermeable protective barrier strata.** These strata protect the ore body against the dissolution caused by groundwater inside the cover rocks and/or in the basement.

In the Verkhnekamskoye deposit the mine works in these horizons are separated from the groundwater bearing overburden by the Upper Hydrogeological Protection Layer ("UHPL") consisting of the impermeable rocks of:

(1) the not mined parts of the carnallitite potash ore interval, which has a thickness in the range of 35m to 50m, depending on whether the carnallit-ite horizon B (W) is mined, but also on local thickness variations,

(2) the cover rock salt strata varying in thickness between 17m to 22m,

(3) the rock salt bearing strata of the lower part of the marl formation with varying thicknesses of up to 50m.

---

4 References on spelling geological terms: Stratigraphic terms and terms of regional tectonic units are written in caps locks throughout this report.

5 chemical formula: KCl.

6 chemical formula: KMgC13 × 6 H2O.

7 also known as rock salt: chemical formula: NaCl.

8 Mineral names are written in caps lock throughout this report. Rock names are written in lower case letters throughout this report. Rock names of evaporite rocks are used according international lithological terminology and are formed by suffix -it behind the main evaporite mineral; exceptions from this rule are halite and Sylvite since such a suffix spelling is uncommon for these rock types.

9 Sylvinite is an evaporite rock containing the main minerals Sylvite and Halite.

10 Carnallitite is an evaporite rock containing the main minerals Carnallite and Halite.

4 Outline of Potash Mining in the Verkhnekamskoye Potash District (continued)

Mine works are separated from potential groundwater and hydrocarbon in the basement by the Lower Hydrogeological Protection Layer consisting of the impermeable rocks of lower rock salt formations with a thickness in the range of 300m.

Usually, in all potash deposits the thickness of the protective barrier strata is not homogeneous since it is influenced by tectonics and/or subrosion. Therefore, for safe mining operation the **exploration of thickness and lithological conditions of the hydro-geological protection layers** is required. For the Verkhnekamskoye deposit, in particular the determination of tectonic and/or dissolution structures or so-called *geologically anomalous zones*, especially regarding the UHPL is essential for planning the mining operation. Due to the importance of these particular geological structures which were empirically discovered during the running mining operation, scientific research institutes developed a classification system for application in mining practice which is based on the mining geology experience in the Verkhnekamskoye region[11]. This regulation defines minimum requirements for exploration as well as the restrictions for extraction works in the adjacency of such *geologically anomalous zones*.

Compared to other large-scale potash deposits in the world the **Verkhnekamskoye Deposit is characterised** as follows:

- the potash layers occur in sufficient thicknesses allowing mining cuts with high-grade ore which is a significant advantage in terms of economic mining;
- the depths of the potash layers are shallow compared to Canadian or most of the German potash deposits which is a further significant advantage in terms of economic mining

and,

- more or less resulting from the shallow depth the protective layer on top of the mining horizons is characterised by relative low thicknesses.

4.2 Mining History and Current Mining Practice

Exploration of the potash deposit started in the early 20th century. The first exploration campaign in the field of the later Mine BKPRU-1 was executed in the 1920's and 1930's. The shafts of Mine BKPRU-1, the first mine in the Berezniki region, were sunk from 1934 on. Interrupted by World War II, regular production in Mine BKPRU-1 started in 1954. Mines BKPRU-2, BKPRU-3 and BKPRU-4 went into production in 1969, 1973 and 1984.

The room-and-pillar technique with long panels[12] is used as exploitation method for Sylvite ore in the mines of the Verkhnekamskoye district, whereas supporting pillars remain between the rooms. Continuous mining machines[13], so-called combines are used for extraction. Bunker cars[14] and shuttle cars[15] are used for transportation of the ore to the belt conveyor supply stations. The potash

[11] Аномальные особенности строения и состояния пород водозащитной толщи (ВЗТ) и основные условия ее подработки Из «Указаний по защите рудников от затопления и охране подрабатываемых объектов в условиях Верхнекамского месторождения калийных солей. (Технологический регламент)». ОАО «ВНИИГ», г. Санкт-Петербург, 2004 г.- стр. 7 [Anomaly features of structures, status of hydrogeologic protection layer and main conditions for the base (Technological regulation).- OAO VNIIG, 7 pages, Sankt-Petersburg, 2004 (Expert Statement Reference Document No d3.- provided by OAO URALKALI August 2007)]

[12] Room-and-pillar mining with long panels: a mine layout where extracting panels are developed over a long distance and pillars remain between the panels.

[13] Continuous mining machine: mechanized machine that extracts ore in a continuous fashion. Typically they use rotating drums or heads that break the rock loose from the ore body, retrieve it from the floor and load it onto a conveyor or shuttle car.

[14] Bunker cars: are trailers used together with shuttle cars for transporting ore from the continuous mining machines to a loading point.

[15] Shuttle cars: self-moving vehicles used for hauling ore from the continuous miner to a loading point, such as a conveyor belt feeder.

ore is transported to the intermediate bunkers[16] or directly to the shafts via a system of conveyors[17]. The bunkers are used for ore blending, which mostly means to equilibrate the KCl grade in the ore. The ore hoisting through the shaft is realised with skips[18]. From there it is fed into the surface plant.

Only in Mine BKPRU-1 the carnallitite seam B (W) was extracted. Here drilling-and-blasting technology was applied.

Originally, backfilling[19] of the extraction panels was not planned. However, after the flooding incident in Mine BKPRU-3 the decision was made to backfill all mine cavities under residential or industrially used areas of the city Berezniki and in the carnallitite works to reduce the mining-induced subsidence. This backfill strategy was stipulated as binding in the updated normative documents. Therefore, Mine BKPRU-1 realised an intensive backfilling programme during the last 18 years. Backfilling of workings in Mine BKPRU-1 below the city of Berezniki was started in the beginning of the nineties. Two different methods of backfilling were used at Mine BKPRU-1:

(1) slurry backfill, which consisted of a mixture of rock salt residues from the processing plant and brine. The slurry material was mixed at the surface and transported in the underground to the mined out workings using gravity and pumps if required. The solid residues settled in the mined out workings, brine was gathered at the lowest point and pumped back to the surface. This method was used in the sylvinite horizons KrII and AB.

(2) dry backfill, which consisted of dry rock salt from drifts in the lower rock salt. The material was transported in the underground from the mined drift directly to the mined out working and dumped there. This method was used in the carnallitite horizon B (W), but also in the sylvinite horizons.

The infill ratio achieved in Mine BKPRU-1 varied from 61% to 95%, usually depending on the accessibility of the panels, the shape of the cavities as well as on the backfill method used.

4.3 Mining Safety Regulation Framework

For mining in the Verkhnekamskoye deposit a well-defined mining safety regulation framework exists. The first mining regulation which was developed under the consideration of the characteristics of the Verkhnekamskoye deposit dates back to 1960. This regulation defines in detail

- the delineation of exclusion zones for mining caused by safety risks, as anomalous geological situations and/or gas accumulations

and

- the room-and-pillar-design and, in particular its adaptation according to the geological conditions in the individual mine field.

These regulations were subsequently substituted by more recent revisions according to the progress in theoretical understanding of geological, hydrogeological and rock mechanical interactions.

Additionally, several guidelines for specific exploration and monitoring procedures were issued and applied companywide. As for the regulations, these guidelines are subject of revision, too. The current versions of these guidelines define how and how many data must be acquired as sufficient information to identify the geological, hydrogeological and rock mechanical situation in the individual mine fields for further planning of mining operation, including extraction rate and room-and-pillar design. These are based upon the instructions on geological supervision of mine

[16] Intermediate bunkers: are transitory underground ore storages, where the ore is hauled to before it is transported to the surface.

[17] Conveyors: underground belt system transporting the ore from the loading point to the discharging point or to the surface.

[18] Skips: large hoisting vessels used for vertical ore transportation, e.g. in shafts, and ore supply of the conveyor belts. Owing to their special construction loading and discharging is done automatically.

[19] Backfilling: filling of the extraction rooms by processing residues and/or other mining wastes to reduce the mining-induced subsidence by reducing the open void volume in the mine.

works of 2002[20]; which are a successor of the former regulation with the same title of 1992[21] and which are binding for any exploration work done in the Verkhnekamskoye Potash District.

4.4 Prevention Strategy against Mine Flooding

As for other potash deposits in the world too, the risk of flooding of the potash mines in the Verkhnekamskoye deposit is determined by the integrity[22] of the hydrogeological protection layers before and, in particular, while impacted by the mining-induced deformation process. The integrity before mining starts is preset by the geological processes during the local Earth history, mainly by tectonics and/or subrosion. Therefore, discovering the actual condition of the hydrogeological protective layers is one important task for the continuous geological exploration before development of new mine fields. Drift development and ore extraction are only allowed in areas where the integrity of the hydrogeological protection layers is proven to exclude any risk of flooding.

For effective prevention of flooding, serious damage of the primary integrity of the hy-drogeological protection layers as consequence of ore extraction must be avoided. Therefore, a limitation of mining-induced deformation of the hydrogeological protection layers and, in particular of the UHPL is required. In mining practice such a limitation of mining-induced-deformation will be realised only by changes in the room-and-pillar design: soft pillar behaviour leads to higher deformation in the UHPL whereas stiffer pillar behaviour leads to increased support of the UHPL. The pillar behaviour is controlled by the mechanical properties of the ore left in the pillars[23] and by the pillar configuration[24].

Based on the regulations for classification of the so-called *geologically anomalous zones* a further series of normative documents exist for the room-and-pillar dimensioning as well as for particular prevention measures against mine flooding. These legally binding regulations apply the basic principle described above, and contain both, methodical recommendations for their application and furthermore, detailed definitions for allowable room-and-pillar dimensions referring to the different types of the *geologically anomalous zones*[25].

5 Mine Field Geology and Mining Practice in the Flooded Mine BKPRU-1 Compared to the Mines BKPRU-2 and BKPRU-4 Under Operation

For understanding the differences and similarities between the flooded Mine BKPRU-1 and both mines under operation, Mines BKPRU-2 and BKPRU-4,

- the mine field geology of Mine BKPRU-1, including the state of exploration before mine development, the local hydrogeological conditions and particular geological structures

and

[20] ИНСТРУКЦИЯ ПО ГЕОЛОГИЧЕСКОМУ ОБСЛУЖИВАНИЮ КАЛИЙНЫХ РУДНИКОВ ВЕРХНЕКАМСКОГО МЕСТОРОЖДЕНИЯ, -Sankt Petersburg, 2002 [Instructions on geological supervision of the mine works in the Verkhnekamskoye district.-Sankt Petersburg, 2002]

[21] ИНСТРУКЦИЯ ПО ГЕОЛОГИЧЕСКОМУ ОБСЛУЖИВАНИЮ КАЛИЙНЫХ РУДНИКОВ ВЕРХНЕКАМСКОГО МЕСТОРОЖДЕНИЯ, -Sankt Petersburg, 1992 [Instructions on geo-logical supervision of the mine works in the Verkhnekamskoye district.-Sankt Petersburg, 1992 (document not available, cited in footnote 21)]

[22] The term *integrity* summarise all protective functions of the UHPL, which is mainly but not only considered by the physical properties as mechanical strength and hydraulic permeability.

[23] which is a natural parameter and, therefore, it cannot be influenced by the mining practice.

[24] Pillar configuration summarise all geometric arrangement of the room-and-pillar system, as height and width of pillars and extraction rooms.

[25] Указания по защите рудников от затопления и охране подрабатываемых объектов в условиях Верхнекамского месторождения калийных солей. (Технологический регламент). ОАО «ВНИИГ», г. Санкт-Петербург, 2004 г. -. Книга 1 [Instructions for mining and the safety of surface and subsurface structures at the Verkhnekamskoye (technical regulation), OAO VNIIG, 1 book, Sankt-Petersburg, 2004 (Expert Statement Reference Document No p29.- provided by OAO URALKALI August 2007)]

5 Mine Field Geology and Mining Practice in the Flooded Mine BKPRU-1 Compared to the Mines BKPRU-2 and BKPRU-4 Under Operation (continued)

- the historical mine development since its beginnings as well as the mining works planned for 2006, including the exploitation methods, the applied technologies and the room-and-pillar design

must be analysed. Furthermore, the pattern of events leading to flooding of Mine BKPRU-1 and the basic causes are discussed in detail, and finally, the identified circumstances of flooding Mines BKPRU-1 and BKPRU-3 are regarded in comparison with the situation in the Mines BKPRU-2 and BKPRU-4 under operation.

The development of Mine BKPRU-1 started in 1934 on the basis of limited geological data resulting from an exploration campaign executed in the 1920's and 1930's. Mines BKPRU-2, BKPRU-3 and BKPRU-4 went into production in 1969, 1973 and 1984. This time sequence illustrates that Mine BKPRU-1 started as *pioneer operation* in the Berezniki area and therefore both a trial of mining parameters as well as a lack of local geological experience occurred in Mine BKPRU-1. This interaction between untested mining parameters and lack of geological experience did not appear in the same sense for the mines established later.

The inflow in Mine BKPRU-1, detected on 17 October 2006, is located at the northwestern rim of a safety pillar surrounding the old drill hole no. 17, drilled in 1928. In this area a *geologically anomalous zone* (anomaly type 1) is caused by subrosive dissolution along the western boundary of the so-called Beresnikowskij elevation, where the UHPL is of anomalous thickness and lithological condition. These conditions were unknown during the period of active mining in this mine field. The mining panels nearby the safety pillar of shafts 1 to 3, including the 4th western panel of seam AB and the 4th western and 5th western panel of Seam KrII with drill hole no. 17, were mined throughout the first years of Mine BKPRU-1 operation. According to the regulations, the former radius of 75m of the safety pillar of drill hole no. 17 was extended to 120m in August 1964. However, four rooms of seam AB had already been mined to the border of the former pillar on its north-eastern boundary, thus weakening the safety of the newly dimensioned pillar. In addition to the intensively extracted panel the tailings pile was erected at the surface which led to further loading on the pillars. Backfilling of the rooms in this area was done from 1994 to 1996 while seam KrII was already mined from 1976 to 1977 and seam AB from 1964 to 1965. The rooms were open for 20 to 30 years and several rooms of both seams were in such bad condition that they could not be backfilled anymore. The stable pillar, except its weakened north-eastern part, in conjunction with the non-backfilled rooms of two seams resulted in a sharp merging from the stiff pillar to the softened salt rock of the mined area. The loss of integrity of the UHPL which led to the groundwater inflow is caused by the differential deformation in the UHPL.

The causes for flooding Mine BKPRU-3 are different in detail. However, one of the main reasons was a particular geological structure, which was unknown due to a lack and/or delay in exploration work during the Soviet time.

According to the current regulations mining next to both types of *geologically anomalous zones* will be not permitted.

All of the potential impacts of flooding Mine BKPRU-1 were investigated by URALKALI's experts and by contracted independent experts from academic institutions in coordination of a particular established Governmental Security Commission ("GSC"). Under the leadership of the Federal Minister for Natural Resources of the Russian Federation[26] the GSC unifies the community and regional governmental administrations, the regional branch of the Ministry of the Russian Federation for Civil Defence, Emergency Situations and Disasters[27] as well as the best scientific expertise. The GSC is responsible for reali-sation of both, (i) forecasting possible impacts of the mine flooding itself and all related surface subsidence and resulting land or buildings damage, and (ii) realising the monitoring measures for the entire flooding-related impacts.

[26] Министерство природных ресурсов Российской Федерации

[27] Министерство Российской Федерации по делам гражданской обороны, чрезвычайным ситуациям и ликвидации последствий стихийных бедствий

5 Mine Field Geology and Mining Practice in the Flooded Mine BKPRU-1 Compared to the Mines BKPRU-2 and BKPRU-4 Under Operation (continued)

Apart from the GSC activities and as a consequence of the flooding incident in Mine BKPRU-1 URALKALI undertook research programs regarding a specific risk assessment[28] of operational mines, BKPRU-2 and BKPRU-4, which did not identify any particular risk to safe and efficient operation of these. On basis of its evaluation of documents and data received from URALKALI, ERCOSPLAN concluded that comparable situations cannot be identified in Mine BKPRU-2 and Mine BKPRU-4. The main reason for this significant difference is that the two mines under operation were systematically developed on the basis of sufficient exploration results and, in particular, pursuant to the application of existing experience relating to mining operations in BKPRU-1.

Although Mine BKPRU-3 is younger than Mine BKPRU-2 and was similarly systematically developed, no noticeable anomaly zone was identified at that time. Finally, this non-identified anomaly zone together with the mining parameters not being adapted to it, were the reasons for flooding of Mine BKPRU-3. In the older Mine BKPRU-2, which was explored afterwards over its complete mine field, no such structures could be identified within the frame of the recent risk assessment.

6 Interpretation and Conclusions

The difference in mining practice and, in particular in mining safety between the flooded Mine BKPRU-1 and the two mines under operation, Mine BKPRU-2 and Mine BKPRU-4 are briefly summarised as follows:

The flooding incidents of the mines BKPRU-1 and BKPRU-3 were mainly caused by (i) anomalous geological structures of the deposit and the overburden strata, in particular the UHPL, paired with (ii) unstable rock mechanical conditions due to the high extraction ratio and/or overloading by the tailings pile. This anomalous geological structure was not known before or during the mining pe-riod.Therefore no particular safety measures were applied.

The mine panel where the inflow is located in Mine BKPRU-1 was mined in the early 1960's. During this period the design of the rooms and pillars followed regulations which did not consider the local geological and hydrogeological frame conditions of the Verkhnekamskoye deposit. At that time, a lack of understanding local geological situations and rock mechanical behaviour of the deposit layers as well as the overburden existed. In this sense, Mine BKPRU-1 was like a *pioneer operation* which might explain the final failure.

The present situation in the Mines BKPRU-2 and BKPRU-4 is quite different from this former practice in Mine BKPRU-1. Within the last two decades

- sufficient geological exploration for determination of anomalous geological structure

as well as

- more recent rock mechanical design studies, geotechnical *in situ*-investigations and deformation monitoring

were realised. Based on these results a well-founded safety strategy has been applied for more than 20 years.

Nevertheless, as a result of the flooding incident in Mine BKPRU-1, URALKALI's management undertook research programs[29] regarding a specific risk assessment of operational mines, Mine

[28] План работ по мониторингу геологической среды на шахтных полях рудников БКПРУ-2 и БКПРУ-4 в 2007 г. Утверждён зам.директора по производству по горным работам 22.03.2007 г. [Work plans about monitoring of the geological local conditions at BKPRU-2 and BKPRU-4 2007, Berezniki, signed by the general director for mining works on 22.03.2007 (Expert Statement Reference Document No d8. – provided by OAO URALKALI August 2007)]

[29] Программа научно-исследовательских работ по обеспечению безопасности горных работ и защите рудников от затопления на Верхнекамском месторождении калийных солей на период 2007-2010 г.г. Согласована Ростехнадзором 05.12.2006 г. -. стр. 6 [Program of scientific research work (guarantee, security of mines) about Verkhnekamskoye from 2007-2010, 6 pages (Expert Statement Reference Document No p6.- provided by OAO URALKALI August 2007)]

6 Interpretation and Conclusions (continued)

BKPRU-2 and Mine BKPRU-4[30], which did not identify any particular risk to safe and efficient operation of these. On basis of its evaluation of documents and data received from URALKALI, ERCOSPLAN concluded that no specific flooding or mining risk exists in Mine BKPRU-2 and Mine BKPRU-4.

However, the general risk of flooding does exist due to the inherent water solubility of the host rocks as is the same for other potash mines in the world.

7 Recommendations

To prevent Mines BKPRU-2 and BKPRU-4 as well as the planned Mine BKPRU-5 from flooding as a result from brine inflow, the following measures are already implemented:

- maintaining the required width of the safety pillars between the mines,
- extending underground exploration in advance of mining operation to identify and avoid anomalies or structures like the Bereznikoskij dome.

To avoid inefficient operation, the regulations and instruction should be further enhanced to contemporarily implement achievements from technical and scientific progress.

ERCOSPLAN Ingenieurgesellschaft
Geotechnik und Bergbau mbH

Dr. Henry Rauche
General Manager & C.E.O.

[30] Программа выполнения работ по мониторингу (Мониторинг аварийной ситуации на БКПРУ-1. Мониторинг шахтных полей БКПРУ-2, БКПРУ-4). Утверждена зам. ген. директора ОАО "Уралкалий" 25.01.2007 г. -. стр. 5 [Program about monitoring of the accident situation in BKPRU-1. Monitoring Mines BKPRU-2, BKPRU-4), 5 pages, Berezniki, 25.01.2007 (Expert Statement Reference Document No p7. – provided by OAO URALKALI August 2007)]

План работ по мониторингу геологической среды на шахтных полях рудников БКПРУ-2 и БКПРУ-4 в 2007 г. Утверждён зам.директора по производству по горным работам 22.03.2007 г. [Work plans about monitoring of the geological local conditions at BKPRU-2 and BKPRU-4 2007, Berezniki, signed by the general director for mining works on 22.03.2007 (Expert Statement Reference Document No d8. – provided by OAO URALKALI August 2007)]

ERCOSPLAN Ingenieurgesellschaft
Geotechnik und Bergbau mbH
B e r a t e n - B e g u t a c h t e n - P l a n e n

ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH
Arnstädter Strasse 28 - 99096 Erfurt

OAO URALKALI, Berezniki, RUSSIA
UBS Limited, London, UNITED KINGDOM
Citigroup Global Markets Limited, London, UNITED KINGDOM
Renaissance Securities (Cyprus) Limited, Nicosia, CYPRUS
Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, UNITED KINGDOM
Cleary Gottlieb Steen & Hamilton LLP, London, UNITED KINGDOM

Your Reference	**Your Message Dated**	**Our Reference**	**Date**
		EGB-HR/SOp	2007-09-10

Expert Statement on the Environmental Impact of Flooding Mine BKPRU-1
EGB 07-030

This is a letter to confirm that ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH ("ERCOSPLAN") has reviewed all of the key information made available for compiling the Expert Statement on the Environmental Impact of Flooding Mine BKPRU-1 ("ESEI").

The primary purpose of this letter is to opine upon the compliance of the ESEI in accordance with the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES[1] as well as the best practice in international potash mining. ERCOSPLAN has been informed by URALKALI that this letter is required in support of the ESEI.

1 URALKALI PRODUCTION UNITS

OAO URALKALI ("URALKALI" or "the Company") operated four production units next to the city of Berezniki, Perm region, Russian Federation. There sylvite and carnallitite potash ore were extracted from the Verkhnekamskoye Deposit. Originally each production unit consisted of an underground mine where the ore was extracted to feed the related processing plant at the surface. In 1986 the Mine BKPRU-3 had to be abandoned due to flooding. However, the Plant BKPRU-3 is supplied with ore from the other mines.

In October 2006 URALKALI was forced to abandon the oldest Mine BKPRU-1 due to the detected strong brine inflow and the related safety risks for continuation of the mining operation. The incident followed the flooding and abandonment of Mine BKPRU-3 in 1986.

2 INTRODUCTION

Presently, URALKALI is considering an offering of its shares in the form of ordinary shares and global depository receipts, with a listing of global depository receipts on the London Stock Exchange ("LSE"). In the context of these offering procedures, URALKALI must demonstrate its business ability as well as the results of risk analysis by independent experts. Therefore, URALKALI contracted the independent consulting company, ER-COSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, Erfurt/Germany to review the expected future impact of flooding of Mine BKPRU-1 on the natural and infra-structural environment of URALKALI's production facilities.

1 London Stock Exchange AIM (2006): GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES.- 13 pages, 2 Appendices; March 2006

Telefon: +49-(0)361-3810-220
Telefax: +49-(0)361-3810-402
e-mail: mining@ercosplan.com
www.ercosplan.com

Sparkasse Mittelthüringen
BLZ 820 510 00
Kto. 6000 20 819

USt-IdNr.: DE 812 357 054
Steuer-Nr.: 151/108/08221
Finanzamt Erfurt

Geschäftsführer:
Dr. Henry Rauche
Amtsgericht Jena
HRB 109822

2 INTRODUCTION (continued)

The general aims of this Expert Statement on the Environmental Impact of the flooding of Mine BKPRU-1 ("ESEI") are

- to identify the environmental impact of flooding Mine BKPRU-1 in comparison to a regular dry abandonment of Mine BKPRU-1

as well as

- to assess related potential risks for future business activities of URALKALI

by a Competent Person's Report ("CPR") according to the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES[1] and the best known practice in international potash mining.

The assessment of the future environmental impact of the flooding and the abandonment of Mine BKPRU-1 on URALKALI's business activities and, in particular, an assessment of the potential risks for the urban areas of the city of Berezniki, the industrial, municipal and public surface infrastructures as well as the ecosystem was executed by ERCOSPLAN.

3 ERCOSPLAN Review Process

The ERCOSPLAN Group comprises 130 staff, offering potash and other mineral salt geology, rock mechanics, mining and processing as well as environmental issues expertise worldwide. ERCOSPLAN's independence from any potash producer and/or equipment supplier in the world is ensured by the fact that the company and the company's shareholders do not hold any equity in mineral projects and or mining companies.

ERCOSPLAN has a demonstrated track record in undertaking independent assessment studies, project evaluations, and independent feasibility evaluations to bankable standards for potash and other mineral salt projects on behalf of the project owners and/or financial institutions worldwide.

The review was undertaken by a team of six experts (compare Table 1) over a period of one month. These individuals are senior geologist/senior engineers and specialists in the fields of potash and other mineral salt geology, rock mechanics, mine safety, mining and processing as well as environmental issues and are all well experienced.

The principal author of the ESEI is EurGeol, Dr **Henry Rauche**. Dr Rauche is the Managing Director & C.E.O. of ERCOSPLAN. Dr Rauche has over 20 years of experience with rock salt and potash mining and, in particular with Mining Safety issues and risk assessment studies for industrial potash mines. Dr Rauche is a registered European Geologist in good standing.

As ERCOSPLAN is involved in URALKALI's modernisation and capacity extension tasks for consulting and engineering service since 2001, more background data and local experience than provided by documents and interviews during the review period was incorporated.

Table 1 ERCOSPLAN's experts and their fields of responsibility

Area of Responsibility	Name	Registration and Qualification
Overall Responsibility	Dr Henry Rauche	EurGeol, Graduate Geologist, PhD
Mining Geology	Dr Sebastiaan van der Klauw	Graduate Geologist, PhD
Hydrogeology	Mr Andreas Jockel	Graduate Geologist
Environment	Mr Günther Böse	Graduate Engineer
Water Rock Interaction	Mr Volker Schwalm	Graduate Engineer
Mining Induced Subsidence, Mine Surveying	Mr Carsten Ackermann	Mine Surveyor, Graduate Engineer

The review first considers the environmental consequences of potash mining without flooding (chapter 4), subsequently compares these with the changes due to the flooding of Mine BKPRU-1 (chapter 5) and lists the environmental consequences of these changes due to the flooding (chapter 6).

3 ERCOSPLAN Review Process (continued)

3.1 Verification, Validation and Reliance

This ESEI is dependent upon technical and legal input from the Company. The technical information as provided to, and taken in good faith by ERCOSPLAN, has not been independently verified by means of re-calculation. ERCOSPLAN has however:

- conducted a review and assessment of all material technical issues likely to influence the future development of the situation of the shafts, the main industrial, municipal and public surface infrastructure and the schematic housing situation of the city of Berezniki due to the flooding
- accepted certain parameters provided by the Company and relied on these as inputs;

and

- satisfied itself that such information is both appropriate and valid as reported herein.

ERCOSPLAN considers that with respect to all material technical matters, it has undertaken all necessary investigations to ensure compliance with the LSE GUIDANCE NOTE FOR MINING, OIL AND GAS COMPANIES.

ERCOSPLAN has placed reliance on URAKALI that the all technical information provided by URAKALI to ERCOSPLAN is both valid and accurate for the purpose of compiling this ESEI.

3.2 Limitations

The Company has agreed that, to the extent permitted by law, it will indemnify ER-COSPLAN and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity will not apply in respect of any material negligence, wilful misconduct or breach of law. The Company has also agreed to indemnify ERCOSPLAN and its employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except to the extent ERCOSPLAN or its employees and officers have been materially negligent or acted with wilful misconduct or in breach of law in which case ER-COSPLAN shall bear such costs.

The Company has confirmed in writing to ERCOSPLAN that to its knowledge the information provided by the Company was complete and not incorrect or misleading in any material aspect. ERCOSPLAN has no reason to believe that any material facts have been withheld and the Company has confirmed to ERCOSPLAN that it believes it has provided all material information.

3.3 Reliance on Information

ERCOSPLAN's opinion of the Company's specific risks is effective at 10 September 2007 and is based on information provided by the Company throughout the course of ERCOSPLAN's investigations, which in turn reflects various technical conditions prevailing at the date of this report. These and the underlying Technical Economic Parameters (TEPs) can change significantly over relatively short periods of time.

3.4 Declarations

ERCOSPLAN will receive a fee for the preparation of this ESEI in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the listing and ERCOSPLAN will receive no other benefit for the preparation of this report. ERCOSPLAN does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Environmental Impact of Flooding Mine BKPRU-1.

ERCOSPLAN's independence from any potash producer and/or equipment supplier in the world is ensured by the fact that the company and the company's shareholders do not hold any equity in potash properties and/or potash mining companies.

ERCOSPLAN does not have, at the date of this report, and has not had within the previous two years, any shareholding in the Company or the Mining Assets and consequently considers itself to

3 ERCOSPLAN Review Process (continued)

be independent of the Company. This independence is not influenced or limited by the Joint Venture URALKALI Engineering where URALKALI and ERCOSPLAN are shareholders.

3.5 Consent and Copyright

ERCOSPLAN consents to the issuing of this report in the form and context in which it is to be included in the preliminary and final prospectuses for an international offering of securities of the Company. Neither the whole nor any part of the ESEI nor any reference thereto may be included in any other document without the prior written consent of ERCOSPLAN regarding the form and context in which it appears.

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive intellectual property of ERCOSPLAN. The intellectual property reflected in the contents resides with ERCOSPLAN and shall not be used for any activity that does not involve ERCOSPLAN, without the written consent of ERCOSPLAN.

4 ENVIRONMENTAL IMPACT OF POTASH MINING WITHOUT FLOODING

The decisive environmental impact resulting from potash mining is generally limited to subsidence as mining occurs underground and a direct interaction between environment and mining activity occurs only at the shaft area. The potash ore processing in the surface processing plants as well as the residue storage in tailing piles have larger environmental impact, but are not part of this study.

The current regulations for potash mining in the Verkhnekamskoye deposit take into consideration the potential of damage to surface structures and installations and prescribe backfilling of the mined out workings under following circumstances:

- below the part of the city with buildings or envisaged for buildings with more than 2 floors, only 1 sylvinite seam can be mined and the mined out seam must be backfilled,
- special care has to be taken during mining below water installations, electrical power lines, railway lines and pressured pipelines.

Where such constructions are present at the surface, the mining parameters must be adapted (e.g. larger pillars or backfill after mining) to assure that a safety pillar being sufficient for avoiding damage due to subsidence remains below these structures. Furthermore, mine openings in carnallitite horizons must be backfilled within 1.5 years after mining out of the panel.

URALKALI has always worked according to the current technical regulations. Hence it was planned to backfill all recent mine workings below residential and industrial areas of the city and important infrastructure. Furthermore all mine workings in the carnallitite horizon B (W) were planned for backfilling. In this case the subsidence due to mining would have been within the accepted limits.

5 DIFFERENCES IN ENVIRONMENTAL IMPACT DUE TO FLOODING OF MINE BKPRU-1

The flooding of Mine BKPRU-1 has a potential environmental impact in the following ways:

(1) flooding Mine BKPRU-1 with groundwater might lower the local groundwater table close to the inflow location,

(2) the flooding prevented the backfilling of mined out workings in several panels that would have been backfilled according to the regulations,

(3) the flooding of the Mine BKPRU-1 with under-saturated groundwater results in dissolution of appreciable amounts of potash salt rocks and increases the open volume in the underground. This results in a higher rate of subsidence through enhancing the creep rate and reducing the pillar diameter, and potentially in an increase of the magnitude of subsidence. These consequences are counteracted by the increased fluid pressure in the brine filled mine workings.

Groundwater monitoring around the inflow site compared to far away groundwater monitoring wells has not shown a marked decrease of the water level since flooding of the mine has started.

5 DIFFERENCES IN ENVIRONMENTAL IMPACT DUE TO FLOODING OF MINE BKPRU-1 (continued)

Areas that were scheduled for backfilling, but could not already be backfilled due to the flooding incident occur

- in the sylvinite horizons KrII and AB where three non-backfilled areas in the northern and north eastern part of the city of Berezniki exist;
- in the carnallitite horizon B (W) where three non-backfilled areas exist.

The dissolution of the pillar material is of main importance for carnallitite rocks and will play a large role in the carnallitite workings that are not backfilled. The role of density driven convection and its consequences for dissolution in backfilled mine workings is not studied in detail yet.

6 INFLUENCE OF CHANGED SUBSIDENCE PATTERN ON THE ENVIRONMENT AND POTENTIAL MITIGATION

The environmental impact of the flooding of Mine BKPRU-1 is described for the physical resources, ecology, human use values and quality of life values. Potential mitigation measures are mentioned.

All of the potential impacts were investigated by URALKALI's experts and by contracted independent experts from academic institutions in coordination of a particular established Governmental Security Commission ("GSC"). Under the leadership of the Federal Minister for Natural Resources of the Russian Federation the GSC unifies the community and regional governmental administrations, the regional branch of the Ministry of the Russian Federation for Civil Defence, Emergency Situations and Disasters as well as the best scientific expertise. The GSC is responsible for realisation of three tasks: (i) forecasting possible impacts of the mine flooding itself and all related surface subsidence and land or buildings damage, (ii) for realising the monitoring measures for the entire flooding-related impacts and (iii) for planning related mitigation measures.

6.1 Physical Resources

The PHYSICAL RESOURCES topography, climate and soil will only be influenced locally in the carnallitite mining areas. The air quality will not be negatively influenced. The quality of the surface water has not been influenced. The groundwater can be influenced by (i) presently, groundwater inflow into the mine and, after complete filling, (ii) saline water intrusion into the groundwater-bearing horizons. Owing to the spatially limited impact next to the inflow area the freshwater supply for the city of Berezniki will not be influenced. The overall hydrologic regime in the region will not change. However, some of the carnallitite mine workings occur close to the present lowest part of the valley. Further subsidence in this region might result in the development of a small new lake, or extension of the present artificial lake.

6.2 Ecological Resource

The flooding of Mine BKPRU-1 does not alter the flora and fauna of the region or any ecological niches and, therefore has no impact on ecological resources of the region.

6.3 Human Use Values

The HUMAN USE VALUES will be affected:

The flooding of the Mine BKPRU-1 will affect the infrastructure of the area consisting of:

- the regional railway line connecting Solikamsk and Berezniki to the city of Perm,
- the local roads in the city area
- the local power supply and gas pipelines as well as the community heating system pipelines

as these lines straddle areas with large magnitudes of subsidence and/or differential vertical settlement. The mitigation measures are relocation of the railway and the most important supply lines to areas not influenced by large differential subsidence and/or rerouting of roads. For roads and power lines which cannot be relocated an increase in the budget for road repairs is expected.

6 INFLUENCE OF CHANGED SUBSIDENCE PATTERN ON THE ENVIRONMENT AND POTENTIAL MITIGATION (continued)

Land use can be severely limited by the changed subsidence pattern, depending on the present and planned future use of the land, including the use of buildings inside the city of Berezniki: Based on subsidence forecast above mine workings the GSC already planned evacuation of houses north of the administration building of the production unit BKPRU-1. Mitigation measures in the other cases depend on the not yet known amount of subsidence and vary for the relatively small identified areas from relocation to strengthening of the fundaments of buildings.

The water resource management of the area is influenced by the subsidence due to the flooding as the barrage of the artificial lake might be damaged. However, lowering of the water level of the lake will prevent damage.

Waste management issues are not influenced by the flooding of Mine BKPRU-1.

6.4 Quality of Life Values

The QUALITY OF LIFE VALUES will be affected: The socio-economic impact of the flooding is strongest for the people living in the areas where evacuation is planned in connection to the forecasted subsidence. This impact will be reduced by providing alternative housing in the city of Berezniki. Another factor is the increase of unemployment by jobless workers from the abandoned production unit BKPRU-1. The extension of capacity in the other URALKALI production units, however, should provide job opportunities for some of these people.

For URALKALI the loss of the processing plant section for technical salt production, due to its location close to the inflow zone/to the sinkhole and the contractual requirement to provide carnallitite pose a minor economic strain on the company, as these operations are only a minor part of the overall URALKALI operations. The production unit BKPRU-1, which could be influenced by problems with rail transport due to subsidence, presently accounts only for a small part of the overall URALKALI production. This production unit will be closed down completely in the coming years, therefore, the economic impact related to subsidence issues on URALKALI operations will be very small only, as all the other production units are not influenced by subsidence above Mine BKPRU-1.

The flooding of Mine BKPRU-1 has only limited aesthetical influences on historical parts of the city and poses no direct danger for the public health in the area.

7 INTERPRETATION AND CONCLUSIONS

In summary, the flooding of Mine BKPRU-1 will impact the overall environment as well as the socio-economic situation in the area of Berezniki mainly by subsidence effects at the Earth's surface. These are expected to be more intense in amount and rate as for a dry mine abandonment. In some limited areas the forecasted ground motion exceeds acceptable limits and, therefore, restricted access or evacuations of buildings were decided by the GSC.

A summary of identified environmental impacts by flooding Mine BKPRU-1 and related risks for URALKALI is given below:

Environmental Impact on ...	Environmental Impact caused by ...	Related Risk
Topography	subsidence	negligible
Air Quality	air escaping from the flooding mine	very minor
Groundwater and Hydrology	water flowing in and out of the mine workings	negligible
Transportation	subsidence	negligible
Power Supply	subsidence	very minor
Land Use	subsidence	minor
Water Resource Managements	subsidence	negligible
Social Impact	subsidence	negligible
Economic Impact	subsidence	minor

7 INTERPRETATION AND CONCLUSIONS (continued)

Overall the risks due to the environmental impact of the flooding of Mine BKPRU-1 on the operations of URALKALI are considered minor and manageable.

ERCOSPLAN Ingenieurgesellschaft
Geotechnik und Bergbau mbH

Dr. Henry Rauche
General Manager & C.E.O.

ISSUER

Joint Stock Company Uralkali
Piatiletki Street 63
Berezniki
Perm Krai 618426
Russian Federation

SELLING SHAREHOLDER

Madura Holding Limited
199 Neocleous House
Arch. Makarios III Avenue
CY-3030 Limassol
Cyprus

JOINT GLOBAL CO-ORDINATORS & JOINT BOOKRUNNERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Renaissance Securities (Cyprus) Limited
Capital Centre, 9th Floor
2-4 Archbishop Makarios III Avenue
CY-1065 Nicosia
Cyprus

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

LEGAL ADVISERS TO THE ISSUER

As to U.S. and English law

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian law

Cleary Gottlieb Steen & Hamilton LLP
(CGS&H Limited Liability Company)
Paveletskaya Square 2/3
Moscow 115054
Russian Federation

LEGAL ADVISERS TO THE MANAGERS

As to U.S. and English law

Skadden, Arps, Slate, Meagher & Flom (UK) LLP
40 Bank Street
Canary Wharf
London E14 5DS
United Kingdom

As to Russian law

Skadden, Arps, Slate, Meagher & Flom LLP
6 Gasheka Street
Moscow 125047
Russian Federation

INDEPENDENT AUDITORS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
Moscow 115054
Russian Federation

DEPOSITARY

The Bank of New York
101 Barclay Street
22nd Floor
New York, New York 10286
United States of America

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URALKALI

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