“ILETSKSOL” GROUP

IFRS Consolidated Financial Statements
for the Year Ended 31 December 2006,
with Independent Auditor’s Report

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of JSC "ILETSKSOL"

We have audited the accompanying consolidated financial statements of "Iletsksol" Group (hereinafter referred to as "Iletsksol" Group), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows and for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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 consolidated 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

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 "Iletsksol" Group 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Vladislav Poguliaev
Audit Engagement Partner

Natalya Kurganskaya
Auditor-in-Charge

11 May 2007

BDO Unicon Inc.
125, Warshavskoye Shosse, Moscow, Russian Federation

Consolidated Balance Sheet
as at 31 December 2006
(in thousands of Russian Roubles)

	Note	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	4	771 988	747 488
Intangible assets	5	2 188	2 185
Investments in associates	6	382	337
Other long-term investments	6	39 658	5 506
Long-term accounts receivable	7	33 222	106 718
		847 437	**862 234**
Current assets			
Short-term financial assets available for sale	10	15 200	-
Inventories	8	21 847	18 941
Trade and other accounts receivable	9	24 196	42 571
Cash and cash equivalents	11	4 079	412
		65 332	**61 924**
Total assets		**912 759**	**924 158**

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006	2005
EQUITY AND LIABILITIES			
Equity			
Share capital	12	450 625	450 625
Retained earnings		252 814	262 897
		703 440	**713 522**
Minority interest	27	**8 205**	**2**
Equity and minority interest		**711 645**	**713 524**
Non-current liabilities			
Long-term loans and borrowings	14	8 334	110 000
Deferred tax liabilities	13	42 171	49 045
		50 505	**159 045**
Current liabilities			
Short-term loans and borrowings	14	114 652	10 211
Trade and other accounts payable	15	35 957	41 378
		150 609	**51 589**
Total equity, minority interest and liabilities		**912 759**	**924 158**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

11 May 2007

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

Consolidated Statement of Income
for the year ended 31 December 2006
(in thousands of Russian Roubles)

	Note	2006	2005
Sales	16	336 649	295 307
Cost of sales	18	(195 431)	(181 574)
Gross profit		**141 218**	**113 733**
Other operating income	17	6 700	6 217
Distribution expenses	20	(40 942)	(27 965)
Administrative expenses	19	(63 303)	(59 197)
Taxes other than income tax	22	(7 280)	(4 528)
Other operating expenses	21	(32 451)	(40 333)
Operating profit (loss)		**3 942**	**(12 073)**
Finance costs, net	23	(15 647)	(11 292)
Income from associates	6	44	243
Loss before income tax and minority interest		**(11 661)**	**(23 122)**
Income tax expense (recovery)	24	2 572	663
Loss after taxation and before minority interest		(9 089)	(22 459)
Minority interest	27	(1)	
Net loss for the year		**(9 090)**	**(22 459)**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

11 May 2007

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2006 (in thousands of Russian Roubles)

	Share capital	Retained earnings	Minority interest	Total
As at 1 January 2005	**408 692**	**285 356**	**2**	**694 050**
Additionally issued and paid shares	41 933	-	-	41 933
Net loss for the period	-	(22 459)	-	(22 459)
As at 31 December 2005	**450 625**	**262 897**	**2**	**713 524**
Additionally issued and paid shares	-	-	-	-
Net loss for the period	-	(9 090)	1	(9 089)
Sale of the share in the subsidiary	-	-	8 202	8 202
Payment of dividends	-	(992)	-	(992)
As at 31 December 2006	**450 625**	**252 814**	**8 205**	**711 645**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

11 May 2007

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2006
(in thousands of Russian Roubles)

	2006	2005
OPERATING ACTIVITIES		
Cash receipts from customers	381 343	351 379
Other income	15 562	8 364
Cash paid to suppliers and employees	(258 238)	(232 742)
Taxes paid	(44 465)	(42 080)
Other payments	(13 809)	(10 262)
Cash flows from operations before income tax and interest paid	**80 393**	**74 929**
Interest paid	(15 548)	(17 221)
Income tax paid	(5 706)	(8 362)
Net cash from operating activities	**59 139**	**49 346**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1 234	4 057
Proceeds from disposal of investments	6 018	194 100
Interest received	4	2 017
Acquisition of property, plant and equipment	(78 525)	(120 138)
Acquisition of financial investments	(79 749)	(163 977)
Net cash from investing activities	**(151 018)**	**(83 941)**
FINANCING ACTIVITIES		
Proceeds from increase in share capital	-	41 933
Proceeds from borrowings	119 444	9 248
Repayment of borrowings	(22 951)	(16 788)
Dividends paid	(947)	-
Net cash from financing activities	**95 546**	**34 393**
Net increase/(decrease) in cash and cash equivalents	**3 667**	**(202)**
Cash and cash equivalents at the beginning of the year	412	614
Cash and cash equivalents at the end of the year	**4 079**	**412**

General Director I.V. Abdurshin

Chief Accountant O.N. Chirkov

11 May 2007

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 of rock salt, its processing and sale. Salt production is carried out subject to ORB License No. 01177TE of 23 March 2001, valid until 1 January 2013.

The Company's legal address is: Sol-Iletsk, Orenburg region, 461500, Russia. The average number of the Company's employees in 2006 was 731.

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

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 "Iletsksol" 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 will be consistently applied to all the years for which the Group's consolidated financial statements will be 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 accompanying consolidated financial statements differ from the financial statements of the Group enterprises prepared in accordance with the Russian legislation to the extent that the accompanying consolidated financial statements reflect the effect of the adjustments that had been necessary for fair presentation of the Group's financial position, the results of its operations and its cash flows in accordance with IFRS.

The major adjustments relate to: (1) revenue and expense recognition, (2) provisions for non-recoverable assets, (3) depreciation and property, plant and equipment, (4) income tax accounting, (5) recognition of financial instruments.

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.

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 operations of the Group may be significantly affected by the current and future economic environment in Russia. The accompanying consolidated financial statements do not include any adjustments that would be necessary should the Group be unable to continue as a going concern.

Management estimates

The preparation of the consolidated financial statements required the Group 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 influencing business operations 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. All intragroup transactions, balances and resulting unrealised profits are eliminated. Unrealised losses are also eliminated unless the cost of the transferred assets 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' net assets 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 Company 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 Company) 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 Company's share of the associated undertaking's profit or loss for the year and the Company's share of other equity movements in the consolidated statement of changes in equity. Unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company'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 Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Hyperinflationary accounting

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 of the Group 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 consolidated financial statements on the same principles as transactions denominated in foreign currencies.

As at 31 December 2006, the official exchange rate was RUR 26.33 to USD 1 (as at 31 December 2005: RUR 28.78 to USD 1). As at 31 December 2006, the official exchange rate was RUR 34.70 to EUR 1 (as at 31 December 2005: RUR 34.19 to 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 acquired prior to 1 January 2004 were recorded at fair value determined by an independent appraiser as at 1 January 2004. Subsequently, this fair value is treated as acquisition cost.

After initial recognition property, plant and equipment are recorded at cost less accumulated depreciation or impairment loss, if any.

At each reporting date the Group's management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, the recoverable value of the asset is assessed by the management. The recoverable amount is determined as the higher of an asset's net selling price and its value in use. An asset's carrying amount is written down to its recoverable amount and the difference is recorded as loss (obsolescence loss). The obsolescence losses of the prior reporting periods are reversed if the estimates used to determine the recoverable amount had changed.

Property, plant and equipment acquired after revaluation date as at 1 January 2004 are reported at their acquisition cost less accumulated depreciation and impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repair and maintenance costs are charged to the consolidated statement of income during the period in which they are incurred. Capital expenditures include all types of expenses that dot result in improvement of the technical condition of property, plant and equipment beyond the originally assessed performance standard.

The cost of substantial modernizations and improvements is capitalized and any assets replaced are retired. Construction in progress includes assets under construction, and is accounted for at the amount of expenditures incurred. This amount includes the cost of assets acquired, construction expenses and other direct expenses. Construction in progress is not amortised until construction is completed and the item is ready for use.

Interest expense is capitalized, if directly attributable to the construction project.

Gain or loss on asset disposal is charged to the consolidated income statement as incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, 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

Where an item of property, plant and equipment comprises several components having different useful lives, such components are accounted for as separate items of property, plant and equipment.

In accordance with the Russian legislation the land on which the Group conducts its business activity is in the ownership of the state or local self-governments, and therefore it is not recorded in the consolidated balance sheet.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with maintenance by the Group of its social assets 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 consolidated 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 services provided by third parties, cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the consolidated 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 consolidated statement of income as an expense as incurred.

Amortisation

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

Financial instruments

The Group classifies its financial instruments as follows:

1) a financial asset or financial liability at fair value through profit or loss, or held for trading, i.e. acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
2) held-to-maturity investments;
3) loans and receivables that are not quoted in an active market;
4) other available-for-sale financial assets recognized at amortised cost that do not refer to the above categories.

Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date.

Financial assets and liabilities

This category has two sub-categories: financial assets and liabilities at fair value through profit or loss and financial assets and liabilities carried at amortised cost.

Available-for-sale financial assets and liabilities are carried at fair value if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or if so designated by management. Available-for-sale financial assets and liabilities are classified as current assets and liabilities if they are held for trading and are supposed to be sold within 12 months from the reporting date.

Financial liabilities carried at amortised cost are liabilities that are principally acquired for long-term settlements or if so designated by management. Financial instruments are classified as long-term assets and liabilities if there is intention to sell them in more than 12 months after the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. This category is included in current assets, except for maturities greater than 12 months after the balance sheet date. Instruments with maturities greater than 12 months are classified as non-current assets.

Measurement

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the consolidated statement of income in the period in which they arise.

Financial liabilities, loans and receivables, financial and derivative instruments held to maturity with maturities greater than 12 months after the balance sheet date are initially recognized at fair value and subsequently carried at amortised cost using the effective interest method through profit or loss. Realised and unrealised gains and losses arising from changes in the fair value are included in the consolidated income statement in the period in which they arise.

A gain or loss on an available-for-sale financial asset is recognised directly in equity, through the consolidated statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss.

Fair value measurement

The fair values of quoted financial instruments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Long-term debt is measured at market prices or dealers' quotes for similar instruments.

The fair value of accounts receivable and payable approximates their nominal values.

For information disclosure purposes, the fair value of financial liabilities is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms.

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 consolidated statement of income 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 as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to financial result.

Capitalised leased assets are depreciated over the useful life of the asset. 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 consolidated 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 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 the 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 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, 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 Group has a present obligation (legal or constructive) 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 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 received 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 consolidated 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 Group 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 2006	**518 781**	**123 090**	**31 335**	**72 726**	**171 485**	**917 417**
Additions	1 954	3 162	2 820	4 242	66 088	78 266
Disposals	(11 581)	(2 117)	(1 939)	(2 475)	(899)	(19 011)
Transfers	18 261	-	-	262	(18 523)	-
As at 31 December 2006	**527 415**	**124 135**	**32 216**	**74 755**	**218 151**	**976 672**
Accumulated depreciation						
As at 1 January 2006	**(82 069)**	**(43 963)**	**(16 607)**	**(27 290)**	**-**	**(169 929)**
Charge for the period	(14 468)	(14 668)	(2 664)	(10 656)	-	(42 456)
Disposals	2 635	1 975	1 506	1 585	-	7 701
As at 31 December 2006	**(93 902)**	**(56 656)**	**(17 765)**	**(36 361)**	**-**	**(204 684)**
Net book value						
As at 1 January 2006	**436 712**	**79 127**	**14 278**	**45 436**	**171 485**	**747 488**
As at 31 December 2006	**433 513**	**67 479**	**14 451**	**38 394**	**218 151**	**771 988**

Construction in progress represents the carrying value of PPE items not put into operation, including data on the rock salt processing plant under construction as at 31 December 2006 in the amount of RUR 129 272 thousand (as at 1 January 2006: RUR 111 823 thousand).

The cost of PPE pledged as collateral for bank loans as at 31 December 2006 did not change versus last year and amounted to RUR 124 563 thousand as at 1 January 2006.

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

- RUR 9 405 thousand - as at 1 January 2006
- RUR 2 039 thousand - as at 31 December 2006

PPE items temporarily deactivated were removed from the PPE category, with the net book values of:

- RUR 1 410 thousand - as at 1 January 2006
- RUR 1 188 thousand - as at 31 December 2006

Note 5. Intangible Assets

(RUR'000)

	Patents	Certificates and licenses	Development costs included in cost of assets	Developments in progress	Total
Cost					
As at 31 December 2005	16	1	3 771	500	4 288
Additions (Note 26)	17	800	257		1 074
Disposals	-	-	(1 363)	-	(1 363)
Transfer into operation	-	-	500	(500)	-
As at 31 December 2006	**33**	**801**	**3 165**	**-**	**3 999**
Accumulated amortisation					
As at 31 December 2005	(5)	(1)	(2 097)	-	(2 103)
Charge for the year	(2)	-	(673)	-	(675)
Disposals	-	-	967		967
As at 31 December 2006	**(7)**	**(1)**	**(1 803)**	**-**	**(1 811)**
Net book value					
As at 31 December 2005	11	-	1 674	500	2 185
As at 31 December 2006	**26**	**800**	**1 362**	**-**	**2 188**

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 2006
- 15 % as at 31 December 2006.

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

	2006	2005
As at 1 January	337	94
Share of associate's profit	44	243
As at 31 December	**382**	**337**

Other long-term investments

Other long-term investments:

1) financial investments available for sale;

2) originated loan

(1) Financial investments available for sale represent ordinary interest-bearing promissory notes of LLC Uspekh. These promissory notes have interest rates varying from 1 to 3 %. Information on movements in other long-term investments is as follows:

(RUR'000)

	2006	2005
As at 1 January	5 506	1 300
Additions	37 789	18 726
Disposals	-	(14 520)
Impairment	(4 764)	-
As at 31 December	**38 531**	**5 506**

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, less impairment provision.

(2) The loan is issued by the Company in 2006 to the municipal authorities of Sol-Iletsk. The loan is issued at interest rate of 7% p.a. The amount of the loan proceeds is RUR 1 127 thousand.

	2006	2005
As at 1 January	-	-
Additions	1 158	-
Impairment	(31)	-
As at 31 December	**1 127**	**-**

Note 7. Long-Term Accounts Receivable

Long-term accounts receivable represent third party receivables relating to payments due for the assets sold by the Group. At the balance sheet date these receivables were measured at amortised cost using the effective interest rate method.

The effective interest rate of 8 % was applied on the basis of interest rates applied to long-term borrowings of the Group.

(RUR'000)

	2006	2005
As at 1 January	106 718	117 697
Increase in receivables	40 226	-
Repayment of receivables	(112 471)	(1 059)
Change in amortisation at effective interest rate	(1 251)	(9 920)
As at 31 December	**33 322**	**106 718**

Note 8. Inventories

As at the balance sheet date, inventories comprised:

(RUR'000)

	2006	2005
Raw materials	477	327
Tare and tare materials	2 945	4 408
Spare parts	7 969	4 902
Building materials	1 603	369
Implements, working clothes and tools	1 562	1 634
Other materials	7 242	7 020
Finished goods	50	281
	21 847	**18 941**

Provision for impairment of inventories as at the beginning and the end of the reporting year and the balance sheet date was not accrued, as there was no decrease in market prices for inventories used by the Group and the Group had no obsolete and slow-moving inventories.

Note 9. Trade and Other Accounts Receivable

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

(RUR'000)

	2006	2005
Trade accounts receivable	6 075	13 350
provision for doubtful debts	(1 775)	(2 608)
Advances given	14 923	14 486
provision for doubtful debts	(10 279)	(10 279)
VAT recoverable	10 856	23 949
Overpaid taxes	3 307	1 443
Other	1 089	2 230
	24 196	**42 571**

Note 10. Short-Term Financial Assets Available for Sale

As at 31 December 2006, financial assets available for sale included the cost of ordinary non-interest-bearing promissory note of LLC SMK in the amount of RUR 15 200 thousand (as at 31 December 2005: none).

In the opinion of the Group's management, this promissory note will be repaid during 12 months from the reporting date. This financial asset is recorded at cost which is equal to its nominal value. There is no active market for this type of financial investments and recently there have been no transactions indicative of the fair value of this financial investment.

Note 11. Cash and Cash Equivalents

At the balance sheet dates cash and cash equivalents included:

(RUR'000)

	2006	2005
Cash on hand and at bank, RUR	4 078	408
Cash at bank, foreign currency	-	3
Other	1	1
	4 079	**412**

Note 12. Share Capital

According to the Company's Charter as amended on 24 March 2005, the share capital amounts to RUR 450 625 168. The share capital consists of 450 625 168 ordinary shares with the nominal value of RUR 1 each.

As at 31 December 2006, the share capital is fully paid up.

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

	2006			2005		
Shareholder	**Number of shares, thousands**	**Shareholding, %**	**Nominal value, RUR'000**	**Number of shares, thousands**	**Shareholding, %**	**Nominal value, RUR'000**
LLC Orbis Capital	209 822	46.5%	**209 822**	209 822	46.5%	**209 822**
CP - Credit Prive S.A.	139 953	31.1%	**139 953**	139 953	31.1%	**139 953**
Other	100 850	22.4%	**100 850**	100 850	22.4%	**100 850**
	450 625	**100.0%**	**450 625**	**450 625**	**100.00%**	**450 625**

Note 13. Deferred Tax Liabilities

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

(RUR'000)

	2006	2005	Net
Deferred tax assets:			
Property, plant and equipment	11 694	12 274	(580)
Intangible assets	258	-	258
Financial investments	1 971	-	1 971
Materials	13	174	(161)
Provisions for doubtful debts	2 486	2 486	-
Other	130	38	92
	16 552	**14 972**	**1 580**
Deferred tax liabilities:			
Property, plant and equipment	58 502	63 770	(5 268)
Intangible assets	143	217	(74)
Financial investments	-	2	(2)
Materials	78	28	50
	58 723	**64 017**	**(5 294)**
Deferred tax liabilities, net	**42 171**	**49 045**	**(6 874)**

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, %	2006	Interest rate, %	2005
JSC ORENBURG BANK (Note 4)	8%	8 334	8%	50 000
Joint Stock Commercial Bank FORSHTADT (Note 4)	-	-	13%	60 000
Total long-term loans		**8 334**		**110 000**

Short-term borrowings

(RUR'000)

Creditor	Interest rate, %	2006	Interest rate, %	2005
Collateralised bank loans				
OJSC ORENBURG BANK	8,0%	41 666	-	-
Joint Stock Commercial Bank FORSHTADT	13,0%	60 000	-	-
Non-collateralised loans				
CJSC Iletsk Sol Trade House	8,6%	12 030	8,6%	7 441
CJSC Iletsk Sol Trade House	11,0%	-	11,0%	665
Other	0,0%	956	0,0%	2 106
Total short-term borrowings		**114 652**		**10 212**

Note 15. Trade and Other Accounts Payable

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

(RUR'000)

	2006	2005
Trade accounts payable	15 013	11 925
Accounts payable to LLC Business Monolitstroy for construction of the rock salt processing plant	5 975	10 081
Payables to employees	5 776	4 749
Unified social tax (UST)	1 339	1 191
Taxes payable	6 161	9 474
Other	1 693	3 958
	35 957	**41 378**

Note 16. Sales

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

(RUR'000)

	2006	2005
Salt, packaged in 50 kg sacks	112 565	99 531
Salt, prepacked (1 kg packs)	105 930	97 193
Salt, packaged in flexible 1 ton containers (big bags)	86 804	65 539
Ground salt in bulk	-	7 617
Salt bricks	2 725	3 708
Other salt processing products	1 794	2 432
Balneology health resort services	25 187	17 296
Power supply services	983	1 145
Other	661	846
	336 649	**295 307**

Note 17. Other Operating Income

In 2006 and 2005 the Group's operating income comprised:

(RUR'000)

	2006	2005
Unclaimed payables written off	526	2 986
Recovery of provision for doubtful debts	611	
Penalties and interest due from third parties	1 381	1 123
Proceeds from disposal of unused and unserviceable inventories, net	263	-
Assets revealed in the course of physical count	3 003	1 289
Other income	916	819
	6 700	**6 217**

Note 18. Cost of Sales

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

(RUR'000)

	2006	2005
Salt, packaged in 50 kg sacks	67 331	61 258
Salt, prepacked (1 kg packs)	51 649	59 174
Salt, packaged in flexible 1 ton containers (big bags)	61 526	40 814
Ground salt in bulk	-	4 598
Salt bricks	75	1 285
Other salt processing products	2 137	2 930
Balneology health resort services	9 567	9 686
Power supply services	1 831	869
Other	1 316	960
	195 431	**181 574**

Note 19. Administrative Expenses

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

(RUR'000)

	2006	2005
Payroll expenses	26 642	22 334
UST	5 290	3 930
Depreciation and amortisation	6 307	7 726
Maintenance of the Company representative office in Moscow	7 723	7 629
Services of Private Security Enterprise Iletsksol	5 014	4 670
Issuance of additional shares	-	3 892
Third party services	4 401	3 091
Office supplies and stationery	1 684	1 792
Audit services	2 212	1 096
Heat supply	554	625
Communications	636	672
Other	2 840	1 740
	63 303	**59 197**

Note 20. Distribution Expenses

In 2006 and 2005 expenses for sale of finished goods comprised:

(RUR'000)

	2006	2005
Costs of the Company's Rail Department	18 090	16 359
Expenses for salt packaging (1 kg packs)	8 772	7 879
Expenses for railway car preparation and delivery	3 629	3 617
Entertainment expenses	142	44
Wages to loaders and packers	8 183	-
UST in respect of wages paid to loaders and packers	2 125	-
Other	1	66
	40 942	**27 965**

Note 21. Other Operating Expenses

In 2006 and 2005 the Group's operating expenses comprised:

(RUR'000)

	2006	2005
R&D	1 076	-
Banking services	682	605
Loss on disposal of financial assets, net	3 414	-
Loss on disposal of the share in LLC Sol-Iletsk-Kurort (Note 28)	2 912	-
Loss on impairment of financial assets	4 795	-
Loss on sale of property, plant and equipment and capital expenditures, net	11 072	5 114
Loss on sale of unused and unserviceable inventory, net	-	2 132
Amortisation of accounts receivable	1 251	9 920
Provision for doubtful debts	-	8 172
Receivables written off as uncollectible	223	610
Prior period loss revealed in the reporting period	780	3 664
Social charges and charity expenses	2 812	1 697
Fines and penalties under contracts	555	2 659
Other expenses	2 879	5 760
	32 451	**40 333**

Note 22. Taxes Other than Income Tax, net

In 2006 and 2005 the Group's expenses related to taxes other than income tax comprised:

	2006	2005
Property tax	7 192	7 056
Land tax	89	(866)
Late payment interest written off by the decision of tax authorities for early repayment of the restructured tax debt	-	(1 662)
	7 280	**4 528**

Note 23. Finance Costs, net

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

(RUR'000)

	2006	2005
Loan interest payable	15 985	13 279
Interest on deposits receivable	(4)	(1 987)
Foreign exchange gain	(334)	-
	15 647	**11 292**

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)

	2006	2005
Income tax expense - current	(4 302)	(6 953)
Deferred tax expense/ (recovery) due to origination and reversal of temporary differences (Note 13).	6 847	7 616
Income tax expense (recovery) recorded in the consolidated statement of income	**2 572**	**663**

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	Related parties' characteristics
1	2	3
1	LLC Orbis Capital	Shareholder, holding over 20% of the share capital
2	CP – Credit Prive S.A.	Shareholder, holding over 20% of the share 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	Sergei Yu. Levin	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 2006 and 2005, in the ordinary course of business the Group entered into transactions with the following related parties:

(1) LLC Orbis Capital

In 2005 LLC Orbis Capital repaid in cash part of its debt to the Group in the amount of RUR 1 038 thousand.

In 2006 LLC Orbis Capital repaid in a non-monetary form part of its debt to the Group in the amount equivalent to RUR 111 631.

In 2006 the Company accrued and paid dividends to LLC Orbis Capital in the amount of RUR 462 thousand.

As at 31 December 2006, the balance of transactions with LLC Orbis Capital was zero (as at 31 December 2005: accounts receivable in the amount of RUR 111 631 thousand).

(2) CP – Credit Prive S.A.

There were no transactions in 2005.

In 2006 the Company accrued and paid dividends to CP – Credit Prive S.A. in the amount of RUR 308 thousand.

As at 31 December 2006, the balance of transactions with Credit Prive S.A. was zero (as at 31 December 2005: the balance was zero).

(3) Mr. Irek V. Abdurshin, General Director of the Company

There were no transactions in 2005.

In 2006 the Group repaid in a non-monetary form the debt to Mr. Irek Abdurshin in the amount of RUR 1 272 thousand.

In 2006 interest-bearing loans were provided by Irek Abdurshin to the Subsidiary and were repaid by it in the amount of RUR 1 084 thousand. The amount of interest accrued and paid totalled RUR 60 thousand.

As at 31 December 2006, the debt payable by Mr. Irek Abdurshin to the Group amounted to RUR 36 thousand (the Group's payables to Mr. Irek Abdurshin as at 31 December 2005 totalled RUR 1 272 thousand).

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

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

- in 2006 – RUR 15 241 thousand
- in 2005 – RUR 14 431 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 2006 (31 December 2005).

Major customer

Major customer of the Company is Iletsk Sol Trade House (Iletsk, Orenburg region). In 2006 sales (including VAT) to this enterprise amounted to RUR 347 685 thousand (in 2005: RUR 310 593 thousand).

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. Payments for participation in the tender for gypsum deposit development (subsequent events)

As at 1 December 2006, the Company transferred the advance payment in the amount of RUR 800 thousand under contract No. 64-T dated 16 November 2006 required for participation in a tender to obtain the right to use subsurface mineral resources for the purpose of exploration and extraction of mineral resources in Tri karsta gypsum deposit in Orenburg region.

According to Order No. 66 of 19 December 2006, the Regional Subsurface Management Agency for Privolzhsky Federal District approved the results of the tender held on 14 December 2006 in Orenburg. JSC Iletsksol won the tender, expressing in the course of the bidding process its readiness to make a lump-sum payment in the amount of RUR4 080 thousand to the local authorities for the use of subsurface mineral resources.

According to the above Order, the Regional Subsurface Management Agency for Privolzhsky Federal District issued to the Company, on 14 February 2007, TP License, ORB series, for the use of subsurface mineral resources No. 1946, specifying the licensed activity as "exploration and extraction of mineral resources in Tri Karsta gypsum deposit" valid until 30 January 2027.

In accordance with the tender requirements, the earlier paid advance was charged to the federal budget towards the lump-sum payment for the use of mineral resources. The outstanding balance of RUR 3 280 thousand was transferred by JSC Iletsksol on 14 February 2007.

Note 28. 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:

- 99.96 % as at 1 January 2006
- 51.0 % as at 31 December 2006

In December 2006, the Company sold the 49% interest in the charter capital of the Subsidiary. This transaction influenced the financial performance of the Group as follows:

(RUR'000)

Sale of share in the net assets of Limited Liability Company Sol-Iletsk-Kurort (increase in minority interest)	(8 202)
Proceeds from sale (cash consideration paid)	5 290
	(2 912)

This transaction was classified as a related party transaction approved by the Company's Board of Directors. The loss from this transaction resulted from a substantial time gap (9 months) between the transaction approval date, the transaction value date (March 2006) and finalization of registration procedures in December 2006. The profit received by the Subsidiary for that period increased the value of the net assets the transferable share of which by the date of the transaction registration exceeded the transaction value determined at the transaction inception.

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.