URALKALI GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

Contents

Auditor's report
Consolidated Balance Sheet ... 1
Consolidated Statement of Income ... 2
Consolidated Statement of Cash Flows ... 3
Consolidated Statement of Changes in Equity ... 4

Notes to the Consolidated Financial Statements

1 The Uralkali Group and its operations ... 5
2 Basis of preparation and significant accounting policies ... 5
3 Adoption of new or revised standards and interpretations ... 12
4 New accounting pronouncements ... 13
5 Critical accounting estimates, and judgements in applying accounting policies ... 14
6 Related parties ... 15
7 Segment reporting ... 16
8 Property, plant and equipment ... 19
9 Principal subsidiaries and joint-ventures ... 22
10 Business combinations ... 23
11 Goodwill ... 24
12 Other Intangible assets ... 24
13 Inventories ... 25
14 Trade and other receivables ... 25
15 Cash and cash equivalents ... 25
16 Shareholders' equity ... 25
17 Provision for earth replacement ... 26
18 Borrowings ... 26
19 Trade and other payables ... 27
20 Revenues ... 27
21 Cost of sales ... 28
22 Distribution costs ... 28
23 General and administrative expense ... 28
24 Labour costs ... 28
25 Other operating expenses ... 29
26 Finance income and expense ... 29
27 Income tax expense ... 29
28 Earnings per share ... 30
29 Contingencies, commitments and operating risks ... 31
30 Financial risk management ... 32
31 Fair Value of Financial Instruments ... 33
32 Events after balance sheet date ... 33

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AUDITORS' REPORT

To the Board of Directors of OJSC "Uralkali":

1 We have audited the accompanying consolidated balance sheet of OJSC "Uralkali" (the "Company") and its subsidiaries (the "Group") as at December 31, 2005, 2004 and 2003, and the related consolidated statements of income, cash flows and changes in equity for the years then ended. These consolidated financial statements (as set out on pages 1 to 33) are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2005, 2004 and 2003 and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
July 20, 2006

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	Note	December 31, 2005	December 31, 2004	December 31, 2003
ASSETS				
Non-current assets:				
Property, plant and equipment	8	18,529	11,851	11,433
Goodwill	11	366	-	-
Other intangible assets	12	212	200	162
Investments accounted for using the equity method		1	1,422	1,264
Related parties loans	6	-	145	-
Financial assets		179	137	181
Total non-current assets		**19,287**	**13,755**	**13,040**
Current assets:				
Inventories	13	1,433	1,165	765
Trade and other receivables	14	4,514	1,772	2,411
Current income tax prepayments		419	186	13
Related parties loans	6	407	101	-
Cash and cash equivalents	15	4,076	750	247
Total current assets		**10,849**	**3,974**	**3,436**
Total assets		**30,136**	**17,729**	**16,476**
Equity:				
Share capital	16	648	648	648
Treasury shares	16	(6)	-	-
Share premium/discount	16	(288)	-	-
Revaluation reserve		150	-	-
Cumulative translation reserve		45	2	-
Retained earnings		17,409	14,054	12,702
Equity attributable to the Company's equity holders		**17,958**	**14,704**	**13,350**
Minority interest		21	49	47
Total equity		**17,979**	**14,753**	**13,397**
LIABILITIES				
Non-current liabilities:				
Borrowings	18	2,763	370	-
Provision for earth replacement	17	196	283	356
Deferred income tax liability	27	875	929	1,000
Total non-current liabilities		**3,834**	**1,582**	**1,356**
Current liabilities:				
Borrowings	18	1,214	671	1,238
Trade and other payables	19	6,915	598	349
Current income tax payable		13	4	-
Other taxes payable		181	121	136
Total current liabilities		**8,323**	**1,394**	**1,723**
Total liabilities		**12,157**	**2,976**	**3,079**
Total liabilities and equity		**30,136**	**17,729**	**16,476**

Approved on behalf of the Board of Directors
July 20, 2006

V.Baumgertner
President

K.Marchuk
Chief Financial Officer

	Note	2005	2004	2003
Revenues	20	28,398	12,095	8,553
Cost of sales	21	(5,911)	(5,213)	(5,049)
Gross profit		**22,487**	**6,882**	**3,504**
Distribution costs	22	(8,701)	(2,045)	(1,648)
General and administrative expenses	23	(1,263)	(866)	(620)
Taxes other than income tax		(283)	(261)	(291)
Other operating expenses	25	(635)	(426)	(447)
Operating profit		**11,605**	**3,284**	**498**
Finance income	26	380	287	158
Finance expense	26	(645)	(270)	(357)
Share of net (loss)/profit of investments accounted for using the equity method		(3)	8	(25)
Profit before income tax		**11,337**	**3,309**	**274**
Income tax expense	27	(1,908)	(763)	(114)
Profit for the year		**9,429**	**2,546**	**160**
Profit is attributable to:				
Equity holders of the Company		9,430	2,544	157
Minority interest		(1)	2	3
Net profit for the year		**9,429**	**2,546**	**160**
Earnings per share – basic and diluted (in RR)	28	**4.45**	**1.20**	**0.07**

	Note	2005	2004	2003
Cash flows from operating activities				
Profit before income tax and minority interest		11,337	3,309	274
Adjustments for:				
Depreciation and amortisation		1,854	1,549	1,394
Losses less gain on disposal of property, plant and equipment		351	68	51
(Reversal of impairment)/impairment of trade and other receivables		(36)	63	26
Net change in provision for earth replacement		(87)	(73)	(131)
Finance costs/(gains), net		121	(70)	124
Foreign exchange losses and other non-cash items		126	16	16
Impairment of investments accounted for using the equity method		-	-	177
Share of loss/(income) of investments accounted for using the equity method		3	(8)	25
Operating cash flows before working capital changes		**13,669**	**4,854**	**1,956**
(Increase)/decrease in trade and other receivables		(2,006)	267	68
Increase in inventories		(229)	(511)	(20)
Increase in accounts payable, accrued expenses and other creditors		360	355	108
Increase/(decrease) in other taxes payable		51	(29)	(28)
Cash generated from operations		**11,845**	**4,936**	**2,084**
Interest paid		(214)	(59)	(80)
Income taxes paid		(2,167)	(797)	(305)
Net cash from operating activities		**9,464**	**4,080**	**1,699**
Cash flows from investing activities:				
Purchase of intangible assets		(66)	(59)	(143)
Purchase of property, plant and equipment, net		(5,613)	(2,031)	(1,477)
Sale of investments, net		3	9	324
Purchase of investments accounted for using the equity method		-	-	(76)
Acquisition of subsidiaries, net of cash acquired	10	(615)	-	-
Acquisition of additional interest in subsidiaries	9	(9)	-	-
Loans issued to joint-venture		(818)	-	-
Loans issued to related party		(148)	(246)	-
Dividends and interest received		92	32	1
Net cash used in investing activities		**(7,174)**	**(2,295)**	**(1,371)**
Cash flows from financing activities				
Repayments of borrowings		(2,660)	(2,784)	(1,195)
Proceeds from borrowings		4,941	2,655	1,231
Acquisition of treasury shares	16	(289)	-	-
Finance lease payments		(28)	-	-
Dividends paid to shareholders		(877)	(1,159)	(461)
Net cash generated from/(used in) financing activities		**1,087**	**(1,288)**	**(425)**
Effect of foreign exchange rate changes on cash and cash equivalents		(51)	6	(8)
Net increase in cash and cash equivalents		**3,326**	**503**	**(105)**
Cash and cash equivalents at the beginning of the period	15	**750**	**247**	**352**
Cash and cash equivalents at the end of the period	15	**4,076**	**750**	**247**

	Attributable to equity holders of the Company								
	Share capital (Note 16)	Treasury shares (Note 16)	Share premium/ discount	Revaluation reserve	Cumulative translation reserve	Retained earnings	Total attributable to equity holders	Minority interest	Total equity
Balance at January 1, 2003	**648**	-	**-**	-	-	**13,012**	**13,660**	**44**	**13,704**
Net income for the year	-	-	-	-	-	157	157	3	160
Total recognised income for 2003	**-**	**-**	**-**	-	-	157	157	3	160
Dividends declared (Note 16)	-	-	-	-	-	(467)	(467)	-	(467)
Balance at December 31, 2003	**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)
	-	(6)	(288)	150	-	(6,075)	(6,219)	(27)	(6,246)
Balance at December 31, 2005	**648**	**(6)**	**(288)**	**150**	**45**	**17,409**	**17,958**	**21**	**17,979**

1 The Uralkali Group and its operations

JSC "Uralkali" (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both in domestic and foreign markets. The Group manufactures around 12 types of products, the most significant of which is a wide range of potassium salts. The Group produces approximately 11% of global volumes of potassium fertilisers and is the biggest manufacturer in the Russian Federation. Approximately 91% (2004: 92%; 2003: 79%) of potash fertiliser production is exported.

In 2004 and 2003 the majority of the Group's export sales were carried out through Fertexim Ltd. (87% in 2004 and 70% in 2003), a trading company incorporated in Cyprus and Bermont Trading S.A. (nil % in 2004 and 17% in 2003), a trading company incorporated in Switzerland (Note 6).

Under the agreements between the Company and Fertexim Ltd. (in 2004 and 2003) the following arrangements existed:

- in 2004 and 2003 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. (2004: RR 289; 2003: RR 362);
- selling prices were determined on a shipment-by-shipment basis. Aggregate quantities and revenues are presented in Note 7;
- 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 December 2004 the Group established a wholly owned subsidiary Uralkali Trading SA, a trading company incorporated in Switzerland. From December 2004 all export sales of the Group are made through Uralkali Trading SA (Note 7). 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. and Bermont Trading S.A. (Note 6) if the 2004 and 2003 trading arrangements had continued.

The balances and the results of the operations of Uralkali Trading SA for the year ended December 31, 2005 and for the period from its establishment date till December 31, 2004 were included in the consolidated financial statements of the Group.

The parent company, JSC "Uralkali", was incorporated as an open joint stock company in the Russian Federation on October 14, 1992. The principal subsidiaries 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 and Uralkali Trading (Gibraltar) Ltd., a company incorporated in Gibraltar.

The Company holds operating licenses for the extraction of potassium, magnesium and sodium salts issued by authorities of Perm region. The licenses expire in 2013, however based on the statutory license regulation and prior experience the management of the Company believes that licenses will be prolonged without any significant cost.

As of December 31, 2005 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, 2005 the Group employed approximately 14 thousand employees (2004: 14 thousand; 2003: 15 thousand).

2 Basis of preparation and significant accounting policies

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

2.1 Basis of preparation

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

2 Basis of preparation and significant accounting policies (continued)

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA, Uralkali Trading (Gibraltar) Ltd. and SP Terminal. Uralkali Trading SA and Uralkali Trading (Gibraltar) Ltd. maintain their accounting records in US Dollars ("USD") and prepare their financial statements in accordance with IFRS. SP Terminal maintain its accounting records in Ukrainian hryvnya ("UAH"). 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.

2.3 Reclassifications

Certain reclassifications have been made to prior year balances in the consolidated balance sheet and statement of income to conform to the current year 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

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

2 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.

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
Other	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.

2.10 Finance lease liabilites

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 Basis of preparation and significant accounting policies (continued)

2.11 Goodwill

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

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.12 Other intangible assets

Expenditure on software, patents, trademarks and non-mineral licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 5 years. Mineral licenses are amortized over their useful life.

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.

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

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

2.14 Initial recognition of financial instruments

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

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

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

2.15 Derecognition of financial assets

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

2 Basis of preparation and significant accounting policies (continued)

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 and in Ukraine for SP Terminal. 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.

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

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

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

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

2.18 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.19 Trade and other receivables

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

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 Basis of preparation and significant accounting policies (continued)

2.22 Treasury shares

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

2.23 Dividends

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

2.24 Value added tax

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.

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.

2.26 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 are accrued specifically in relation to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities. In order to substantially reduce the risk of subsidence within the town of Berezniki most of these cavities are expected to be filled during the next 2 years. A technical plan for filling operations has been prepared for this period and its update is annually agreed with the local authorities.

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.

2 Basis of preparation and significant accounting policies (continued)

At December 31, 2005, the official rate of exchange, as determined by the CBRF, was US dollar 1 = Rouble 28,78 (December 31, 2004: US dollar 1 = Rouble 27.75; December 31, 2003: US dollar 1 = Rouble 29.45). The official Euro to RR exchange rate at December 31, 2005, as determined by the CBRF, was Euro 1= Rouble 34,18 (December 31, 2004: Euro 1 = Rouble 37.81; December 31, 2003: Euro 1 = Rouble 36.82). Exchange restrictions and currency controls exist relating to converting the Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles and 10% (25% prior to December 27, 2004 and 50% prior to July 10, 2003) of foreign currency receipts from transactions with foreign entities must be converted into Russian Roubles.

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 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. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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 quarter of 2005 as a joint venture and costs incurred by JSC “Baltic Bulker Terminal” during the nine months period of 2005 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.

2.30 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.

3 Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from January 1, 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at January 1, 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

IAS 33 (revised 2003) Earnings per Share. IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The additional guidance did not affect the Group's accounting policies.

IAS 36 (revised 2004) Impairment of Assets. The Group now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these financial statements. Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004 and to all other assets prospectively from January 1, 2005.

IFRS 3 (issued 2004) Business Combinations. The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after March 31, 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on January 1, 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on January 1, 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates. The excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss. The Group previously amortised negative goodwill over the remaining weighted average useful life of the identifiable depreciable assets acquired. Negative goodwill that existed at January 1, 2005 was offset against retained earnings on that date.

Transitional provisions of IFRS 3 require prospective application of changes in accounting policies for equity method investments acquired before March 31, 2004. From January 1, 2005, the Group discontinued including the amortisation of deemed goodwill in the determination of its share of the profits or losses of associates. Negative goodwill included in the carrying amount of associates was derecognised against retained earnings on January 1, 2005.

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 2 (revised 2003) Inventories;
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 17 (revised 2003) Leases;
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates;
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements;
- IAS 28 (revised 2003) Investments in Associates and IAS 31 (revised 2003) Interests in Joint Ventures;
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation;

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

- IAS 38 (revised 2004) Intangible Assets;
- IAS 39 (revised 2003) Financial instruments: Recognition and Measurement;
- IAS 40 (revised 2003) Investment Property;
- IFRS 4 (issued 2004) Insurance Contracts;
- IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations;
- IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities;
- IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments;
- IAS 10 (revised 2003) Events after the Balance Sheet Date.

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, 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from January 1, 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss. The Group believes that these instruments meet the definition of 'at fair value through profit or loss' category as restricted by the amendment to IAS 39.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from January 1, 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

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. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from January 1, 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from January 1, 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

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). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

4 New accounting pronouncements (continued)

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.

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).

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 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.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from January 1, 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's 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 29).

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to the Group (Note 8). The estimated remaining useful life of some property, plant and equipment is beyond the expiry date of the 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 551 should be assessed for impairment in 2013.

Provision for earth replacement. The provision is 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 is 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 is 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 12.15% (2004: 12.15%; 2003: 12.15%). Should the discount rate decrease by 2%, the Group would need to increase the provision by RR 5; or decrease the provision for earth replacement by RR 4, if the rate increases by 2%.

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.

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 used devices the possible valuation error can compose +/- 4-6%. At the reporting date the carrying amount of finished products can vary within the agreed deviations.

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 and 2003 are no longer presented as related party transactions. These transactions are now disclosed in Note 1 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, 2005, 2004 and 2003 are detailed below.

At December 31, 2005, 2004 and 2003 the outstanding balances, shareholder's equity caption and transactions with related parties were as follows:

Balance sheet caption	Relationship	2005	2004	2003
Other payables	Joint venture	-	23	-
Other payables	Entities under common control	5	-	-
Loans to related parties	Entities under common control	407	246	-
Financial assets	Entities under common control	18	18	71
Dividends payable	Majority shareholder	4,181	-	-
Shareholder's equity caption				
Dividends declared	Majority shareholder	4,817	890	348
Statement of income caption	**Relationship**	**2005**	**2004**	**2003**
Revenues	Entities under common control	-	-	1,016
Revenues	Joint venture	-	-	416
Distribution costs	Joint venture	125	23	-
Interest income	Entities under common control	17	-	-

Loans to related parties

Loans to LLC "Permgeologodobycha" are denominated in RR, unsecured and bear 4% to 6% annual interest (2004: 4% to 6%). The loans are repayable in January-December 2006.

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). In December 2005 the loan was repaid in full.

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 2003 the Company provided loans to JSC "Baltic Bulker Terminal" in the amount of RR 1,255. The purpose of these loans is working capital financing.

In 2004 and 2003 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, 2005, 2004 and 2003 financial assets are represented by interest free promissory notes received from LLC "Permgeologodobycha". As of December 31, 2003 financial assets also include a deposit placed in the related party bank under 2% effective interest rate and interest free promissory notes received from other related parties which were reimbursed in 2004.

6 Related parties (continued)

Revenues from sales to entities under common control

Under the agreements between the Company and Bermont Trading S.A. (in 2003) the following arrangements existed:

- In 2003 the goods were delivered to Bermont Trading S.A. 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 Bermont Trading S.A. (2003: RR 165);
- selling prices were determined on shipment-by-shipment basis. Aggregate quantities and revenues are presented in Note 7;
- selling prices were inclusive of wagon related costs, when provided by the Company.

All the balances with Bermont Trading S.A. were settled by the end of December 2003.

Disposal of a subsidiary

In December 2003 the Company sold 100% share in JSC "Permgeologodobycha" to Camen Investments Ltd., a company registered in Cyprus and controlled by the Company's ultimate shareholder, for a price approximately equal to the contribution made by JSC "Uralkali" in the process of setting up this entity. This transaction was approved by the Company's Board of Directors. It generated minimal profit in the Company's statutory and IFRS financial statements and did not have a material effect on the tax charge.

Revenues from joint venture

The majority of the Group's domestic sales in 2003 were made through a joint-venture, LLC "Mineral Trading". From 2004 the Group makes its domestic sales directly to customers.

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, 2005 LLC "Kama", an 100% owned subsidiary of the Group, owned 0.6% of the ordinary shares of the Company. Shares owned by LLC "Kama" are accounted for as treasury shares, but retain their voting rights and rights to dividends.

Managements' compensation

In 2005, 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 103, RR 51 and RR 18 for the year ended December 31, 2005, 2004 and 2003 respectively.

7 Segment reporting

Primary reporting format – geographical segments

The Group sells its products to customers located in three main geographical segments: domestic revenues, export developing and export developed countries revenues, 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 segments results for the year ended December 31, 2005 are as follows:

	Export			**Domestic**	**Unallocated**	**Total**
	Developing countries	Developed countries	**Total export**			
Tons (thousands)	4,182	775	**4,957**	868	-	5,825
Revenues	22,375	3,989	**26,364**	2,034	-	28,398
Operating profit	9,176	1,843	**11,019**	937	(351)	11,605
Finance costs & net foreign exchange loss					(268)	(268)
Profit before taxation						11,337
Income tax					(1,908)	(1,908)
Net profit						9,429

7 Segment reporting (continued)

In 2005 the Company sells its export products through Uralkali Trading S.A., 100% owned subsidiary.

The segments results for the year ended December 31, 2004 are as follows:

2004	**Export**				**Domestic**	**Unallocated**	**Total**
	Fertexim Ltd	Developing countries	Developed countries	**Total export**			
Tons (thousands)	3,789	576	14	**4,379**	845	-	5,224
Revenues	8,137	2,508	39	**10,684**	1,411	-	12,095
Operating profit	2,396	627	3	**3,026**	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

In 2004 the Group sold 87% of its export sales through Fertexim Ltd. (Note 1).

The segments results for the year ended December 31, 2003 are as follows:

2003	**Export**				**Domestic**	**Unallocated**	**Total**
	Fertexim Ltd.	Bermont Trading S.A.	Developing countries	**Total export**			
Tons (thousands)	2,572	633	490	**3,695**	1,069	-	4,764
Revenues	4,004	1,016	1,717	**6,737**	1,816	-	8,553
Operating profit	20	35	104	**159**	390	(51)	498
Finance costs & net foreign exchange loss						(224)	(224)
Profit before taxation							274
Income tax						(114)	(114)
Net profit							160

In 2004 and 2003 export revenues include sales to Fertexim Ltd. (Note 1) and Bermont Trading S.A. (Note 6) for which the Group has no information regarding the final destination.

The total depreciation and amortization costs included in the statement of income for the year ended December 31, 2005, 2004 and 2003 is as follows:

	Export					**Domestic**	**Unallocated**	**Total**
	Fertexim Ltd.	Bermont Trading S.A.	Developing countries	Developed countries	**Total export**			
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
Year ended December 31, 2003	777	191	148	-	**1,116**	278	-	1,394

The total loss on disposal of fixed assets sold at nil consideration included in the statement of income for the year ended December 31, 2005, 2004 and 2003 is as follows:

	Export	**Domestic**	**Unallocated**	**Total**
Year ended December 31, 2005	-	-	392	392
Year ended December 31, 2004	-	-	108	108
Year ended December 31, 2003	-	-	94	94

7 Segment reporting (continued)

The segment assets and liabilities as at December 31, 2005, 2004 and 2003 and capital expenditure for the year then ended are as follows:

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

2003	**Developing countries**	**Developed countries**	**Domestic**	**Unallocated**	**Total**
Assets	1,049	-	15,233	194	16,476
Liabilities	-	-	(841)	(2,238)	(3,079)
Capital expenditure	-	-	1,457	-	1,457

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, 2005, 2004 and 2003 the Group is organized in one operating segment: extraction, manufacture and sales of potassium fertilizers.

The segment assets and capital expenditure for the 2005, 2004 and 2003 can be presented based on the location of the assets as follows:

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

2003	**Russia**	**Switzerland**	**Unallocated**	**Total**
Assets	16,282	-	194	16,476
Capital expenditure	1,457	-	-	1,457

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, 2002	6,906	5,918	9,916	1,854	709	395	141	25,839
Additions	-	-	-	84	1,340	-	33	1,457
Transfers	8	39	561		(648)	40	-	-
Disposals	(112)	(28)	(378)	(128)		(3)	-	(649)
Balance as of December 31, 2003	6,802	5,929	10,099	1,810	1,401	432	174	26,647
Accumulated Depreciation								
Balance as of December 31, 2002	2,919	4,270	6,146	811	-	214	-	14,360
Depreciation charge	207	254	739	165		12		1,377
Disposals	(37)	(22)	(362)	(100)		(2)		(523)
Balance as of December 31, 2003	3,089	4,502	6,523	876	-	224	-	15,214
Net Book Value								
Balance as of December 31, 2002	**3,987**	**1,648**	**3,770**	**1,043**	**709**	**181**	**141**	**11,479**
Balance as of December 31, 2003	**3,713**	**1,427**	**3,576**	**934**	**1,401**	**208**	**174**	**11,433**

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, 2003	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 December 31, 2003	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 December 31, 2003	**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**

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**

8 Property, plant and equipment (continued)

Depreciation

As of December 31, 2005 , 2004 and 2003 the depreciation was allocated to statement of income as follows:

	2005	2004	2003
Cost of sales	1,344	1,272	1,168
Distribution costs	220	166	160
Transhipment costs (Note 2.29)	89	-	-
General and administrative expenses	147	71	49
Total depreciation expenses	**1,800**	**1,509**	**1,377**

Fully depreciated assets still in use

As of December 31, 2005, 2004 and 2003 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 6,733, RR 6,170 and RR 6,028 respectively.

Assets pledged under loan agreements

As of December 31, 2005, 2004 and 2003 the carrying value of property, plant and equipment pledged under bank loans was RR 2,950, RR 2,805 and RR 745 respectively.

Land

The assets transferred to the Group upon privatisation 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 the 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.

All production facilities of JSC "Baltic Bulker Terminal" situated on the leased land, but the Group plans to purchase it or to sign long-term rent agreement with municipal authorities.

9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	December 31, 2005 % share	December 31, 2004 % share	December 31, 2003 % share
Subsidiaries					
Uralkali Trading SA	Switzerland	Trading	100	100	-
Uralkali Trading (Gibraltar) Limited	Gibraltar	Administrative services	100	100	-
LLC Kama	Russia	Leasing	100	92	92
LLC BshSU	Russia	Construction	100	100	-
LLC Uralkali-Technology	Russia	Dormant	100	100	100
JSC Baltic Bulker Terminal	Russia	Maritime terminal	100	-	-
SP Terminal	Ukraine	Maritime terminal	98	98	98
LLC Depo	Russia	Repairs	75	75	75
LLC Autotranskali	Russia	Transportation	100	-	-
LLC Plast	Russia	Production	-	100	100
LLC Bereznikovsky Brick Plant	Russia	Production	-	100	100
Joint-ventures					
JSC Belorussian potash Company	Byelorussia	Trading	50	-	-
JSC Baltic Bulker Terminal	Russia	Maritime terminal	-	50	50
LLC Mineral Trading	Russia	Trading	-	-	50

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.

9 Principal subsidiaries and joint-ventures (continued)

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".

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 in 2005 (Note 10).

LLC "Mineral Trading" was formerly a trader jointly controlled by the Company (50% of charter capital) and JSC "Silvinite" (50% of charter capital), the Group's sole competitor located in Russia. In 2004 LLC "Mineral Trading" had filed for bankruptcy. As at 31 December 2003 the investments in LLC "Mineral Trading" were carried at zero value net of impairment provision of RR 11.

In December 2003 the Company sold 100% share in JSC "Permgeologodobycha" (Note 6).

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 2005 the Group acquired 50% of the share capital of JSC "Belorussian potash Company" for the purpose of trading on the overseas market. At December 31, 2005 JSC "Belorussian potash Company" is an entity jointly controlled by the Group (50% of charter capital) and the RUE PA "Belaruskali" (50% of charter capital). The Group did not operate through this new trader in 2005.

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.

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	2005	2004	2003
Carrying amount at January 1		-	-	-
Acquisition of subsidiary	10	366	-	-
Impairment loss		-	-	-
Carrying amount at December 31		**366**	**-**	**-**
Gross book value at December 31		366	-	-
Accumulated impairment losses at December 31		-	-	-
Carrying amount at December 31		**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 generating unit JSC "Uralkali":

	2005	2004	2003
JSC "Uralkali"	366	-	-
Total carrying amount of goodwill	**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 13% that reflects risks relating to JSC "Uralkali" was used in the calculation of the recoverable value.

12 Other Intangible assets

	Software	Other	Total
Cost at January 1, 2003	**36**	**1**	**37**
Accumulated amortization	**(1)**	**-**	**(1)**
Carrying amount at January 1, 2003	**35**	**1**	**36**
Additions	143	-	143
Amortization charge	(17)	-	(17)
Cost at December 31, 2003	**179**	**1**	**180**
Accumulated amortization	**(18)**	**-**	**(18)**
Carrying amount at December 31, 2003	**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**

The balances of intangible assets reported in these consolidated financial statements at December 31, 2005, 2004 and 2003 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 a 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 the "Verhnekamskoe" mine "Ust'-Yaivinskoe" district. The license expires in 2024.

13 Inventories

Inventories consist of the following:

	2005	2004	2003
Raw materials	959	786	693
Finished products	457	356	72
Work in progress	17	23	-
Total inventories	**1,433**	**1,165**	**765**

The Group has no pledged inventories as of December 31, 2005 and 2004 and RR 433 of finished goods (valued at selling price) as security for bank loans received as of December 31, 2003.

14 Trade and other receivables

	2005	2004	2003
Trade receivables	2,406	436	1,156
Less: impairment loss provision	(35)	(32)	(35)
Trade debtors, net	**2,371**	**404**	**1,121**
VAT recoverable	1,277	576	526
Other taxes receivables	370	151	235
Advances to suppliers	280	322	370
Prepaid expenses	50	76	-
Other receivables	230	350	200
Less: impairment loss provision	(64)	(107)	(41)
Total trade and other receivables	**4,514**	**1,772**	**2,411**

Trade receivables of RR 1,931 (2004: RR 370; 2003: RR 1,231) net of impairment loss provision are denominated in foreign currency, mainly in US dollars and Euro.

15 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2005	2004	2003
RR denominated cash on hand and bank balances (interest rate: from 1.25 % p.a. to 5.5 % p.a. (2004 and 2003: from 1.25 % p.a. to 6 % p.a.))	922	447	240
USD denominated bank balances	975	181	7
Other currencies denominated balances	385	5	-
USD term deposits (interest rate: 4.32 % p.a.; (2004: 3.70% p.a.))	1,644	17	-
RR term deposits (interest rate: from 7% to 7.5 % p.a.; (2004: 7 %p.a.))	150	100	-
Total cash and cash equivalents	**4,076**	**750**	**247**

In 2005, 2004 and 2003 interest rates on USD and other currencies denominated cash accounts (except for RR denominated) are below 1%.

Term deposits have original maturities of less than three months.

16 Shareholders' equity

Total number of common shares issued comprises:

	Number of ordinary shares (in mln.)	Ordinary shares	Treasury shares	Total
At January 1, 2003	**2,124**	**648**	**-**	**648**
Treasury shares purchased	**-**	**-**	**-**	**-**
At December 31, 2003	**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**

16 Shareholders' equity (continued)

The number of unissued authorised ordinary shares is 1,500 mln. (2004: 1,500 mln.; 2003: 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.

At December 31, 2005 treasury shares comprise 12,612,701 ordinary shares of the Company (2004 and 2003: nil) with a nominal value per share of 0.5 Roubles owned LLC "Kama", wholly owned subsidiary of the Group. Its purchase price of RR 294, comprised consideration paid in cash of RR 289 and deferred consideration of RR 5. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

In 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 2005, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 7,642 (2004: RR 2,893; 2003: 932) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 12,112 (2004: RR 10,545; 2003: RR 8,844). 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.

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 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).

In April 2003 the Annual General Meeting of Shareholders of the Company declared dividends in the amount of RR 467 (0.22 Roubles per share).

17 Provision for earth replacement

	Note	2005	2004	2003
Balance as of January 1		283	356	487
Reduction of reserve for cavities filled during the year		(173)	(123)	(163)
Change in estimate		52	6	(27)
Increase in provision as a result of passage of time	26	34	44	59
Balance as of December 31		**196**	**283**	**356**

In 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 39 (2004: RR 40; 2003: RR 34).

18 Borrowings

	2005	2004	2003
Bank loans	3,484	1,041	1,238
Company loans	165	-	-
Finance lease payable	328	-	-
Total borrowings	**3,977**	**1,041**	**1,238**

As at December 31, 2005, 2004 and 2003 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 interest-free loans received from Ermina Ventures Limited in the amount of RR 120 and from JSC "Sea Port St. Petersburg" in the amount of RR 45. Company loans are unsecured.

JSC "Baltic Bulker Terminal" leases the dock from JSC "Sea Port St. Petersburg" under finance lease for 49 years. As of December 31, 2005 the leased dock was disclosed as building with a net book value of RR 293 (Note 8).

Table below provides the split of the bank loans between short-term and long-term.

18 Borrowings (continued)

Short-term bank borrowings

	Interest rates	2005	2004	2003
Bank loans in USD – fixed interest	(2005: 5.5%; 2003: from 4% to 6.8%)	180	-	649
Bank loans in USD – floating interest	from Libor +2.7% to Libor +3.75%	869	669	589
Bank loans in RR – fixed interest		-	2	-
Total short-term bank borrowings		**1,049**	**671**	**1,238**

Long-term bank borrowings

	Interest rates	2005	2004	2003
Bank loans in USD – floating interest	from Libor +2.95% to Libor +3.75%	2,435	370	-
Total long-term bank borrowings		**2,435**	**370**	**-**

USD denominated bank loans bear a weighted average interest of 6.9% (2004: 4.9%; 2003: 4.2%).

As at December 31, 2005, 2004 and 2003 loans, inclusive of short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 13).

Under the covenants of loan agreements with EBRD the Group shall not enter into any derivative transactions, except in the ordinary course of business with an aggregate open position not exceeding USD 3 mln.

The Group's bank borrowings mature as follows:

	2005	2004	2003
- within 1 year	1,049	671	1,238
- between 2 and 5 years	2,435	296	-
- after 5 years	-	74	-
Total bank borrowings	**3,484**	**1,041**	**1,238**

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

	2005
- within 1 year	38
- between 2 and 5 years	152
- after 5 years	1,561
Minimum lease payments at December 31, 2005	**1,751**
Less future finance charges	(1,423)
Present value of minimum lease payments at December 31, 2005	**328**

19 Trade and other payables

	Note	2005	2004	2003
Trade payables		480	337	146
Accrued liabilities		780	48	9
Deferred consideration of subsidiary acquisition	10	143	-	-
Dividends payables		5,237	39	6
Other payables and advances received		275	174	188
Total Trade and other payables		**6,915**	**598**	**349**

20 Revenues

	2005	2004	2003
Export			
Potassium chloride	18,718	7,675	4,842
Potassium chloride (granular)	7,224	2,992	1,610
Belorussian potassium chloride	422	-	-
Complex fertiliser	-	17	285
Domestic			
Potassium chloride	1,138	643	741
Karnalite	422	409	384
Other	150	121	373
Transportation and other revenues	324	238	318
Total revenues	**28,398**	**12,095**	**8,553**

20 Revenues (continued)

During 2005 the Group's export sales were primarily on Cost and Freight (CFR) or Delivered At Frontier (DAF) terms (2004: FCA and DAF terms; 2003: FCA and DAF terms). Some part of potassium chloride was exported on Free on Board (FOB) terms. All domestic sales were carried out on FCA Berezniki terms.

21 Cost of sales

	Note	2005	2004	2003
Labour costs		1,456	1,584	1,471
Depreciation		1,344	1,272	1,168
Materials and components used		1,235	1,255	1,150
Fuel and energy		1,335	1,223	1,100
Cost of belorussian potassium chloride		367	-	-
Transportation between mines		165	120	111
Change in provision for earth replacement	17	(121)	(117)	(190)
Change in work in progress, finished goods and goods in transit	13	(108)	(307)	81
Other costs		238	183	158
Total cost of sales		**5,911**	**5,213**	**5,049**

In December 2005 the Group sold shares in LLC "Bereznikovsky Brick Plant" and LLC "Plast" which had work in progress and finished goods balances in the amount of RR 13 at the beginning of the reporting period.

22 Distribution costs

	2005	2004	2003
Freight	4,242	178	-
Railway tariff	2,966	1,342	1,077
Transhipment	358	27	-
Depreciation	220	166	160
Transport repairs and maintenance	160	158	147
Labour cost	104	-	-
Commissions	77	-	-
Travel expenses	91	-	-
Legal and other professional fees	12	-	-
Comunication and IT services	9	-	-
Rent and leasing	7	80	161
Other	455	94	103
Total selling and marketing costs	**8,701**	**2,045**	**1,648**

23 General and administrative expense

	2005	2004	2003
Labour cost	462	309	202
Depreciation and amortization	201	111	66
Insurance	177	158	57
Communication and IT services	46	43	33
Mine-rescue crew	62	46	32
Audit and consulting services	59	43	32
Rent	26	18	17
Security	35	9	6
Bank charges	30	57	49
R&D	17	2	3
Legal	16	7	1
Representative expenses	2	2	2
Other	130	61	120
Total General and administrative expenses	**1,263**	**866**	**620**

24 Labour costs

As of December 31, 2005, 2004 and 2003 total labour costs composed RR 2,022, RR 1,893 and RR 1,673 respectively. Labour costs are mainly represented by salaries, bonuses and compensations, employee related payments to the state budget and post retirement benefits.

25 Other operating expenses

	2005	2004	2003
Provision for impairment of receivables	(36)	63	26
Loss on disposal of fixed assets	351	68	51
Social cost and charity	212	164	97
Impairment of investments accounted for using the equity method	-	-	177
Other expenses	108	131	96
Total other operating expenses	**635**	**426**	**447**

26 Finance income and expense

The components of finance income and expenses were as follows:

	2005	2004	2003
Interest income	137	152	99
Fair value gains on investments	6	-	-
Foreign exchange gain	236	126	43
Other finance income	1	9	16
Finance income	**380**	**287**	**158**

	2005	2004	2003
Interest expense	236	59	80
Change in provision as a result of passage of time	34	44	59
Finance lease expense	28	-	-
Foreign exchange loss	347	139	59
Fair value losses on investments	-	28	159
Finance expense	**645**	**270**	**357**

27 Income tax expense

	2005	2004	2003
Current income tax expense	2,206	834	340
Deferred tax	(298)	(71)	(226)
Income tax expense	**1,908**	**763**	**114**

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

	2005	2004	2003
Profit before income tax	11,337	3,309	274
Theoretical tax charge at effective statutory rates*	2,721	794	65
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-deductible expenses and non-taxable income	115	84	54
Difference in tax rates applicable in other tax jurisdictions*	(474)	(28)	-
Capital allowance benefit	(406)	(79)	(5)
Other	(48)	(8)	-
Consolidated tax charge	**1,908**	**763**	**114**

* Profit before taxation on Switzerland and Gibraltar operations is assessed based on the statutory rate of 5%.

In November 2002 the parliament of Perm region (the Russian Federation) where the Group is located, approved amendments to the law on the Perm regional part of the income tax. As a result of these amendments as the Company had capital expenditures of more than 20% of taxable net income in 2005 (2004 and 2003: 20%), it was taxed in 2005 at a rate 20% (2004 and 2003: 22%) instead of standard rate of 24%. Deferred tax has been computed in these consolidated financial statements using the standard rate applicable for future periods (i.e. 24%) as it is not certain whether the Company will make sufficient investments to qualify for the reduced rates in future years.

27 Income tax expense (continued)

	December 31, 2004	Charged/ (credited) to profit or loss	Business combination	December 31, 2005
Tax effects of taxable temporary differences:				
Property, plant and equipment	(897)	256	(266)	(907)
Investments	(68)	53	-	(15)
Other	(49)	22	(60)	(87)
	(1,014)	331	(326)	(1,009)
Tax effects of deductible temporary differences:				
Finance lease	-	-	79	79
Earth replacement reserve	68	(21)	-	47
Accounts receivable	17	(12)	3	8
	85	(33)	82	134
Total net deferred tax liability	**(929)**	**298**	**(244)**	**(875)**

	December 31, 2003	Charged/ (credited) to profit or loss	Business combination	December 31, 2004
Tax effects of taxable temporary differences:				
Property, plant and equipment	(1,084)	187	-	(897)
Investments	(8)	(60)	-	(68)
Other	-	(49)	-	(49)
	(1,092)	78	-	(1,014)
Tax effects of deductible temporary differences:				
Earth replacement reserve	85	(17)	-	68
Accounts receivable	7	10	-	17
	92	(7)	-	85
Total net deferred tax liability	**(1,000)**	**71**	**-**	**(929)**

	December 31, 2002	Charged/ (credited) to profit or loss	Business combination	December 31, 2003
Tax effects of taxable temporary differences:				
Property, plant and equipment	(1,260)	176	-	(1,084)
Investments	(83)	75	-	(8)
Other	(14)	14	-	-
	(1,357)	265	-	(1,092)
Tax effects of deductible temporary differences:				
Earth replacement reserve	117	(32)	-	85
Accounts receivable	14	(7)	-	7
	131	(39)	-	92
Total net deferred tax liability	**(1,226)**	**226**		**(1,000)**

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 (2004: RR 44; 2003: RR 44). The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

28 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 16). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2005	2004	2003
Net profit	9,	2	
Weighted average number of ordinary shares in issue (millions)	2,	2	2
Basic and diluted earnings per share (expressed in RR per share)		**1.20**	**0.07**

29 Contingencies, commitments and operating risks

i Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that 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. 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 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%.

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. The arbitration court practice with this respect is contradicting.

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at December 31, 2005 no provision for potential tax liabilities had been recorded (2004 and 2003: no provision). 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", LLC "Rusinvest" and JSC "Russia Insurance Company". These agreements are covering the main risks relating to its assets situated above and under ground, risks relating to suspension of production and risks related to civil responsibility.

The policies 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 in 2005 (2004: RR 158; 2003: RR 46).

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. Provision for site restoration and reclamation costs was created for the constructive obligation attributable to earth replacement activity 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).

29 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 not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, 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, 2005 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 1,421 (2004: RR 274; 2003: 252).

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.

30 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.

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 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 primary in US dollars. In 2004 and 2003 most of the Group's expenses were denominated in local currency. 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 no significant interest-bearing assets.

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.

31 Fair Value of Financial Instruments

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

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

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

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

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Estimated fair values of borrowings are presented in Note 18.

32 Events after balance sheet date

Belarusian Potash Company

In April 2006 the Group began to operate on the overseas market through a new trader – JSC "Belarusian Potash Company" (Note 9).

Borrowings

In February 2006 the Group entered into a loan agreement with Moscow International Bank for RR 700 (USD 25 million) at interest rate of Libor + 2.15 %. 15 March 2006 the Group received this loan. The loan is denominated in US dollars and translated into RR at the date of transaction. The purpose of this loan is working capital financing.

In June 2006 the Group made early repayment of the EBRD loan in the amount of RR 2,970 and entered into a one year loan agreement with Bank of Moscow for RR 5,756 (USD 200 million) at interest rate of Libor + (from 2 to 2.25%).

Loans to parent company

On January 6, 2006, the Group provided Madura Holdings Limited, the majority shareholder of the Group registered in Cyprus, a loan of RR 1,641 (USD 57 million) with an interest rate mutually agreed by the parties on a yearly basis. The loan is denominated in US dollars and translated into RR at the date of transaction. The loan should be repaid during four years after the date of receipt.

Tax litigations

In February 2006 the Group received a tax claim from Russian taxation authorities in the amount of RR 37. The Group is currently contesting the claim in the court and the management believes the Group will win. Therefore no provision for potential tax liabilities had been recorded.