



**URALKALI GROUP**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Uralkali Group

- 1 We have audited the accompanying consolidated financial statements of open joint stock company "Uralkali" (the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at December 31, 2006 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

### *Opinion*

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

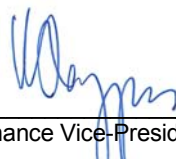
*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation  
June 13, 2007

	Note	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	8	20,162	18,529
Goodwill	10	366	366
Intangible assets	11	171	212
Restricted cash	14	80	-
Related parties loans	6	2,659	-
Financial assets		248	180
<b>Total non-current assets</b>		<b>23,686</b>	<b>19,287</b>
<b>Current assets:</b>			
Inventories	12	1,481	1,433
Trade and other receivables	13	4,375	4,514
Current income tax prepayments		253	419
Related parties loans	6	431	407
Cash and cash equivalents	14	2,812	4,076
<b>Total current assets</b>		<b>9,352</b>	<b>10,849</b>
<b>Total assets</b>		<b>33,038</b>	<b>30,136</b>
<b>Equity:</b>			
Share capital	15	648	648
Treasury shares	15	(9)	(6)
Share premium		(514)	(288)
Revaluation reserve		150	150
Cumulative translation reserve		(195)	45
Retained earnings		17,549	17,409
<b>Equity attributable to the Company's equity holders</b>		<b>17,629</b>	<b>17,958</b>
<b>Minority interest</b>		<b>21</b>	<b>21</b>
<b>Total equity</b>		<b>17,650</b>	<b>17,979</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities:</b>			
Borrowings	17	3,555	2,763
Provision for earth replacement	16	-	196
Provision for accident liquidation	26	679	-
Deferred income tax liability	27	423	875
<b>Total non-current liabilities</b>		<b>4,657</b>	<b>3,834</b>
<b>Current liabilities:</b>			
Borrowings	17	8,040	1,214
Trade and other payables	18	2,515	6,915
Current income tax payable		10	13
Other taxes payable		166	181
<b>Total current liabilities</b>		<b>10,731</b>	<b>8,323</b>
<b>Total liabilities</b>		<b>15,388</b>	<b>12,157</b>
<b>Total liabilities and equity</b>		<b>33,038</b>	<b>30,136</b>

Approved on behalf of the Board of Directors  
June 13, 2007

  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Finance Vice-President

	Note	2006	2005
Revenues	19	22,290	27,976
Cost of sales	20	(6,307)	(5,497)
<b>Gross profit</b>		<b>15,983</b>	<b>22,479</b>
Distribution costs	21	(6,691)	(8,544)
General and administrative expenses	22	(2,058)	(1,286)
Taxes other than income tax		(258)	(283)
Other operating expenses	24	(426)	(635)
<b>Operating profit</b>		<b>6,550</b>	<b>11,731</b>
Finance income	25	914	380
Finance expense	25	(1,084)	(771)
Costs associated with accident at Mine 1	26	(2,054)	-
Share of loss of investments accounted for using the equity method	9	-	(3)
<b>Profit before income tax</b>		<b>4,326</b>	<b>11,337</b>
Income tax expense	27	(832)	(1,908)
<b>Profit for the year</b>		<b>3,494</b>	<b>9,429</b>
<b>Profit is attributable to:</b>			
Equity holders of the Company		3,494	9,430
Minority interest		-	(1)
<b>Net profit for the year</b>		<b>3,494</b>	<b>9,429</b>
<b>Earnings per share – basic and diluted (in RR)</b>	28	<b>1.66</b>	<b>4.45</b>

	Note	2006	2005
<b>Cash flows from operating activities</b>			
Profit before income tax and minority interest		4,326	11,337
Adjustments for:			
Depreciation and amortisation		2,008	1,854
(Gains)/losses less loss/(gain) on disposal of property, plant and equipment		(2)	351
Loss on fixed assets disposed on accident liquidation	26	1,208	-
Impairment/(reversal of impairment) of trade and other receivables		20	(36)
Net change in provision for earth replacement and accident liquidation		483	(87)
Finance costs/(gains), net		317	121
Foreign exchange (gains)/losses		(286)	110
Share of loss of investments accounted for using the equity method		-	3
<b>Operating cash flows before working capital changes</b>		<b>8,074</b>	<b>13,653</b>
Decrease/(increase) in trade and other receivables		9	(2,006)
Increase in inventories		(48)	(229)
Increase in accounts payable, accrued expenses and other creditors		118	376
(Decrease)/increase in other taxes payable		(18)	51
<b>Cash generated from operations</b>		<b>8,135</b>	<b>11,845</b>
Interest paid		(521)	(214)
Income taxes paid		(998)	(2,167)
<b>Net cash generated from operating activities</b>		<b>6,616</b>	<b>9,464</b>
<b>Cash flows from investing activities:</b>			
Purchase of intangible assets		(23)	(66)
Purchase of property, plant and equipment		(5,232)	(5,654)
Proceeds from sales of property, plant and equipment		351	41
Sale of investments, net		27	3
Acquisition of subsidiaries, net of cash acquired		-	(615)
Acquisition of additional interest in subsidiaries		-	(9)
Increase in restricted cash balances		(125)	-
Loans issued to joint-venture		-	(818)
Loans issued to related party		(4,034)	(148)
Repayment of loans issued to related party		1,194	-
Dividends and interest received		196	92
<b>Net cash used in investing activities</b>		<b>(7,646)</b>	<b>(7,174)</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(3,808)	(2,660)
Proceeds from borrowings		11,934	4,941
Capitalised bank charges paid		(33)	-
Acquisition of treasury shares	15	(234)	(289)
Finance lease payments		(38)	(28)
Dividends paid to shareholders		(7,959)	(877)
<b>Net cash (used in)/generated from financing activities</b>		<b>(138)</b>	<b>1,087</b>
Effect of foreign exchange rate changes on cash and cash equivalents		(141)	(51)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,309)</b>	<b>3,326</b>
<b>Cash and cash equivalents at the beginning of the period, net of restricted cash</b>	14	<b>4,076</b>	<b>750</b>
<b>Cash and cash equivalents at the end of the period, net of restricted cash</b>	14	<b>2,767</b>	<b>4,076</b>

**URALKALI GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(in millions of Russian Roubles unless otherwise stated)*



	Attributable to equity holders of the Company					Retained earnings	Total attributable to equity holders	Minority interest	Total equity
	Share capital (Note 15)	Treasury shares (Note 15)	Share premium	Revaluation reserve	Cumulative translation reserve				
<b>Balance at January 1, 2005</b>	<b>648</b>	-	-	-	<b>2</b>	<b>14,054</b>	<b>14,704</b>	<b>49</b>	<b>14,753</b>
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 15)	-	-	-	-	-	(6,075)	(6,075)	-	(6,075)
Acquisition of treasury shares (Note 15)	-	(6)	(288)	-	-	-	(294)	-	(294)
Acquisition of subsidiary	-	-	-	150	-	-	150	-	150
Acquisition of additional interest in subsidiary	-	-	-	-	-	-	-	(27)	(27)
<b>Balance at December 31, 2005</b>	<b>648</b>	<b>(6)</b>	<b>(288)</b>	<b>150</b>	<b>45</b>	<b>17,409</b>	<b>17,958</b>	<b>21</b>	<b>17,979</b>
Translation movement	-	-	-	-	(240)	-	(240)	-	(240)
Net income recognised directly in equity	-	-	-	-	(240)	-	(240)	-	(240)
Net income for the year	-	-	-	-	-	3,494	3,494	-	3,494
Total recognised income for 2006	-	-	-	-	-	3,494	3,494	-	3,494
Dividends declared (Note 15)	-	-	-	-	-	(3,354)	(3,354)	-	(3,354)
Acquisition of treasury shares (Note 15)	-	(3)	(226)	-	-	-	(229)	-	(229)
<b>Balance at December 31, 2006</b>	<b>648</b>	<b>(9)</b>	<b>(514)</b>	<b>150</b>	<b>(195)</b>	<b>17,549</b>	<b>17,629</b>	<b>21</b>	<b>17,650</b>

The accompanying notes on pages 5 to 32 are an integral part of the financial statements

## 1 The Uralkali Group and its operations

JSC "Uralkali" (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both in domestic and foreign markets. The Group manufactures around 10 types of products, the most significant of which is a wide range of potassium salts. The Group produces approximately 11% of the global volumes of potassium fertilisers and is the biggest manufacturer in the Russian Federation. Approximately 90% (2005: 91%) of potash fertiliser production is exported.

The Company holds operating licenses for the extraction of potassium, magnesium and sodium salts issued by authorities of Perm region. All the licenses expire in 2013 except for the "Verhnekamskoe" mine "Ust'-Yaivinskoe" license (Note 11), 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.

In December 2004 the Group established a wholly owned subsidiary Uralkali Trading SA, a trading company incorporated in Switzerland. From December 2004 to April 2006 all export sales of the Group were made through Uralkali Trading SA (Note 7) and the balances and the results of the operations of Uralkali Trading SA for the years ended December 31, 2006 and 2005 respectively were included in the consolidated financial statements of the Group. In October 2005 the Group acquired 50% of the share capital of JSC "Belorussian potash Company" (Note 9). Starting from April 2006 export sales of the Group are made partly through Uralkali Trading SA where related distribution costs are incurred by the Group and partly through JSC "Belorussian potash Company" where related distribution costs are incurred by JSC "Belorussian potash Company".

The parent company, JSC "Uralkali", was incorporated as an open joint stock company in the Russian Federation on October 14, 1992. The principal subsidiaries and joint-ventures are disclosed in Note 9. All the companies of the Group are incorporated under the Laws of the Russian Federation with the exception of LLC "SP Terminal", a company incorporated under the Laws of the Ukraine, Uralkali Trading SA, a company incorporated in Switzerland, Uralkali Trading (Gibraltar) Ltd., a company incorporated in Gibraltar and JSC "Belorussian potash Company", a company incorporated in Belorussia.

As of December 31, 2006 the majority shareholder of the Company was Madura Holdings Limited, company registered in Cyprus. The Group is ultimately controlled by Dmitry Rybolovlev.

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

As of December 31, 2006 the Group employed approximately 11.5 thousand employees (2005: 13.8 thousand).

## 2 Basis of preparation and significant accounting policies

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

### 2.1 Basis of preparation

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

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA, Uralkali Trading (Gibraltar) Ltd., SP Terminal and Belorussian Potash Company (BPC). Uralkali Trading SA and Uralkali Trading (Gibraltar) Ltd. maintain its accounting records in US Dollars ("USD") and prepare their financial statements in accordance with IFRS. SP Terminal maintains its accounting records in Ukrainian hryvnya ("UAH"). Belorussian Potash Company maintains its accounting records in Belorussian Roubles ("BYR"). These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

### 2.2 Accounting for the effect of inflation

Prior to January 1, 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at December 31, 2002 are treated as the basis for the carrying amounts in these financial statements.



## **2 Basis of preparation and significant accounting policies (continued)**

### **2.3 Reclassifications**

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

#### **Jointly controlled operations**

Jointly controlled operations are operations which involve the use of the assets and other resources of the ventures. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. Under the agreement between the venturers the revenue from the sales of the products and any expenses incurred in common are shared among the ventures. In respect of its interests in jointly controlled operations, the Group recognizes in its financial statements:

- (a) the assets that it controls and liabilities that it incurs; and
- (b) the share of the revenue, distribution and administrative costs from the sale of goods and services by the joint-ventures.

#### **Jointly controlled entities**

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

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.7 Investments in associates**

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

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

### **2.8 Property, plant and equipment**

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

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

If revaluated item of property, plant and equipment is derecognized, the revaluation surplus included in equity in respect of this item of property, plant and equipment is transferred directly to retained earnings.

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

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

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

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

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

### **2.9 Operating leases**

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

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.10 Finance lease liabilities**

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

### **2.11 Goodwill**

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

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

### **2.12 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 other than those that the Group intends to sell in the near term.

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

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

### **2.14 Initial recognition of financial instruments**

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

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

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

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.15 Derecognition of financial assets**

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

### **2.16 Available-for-sale investments**

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

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

### **2.17 Income taxes**

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

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

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

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

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

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

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

### **2.18 Inventories**

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

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.19 Trade and other receivables**

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

### **2.20 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Restricted balances are shown separately from cash and cash equivalents for the purposes of the balance sheet. Balances restricted from being exchanged or used to settle liability for at least twelve months after the balance sheet date are included in non-current assets.

### **2.21 Share capital**

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

### **2.22 Treasury shares**

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

### **2.23 Dividends**

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

### **2.24 Value added tax**

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

### **2.25 Borrowings**

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

### **2.26 Provisions**

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

Site restoration and reclamation costs were accrued specifically in relation to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities.

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

### **2.27 Foreign currency transactions**

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

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.27 Foreign currency transactions (continued)**

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

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

At December 31, 2006, the official rate of exchange, as determined by the The Central Bank of the Russian Federation (CBRF), was US dollar 1 = Rouble 26,33 (December 31, 2005: US dollar 1 = Rouble 28.78). The official Euro to RR exchange rate at December 31, 2006, as determined by the CBRF, was Euro 1= Rouble 34.69 (December 31, 2005: Euro 1 = Rouble 34.18). Exchange restrictions and currency controls exist relating to converting the Russian Roubles into other currencies. At present, the Russian Rouble is in practice not convertible in most countries outside of the Russian Federation.

### **2.28 Revenue recognition**

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

Sales of services are recognized in the accounting period in which the services are rendered.

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

### **2.29 Transshipment costs**

Transshipment costs disclosed by the Group within distribution costs include transshipment services rendered by JSC "Baltic Bulker Terminal" during the first three months ended March 31, 2005 as a joint venture and costs incurred by JSC "Baltic Bulker Terminal" during the further nine months ended December 31, 2005 and the year ended December 31, 2006 when results of its operations were consolidated.

JSC "Baltic Bulker Terminal" is a 100% subsidiary 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 Basis of preparation and significant accounting policies (continued)**

### **2.34 Segment reporting**

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

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

### **2.35 Research and development costs**

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

## **3 Adoption of new or revised standards and interpretations**

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

- IAS 39 (Amendment) – The Fair Value Option (effective from January 1, 2006).
- IAS 39 (Amendment) – Financial Guarantee Contracts (effective from January 1, 2006)
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from January 1, 2006)
- IAS 19 (Amendment) - Employee Benefits (effective from January 1, 2006)
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from January 1, 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from January 1, 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after December 1, 2005, that is from January 1, 2006).

## **4 New accounting pronouncements**

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2007 or later periods and which the entity has not early adopted:

**IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007).** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

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

**IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after March 1, 2006, that is from January 1, 2007).** The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

#### 4 New accounting pronouncements (continued)

**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 June 1, 2006).** The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Interpretation shall be applied retrospectively.

**IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).** The Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.

**IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007).** The Interpretation addresses the issues whether the transactions under the requirements of IFRS 2 should be accounted for as equity-settled or as cash-settled and concerns share-based payment arrangements that involve two or more entities within the same group.

**IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).** The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Interpretation does not specify the accounting for infrastructure that was held and recognised as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of IFRSs (set out in IAS 16) apply to such infrastructure.

**IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).** The amendment proposed the elimination of the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

#### 5 Critical accounting estimates, and judgements in applying accounting policies

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

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

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations (Note 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 expiry date of the operating licenses (Note 1). The management believes that the licenses will be renewed in due order however if the licenses are not renewed, property, plant and equipment with net book value of RR 471 should be assessed for impairment in 2013.

**Land.** All facilities of JSC "Baltic Bulker Terminal" situated on land occupied on an annual lease basis, but the management plans to purchase it or to sign long-term rent agreement with municipal authorities. If the Group can not secure long-term use of this land, net assets of RR 3,084 should be assessed for impairment.

**Provisions for earth replacement and accident liquidation.** From 2002 to the end of October 2006 the Company accrued for site restoration and reclamation costs specifically related to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities (Note 16). The provision was estimated as the present value of future additional cash outflows relating to the Company's earth replacement operations under the town of Berezniki. At the end of each year the provision was reassessed to account for earth replaced during the year, changes in the estimates of future cash outflows and passage of time. The change in provision was charged to the statement of income in the year when it occurs. The discount rate used by the Company in determining the fair value of the earth replacement reserve is 9.99% (2005: 12.15%). 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.



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

On October 28, 2006 the Company stopped production operations in Mine 1 due to natural groundwater inflow increase to the level when it can not be controlled by the Company. According to the act of a governmental commission, the pre-accident circumstances, in terms of their sources, magnitude and intensity, were force majeure and unavoidable under the existing conditions, and beyond the control of the Company.

Following the closure of the Mine 1 on October 28, 2006 (Note 26), the Company ceased the earth replacement operations. However, in order to substantially reduce the risk of subsidence within the town Berezniki the Group as advised by the governmental commission and Institute of Geological Sciences, started injection of brine into the cavities in 2006. Most of the cavities in Mine 1 are expected to be filled with water during the next 3 years given expected natural groundwater inflow volume of 3,000 cubic metres per hour. A technical plan for brine filling operations, that has been prepared for 2007 and will be updated annually, is based on current Group's maximum brine production capacity. Based on the 2007 technical plan and its best estimates, the management estimated a provision for present value of cash outflows to be incurred in the next 3 years.

The actual volume of natural groundwater inflow has varied since the date of the accident. According to weekly monitoring activities average inflow of the groundwater in the first four months of 2007 was around 2,000 cubic metres per hour. If the volume of the natural groundwater inflow will continue to be at this average level, the period in which the mine is expected to be filled with groundwater will increase from expected 3 years to 3,8 years and the Group will incur additional brine injection costs of RR 138.

As of December 31, 2006 the Company incurred RR 2,054 of accident liquidation expenses in closing the mine. Management is currently assessing estimated accident risks, consequences and costs the Group can incur in the future from subsidence within the town Berezniki and contiguous areas. Due to the complexity of the risks, management could not reasonably assess at December 31, 2006 the amount of expenses the Group can incur in the future in relation to accident risks, however the amount could be significant for the Group.

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

## 6 Related parties

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2006 and 2005 are detailed below.

At December 31, 2006 and 2005 the outstanding balances, shareholder's equity caption and transactions with related parties were as follows:

Balance sheet caption	Relationship	December 31, 2006	December 31, 2005
Other payables	Entities under common control	26	5
Loans to related parties	Entities under common control	431	407
Loans to related parties	Majority shareholder	2,659	-
Financial assets	Entities under common control	19	18
Dividends payable	Majority shareholder	-	4,181
<b>Shareholder's equity caption</b>		<b>2006</b>	<b>2005</b>
Dividends declared	Majority shareholder	2,701	4,817
<b>Statement of income caption</b>	<b>Relationship</b>	<b>2006</b>	<b>2005</b>
Distribution costs	Joint venture	-	125
Interest income	Majority shareholder	122	-
Interest income	Entities under common control	18	17

### Loans to related parties

Loans to LLC "Permgeologodobycha" are denominated in RR, unsecured and bear 4% to 6% annual interest (2005: 4% to 6%). The loans are repayable in January-December 2007.

## 6 Related parties (continued)

### **Loans to majority shareholder**

In 2005 the Group entered into an interest free loan agreement with Madura Holdings Limited, majority shareholder, for RR 1,615 (USD 57.1 million) that was repaid in full in December 2005. In 2006 the Group provided 5% loan in amount of RR 4,029 (USD 146 million) to Madura Holdings Limited of which RR 1,194 (USD 45 million) was repaid within the year. The loan is repayable in 2010-2011.

### **Financial assets**

As of December 31, 2006 and 2005 financial assets are represented by interest free promissory notes received from LLC "Permgeologodobycha".

### **Distribution costs**

During the first quarter 2005 JSC "Baltic Bulker Terminal" was a joint-venture and rendered transshipment services to the Group. As a result all transshipment costs incurred by the Group from JSC "Baltic Bulker Terminal" during this period were recorded as expenses in the statement of income.

### **Cross shareholding**

At December 31, 2006 LLC "Kama", a 100% owned subsidiary of the Group, owned 0.85% of the ordinary shares of the Company (2005: 0.6%). Shares owned by LLC "Kama" are accounted for as treasury shares, but retain their voting rights and rights to dividends.

### **Managements' compensation**

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

Total key management personnel's compensation is represented by short-term employee benefits and included in general and administrative expenses in the statement of income amounted to RR 163 and RR 103 for the year ended December 31, 2006 and 2005 respectively.

## 7 Segment reporting

### **Primary reporting format – geographical segments**

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

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

	Export		Total export	Domestic		Total domestic	Unallocated	Total
	Developing countries	Developed countries		Potash sales	Other sales			
Tons (thousands)	3,369	536	<b>3,905</b>	438	-	<b>438</b>	-	4,343
Revenues	17,456	2,574	<b>20,030</b>	1,304	956	<b>2,260</b>	-	22,290
Operating profit	5,222	836	<b>6,058</b>	381	104	<b>485</b>	7	6,550
Finance costs & net foreign exchange	-	-	-	-	-	-	(170)	(170)
Costs associated with accident at Mine 1	-	-	-	-	-	-	(2,054)	(2,054)
Profit before taxation							-	4,326
Income tax							(832)	(832)
<b>Net profit</b>								<b>3,494</b>

During the year ended December 31, 2006 the Company sold its export products through Uralkali Trading S.A., 100% owned subsidiary and through JSC "Belorussian potash Company"(Note 9).

## 7 Segment reporting (continued)

The segments results for the year ended December 31, 2005 are as follows:

	Export			Domestic		Unallocated	Total	
	Developing countries	Developed countries	Total export	Potash sales	Other sales domestic			
Tons (thousands)	4,096	775	<b>4,871</b>	467	-	<b>467</b>	-	5,338
Revenues	21,951	3,991	<b>25,942</b>	1,138	896	<b>2,034</b>	-	27,976
Operating profit	9,456	1,895	<b>11,351</b>	559	197	<b>756</b>	(376)	11,731
Finance costs & net foreign exchange loss	-	-	-	-	-	-	(391)	(391)
Share of loss of investments accounted for using the equity method	-	-	-	-	-	-	(3)	(3)
Profit before taxation							-	11,337
Income tax							(1,908)	(1,908)
Net profit								9,429

During the year ended December 31, 2005 the Company sold its export products through Uralkali Trading S.A., 100% owned subsidiary.

The total depreciation and amortization costs included in the statement of income for the year ended December 31, 2006 and December 31, 2005 are as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Year ended December 31, 2006	1,576	250	<b>1,826</b>	204	-	2,030
Year ended December 31, 2005	1,370	254	<b>1,624</b>	230	-	1,854

The total loss on disposal of fixed assets at nil consideration, including write-off of fixed assets in connection with flooding on Mine 1 (Note 26), included in the statement of income for the year ended December 31, 2006 and 2005 is as follows:

	Export	Domestic	Unallocated	Total
Year ended December 31, 2006	-	-	1,367	1,367
Year ended December 31, 2005	-	-	392	392

The segment assets and liabilities as at December 31, 2006 and 2005 and capital expenditure for the year then ended are as follows:

2006	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	1,440	3,276	24,731	3,591	33,038
Liabilities	(35)	(724)	(2,601)	(12,028)	(15,388)
Capital expenditure	-	74	5,124	-	5,198
2005	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	1,930	3,793	23,408	1,005	30,136
Liabilities	-	(778)	(6,514)	(4,865)	(12,157)
Capital expenditure	-	16	5,712	-	5,728

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.



## 7 Segment reporting (continued)

### Secondary reporting format – business segments

At December 31, 2006 and 2005 the Group is organized in one operating segment: extraction, manufacture and sale of potassium fertilizers.

The segment assets and capital expenditure for periods ended December 31, 2006 and 2005 can be presented based on the location of the assets as follows:

<b>2006</b>	<b>Russia</b>	<b>Switzerland</b>	<b>Unallocated</b>	<b>Total</b>
Assets	25,013	4,434	3,591	33,038
Capital expenditure	5,124	74	-	5,198

<b>2005</b>	<b>Russia</b>	<b>Switzerland</b>	<b>Unallocated</b>	<b>Total</b>
Assets	23,788	5,343	1,005	30,136
Capital expenditure	5,712	16	-	5,728

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



## 8 Property, plant and equipment (continued)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
<b>Cost</b>								
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	1,939	-	1,164	18	98	17	-	3,236
Disposals	(423)	(34)	(570)	(140)	(7)	(46)	(2)	(1,222)
<b>Balance as of December 31, 2005</b>	<b>8,476</b>	<b>5,962</b>	<b>12,632</b>	<b>3,454</b>	<b>4,580</b>	<b>457</b>	<b>174</b>	<b>35,735</b>
<b>Accumulated Depreciation</b>								
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)
<b>Balance as of December 31, 2005</b>	<b>3,443</b>	<b>4,967</b>	<b>7,422</b>	<b>1,144</b>	<b>-</b>	<b>230</b>	<b>-</b>	<b>17,206</b>
<b>Net Book Value</b>								
<b>Balance as of December 31, 2004</b>	<b>3,629</b>	<b>1,179</b>	<b>3,817</b>	<b>1,060</b>	<b>1,766</b>	<b>224</b>	<b>176</b>	<b>11,851</b>
<b>Balance as of December 31, 2005</b>	<b>5,033</b>	<b>995</b>	<b>5,210</b>	<b>2,310</b>	<b>4,580</b>	<b>227</b>	<b>174</b>	<b>18,529</b>

## 8 Property, plant and equipment (continued)

### Depreciation

As of December 31, 2006 and 2005 the depreciation was allocated to statement of income as follows:

	2006	2005
Cost of sales	1,441	1,344
Distribution costs	215	220
Transshipment costs (Note 2.29)	105	89
General and administrative expenses	183	147
Loss on disposal of fixed assets (Note 26)	22	-
<b>Total depreciation expense</b>	<b>1,966</b>	<b>1,800</b>

In 2006 the Group incurred depreciation amounting to RR 47 (2005: nil) directly related to construction of new fixed assets. These expenses were capitalized on the balance sheet in accordance with the Group accounting policy and included in assets under construction.

### Fully depreciated assets still in use

As of December 31, 2006 and 2005 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 6,752 and RR 6,733 respectively.

### Assets pledged under loan agreements

As of December 31, 2006 and 2005 the carrying value of property, plant and equipment pledged under bank loans was RR 8,142 and RR 2,950 respectively (Note 17).

### Land

The assets transferred to the Group upon privatization did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated, with the exception of the land on which the Head Office is situated. As a result of changes in legislation in 2001 all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The Group has exercised this option and purchased the land under the Group's production facilities.

## 9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	December 31, 2006 % share	December 31, 2005 % share
<b>Subsidiaries</b>				
Uralkali Trading SA	Switzerland	Trading	100	100
Uralkali Trading (Gibraltar) Limited	Gibraltar	Administrative services	100	100
LLC Kama	Russia	Finance services and leasing	100	100
LLC BshSU	Russia	Construction	100	100
LLC Uralkali-Technology	Russia	Research and development	100	100
JSC Baltic Bulker Terminal	Russia	Maritime terminal	100	100
LLC Autotranskali	Russia	Transportation	100	100
LLC Vagonnoe Depo Balakhonzi	Russia	Repairs	100	-
SP Terminal	Ukraine	Dormant	98	98
LLC Depo	Russia	Repairs	75	75
LLC Satellit-Service	Russia	IT services	51	51
LLC Specgorkhimproekt	Russia	Research and development	51	100
<b>Joint-ventures</b>				
JSC Belorussian Potash Company	Belorussia	Trading	50	50

## 9 Principal subsidiaries and joint-ventures (continued)

In November 2006 LLC "Vagonnoe Depo Balakhonzi" was detached in a separate legal entity, and provides railcars repair and maintenance services to the Group. However, the entity is controlled by the Group and, therefore, is consolidated.

In March 2006 the Group sold a 49% share in LLC "Specgorkhimproekt" for consideration of RR 490 thousand without any losses or gains on disposal. However, the entity is controlled by the Group and, therefore, is consolidated.

LLC "Kama" holds the majority stake in the equity of SP "Terminal". The Company tested the investments in SP "Terminal" for impairment and recognized 100% impairment provision for assets of SP "Terminal" in 2006.

JSC "Baltic Bulker Terminal" (the "BBT") was founded as an entity jointly controlled by the Group (50% of charter capital) and the First Stevedore Company (50% of charter capital) for the purpose of constructing and operating a maritime terminal dedicated to handling fertilizers. In December 2004 the Group entered into agreement to acquire the remaining 50% of the BBT shares, which was executed during 2005. During the first quarter 2005 the Group accounted for the investments in the "BBT" using the equity method.

In October 2005, Uralkali acquired a 50% interest in Belorussian Potash Company (BPC), the remaining 50% of which is owned by Belaruskali. The principal activity of BPC is marketing and exporting as agent potash fertilizers produced by its two participants.

The BPC charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants' goods and related cost of sale and distribution costs. Administrative expenses are shared 50:50. Distribution of net income to each participant is on the basis of their relevant results, after administrative costs unless both participants decide not to distribute. The Company considers it as a jointly controlled operations (Note 2.6).

The statement of income reflects the revenue from sales by BPC of Uralkali's products, together with the related costs of sale and distribution and administrative costs. This treatment has been applied during 2006.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

## 10 Goodwill

	Note	2006	2005
<b>Carrying amount at January 1</b>		366	-
Acquisition of subsidiary		-	366
Impairment loss		-	-
<b>Carrying amount at December 31</b>		<b>366</b>	<b>366</b>
Gross book value at December 31		366	366
Accumulated impairment losses at December 31		-	-
<b>Carrying amount at December 31</b>		<b>366</b>	<b>366</b>

### Goodwill Impairment Test

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

	2006	2005
JSC "Uralkali"	366	366
<b>Total carrying amount of goodwill</b>	<b>366</b>	<b>366</b>

The recoverable amount of the goodwill was determined based on cash flow projections approved by management covering a five-year period and analysis of synergies performed by independent appraiser. The growth rates are in line with the growth rates of the markets the goods are sold (Note 7).

Pre-tax discount rate of 9.99% that reflects risks relating to JSC "Uralkali" was used in the calculation of the recoverable value.



## 11 Intangible assets

	Software	Other	Total
<b>Cost at January 1, 2005</b>	238	20	<b>258</b>
<b>Accumulated amortization</b>	(58)	-	<b>(58)</b>
<b>Carrying amount at January 1, 2005</b>	<b>180</b>	<b>20</b>	<b>200</b>
Additions	66	-	66
Amortization charge	(54)	-	(54)
<b>Cost at December 31, 2005</b>	<b>304</b>	<b>20</b>	<b>324</b>
<b>Accumulated amortization</b>	<b>(112)</b>	-	<b>(112)</b>
<b>Carrying amount at December 31, 2005</b>	<b>192</b>	<b>20</b>	<b>212</b>
Additions	23	-	23
Amortization charge	(64)	-	(64)
<b>Cost at December 31, 2006</b>	<b>327</b>	<b>20</b>	<b>347</b>
<b>Accumulated amortization</b>	<b>(176)</b>	-	<b>(176)</b>
<b>Carrying amount at December 31, 2006</b>	<b>151</b>	<b>20</b>	<b>171</b>

The balances of intangible assets reported in these consolidated financial statements at December 31, 2006 and 2005 respectively mainly represent management information and accounting system costs and fees charged by an external consultant for the installation of this software. The costs of the software are amortized over the period not exceeding 5 years.

Other intangible assets are mainly represented by licenses. In 2004 the Company acquired a license for mineral exploration and extraction of potassium and magnesium salts in the "Verhnekamskoe" mine "Ust'-Yaivinskoe" district. The license expires in 2024.

## 12 Inventories

Inventories consist of the following:

	2006	2005
Raw materials	1,063	959
Finished products	398	457
Work in progress	20	17
<b>Total inventories</b>	<b>1,481</b>	<b>1,433</b>

At December 31, 2006 the balance of finished goods includes inventories bought for resale. As of December 31, 2006 the value of circulating finished goods valued at market prices pledged as security for bank loans was RR 1,322 (2005: nil) (Note 17).

## 13 Trade and other receivables

	2006	2005
Trade receivables	1,752	2,406
Less: impairment loss provision	(20)	(35)
<b>Trade debtors, net</b>	<b>1,732</b>	<b>2,371</b>
VAT recoverable	1,330	1,277
Other taxes receivables	536	370
Advances to suppliers	354	280
Prepaid expenses	88	50
Other receivables	421	230
Less: impairment loss provision	(86)	(64)
<b>Total trade and other receivables</b>	<b>4,375</b>	<b>4,514</b>

As of December 31, 2006 and 2005 trade receivables of RR 1,677 and RR 1,931 net of impairment loss provision are denominated in foreign currency, mainly in US dollars and Euro.

## 14 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2006	2005
RR denominated cash on hand and bank balances (interest rate: from 0.5 % p.a. to 6.2 % p.a. (2005: 1.25 % p.a. to 5.5 % p.a.))	1,404	922
USD denominated bank balances	607	975
Other currencies denominated balances	26	385
USD term deposits (interest rate: from 2,5% p.a. to 4.95% p.a. (2005: 4.32% p.a.))	430	1,644
RR term deposits (interest rate: 8 % p.a. (2005: from 7% p.a. to 7.5 % p.a.))	300	150
<b>Cash and cash equivalents, net of restricted cash</b>	<b>2,767</b>	<b>4,076</b>
<i>Restricted cash</i>		
Non-current limited guarantee deposit (Note 30 i)	80	-
Three month fixed interest rates (4.8% to 6.19%) bank deposits	45	-
<b>Total restricted cash</b>	<b>125</b>	<b>-</b>
<b>Total cash and cash equivalents</b>	<b>2,892</b>	<b>4,076</b>

Term deposits have original maturities of less than three months.

## 15 Shareholders' equity

	Number of ordinary shares	Ordinary shares	Treasury shares	Total
<b>At January 1, 2005</b>	<b>2,124</b>	<b>648</b>	<b>-</b>	<b>648</b>
Treasury shares purchased	-	-	(6)	(6)
<b>At December 31, 2005</b>	<b>2,124</b>	<b>648</b>	<b>(6)</b>	<b>642</b>
Treasury shares purchased	-	-	(3)	(3)
<b>At December 31, 2006</b>	<b>2,124</b>	<b>648</b>	<b>(9)</b>	<b>639</b>

The number of unissued authorised ordinary shares is 1,500 mln. (2005: 1,500 mln.) with a nominal value per share of 0.5 Roubles. All shares stated in the table above have been issued and fully paid.

**Treasury shares.** At December 31, 2006 treasury shares comprise 17,966,905 ordinary shares of the Company (2005: 12,612,701) with a nominal value per share of 0.5 Roubles owned LLC "Kama", wholly owned subsidiary of the Group. Purchase price of shares acquired during the year ended December 31, 2006 amounted to RR 229 (2005: 294). All shares have been fully paid. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

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

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2006, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 3,706 (2005: RR 7,642) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 12,440 (2005: RR 12,112). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these financial statements.

**Dividends.** In December 2006 the General Meeting of Shareholders of the Company has approved interim dividends (based on the financial results for the first nine months of 2006) amounting to RR 3,378 (1.59 Roubles per share).

In June 2005 the Annual General Meeting of Shareholders of the Company approved dividends for the year ended December 31, 2004 in the amount of RR 850 (0.40 Roubles per share). In December 2005 the General meeting of Shareholders of the Company approved interim dividends (based on the financial results for the first 9 months of 2005) amounting to RR 5,225 (2.46 Roubles per share).

**16 Provision for earth replacement**

	Note	2006	2005
<b>Balance as of January 1</b>		<b>196</b>	<b>283</b>
Reduction of reserve for cavities filled during the period		(146)	(173)
Change in estimate		(69)	52
Increase in provision as a result of passage of time	25	19	34
<b>Balance as of December 31</b>		<b>-</b>	<b>196</b>

During the year ended December 31, 2006 and 2005 the local authorities in Berezniki and regional authorities in Perm reimbursed a part of the operating costs incurred by the Company in filling-up cavities under the city of Berezniki (Note 2.26) pursuant to the Law of the Perm Region W381-69 passed on October 25, 2002. The reimbursement amounted to RR 57 (2005: RR 39).

**17 Borrowings**

	2006	2005
Bank loans	11,088	3,484
Company loans	179	165
Finance lease payable	328	328
<b>Total borrowings</b>	<b>11,595</b>	<b>3,977</b>

As at December 31, 2006 and 2005 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

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

Company loans are represented by a short-term unsecured interest-free loans received from Ermina Ventures Limited in the amount of RR 134 (2005: RR 120) and from JSC "Sea Port St. Petersburg" in the amount of RR 45 (2005: RR 45). In 2006 the Group reconsidered repayment schedule for these loans from December 31, 2006 to April - December 2007.

JSC "Baltic Bulker Terminal" leases a dock from JSC "Sea Port St. Petersburg" under a finance lease for 49 years. As of December 31, 2006 the leased dock was included in buildings, with a net book value of RR 286 (2005: RR 293) (Note 8).

	2006	2005
<b>Balance at 1 January</b>	<b>3,484</b>	<b>1,041</b>
Bank loans received, denominated in US\$	11,664	4,941
Bank loans received, denominated in RR	270	-
Bank loans repaid, denominated in US\$	(3,688)	(2,609)
Bank loans repaid, denominated in RR	(120)	-
Interest accrued	560	223
Interest paid	(521)	(214)
Recognition of syndication fees	(43)	-
Amortization of syndication fees	10	-
Currency translation difference	(528)	102
<b>Balance at 31 December</b>	<b>11,088</b>	<b>3,484</b>

Table below provides interest rates at December 31, 2006 and 2005 and split of the bank loans between short-term and long-term.

**Short-term borrowings**

	Interest rates	2006	2005
Bank loans in USD – fixed interest	from 7.6% to 8% (2005: 5.5%)	1,781	180
Bank loans in USD – floating interest	from Libor +2% to Libor +3% (2005: from Libor + 2.7% to Libor + 3.75%)	5,930	869
Bank loans in RR – fixed interest	9.6%	150	-
<b>Total short-term bank loans</b>		<b>7,861</b>	<b>1,049</b>

**17 Borrowings (continued)****Long-term borrowings**

	<b>Interest rates</b>	<b>2006</b>	<b>2005</b>
Bank loans in USD – floating interest	from Libor +2.25% to Libor +3% (2005: from Libor + 2.95% to Libor + 3.75%)	3,227	2,435
<b>Total long-term bank loans</b>		<b>3,227</b>	<b>2,435</b>

USD denominated bank loans bear a weighted average interest of 7.81% (2005: 6.9%).

During the year ended 31 December 2006 the Group received borrowings from the following banks:

<b>Lender</b>	<b>Maturity date</b>	<b>Amount, RR</b>
International Moscow Bank	September 2007, March 2008	2,891
Sberbank	March-November 2007	2,351
Bank of Moscow	July 2007, June 2008	5,307
ABN AMRO Bank	November 2007, March 2008	1,385
<b>Total bank loans received</b>		<b>11,934</b>

During the year ended 31 December 2006 the Group repaid the following loans:

<b>Lender</b>	<b>Maturity date</b>	<b>Amount, RR</b>
International Moscow Bank (partial repayment)	January 2006, February 2007	339
Sberbank (partial repayment)	November 2007	388
EBRD	June 2006	3,081
<b>Total bank loans repaid</b>		<b>3,808</b>

As at December 31, 2006 and 2005 loans, including short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 12).

The Group's bank borrowings mature as follows:

	<b>2006</b>	<b>2005</b>
- within 1 year	7,861	1,049
- between 2 and 5 years	3,227	2,435
<b>Total bank loans</b>	<b>11,088</b>	<b>3,484</b>

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

	<b>2006</b>	<b>2005</b>
- within 1 year	38	38
- between 2 and 5 years	152	152
- after 5 years	1,523	1,561
<b>Minimum lease payments at the end of the period</b>	<b>1,713</b>	<b>1,751</b>
Less future finance charges	(1,385)	(1,423)
<b>Present value of minimum lease payments</b>	<b>328</b>	<b>328</b>

**18 Trade and other payables**

	<b>2006</b>	<b>2005</b>
Trade payables	695	480
Accrued liabilities	809	780
Deferred consideration of subsidiary acquisition	143	143
Dividends payable	632	5,237
Other payables and advances received	236	275
<b>Total Trade and other payables</b>	<b>2,515</b>	<b>6,915</b>

**19 Revenues**

	<b>2006</b>	<b>2005</b>
<b>Export</b>		
Potassium chloride	14,949	18,718
Potassium chloride (granular)	5,081	7,224
<b>Domestic</b>		
Potassium chloride	1,304	1,138
Karnalite	303	422
Other	154	150
Transportation and other revenues	499	324
<b>Total revenues</b>	<b>22,290</b>	<b>27,976</b>

During 2006 and 2005 the Group's export sales were primarily on Cost and Freight (CFR), Free on Board (FOB) or Delivered At Frontier (DAF) terms. All domestic sales were carried out on FCA Berezniki terms.

**20 Cost of sales**

	<b>Note</b>	<b>2006</b>	<b>2005</b>
Labour costs		1,665	1,456
Depreciation		1,441	1,344
Fuel and energy		1,307	1,335
Materials and components used		1,301	1,235
Repairs and maintenance		312	106
Transportation between mines		174	165
Utilities		25	30
Change in provision for earth replacement	16	(137)	(121)
Change in work in progress, finished goods and goods in transit	12	188	(108)
Other costs		31	55
<b>Total cost of sales</b>		<b>6,307</b>	<b>5,497</b>

**21 Distribution costs**

	<b>2006</b>	<b>2005</b>
Freight	2,218	4,163
Railway tariff	3,050	2,966
Transshipment	349	358
Transport repairs and maintenance	251	209
Depreciation	215	220
Travel expenses	110	91
Labor cost	100	104
Commissions	37	77
Other	361	356
<b>Total selling and marketing costs</b>	<b>6,691</b>	<b>8,544</b>

**22 General and administrative expenses**

	<b>2006</b>	<b>2005</b>
Labour cost	774	462
Consulting, audit and legal services	269	75
Depreciation and amortization	247	201
Insurance	177	177
Communication and IS services	84	46
Security	85	35
Mine-rescue crew	72	62
Bank charges	34	30
Other	316	198
<b>Total general and administrative expenses</b>	<b>2,058</b>	<b>1,286</b>

**23 Labor costs**

As of December 31, 2006 and 2005 total labour costs composed RR 2,539 and RR 2,022 respectively. Labour costs are mainly represented by salaries, wages, bonuses and compensations, employee related payments to the state budget and post retirement benefits.

**24 Other operating expenses**

	2006	2005
Provision/(reversal of provision) for impairment of receivables	20	(36)
(Gain)/loss on disposal of fixed assets	(2)	351
Social cost and charity	236	187
Net result on sale of Belaruskali goods	(5)	24
Other expenses	177	109
<b>Total other operating expenses</b>	<b>426</b>	<b>635</b>

The Group entered in sales agreement with BPC (Note 9) for processing of sales of Belaruskali goods through Uralkali Trading SA in 2006 and 2005 respectively to overcome certain drawbacks in Belorussian export legislation.

**25 Finance income and expense**

The components of finance income and expenses were as follows:

	2006	2005
Interest income	215	137
Fair value gains on investments	131	6
Foreign exchange gain	568	237
<b>Finance income</b>	<b>914</b>	<b>380</b>

	2006	2005
Interest expense	576	236
Change in provision as a result of passage of time	19	34
Finance lease expense	38	28
Foreign exchange loss	282	347
Fair value losses on investments	49	-
Letters of credit fees	120	126
<b>Finance expense</b>	<b>1,084</b>	<b>771</b>

**26 Costs associated with accident at Mine 1**

	2006	2005
Loss on disposal of fixed assets	1,300	-
Accident liquidation expenses	153	-
Change in provision for accident liquidation	601	-
<b>Total accident liquidation costs</b>	<b>2,054</b>	<b>-</b>

Loss on disposal of fixed assets includes VAT reversed amounted to RR 92. Accident liquidation expenses are mainly represented by labour costs, depreciation expenses and costs of materials and components used in liquidation of accident (Note 5).

**27 Income tax expense**

	2006	2005
Current income tax expense	1,284	2,206
Deferred tax	(452)	(298)
<b>Income tax expense</b>	<b>832</b>	<b>1,908</b>

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

	2006	2005
<b>Profit before income tax</b>	<b>4,326</b>	<b>11,337</b>
Theoretical tax charge at effective statutory rates*	1,038	2,721
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-deductible expenses	185	120
- non-taxable income	(5)	(5)
Difference in tax rates	(161)	(474)
Capital allowance benefit	(225)	(401)
Other	-	(53)
<b>Consolidated tax charge</b>	<b>832</b>	<b>1,908</b>

\* Profit before taxation on Switzerland and Gibraltar operations is assessed based on effective rate of 8% (December 31, 2005: 5%).

**27 Income tax expense (continued)**

In March 2006 the parliament of the Perm region in the Russian Federation, where the Company is located, approved an amendments to the regional law on Perm regional part of the income tax. The amendment provides for a reduced to 20% income tax rate for companies with average number of personnel exceeding 10 persons and income, calculated in accordance with the statutory Tax Code exceeding RR 0,1.

In 2006 and 2005 the Company had capital expenditures of more than 20% of taxable net income during the year ended December 31, 2006 and 2005 respectively that qualifies for reduced to 20% income tax rate approved by the parliament of the Perm region.

As the Company qualified for the above amendments it was taxed during the year ended December 31, 2006 and 2005 respectively at a rate 20% instead of standard rate of 24%. Deferred tax has been computed in these consolidated financial statements using the standard rate applicable for future periods (i.e. 24%) as it is not certain whether the Company will meet the requirements established by the statutory law to qualify for reduced rates in future years.

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

	December 31, 2004	Charged/ (credited) to profit or loss	Business combination	December 31, 2005
<b>Tax effects of taxable temporary differences:</b>				
Property, plant and equipment	(891)	248	(266)	(909)
Investments	(68)	53	-	(15)
Inventories	(65)	(22)	-	(87)
Borrowings	-	29	(57)	(28)
	(1,024)	308	(323)	(1,039)
<b>Tax effects of deductible temporary differences:</b>				
Finance lease	-	-	79	79
Earth replacement reserve	68	(21)	-	47
Accounts receivable	17	(12)	3	8
Other	10	23	(3)	30
	95	(10)	79	164
<b>Total net deferred tax liability</b>	<b>(929)</b>	<b>298</b>	<b>(244)</b>	<b>(875)</b>

The Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 39 (2005: RR 39). 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 15). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equals the basic earnings per share.

	2006	2005
Net profit	3,494	9,430
Weighted average number of ordinary shares in issue (millions)	2,110	2,121
<b>Basic and diluted earnings per share (expressed in RR per share)</b>	<b>1.66</b>	<b>4.45</b>

## 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. In March 2006, the prosecutor's office of Saint-Petersburg filed a claim with the Arbitration Court of Saint-Petersburg and Leningrad Region seeking to render null and void an agreement between BBT and FGUP Rosmorport, pursuant to which BBT currently leases one of its berths, on the grounds that this lease agreement was executed without appropriate consent of state authorities and in violation of established procedures.

On July 13, 2006 FGUP Rosmorport submitted a request to the Arbitration Court of Saint-Petersburg and Leningrad Region to consider the possibility of resolving this judicial proceeding by executing by the parties to this court dispute of a settlement agreement. The court hearings were postponed until August 2007.

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

### ii Tax legislation

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

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

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

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated. However, it may be significant.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated. However, it may be significant.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at December 31, 2006 and 2005 no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.



## 29 Contingencies, commitments and operating risks (continued)

### iii Insurance policies

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

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

The total insurance premium related to abovementioned agreements of RR 177 was recognised as an expense for the year ended December 31, 2006 (2005: RR 177) (Note 22).

### iv Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in the existing regulations, civil litigation or legislation, cannot be estimated.

In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 5. Provision for site restoration and reclamation costs was created for the constructive obligation attributable to earth replacement and brine injection activities under the town of Berezniki. No provision is recognized for cavities excavated in other areas, not located under the town of Berezniki (Note 2.26).

### v Operating environment of the Group

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

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

### vi Capital expenditure commitments

At December 31, 2006 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 879 (2005: RR 1,421).

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.

During 2006 receivables from Brazilian customers represented by promissory notes were usually negotiated to the bank upon receipt. Insurance of non-collection risk covers 90% of promissory notes amount. The rest 10% are covered by limited guarantee deposit held in bank with the maturity period until March 2008.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

### ii Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

### 30 Financial risk management (continued)

#### iii Foreign exchange risk

The Group operates internationally and exports approximately 90% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Export sales are denominated in hard currency and settlements are made primary in US dollars. Starting from 2005 foreign entities' expenses mainly distribution costs are denominated in foreign currency.

The Group attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Consequently, the movement in exchange rates between the local currency and foreign currency significantly influences the operating margin in these financial statements.

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Group does not have arrangements in place to mitigate this risk.

#### iv Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings, whose interest rates comprise a fixed component and variable component linked to LIBOR (Note 17). The Group has interest-bearing assets which are at fixed interest rates (Note 6).

#### v Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 17). 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 17.

## 32 Events after balance sheet date

### **Assets pledged under loan agreements**

In January 2007 the Group entered into pledge agreements with Bank of Moscow. The Group collateralized bank loan amounted to RR 2,889 (USD 110 million) by future export proceeds of the Group under sales contract with BPC acceptable to the bank. The Group opened an account with the bank to maintain a certain level of cash receipts. In addition the Group pledged property, plant and equipment with pledged value amounted to RR 4,332.

### **Borrowings**

In April 2007 the Group entered into short-term loan agreement with Sberbank for approximately RR 1,030 (USD 40 million) at a fixed interest rate of 7.5%.

In April 2007 the Group repaid the short-term unsecured interest-free loan received from Ermina Ventures Limited in the amount of RR 134.

### **Treasury shares**

In January - May 2007 LLC "Kama", a wholly owned subsidiary of the Group, acquired 6,902,039 shares of the Company with a nominal value per share of 0.5 Roubles for RR 349. These ordinary shares carry voting rights in the same proportion as other shares.

### **Legal proceedings**

In April 2007 the Federal Antimonopoly Service concluded that the Group breached the Federal Law "On defence of competition" in respect of prices on potassium chloride set for 2007 for domestic customers. According to the decision of the Federal Antimonopoly Service the Group is obliged to sell potassium chloride to domestic customers on prescribed prices (2,950 roubles per ton) and pay a fine of RR 62 to the federal budget. The Group is currently challenging the decision in the court.