JSC "ILETSKSOL"

IFRS Consolidated Financial Statements for the Year Ended 31 December 2005, with Independent Auditors' Report

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors of JSC «ILETSKSOL»

We have audited the accompanying consolidated balance sheet of JSC «ILETSKSOL» and its subsidiary (together referred to as the "Group", as per definition set out in Note 1) as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Vladislav Poguliaev
Audit Engagement Partner

Natalya Kurganskaya
Auditor-in-Charge

19 June 2006

Consolidated Balance Sheet
as at 31 December 2005
(in thousands of Russian Roubles)

	Note	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	4	747 488	657 871
Intangible assets	5	2 185	3 191
Investments in associates	6	337	94
Other investments	6	5 506	1 300
Long-term accounts receivable	7	106 718	117 697
		862 234	**780 153**
Current assets			
Investments	10	-	30 000
Inventories	8	18 941	37 982
Trade and other accounts receivable	9	42 571	51 542
Cash and cash equivalents	11	412	614
		61 924	**120 138**
Total assets		**924 158**	**900 291**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005	2004
EQUITY AND LIABILITIES			
Equity			
Share capital	12	450 625	408 692
Retained earnings		262 897	285 356
		713 522	**694 048**
Minority interest	27	**2**	**3**
Non-current liabilities			
Long-term loans and borrowings	14	110 000	110 000
Deferred tax liabilities	13	49 045	56 661
		159 045	**166 661**
Current liabilities			
Short-term loans and borrowings	14	10 211	10 531
Trade and other accounts payable	15	41 378	29 048
		51 589	**39 579**
Total equity, minority interest and liabilities		**924 158**	**900 291**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

10 May 2006

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Income for the year ended 31 December 2005 (in thousands of Russian Roubles)

	Note	2005	2004
Sales	16	295 307	232 494
Cost of sales	18	(181 574)	(151 609)
Gross profit		**113 733**	**80 885**
Other operating income	17	6 217	6 157
Distribution expenses	20	(27 965)	(21 712)
Administrative expenses	19	(59 197)	(41 686)
Taxes other than income tax	22	(4 528)	(11 518)
Other operating expenses	21	(40 333)	(61 821)
Operating loss		**(12 073)**	**(49 695)**
Finance costs, net	23	(11 292)	(11 167)
Income from associates	6	243	93
Loss before income tax and minority interest		**(23 122)**	**(60 769)**
Income tax expense	24	663	13 019
Loss after taxation and before minority interest		(22 459)	(47 750)
Minority interest	27		
Net loss for the year		**(22 459)**	**(47 750)**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

10 May 2006

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2005 (in thousands of Russian Roubles)

	Share capital	Treasury stock	Retained earnings	Total
As at 1 January 2004	**225 313**	**(29)**	**333 106**	**558 390**
Treasury shares sold	-	29	-	29
Shares issued,	225 312	-	-	225 312
– of which unpaid	(41 933)			(41 933)
Net loss for the period	-	-	(47 750)	(47 750)
As at 31 December 2004	**408 692**	**-**	**285 356**	**694 048**
Shares issued and fully paid	41 933	-	-	41 933
Net loss for the period	-	-	(22 459)	(22 459)
As at 31 December 2005	**450 625**	**-**	**262 897**	**713 522**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

10 May 2006

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2005
(in thousands of Russian Roubles)

	2005	2004
OPERATING ACTIVITIES		
Cash receipts from customers	351 379	268 386
Other income	8 634	32 146
Cash paid to suppliers and employees	(232 742)	(191 292)
Taxes paid	(42 080)	(62 071)
Other payments	(10 262)	(30 852)
Cash flows from operations before income taxes and interest paid	**74 929**	**16 317**
Interest paid	(17 221)	(12 088)
Income tax paid	(8 362)	(237)
Net cash from operating activities	**49 346**	**3 992**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	4 057	-
Proceeds from disposal of investments	194 100	-
Interest received	2 017	74
Acquisition of property, plant and equipment	(120 138)	(96 346)
Acquisition of financial investments	(163 977)	(30 000)
Net cash from investing activities	**(83 941)**	**(126 272)**
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	41 933	183 379
Proceeds from borrowings	9 248	172 452
Repayment of borrowings	(16 788)	(233 141)
Dividends paid		-
Net cash from financing activities	**34 393**	**122 690**
Net increase/(decrease) in cash and cash equivalents	**(202)**	**410**
Cash and cash equivalents at the beginning of the year	614	204
Cash and cash equivalents at the end of the year	**412**	**614**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

10 May 2006

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Note 1. Information about the Group

The Group's consolidated financial statements include the financial statements of JSC «ILETSKSOL» (the Company) and its subsidiary, Limited Liability Company Sol-Iletsk - Kurort (the Subsidiary). The information about the Subsidiary is given in Note 27.

The Company was established in 1928 as a state enterprise in accordance with the Russian legislation. In 1996 the Company was registered as an open joint stock company in accordance with the Civil Code of the Russian Federation.

The Company's principal activity is production, processing and sale of rock salt.

The Company's legal address is: Sol-Iletsk, Orenburg region, 461500, Russia. The average number of the Company's employees in 2005 was 711.

Note 2. Business Environment. Economic Situation in the Russian Federation

The Russian Federation has been experiencing political and economic changes which have affected and may continue to affect the companies operating in Russia. Although the economic situation in the Russian Federation has improved significantly in the recent years and beginning from 2002 the Russian economy has been recognised as a market economy, and a number of major reforms aimed at improving the banking, judicial, tax and legislative systems have been implemented, the business and legislative framework do not possess the same level of stability as in the countries with more developed economy. Therefore, business activity in the Russian Federation is still characterised by risks and features of an emerging market, which do not typically exist in developed markets, namely, a relatively high rate of inflation during a number of years; certain currency controls, which do not allow the national currency to become a liquid means of payment outside the Russian Federation; low level of liquidity in capital markets.

The economic prospects in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the Government, and the development of the fiscal, legal and political systems. The government of the Russian Federation, proceeding with the economic reform, implements the policy on liberalisation of the currency control legislation to make the national currency freely convertible and reduce inflation rates in the near future. According to the government statistics, the economy of the Russian Federation sustained high rates of growth for the last five years.

The accompanying consolidated financial statements reflect the management's assessment of the impact of the economic environment in the Russian Federation on the operations and financial position of the Group. However, it should be noted that the future economic situation might differ from the management's current assessment. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. If necessary, such adjustments will be reflected in the consolidated financial statements as they become known and estimable.

Note 3. Summary of 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 years presented, unless otherwise stated.

Accounting principles

The Group enterprises maintain their accounting records in accordance with Russian generally accepted accounting standards (local GAAP or RAS).

The national currency of the Russian Federation and the functional currency of the Group is the Russian Rouble, which is also the presentation currency of these consolidated financial statements.

The Group prepares its consolidated financial statements in accordance with IFRS for the first time for the year ended 31 December 2005. These consolidated financial statements will include comparative information for the year ended 31 December 2004. The accompanying consolidated financial statements have been prepared from the statutory accounting records and adjusted as necessary in order to comply with the requirements of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The date of transition from local GAAP (RAS) to IFRS, in accordance with the provisions of International Financial Reporting Standards, is 1 January 2004.

The Group adopted the IFRS below, revised in 2003 - 2004, which are relevant to its operations:

IAS 1 (revised 2003) Presentation of Financial Statements

IFRS 1 (revised 2003) First-time Adoption of International Financial Reporting Standards

IAS 2 (revised 2003) Inventories

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 (revised 2003) Events after the Balance Sheet Date

IAS 16 (revised 2003) Property, Plant and Equipment

IAS 17 (revised 2003) Leases

IAS 19 (revised 2004) Employee Benefits

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates

IAS 24 (revised 2003) Related Party Disclosures

IAS 27 (revised 2003) Consolidated and Separate Financial Statements

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation

IAS 36 (revised 2004) Impairment of Assets

IAS 38 (revised 2004) Intangible Assets

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement

IFRS 3 (issued 2004) Business Combinations

The accompanying consolidated financial statements differ from the financial statements of the Group companies issued for statutory purposes in Russia in that they reflect certain adjustments, which are appropriate to present the financial position, results of operations, and cash flows of the Group in accordance with IFRS issued by IASB. The principal adjustments relate to (1) revenue and expense recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) disclosure of financial instruments.

The following table shows reconciliation between the Group's equity and net profit under Russian Accounting Standards (RAS) and IFRS:

	Share capital	Retained earnings	Statement of income	Total equity
Under RAS as at 31 December 2004	**225 313**	**92 237**	**(14 238)**	**303 312**
Recognition of property, plant and equipment at fair value		313 585		313 585
Depreciation of property, plant and equipment			(15 813)	(15 813)
Write-off of property, plant and equipment			(25 687)	(25 687)
Provisions			(2 743)	(2 743)
Deferred taxation		(69 702)	10 638	(59 064)
Change in the value of financial instruments			93	93
Shares issued and fully paid in 2004	183 379			183 379
Elimination of unproductive and idle items of property, plant and equipment		(3 014)		(3 014)
Under IFRS as at 31 December 2004	**408 692**	**333 106**	**(47 750)**	**694 048**
Under RAS as at 31 December 2005	**450 625**	**77 999**	**6 571**	**535 195**
Recognition of property, plant and equipment at fair value		313 585		313 585
Depreciation of property, plant and equipment			(14 577)	(14 577)
Write-off of property, plant and equipment			(3 349)	(3 349)
Provisions			(7 536)	(7 536)
Deferred taxation		(69 702)	6 109	(63 593)
Change in the value of financial instruments			(9 677)	(9 677)
Effect of prior period adjustments		(33 512)		(33 512)
Elimination of unproductive and idle items of property, plant and equipment		(3 014)		(3 014)
Under IFRS as at 31 December 2005	**450 625**	**285 356**	**(22 459)**	**713 522**

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group may be significantly affected by the current and future economic environment in Russia. The accompanying financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

Management estimates

The preparation of the financial statement required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty in making those estimates, actual results could differ from such estimates.

Concentration of business risks

The Group's production facilities are situated and its activities concentrated within the Russian Federation. Laws and regulations affecting business operating in the Russian Federation are subject to frequent change and the Group's assets and operations could be at risk from negative changes in the political and business environment.

Investments in subsidiaries

Reporting data of the subsidiaries, i.e. the entities in which the Group owns more than half of the voting shares (interest in the subsidiaries' equity) or otherwise has the power to exercise control over their operations, were included in the consolidated financial statements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are removed from consolidation from the date that control ceases. Intragroup transactions, balances and resulting unrealised profits are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, the accounting policies of the subsidiaries were adjusted to comply with the accounting policies of the Group.

Minority interest at the balance sheet date includes the minority shareholders' portion of the fair values of the identifiable assets and liabilities of subsidiaries at the acquisition date, and the minority's portion of movements in those subsidiaries' equity since the date of acquisition. Minority interest is recorded separately from the liabilities and shareholders' equity.

Investments in associates

Investments in associates are accounted for by the equity method of accounting, as stated below.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- representation on the board of directors of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the investor (the Group) and the investee;
- interchange of managerial personnel;
- provision of essential technical information.

The equity method of accounting involves recognising in the consolidated statement of income the Group's share of the associated undertaking's profit or loss for the year and the Group's share of other equity movements in the consolidated statement of changes in shareholders' equity. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Hyperinflationary accounting

In the period from the 1990s to 31 December 2002 the Russian Federation met the definition of a hyperinflationary economy, as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". The average inflation rate, based on the Russian consumer price index ("CPI"), as calculated by the State Committee on Statistics ("Goskomstat"), was 15.1% in 2002 (21.5% and 27.4% in 2001 and 2000, respectively). Although the cumulative inflation index for the three year period ended in 2002 is less than 100%, it is considered that the remaining criteria set forth by IAS 29 indicate that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002 and the preceding three years.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Group used conversion factors derived from the Russian CPI.

Effective from 1 January 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning from 1 January 2003 the Group has ceased to apply IAS 29.

Foreign currency translation

Foreign currency assets and liabilities are translated into Roubles at official Central Bank of the Russian Federation ("CBR") exchange rates at the year-end. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rate after the date of transaction are recognised as currency translation gains or losses.

Transactions that are conducted in roubles when the related assets and liabilities are denominated in foreign currencies (or conventional units) are recorded in the Group's financial statements on the same principles as transactions denominated in foreign currencies.

As at 31 December 2005, the official exchange rate was RUR 28.78 per USD 1 (as at 31 December 2004: RUR 27.75 per USD 1). As at 31 December 2005, the official exchange rate was RUR 34.19 per EUR 1 (as at 31 December 2004: RUR 37.81 per EUR 1). Transactions denominated in foreign currencies are stated at official exchange rates at the dates of the respective transactions.

Property, plant and equipment

Property, plant and equipment as at 1 January and 31 December 2005 is stated at fair value, based upon values determined by a third party valuation as at 1 January 2004, and adjusted for subsequent additions, disposals and depreciation.

The amounts determined by the third party valuation represent an estimate of fair value which may not be higher than the depreciated replacement cost. The third party valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available. Therefore, this third party valuation is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment for the purposes of first-time adoption of IFRS in the preparation of the financial statements.

Property, plant and equipment are stated at historical cost less depreciation and impairment loss. At each balance sheet date the management assesses 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 net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. 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 assets recoverable amount.

Major renewals and improvements are capitalised and the assets replaced are retired. Borrowing costs are capitalised if they are directly attributable to constructed assets. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

Under Russian law, land on which the Group carries out its activities is the property of the state or municipalities and, therefore, is not included in the consolidated balance sheet.

Depreciation of property, plant and equipment is charged on a straight-line basis over the estimated useful life of the asset. For the property, plant and equipment, which was subject to the third party

valuation as at 1 January 2004, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date.
The useful lives, in years, of assets by type of facility are as follows:

Buildings and structures	30 - 80 years
Mining and lifting equipment	9 - 11 years
Motor and rail transport	5 - 15 years
Other machinery and equipment	3 - 9 years

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Intangible assets

Computer software and licences

Acquired computer software and the related licenses are carried at cost less accumulated amortisation and impairment loss.

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets

Other intangible assets acquired by the Group are stated at acquisition cost less accumulated amortisation and impairment loss.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

Financial instruments

Financial assets and liabilities, recorded in the balance sheet, include cash and cash equivalents, investments in securities, trade and other receivables and payables, borrowings and lease obligations. The accounting policies on recognition and measurement of the above items are disclosed in the subsequent paragraphs of the Note.

Investments

All investments are initially recognised at cost.

After initial recognition, financial investments classified as available for sale are measured at their fair value. Gains or losses on these financial investments are recorded within income and expenses. If these assets do not have a quoted market price in an active market and other valuation techniques for determining their fair value are not applicable they shall be measured at cost that is subject to periodic reviews for impairment.

Long-term investments acquired by the Group and intended to be held to maturity, are subsequently measured at amortised cost using the effective interest rate method. The carrying amount of long-term investments is periodically reviewed for impairment.

Trade and other accounts receivable

Trade receivables are carried at original invoice amounts inclusive of VAT, and advances are stated at actual payment amounts less provision for doubtful debts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Doubtful debts are provided for when identified.

The amount of provision for short-term accounts receivable is determined by multiplying the amount of allocated provision by the amount of receivables at the balance sheet date. The provision ratios are determined by the management based on the analysis of debt repayment probability at the balance sheet date and are given below:

Age of overdue short-term accounts receivable	Ratio
from 1 to 45 days	No provision is created
from 45 to 90 days	0.50
over 90 days, including uncollectible debts	1.0

Expenses related to provision for doubtful debts are recorded as other expenses in the income statements when incurred.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so far as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Impairment of assets

An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the estimated recoverable value of assets shall be determined which is the higher of the asset's net selling price and value in use.

Net selling price is the amount obtainable from the sale of assets in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as demand deposits and short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Inventories

Inventories are recorded at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads (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 estimated costs of completion and the estimated costs necessary to make the sale.

Dispatch into production or other disposals of inventories are recorded using the average cost method.

Accounts payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

Income tax

Deferred income tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, and include acquisition charges associated with the borrowing. After initial recognition, all loans and borrowings, other than liabilities held for trading, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement.

For liabilities carried at amortised cost, any gain or loss is recognised in the income statement when the liability is de-recognised, and through the amortisation process.

Borrowing costs, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Related party transactions

Parties are considered to be related if one party has the ability to control directly or indirectly the other party or exercise significant influence over the other party through ownership, contractual right, family relationship or otherwise. Parties are also related if they are jointly controlled or significantly influenced by a third party.

Related party transactions and outstanding balances are normally recorded at cost with appropriate disclosure of material information. Financial assets and liabilities arising in the course of related party transactions are recognised and subsequently recorded at the fair value of consideration received or paid, when determinable, with appropriate disclosure of material information.

Gains and losses arising on sales of inventories or exchange of financial instruments between the related parties in the ordinary course of business are charged to income in the respective period except for elimination of intragroup transactions on consolidation or application of equity method.

Gains and losses arising on other transfers of assets are charged to profit in the respective period or directly to equity depending on the economic substance of the transaction. Recognition of income and expenses arising as a result of such transfer of assets is normally postponed until such time as the consideration is received which exceeds the carrying amount of assets transferred.

Note 4. Property, Plant and Equipment

As at the respective balance sheet dates, property, plant and equipment consisted of the following:

(RUR'000)

	Buildings and structures	Mining and lifting equipment	Motor and rail transport	Other machinery and equipment	Construction in progress	Total
Cost/revalued amount						
As at 1 January 2005	**485 643**	**112 429**	**26 637**	**68 512**	**102 106**	**795 327**
Additions	-	13 642	5 877	6 174	107 167	132 860
Disposals	(2 292)	(3 238)	(1 179)	(3 941)	(120)	(10 770)
Transfers	35 430	257	-	1 981	(37 668)	-
As at 31 December 2005	**518 781**	**123 090**	**31 335**	**72 726**	**171 485**	**917 417**
	518 781				171 485	
Accumulated depreciation						
As at 1 January 2005	**(71 791)**	**(34 158)**	**(12 659)**	**(18 848)**	**-**	**(137 456)**
Charge for the period	(10 989)	(11 987)	(4 410)	(9 048)	-	(36 434)
Disposals	711	2 182	462	606	-	3 961
As at 31 December 2005	**(82 069)**	**(43 963)**	**(16 607)**	**(27 290)**	**-**	**(169 929)**
Net book value						
As at 1 January 2005	**413 852**	**78 271**	**13 978**	**49 664**	**102 106**	**657 871**
As at 31 December 2005	**436 712**	**79 127**	**14 728**	**45 436**	**171 485**	**747 488**

Construction in progress represents the carrying value of PPE items not put into operation, including data on rock salt processing plant under construction as at 31 December 2005 in the amount of RUR 111 823 thousand (as at 31 December 2004: RUR 29 882 thousand).

As at 31 December 2005, equipment included in "Other machinery and equipment" and "Mining and lifting equipment" in the total amount of RUR 124 563 thousand (at fair value) was pledged as collateral against the outstanding long-term bank loans. As at 31 December 2004: RUR 127 935 thousand (historical cost of pledged property amounts to RUR 153 252 thousand and RUR 153 289 thousand, respectively).

Advances given by the Group to suppliers of property, plant and equipment amounted to:

- RUR 10 430 thousand - as at 1 January 2005
- RUR 9 405 thousand - as at 31 December 2005

Note 5. Intangible Assets

(RUR'000)

	Patents	Certificates	Development costs included in cost of assets	Developments in progress	Total
Cost					
As at 31 December 2004	16	1	3 178	-	3 195
Additions	-	-	-	1 093	1 686
Putting into operation	-	-	593	(593)	(593)
As at 31 December 2005	**16**	**1**	**3 771**	**500**	**4 288**
Accumulated amortisation					
As at 31 December 2004	(3)	(1)	-	-	(4)
Additions	(2)	-	(2 097)	-	(2 099)
As at 31 December 2005	**(5)**	**(1)**	**(2 097)**	**-**	**(2 103)**
Net book value					
As at 31 December 2004	13	-	3 178	-	3 191
As at 31 December 2005	**11**	**-**	**1 674**	**500**	**2 185**

Note 6. Long-Term Investments

Investments in associates

The Group has financial investments in the associated undertaking, LLC Private Security Enterprise Iletsksol. The Company's share in the charter capital of the associate is:

- 15 % as at 1 January 2005
- 15 % as at 31 December 2005.

In the opinion of the Group management, the degree of the Group's influence on this company allows to classify investments in the charter capital of LLC Private Security Enterprise Iletsksol as investment in an associated company. The following requirements stipulated in the accounting policies are met: material transactions between the investor (the Group) and the associate (investee) and interchange of managerial personnel.

The Group's share of the profit or loss of the associate is recorded in the consolidated balance sheet as the Group's proportionate interest in net assets at the date of acquisition plus the Group's share of the profit or loss for the entire period after the date of acquisition and of other changes in the investee's equity:

(RUR'000)

	2005	2004
As at 1 January	94	54
Share of associate's profit	243	40
As at 31 December	**337**	**94**

Other long-term investments

Other long-term investments are financial investments available for sale, namely, ordinary interest-bearing promissory notes of LLC Uspekh. Interest on these promissory notes is 1 %. Information on movements in other long-term investments is as follows:

(RUR'000)

	2005	2004
As at 1 January	1 300	-
Additions	18 726	1 300
Disposals	(14 520)	
As at 31 December	**5 506**	**1 300**

As these investments are not quoted in an active market, and no other methods of determining their fair value are applicable, they are stated at nominal value.

Note 7. Long-Term Accounts Receivable

Long-term receivables represent third-party debt owed to the Group for securities sold. As in the period after 1 January 2005 the Group concluded additional contracts, which defined new maturity dates (27 January 2007), at the balance sheet date these receivables were measured at amortised cost using the effective interest rate method.

The effective interest rate of 6.83 % was applied on the basis of the officially published CBR rates for GKO OFZ securities market: "Bulletin of Banking Statistics of the Central Bank of the Russian Federation", No. 2 (153), 2006.

(RUR'000)

	LLC Orbis Capital	LLC Iletsksol-Avtotrans	Total
As at 1 January 2004	-	-	-
Increase in receivables	112 669	5 407	118 076
Repayment of receivables	-	(379)	(379)
Amortisation at effective interest rate	-	-	-
As at 31 December 2004	**112 669**	**5 028**	**117 697**
As at 1 January 2005	112 669	5 028	117 697
Increase in receivables	-	-	-
Repayment of receivables	(1 038)	(21)	(1 059)
Amortisation at effective interest rate	(7 137)	(2 783)	(9 920)
As at 31 December 2005	**104 494**	**2 224**	**106 718**

Note 8. Inventories

As at the balance sheet date, inventories comprised:

(RUR'000)

	2005	2004
Raw materials	327	470
Tare and tare materials	4 408	1 950
Spare parts	4 902	8 102
Building materials	369	14 017
Implements, working clothes and tools	1 634	2 643
Other materials	7 020	10 797
Finished goods	281	3
	18 941	**37 982**

Provision for impairment of inventories at the beginning and at the end of the reporting period was not created as the Group had no significant obsolete or low turnover inventories.

Note 9. Trade and Other Accounts Receivable

As at the balance sheet date, trade and other accounts receivable included:

		(RUR'000)
	2005	**2004**
Trade accounts receivable	13 350	15 570
VAT recoverable	23 949	10 658
Advances given	14 486	21 778
Other	3 673	9 058
Provision for doubtful debts	(12 887)	(5 522)
	42 571	**51 542**

Note 10. Short-Term Investments

As at 1 January 2005, short-term investments included a term (irrevocable) deposit of RUR 30 000 thousand. The annual interest rate on this deposit is 9 %.

Note 11. Cash and Cash Equivalents

At the balance sheet dates cash and cash equivalents included:

		(RUR'000)
	2005	**2004**
Cash on hand and at bank, RUR	408	312
Cash at bank, foreign currency	3	302
Other	1	-
	412	**614**

Note 12. Share Capital

At the beginning of 2004 the Company's share capital amounted to RUR 225 312 584 divided into 225 312 584 ordinary registered shares acquired by the shareholders (placed shares) at the nominal value of 1 rouble each.

On 29 March 2004 the Company made a decision about additional issue (through open subscription) of 225 312 584 ordinary registered non-documentary shares with nominal value of 1 rouble each. In 2004 shares in the amount of RUR 183 379 thousand were placed at nominal value and paid up based on the right of first refusal. The remaining portion of issued shares in the amount of RUR 41 933 thousand was placed at nominal value and paid up in 2005.

Additional issue of ordinary registered non-documentary shares was registered by Order of the Federal Financial Markets Service (FFMS) No. 05-367/pz-i of 10 March 2005. The state registration number of the additional issue is 1-01-00082-E-003D of 29 July 2004.

On 24 March 2005 Interdistrict Inspectorate No. 5 of the Russian Federal Tax Service for Orenburg region registered changes in the Company's Charter stipulating that the Company's share capital amounts to RUR 450 625 168 divided into 450 625 168 ordinary registered shares acquired by shareholders (placed shares) at the nominal value of RUR 1 each.

As at the balance sheet dates, the Company's principal shareholders were the following:

	2005			2004		
Shareholder	**Number of shares, thousands**	**Shareholding, %**	**Nominal value, RUR'000**	**Number of shares, thousands**	**Shareholding, %**	**Nominal value, RUR'000**
LLC Orbis Capital	209 822	46.6%	**209 822**	79 588	19.47%	**79 588**
CP - Credit Prive S.A.	139 953	31.1%	**139 953**	139 953	34.24%	**139 953**
Other	100 850	22.4%	**100 850**	189 151	46.28%	**189 151**
	450 625	**100.0%**	**450 625**	**408 692**	**100.00%**	**408 692**

Note 13. Deferred Tax Liabilities

As at the balance sheet dates, deferred tax assets and liabilities were as follows:

(RUR'000)

	2 005	**2 004**	**Net**
Deferred tax assets:			
Property, plant and equipment	12 274	9 300	2 974
Intangible assets		209	(209)
Materials	174		174
Provisions for doubtful debts	2 486	678	1 808
Other	38		38
	14 972	**10 187**	**4 785**
Deferred tax liabilities:			
Property, plant and equipment	63 770	66 790	(3 020)
Intangible assets	217		217
Financial investments	2		2
Materials	28	58	(30)
	64 017	**66 848**	**(2 831)**
Deferred tax liabilities, net	**49 045**	**56 661**	**(7 616)**

Note 14. Loans and Borrowings

As at the balance sheet dates, the Group's loans and borrowings in RUR comprised:

Long-term loans, secured by pledged property

(RUR'000)

Creditor	Interest rate, %	2005	Interest rate, %	2004
JSC ORENBURG BANK	8%	50 000	8%	50 000
Joint Stock Commercial Bank FORSHTADT	13%	60 000	14%	60 000
Total long-term loans		**110 000**		**110 000**

As at 31 December 2005, equipment included in "Other machinery and equipment" and "Mining and lifting equipment" in the total amount of RUR 124 563 thousand (at fair value) was pledged as collateral against the outstanding long-term bank loans. As at 31 December 2004: RUR 127 935 thousand (historical cost of pledged property amounts to RUR 153 252 thousand and RUR 153 289 thousand, respectively).

Short-term borrowings, unsecured

(RUR'000)

Creditor	Interest rate, %	2005	Interest rate, %	2004
CJSC Iletsk Sol Trade House	8.6%	7 441	-	-
CJSC Iletsk Sol Trade House	11%	665	11%	8 427
Other	0%	2 106	0%	2 104
Total short-term loans		**10 212**		**10 531**

Note 15. Trade and Other Accounts Payable

As at the balance sheet dates, trade and other accounts payable comprised:

(RUR'000)

	2005	2004
Trade accounts payable	11 925	13 895
Accounts payable to LLC Business Monolitstroy for construction of rock salt processing plant	10 081	-
Payables to employees	4 749	4 712
Unified social tax (UST)	1 191	1 199
Taxes payable	9 474	7 484
Other	3 958	1 758
	41 378	**29 048**

Note 16. Sales

Sales in the reporting period and in the period preceding the reporting one comprised:

		(RUR'000)
	2005	**2004**
Salt, packaged in 50 kg sacks	99 531	79 893
Salt, prepacked (1 kg packs)	97 193	101 825
Salt, packaged in flexible 1 ton containers (big bags)	65 539	30 300
Ground salt in bulk	7 617	5 138
Salt bricks	3 708	2 731
Other salt processing products	2 432	3 478
Balneology health resort services	17 296	7 666
Power supply services	1 145	1 166
Other	846	297
	295 307	**232 494**

Note 17. Other Operating Income

In 2005 and 2004 the Group's operating income comprised:

		(RUR'000)
	2005	**2004**
Unclaimed payables written off	2 986	2 743
Third-party fines and penalties imposed and acknowledged	1 123	-
Proceeds from lease of property	947	1 480
Other income	1 161	1 934
	6 217	**6 157**

Note 18. Cost of Sales

Cost of sales in the reporting period and in the period preceding the reporting one comprised:

		(RUR'000)
	2005	**2004**
Salt, packaged in 50 kg sacks	61 258	44 566
Salt, prepacked (1 kg packs)	59 174	71 192
Salt, packaged in flexible 1 ton containers (big bags)	40 814	18 235
Ground salt in bulk	4 598	3 820
Salt bricks	1 285	1 782
Other salt processing products	2 930	3 033
Balneology health resort services	9 686	6 393
Power supply services	869	992
Other	960	1 598
	181 574	**151 609**

Note 19. Administrative Expenses

The Group's administrative expenses in the reporting period and in the period preceding the reporting one comprised:

		(RUR'000)
	2005	**2004**
Payroll expenses	22 334	14 680
UST	3 930	3 795
Depreciation and amortisation	7 726	4 902
Maintenance of the Company representative office in Moscow	7 629	1 380
Services of Private Security Enterprise Iletsksol	4 670	4 669
Issuance of additional shares	3 892	3 013
Third party services	3 091	2 998
Office supplies and stationery	1 792	1 636
Audit services	1 096	1 217
Heat supply	625	740
Communications	672	648
Other	1 740	2 008
	59 197	**41 686**

Note 20. Distribution Expenses

In 2004 and 2005 expenses for sale of finished goods, administrative and operating expenses comprised:

		(RUR'000)
	2005	**2004**
Company railway department costs	16 359	13 485
Salt packaging expenses (1 kg packs)	7 879	5 446
Expenses for freight car preparation and feed	3 617	2 605
Entertainment expenses	44	166
Advertising	-	10
Other	66	-
	27 965	**21 712**

Note 21. Other Operating Expenses

In 2005 and 2004 the Group's operating expenses comprised:

		(RUR'000)
	2005	**2004**
Loss on sale and disposal of property, plant and equipment and capital expenditures, net	5 114	36 948
Loss on sale of idle and worthless inventory, net	2 132	1 455
Amortisation of accounts receivable	9 920	-
Provision for doubtful debts	7 365	5 522

	2005	2004
Receivables written off as uncollectible	610	6 393
Prior period loss revealed in the reporting period	3 664	1 169
Social charges and charity expenses	1 697	833
Fines and penalties under contracts	2 659	638
Other expenses	7 172	8 863
	40 333	**61 821**

Note 22. Taxes Other than Income Tax, net

In 2005 and 2004 the Group's expenses related to taxes other than income tax comprised:

(RUR'000)

	2005	2004
Property tax	7 056	9 701
Land tax	(866)	2 227
Decrease in prior period road user tax based on arbitration court judgment and tax reviews	-	(4 031)
Additionally accrued amount of mineral extraction tax pursuant to court judgment	-	3 621
Late payment interest written off for early tax repayment pursuant to tax authorities' decision	(1 662)	-
	4 528	**11 518**

Note 23. Finance Costs, net

In 2005 and 2004 financing income/(expenses) comprised:

(RUR'000)

	2005	2004
Loan interest payable	13 279	12 221
Interest on deposits receivable	(1 987)	(155)
Foreign exchange gain	-	(899)
	11 292	**11 167**

Note 24. Income Tax Expense

Income tax expense/ (recovery) in the reporting period and in the period preceding the reporting one comprises the following elements:

(RUR'000)

	2005	2004
Income tax expense - current	(6 953)	(615)
Deferred tax expense/(recovery) due to origination and reversal of temporary differences (Note 13).	7 616	13 634
Income tax expense (recovery) recorded in the statement of income	**663**	**13 019**

Note 25. Related Party Transactions

The Group's related parties in the reporting period and in the period preceding the reporting one were the following:

No.	Related party	Features typical of related parties
1	**2**	**3**
1	LLC Orbis Capital	Shareholder, holding over 20% of the charter capital
2	CP – Credit Prive S.A.	Shareholder, holding over 20% of the charter capital
3	Irek V. Abdurshin	General Director of the Company, Member of the Board of Directors
4	Igor A. Ivankov	Member of the Company Board of Directors
5	Sergei V. Cherny	Member of the Company Board of Directors
6	Vitaly V. Tkachev	Member of the Company Board of Directors
7	Ayub U. Khajiev	Member of the Company Board of Directors
8	Nikolai N. Zhukov	Member of the Company Board of Directors
9	Tatyana M. Zakharchenko	Member of the Company Board of Directors
10	Guy G. Deschamps	Director of CP – Credit Prive S.A.
11	Sergei S. Nikonov	Director of LLC Orbis-Capital
12	Rafis R. Abdyushev	Director of the Subsidiary

In 2005 and 2004, in the ordinary course of business the Group entered into transactions with the following related parties:

(1) LLC Orbis Capital

In 2004 LLC Orbis Capital acquired from the Group securities (promissory notes) in the amount of RUR 112 669 thousand at nominal value. Besides, in 2004 LLC Orbis Capital paid RUR 29 thousand against purchase of additional shares of the Company at nominal value.

In 2005 LLC Orbis Capital repaid part of its payables for acquired securities in the amount of RUR 1 038 thousand.

The Group's accounts receivable from LLC Orbis Capital amounted to RUR 111 631 thousand as at 31 December 2005 (as at 31 December 2004: RUR 112 669 thousand).

(2) CP – Credit Prive S.A.

In 2004 the Company received from CP – Credit Prive S.A. cash funds in the amount of RUR 69 976 thousand against acquisition of additional shares of the Company at nominal value.

In 2005 no transactions were carried out. There is no balance as at 31 December 2005.

(3) Mr. Irek V. Abdurshin is General Director of the Company
In 2004 the third party, LLC Market-Kaskad assigned to Mr. Irek V. Abdurshin the right of legal claim to the Company under the contract for interest-free loan in the amount of

RUR 1 272 thousand.

In 2005 there were no similar transactions. The Company's debt to Mr. Irek V. Abdurshin as at 31 December 2005 and 31 December 2004 amounts to RUR 1 272 thousand.

(4) Mr. Sergei S. Nikonov is Director of LLC Orbis Capital

In 2005 the Company received from Mr. Sergei S. Nikonov cash funds in the amount of RUR 31 544 thousand against acquisition of additional shares of the Company at nominal value.

There is no balance as at 31 December 2005 and 31 December 2004.

(5) Remuneration to members of the Company Board of Directors

Remuneration to members of the Company Board of Directors (including salary of the Board members employed by the Company):

- in 2005 – RUR 14 431 thousand
- in 2004 – RUR 4 925 thousand

Note 26. Commitments and Contingencies

General contingencies

The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual. The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations are severe.

Interest and fines are levied when an understatement of tax liability is discovered. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Group management believes that it has paid or accrued all taxes that are applicable. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed and accrued as at 31 December 2005 (31 December 2004).

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other markets are not yet generally available in Russia. The Group does not have full coverage for its industrial premises, for business interruption, or for third party liabilities in respect of property or environmental damage arising from the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

Currently the Group is not involved, as a plaintiff or a defendant, in any court proceedings, which are of material nature or have to be recognised as contingencies.

Note 27. Information about the Subsidiary.

Limited Liability Company Sol-Iletsk-Kurort was registered in 2003 in accordance with the Civil Code of the Russian Federation.

The Company's interest in the charter capital of the Subsidiary comprised:

- 74.00 % as at 1 January 2005
- 99.96 % as at 31 December 2005

The Subsidiary's principal type of activities is use and operation of Sol-Iletskoe balneological salt deposit, organisation, creation and operation of health care facilities.

The legal address of the Subsidiary is: 1 Sovetskaya str., Sol-Iletsk, Orenburg region, 461500, Russia.