URALKALI GROUP

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND REVIEW REPORT

June 30, 2006

Contents

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TO THE BOARD OF DIRECTORS OF JSC "URALKALI"

1. We have reviewed the accompanying consolidated interim balance sheet of JSC "Uralkali" (the "Company") and its subsidiaries (together, the "Group") as of June 30, 2006 and the related consolidated interim statements of income, cash flows and changes in equity for the six months then ended. These consolidated interim financial statements are the responsibility of the Group' management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the consolidated interim financial statements is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of June 30, 2006 and the results of its operations and its cash flows for the period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

September 1, 2006
Moscow, Russian Federation

(in millions of Russian Roubles unless otherwise stated)

	Note	June 30, 2006	December 31, 2005
ASSETS			
Non-current assets:			
Property, plant and equipment	8	19,232	18,529
Goodwill	11	366	366
Other intangible assets	12	186	212
Investments accounted for using the equity method	9	-	1
Related parties loans	6	3,073	-
Financial assets		138	179
Total non-current assets		**22,995**	**19,287**
Current assets:			
Inventories	13	2,820	1,433
Trade and other receivables	14	5,037	4,514
Current income tax prepayments		196	419
Related parties loans	6	419	407
Cash and cash equivalents	15	656	4,076
Total current assets		**9,128**	**10,849**
Total assets		**32,123**	**30,136**
Equity:			
Share capital	16	648	648
Treasury shares	16	(7)	(6)
Share premium/discount		(355)	(288)
Revaluation reserve		150	150
Cumulative translation reserve		(112)	45
Retained earnings		19, 493	17,409
Equity attributable to the Company's equity holders		**19,817**	**17,958**
Minority interest		23	21
Total equity		**19,840**	**17,979**
LIABILITIES			
Non-current liabilities:			
Borrowings	18	6,242	2,763
Provision for earth replacement	17	104	196
Deferred income tax liability	27	838	875
Total non-current liabilities		**7,184**	**3,834**
Current liabilities:			
Borrowings	18	2,593	1,214
Trade and other payables	19	2,372	6,915
Current income tax payable		43	13
Other taxes payable		91	181
Total current liabilities		**5,099**	**8,323**
Total liabilities		**12,283**	**12,157**
Total liabilities and equity		**32,123**	**30,136**

Approved on behalf of the Board of Directors
September 1, 2006

President

Finance Vice-President

The accompanying notes are an integral part of the financial statements

(in millions of Russian Roubles unless otherwise stated)

	Note	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues	20	8,925	13,500
Cost of sales	21	(2,399)	(2,655)
Gross profit		**6,526**	**10,845**
Distribution costs	22	(2,633)	(4,498)
General and administrative expenses	23	(813)	(566)
Taxes other than income tax		(125)	(141)
Other operating expenses	25	(248)	(227)
Operating profit		**2,707**	**5,413**
Finance income	26	445	220
Finance expense	26	(509)	(375)
Share of loss of investments accounted for using the equity method	9	-	(3)
Profit before income tax		**2,643**	**5,255**
Income tax expense	27	(557)	(1,017)
Profit for the year		**2,086**	**4,238**
Profit is attributable to:			
Equity holders of the Company		2,084	4,239
Minority interest		2	(1)
Net profit for the year		**2,086**	**4,238**
Earnings per share – basic and diluted (in RR)	28	**0.99**	**2.00**

(in millions of Russian Roubles unless otherwise stated)

	Note	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flows from operating activities			
Profit before income tax and minority interest		2,643	5,255
Adjustments for:			
Depreciation and amortisation		1,041	855
(Gains)/losses less loss/(gain) on disposal of property, plant and equipment		(16)	38
Impairment of trade and other receivables		23	9
Net change in provision for earth replacement		(92)	(17)
Finance gains, net		212	47
Foreign exchange (gains)/losses		(161)	91
Operating cash flows before working capital changes		**3,650**	**6,278**
Increase in trade and other receivables		(1,008)	(262)
Increase in inventories		(1,109)	(227)
Increase/(decrease) in accounts payable, accrued expenses and other creditors		387	(390)
(Decrease)/increase in other taxes payable		(91)	9
Cash generated from operations		**1,829**	**5,408**
Interest paid		(194)	(76)
Income taxes paid		(345)	(674)
Net cash generated from operating activitie		**1,290**	**4,658**
Cash flows from investing activities:			
Purchase of intangible assets		(9)	(32)
Purchase of property, plant and equipment		(1,837)	(2,302)
Sales of property, plant and equipment		155	36
Sale of investments, net		8	-
Acquisition of subsidiaries, net of cash acquired	10	-	(615)
Loans issued to joint-venture		-	(818)
Loans issued to related party		(3,033)	(787)
Dividends and interest received		54	34
Net cash used in investing activities		**(4,662)**	**(4,484)**
Cash flows from financing activities			
Repayments of borrowings		(3,257)	(1,651)
Proceeds from borrowings		8,387	4,540
Acquisition of treasury shares	16	(68)	-
Finance lease payments		(19)	(9)
Dividends paid to shareholders		(5,184)	(750)
Net cash (used in)/generated from financing activities		**(141)**	**2,130**
Effect of foreign exchange rate changes on cash and cash equivalents		93	(71)
Net (decrease)/increase in cash and cash equivalents		**(3,420)**	**2,233**
Cash and cash equivalents at the beginning of the period	15	**4,076**	**750**
Cash and cash equivalents at the end of the period	15	**656**	**2,983**

(in millions of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital (Note 16)	Treasury shares (Note 16)	Share premium/ discount	Revaluation reserve	Cumulative translation reserve	Retained earnings	Total attributable to equity holders	Minority interest	Total equity
Balance at January 1, 2005	**648**	**-**	**-**	**-**	**2**	**14,054**	**14,704**	**49**	**14,753**
Translation movement	-	-	-	-	25	-	25	-	25
Net income recognised directly in equity	-	-	-	-	25	-	25	-	25
Net income for the year	-	-	-	-	-	4,239	4,239	(1)	4,238
Total recognised income for the period	-		-	-	25	4,239	4,264	(1)	4,275
Dividends declared (Note 16)	-	-	-	-	-	(850)	(850)	-	(850)
Acquisition of subsidiary	-	-	-	150	-	-	150	-	150
Balance at June 30, 2005	**648**	**-**	**-**	**150**	**27**	**17,443**	**18,268**	**48**	**18,316**
Balance at January 1, 2006	**648**	**(6)**	**(288)**	**150**	**45**	**17,409**	**17,958**	**21**	**17,979**
Translation movement	-	-	-	-	(157)	-	(157)	-	(157)
Net income recognised directly in equity	-	-	-	-	(157)	-	(157)	-	(157)
Net income for the year	-	-	-	-	-	2,084	2,084	2	2,086
Total recognised income for the period	-	-	-	-	(157)	2,084	1,927	2	1,929
Acquisition of treasury shares (Note 16)	-	(1)	(67)	-	-	-	(68)	-	(68)
Balance at June 30, 2006	**648**	**(7)**	**(355)**	**150**	**(112)**	**19,493**	**19,817**	**23**	**19,840**

1 The Uralkali Group and its operations

JSC "Uralkali" (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki, Russia, and which are distributed both in domestic and foreign markets. The Group manufactures around 12 types of products, the most significant of which is a wide range of potassium salts. The Group produces approximately 11% of global volumes of potassium fertilisers and is the biggest manufacturer in the Russian Federation. For 6 months ended June 30, 2006 approximately 89% (for the year ended December 31, 2005: 91%) of potash fertiliser production is exported.

In December 2004 the Group established a wholly owned subsidiary Uralkali Trading SA, a trading company incorporated in Switzerland. From December 2004 to April 2006 all export sales of the Group are made through Uralkali Trading SA (Note 7) and the Group received the price charged to the final customer and freight, railway tariff and related services, wagons, transshipment, insurance and other costs were incurred by the Group. The balances and the results of the operations of Uralkali Trading SA for the six months ended June 30, 2006 and 2005 respectively and for the year ended December 31, 2005 were included in the consolidated financial statements of the Group. In October 2005 the Group acquired 50% of the share capital of JSC "Belorussian potash Company" (Note 9). Starting from April 2006 export sales of the Group are made partly through Uralkali Trading SA and partly through JSC "Belorussian potash Company".

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

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

As of June 30, 2006 the majority shareholder of the Company was Madura Holdings Limited, company registered in Cyprus. The Group is ultimately controlled by Dmitry Rybolovlev.

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

As of June 30, 2006 the Group employed approximately 13 thousand employees (December 31, 2005: 14 thousand).

2 Basis of preparation and significant accounting policies

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

2.1 Basis of preparation

These consolidated interim financial statements for the six months ended June 30, 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 "Interim financial reporting" under the historical cost convention except for certain financial instruments that are presented at fair value as described in Note 2.13.

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

2.2 Accounting for the effect of inflation

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

2 Basis of preparation and significant accounting policies (continued)

2.3 Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the assets transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2.4 Minority interest

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire the relevant share is recognized as goodwill.

Disposals to minority interests result in gains and losses for the Group that are recorded in statement of income.

2.5 Joint ventures

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

2.6 Investments in associates

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

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

(in millions of Russian Roubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.7 Property, plant and equipment

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

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

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

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

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

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

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

2.8 Operating leases

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

2.9 Finance lease liabilities

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

2.10 Goodwill

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

2 Basis of preparation and significant accounting policies (continued)

2.10 Goodwill(continued)

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

2.11 Other intangible assets

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

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2.12 Classification of financial assets

The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists.

The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

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

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

2.13 Initial recognition of financial instruments

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

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

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

2.14 Derecognition of financial assets

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

2 Basis of preparation and significant accounting policies (continued)

2.15 Available-for-sale investments

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

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

2.16 Income taxes

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

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

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

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

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

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

2.17 Inventories

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

2.18 Trade and other receivables

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

2.19 Cash and cash equivalents

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

2.20 Share capital

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

2 Basis of preparation and significant accounting policies (continued)

2.21 Treasury shares

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

2.22 Dividends

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

2.23 Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases, except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.24 Borrowings

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

2.25 Provisions

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

Site restoration and reclamation costs are accrued specifically in relation to cavities resulting from the extraction of ore beneath the town of Berezniki during mining activities. In order to substantially reduce the risk of subsidence within the town of Berezniki most of these cavities are expected to be filled during the next 1.5 years. A technical plan for filling operations has been prepared for this period and its update is annually agreed with the local authorities.

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

2.26 Foreign currency transactions

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

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

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2 Basis of preparation and significant accounting policies (continued)

2.26 Foreign currency transactions (continued)

At June 30, 2006, the official rate of exchange, as determined by the CBRF, was US dollar 1 = Rouble 27,08 (December 31, 2005: US dollar 1 = Rouble 28.78). The official Euro to RR exchange rate at June 30, 2006, as determined by the CBRF, was Euro 1= Rouble 33.98 (December 31, 2005: Euro 1 = Rouble 34.18). Exchange restrictions and currency controls exist relating to converting the Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles and 10% of foreign currency receipts from transactions with foreign entities must be converted into Russian Roubles.

2.27 Revenue recognition

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

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

2.28 Transshipment costs

Transshipment costs disclosed by the Group within distribution costs include transshipment services rendered by JSC “Baltic Bulker Terminal” during the first quarter of 2005 as a joint venture and costs incurred by JSC “Baltic Bulker Terminal” during the second quarter of 2005 and six month ended June 30, 2006 when results of its operations were consolidated.

JSC “Baltic Bulker Terminal” is a 100% subsidiary (Note 10) whose activity is related to transshipment of fertilizers produced by the Group. Its costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.29 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.30 Social costs

The Group incurs employee costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.31 Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income.

2.32 Earnings per share

Earnings per share is determined by dividing the net income attributable to equity shareholders by the weighted average number of participating shares outstanding during the reporting year.

2.33 Segment reporting

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

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

2.34 Seasonality

Demand for potash fertilises is not significantly influenced by seasons of the year. However, there is a slight decrease in sales during first months of calendar year due to weather conditions which cause difficulty in shipping through Baltic Bulker Terminal. The seasonality does not significantly influence production, inventory levels are adjusted for these movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

3 Adoption of new or revised standards and interpretations

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

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

4 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after July 1, 2006 or later periods and which the entity has not early adopted:

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

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

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after May 1, 2006, that is from January 1, 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

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

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

(in millions of Russian Roubles unless otherwise stated)

5 Critical accounting estimates, and judgements in applying accounting policies

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on future cash flow projections. These calculations require the use of estimates (Note 11).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 29).

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to the Group (Note 8). The estimated remaining useful life of some property, plant and equipment is beyond expiry date of the operating licenses (Note 1). The management believes that the licenses will be renewed in due order however if the licenses are not renewed, property, plant and equipment with net book value of RR 607 should be assessed for impairment in 2013.

Land. All facilities of JSC "Baltic Bulker Terminal" situated on land occupied on an annual lease basis, but the management plans to purchase it or to sign long-term rent agreement with municipal authorities before the end of 2006. If the Group can not secure long-term use of this land, net assets of RR 3,134 should be assessed for impairment.

Provision for earth replacement. The provision is estimated as the present value of future additional cash outflows relating to the Company's earth replacement operations under the town of Berezniki. At the end of each year the provision is reassessed to account for earth replaced during the year, changes in the estimates of future cash outflows and passage of time. The change in provision is charged to the statement of income in the year when it occurs.

The discount rate used by the Company in determining the fair value of the earth replacement reserve is 12.15% (2005: 12.15%). Should the discount rate decrease by 2%, the Group would need to increase the provision by RR 2; or decrease the provision for earth replacement by RR 1, if the rate increases by 2%.

The provision for earth replacement contains "change in estimates" as a component of calculation. The "change in estimates" consist of changes in anticipated volume and timing of the earth replacement work and changes in the associated costs.

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

6 Related parties

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at June 30, 2006 and 2005 respectively and December 31, 2005 are detailed below.

At June 30, 2006 and 2005 respectively and December 31, 2005 the outstanding balances, shareholder's equity caption and transactions with related parties were as follows:

Balance sheet caption	Relationship	June 30, 2006	December 31, 2005
Trade receivables	Joint ventures	314	-
Other receivables	Entities under common control	55	-
Other payables	Entities under common control	-	5
Loans to related parties	Entities under common control	419	407
Loans to related parties	Majority shareholder	3,073	-
Financial assets	Entities under common control	19	18
Dividends payable	Majority shareholder	-	4,181

(in millions of Russian Roubles unless otherwise stated)

6 Related parties (continued)

Shareholder's equity caption		Six months ended June 30, 2006	Six months ended June 30, 2005
Dividends declared	Majority shareholder	-	636

Statement of income caption	Relationship	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenue – potash fertilisers	Joint venture	383	-
Distribution costs	Joint venture	-	125
Interest income	Majority shareholder	42	-
Interest income	Entities under common control	9	6

Loans to related parties

Loans to LLC "Permgeologodobycha" are denominated in RR, unsecured and bear 4% to 6% annual interest (for the six months ended June 30, 2005: 4% to 6%). The loans are repayable in October and December 2006.

Loans to majority shareholder

In 2005 the Group entered into an interest free loan agreement with Madura Holdings Limited, majority shareholder, for RR 1,615 (USD 57.1 million). In December 2005 the loan was repaid in full. During six months ended June 30, 2006 the Group transferred funds in the amount of RR 3,033 (USD 112 million) to Madura Holdings Limited, majority shareholder. The loan was given at 5% interest rate and is repayable in 2010-2011.

Loans to joint-venture

In January 2005 the Company transferred funds in the amount of RR 840 to JSC "Baltic Bulker Terminal" in order to settle a loan received from "Ermina Ventures Limited", the former shareholder of JSC "Baltic Bulker Terminal". In January 2005 the JSC "Baltic Bulker Terminal" repaid a loan in the amount of RR 22 received in 2004.

Financial assets

As of June 30, 2006 and December 31, 2005 financial assets are represented by interest free promissory notes received from LLC "Permgeologodobycha".

Revenues from sales to joint ventures

Starting from April 2006 part of export sales is made through a joint venture JSC "Belorussian potash Company" (Note 9).

Distribution costs

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

Cross shareholding

At June 30, 2006 LLC "Kama", an 100% owned subsidiary of the Group, owned 0.7% of the ordinary shares of the Company. Shares owned by LLC "Kama" are accounted for as treasury shares, but retain their voting rights and rights to dividends.

Managements' compensation

During six months ended June 30, 2006 and 2005 respectively, compensation of key management personnel consists of remuneration paid to members of the Board of directors, executive directors and vice-presidents for their services in full or part time positions. Compensation is made up of an annual remuneration and a performance bonus depending on operating results.

Total key management personnel's compensation is represented by short-term employee benefits and included in general and administrative expenses in the statement of income amounted to RR 64 and RR 66 for the period ended June 30, 2006 and 2005 respectively.

7 Segment reporting

Primary reporting format – geographical segments

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

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

The segments results for six months ended June 30, 2006 are as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Tons (thousands)	1,288	221	1,509	355*	-	**1,864**
Revenues	6,833	1,085	7,918	1,007	-	**8,925**
Operating profit	2,084	327	2,411	330	(34)	**2,707**
Finance costs & net foreign exchange loss	-	-	-	-	(64)	**(64)**
Profit before taxation						**2,643**
Income tax					(557)	**(557)**
Net profit						**2,086**

* Domestic sales in tons include sales of 156 thousand tons of karnalite

During six months ended June 30, 2006 the Company sold its export products through Uralkali Trading S.A., 100% owned subsidiary and through JSC “Belorussian potash Company“ (Note 9).

The decline in revenues from sales to developing countries in 2006 compared with 2005 arose from delays in reaching agreement with Chinese customers in 2006 due to price negotiations. In July 2006 the contract was signed (Note 32).

The segments results for six months ended June 30, 2005 are as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Tons (thousands)	1,904	484	2,388	452*	-	**2,840**
Revenues	10,008	2,517	12,525	975	-	**13,500**
Operating profit	3,875	1,167	5,042	409	(38)	**5,413**
Finance costs & net foreign exchange loss	-	-	-	-	(158)	**(158)**
Profit before taxation						**5,255**
Income tax					(1,017)	**(1,017)**
Net profit						**4,238**

* Domestic sales in tons include sales of 203 thousand tons of karnalite

During six month ended June 30, 2005 the Company sold its export products through Uralkali Trading S.A., 100% owned subsidiary.

The total depreciation and amortization costs included in the statement of income for six months ended June 30, 2006 and June 30, 2005 are as follows:

	Export			Domestic	Unallocated	Total
	Developing countries	Developed countries	Total export			
Six months ended June 30, 2006	720	123	843	198	-	1,041
Six months ended June 30, 2005	591	101	692	163	-	855

The total loss on disposal of fixed assets sold at nil consideration included in the statement of income for the six months ended June 30, 2006 and 2005 is as follows:

	Export	Domestic	Unallocated	Total
Six months ended June 30, 2006	-	-	72	72
Six months ended June 30, 2005	-	-	41	41

The segment assets and liabilities as at June 30, 2006 and December 31, 2005 and capital expenditure for six months ended June 30, 2006 and June 30, 2005:

June 30, 2006	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	3,103	5,194	19,999	3,827	32,123
Liabilities	(990)	(676)	(899)	(9,718)	(12,283)
Capital expenditure	-	-	1,853	-	1,853

(in millions of Russian Roubles unless otherwise stated)

7 Segment reporting (continued)

December 31, 2005	Developing countries	Developed countries	Domestic	Unallocated	Total
Assets	1,930	3,793	23,408	1,005	30,136
Liabilities	-	(778)	(6,514)	(4,865)	(12,157)
Capital expenditure	-	16	5,712	-	5,728

Certain assets and liabilities were allocated to geographical segments on the basis of revenues. Property, plant and equipment and capital expenditures are allocated to Russia where the assets are physically located and are not allocated to geographical segments as such allocation could be made only on an arbitrary basis.

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, investments accounted for using the equity method, inventories, receivables and cash. Capital expenditure comprises additions to property, plant and equipment. Segment liabilities comprise operating liabilities. Financial assets, related parties loans, deferred and current income taxes, borrowings (including finance lease payable) and finance costs are unallocated components.

Secondary reporting format – business segments

At June 30, 2006 and December 31, 2005 the Group is organized in one operating segment: extraction, manufacture and sales of potassium fertilizers.

The segment assets and capital expenditure for periods ended June 30, 2006 and December 31, 2005 can be presented based on the location of the assets as follows:

June 30, 2006	Russia	Switzerland	Unallocated	Total
Assets	21,349	6,947	3,827	32,123
Capital expenditure	1,853	-	-	1,853

December 31, 2005	Russia	Switzerland	Unallocated	Total
Assets	23,788	5,343	1,005	30,136
Capital expenditure	5,712	16	-	5,728

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of December 31, 2004	6,915	5,937	10,725	2,008	1,766	466	176	**27,993**
Additions	-	-	-	556	1,808	-	-	**2,364**
Transfers	10	57	288	-	(366)	11	-	**-**
Acquisition of subsidiary (Note 10)	1,939	-	1,164	18	98	17	-	**3,236**
Disposals	(27)	(6)	(218)	(78)	-	(22)	-	**(351)**
Balance as of June 30, 2005	**8,837**	**5,988**	**11,959**	**2,504**	**3,306**	**472**	**176**	**33,242**
					-			
Accumulated Depreciation								
Balance as of December 31, 2004	3,286	4,758	6,908	948	-	242	-	**16,142**
Depreciation charge	126	134	466	97	-	9	-	**832**
Disposals	(15)	(5)	(200)	(53)	-	(5)	-	**(278)**
Balance as of June 30, 2005	**3,397**	**4,887**	**7,174**	**992**	**-**	**246**	**-**	**16,696**
Net Book Value								
Balance as of December 31, 2004	3,629	1,179	3,817	1,060	1,766	224	176	**11,851**
Balance as of June 30, 2005	**5,440**	**1,101**	**4,785**	**1,512**	**3,306**	**226**	**176**	**16,546**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

	Buildings	Mine development costs	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance as of December 31, 2005	**8,476**	**5,962**	**12,632**	**3,454**	**4,580**	**457**	**174**	**35,735**
Additions	-	-	-	402	1,451	-	-	**1,853**
Transfers	3	11	558	-	(578)	6	-	**-**
Disposals	(18)	(3)	(275)	(197)	(8)	(43)	-	**(544)**
Balance as of June 30, 2006	**8,461**	**5,970**	**12,915**	**3,659**	**5,445**	**420**	**174**	**37,044**
Accumulated Depreciation								
Balance as of December 31, 2005	**3,443**	**4,967**	**7,422**	**1,144**	**-**	**230**	**-**	**17,206**
Depreciation charge	132	97	618	143	-	16	-	**1,006**
Disposals	(4)	(1)	(237)	(141)	-	(17)	-	**(400)**
Balance as of June 30, 2006	**3,571**	**5,063**	**7,803**	**1,146**	**-**	**229**	**-**	**17,812**
Net Book Value								
Balance as of December 31, 2005	**5,033**	**995**	**5,210**	**2,310**	**4,580**	**227**	**174**	**18,529**
Balance as of June 30, 2006	**4,890**	**907**	**5,112**	**2,513**	**5,445**	**191**	**174**	**19,232**

(in millions of Russian Roubles unless otherwise stated)

8 Property, plant and equipment (continued)

Depreciation

For six months ended of June 30, 2006 and 2005 respectively the depreciation was allocated to statement of income as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Cost of sales	748	652
Distribution costs	115	76
Transhipment costs (Note 2.28)	50	39
General and administrative expenses	93	65
Total depreciation expenses	**1,006**	**832**

Fully depreciated assets still in use

As of June 30, 2006 and December 31, 2005 the gross carrying value of fully depreciated property, plant and equipment still in use was RR 7,326 and RR 6,733 respectively.

Assets pledged under loan agreements

As of June 30, 2006 and December 31, 2005 the carrying value of property, plant and equipment pledged under bank loans was RR 5,108 and RR 2,950 respectively.

Land

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

9 Principal subsidiaries and joint-ventures

The principal subsidiaries consolidated within the Group are as follows:

Entity	Country of Incorporation	Activity	June 30, 2006 % share	June 30, 2005 % share
Subsidiaries				
Uralkali Trading SA	Switzerland	Trading	100	100
Uralkali Trading (Gibraltar) Limited	Gibraltar	Administrative services	100	100
LLC Kama	Russia	Leasing	100	92
LLC BshSU	Russia	Construction	100	100
LLC Uralkali-Technology	Russia	Dormant	100	100
JSC Baltic Bulker Terminal	Russia	Maritime terminal	100	100
SP Terminal	Ukraine	Maritime terminal	98	98
LLC Depo	Russia	Repairs	75	75
LLC Autotranskali	Russia	Transportation	100	100
LLC Satellit-Service	Russia	IT services	51	-
LLC Plast	Russia	Production	-	100
LLC Bereznikovsky Brick Plant	Russia	Production	-	100
Joint-ventures				
JSC Belorussian potash Company	Belorussia	Trading	50	-

Uralkali Trading SA was established in December 2004 and became the Group's export sales company. Uralkali Trading (Gibraltar) Limited is an 100% owned subsidiary of Uralkali Trading SA and was established for rendering of administrative services to Uralkali Trading SA.

(in millions of Russian Roubles unless otherwise stated)

9 Principal subsidiaries and joint-ventures (continued)

In September 2005 the Group acquired 8,5% of the share capital of LLC "Kama" and increased its share in this subsidiary to 100%. The significant amount of assets in LLC "Kama" is represented by short-term loans given to JSC "Permgeologodobycha", which is a related party (Note 6). LLC "Kama" holds the majority stake in the equity of SP "Terminal".

In June and July 2005 LLC "Autotranskali" and LLC "Satellit-Service" have been detached in a separate legal entity and provide transportation and IT services for the Group respectively. However, both entities are controlled by the Group and, therefore, are consolidated.

JSC "Baltic Bulker Terminal" (the "BBT") was founded as an entity jointly controlled by the Group (50% of charter capital) and the First Stevedore Company (50% of charter capital) for the purpose of constructing and operating a maritime terminal dedicated to handling fertilizers. In December 2004 the Group entered into agreement to acquire the remaining 50% of the BBT shares, which was executed during six months ended June 30, 2005 (Note 10). During the first quarter 2005 the Group accounted for the investments in the "BBT" using the equity method.

In December 2005 the Group sold shares in LLC "Bereznikovsky Brick Plant" and LLC "Plast".

In October 2005, Uralkali acquired a 50% interest in Belorussian Potash Company (BPC), the remaining 50% of which is owned by Belaruskali. The principal activity of BPC is to export potash fertilizers produced by its two participants. The participants derive benefit from the joint trading activity through a share of the results of the trading. The Group's investment in BPC was recorded at cost and subsequently adjusted for the change in the Group's share of net assets of BPC. The income statement reflects the Group's share of the results of operations of BPC.

The BPC charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants' goods and related cost of sales. Administrative expenses are shared 50:50. Distribution of net income to each participant is on the basis of their relevant results, after administrative costs unless the participants decide not to distribute.

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

The following table summarizes the aggregate of assets, liabilities, income and expenses related to the Group's interests in joint ventures:

	June 30, 2006	December 31, 2005
Cash and cash equivalents	297	-
Trade accounts receivable and other debtors	5	-
Total current assets	**302**	**-**
Property, plant and equipment	5	-
Total assets	**307**	**-**
Accounts payable, accrued expenses and other creditors	(320)	-
Net assets	**(13)**	**-**

	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues	593	142
Cost of sales	(469)	(84)
Other expenses	(137)	(8)
Operating (loss)/income	**(13)**	**50**
Interest expense	-	(52)
Loss before taxation	**(13)**	**(2)**
Income taxes	-	(4)
Loss after tax	**(13)**	**(6)**
Minority interest	**-**	-
Net loss	**(13)**	**(6)**

(in millions of Russian Roubles unless otherwise stated)

10 Business combinations

In February 2005 the Group acquired 50% of the share capital of JSC "Baltic Bulker Terminal". The acquired subsidiary contributed revenue of RR 23 and net profit of RR 4 to the Group for the period from the date of acquisition to June 30, 2005. If the acquisition had occurred on January 1, 2005, Group revenue and profit for the six months ended June 30, 2005 would not change significantly as most of the transactions would be eliminated.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		104	104
Property, plant and equipment		2,839	3,236
Other assets		369	369
Borrowings		(2,434)	(2,434)
Trade and other payables		(39)	(39)
Deferred income tax liability		(147)	(244)
Fair value of net assets of subsidiary		692	992
Less: investments in BBT previously accounted for by the equity method of accounting		-	(496)
Fair value of acquired interest in net assets of subsidiary		-	496
Goodwill arising from the acquisition	11	-	366
Total purchase consideration		-	862
Less: deferred purchase consideration	19	-	(143)
Less: cash and cash equivalents of subsidiary acquired		-	(104)
Outflow of cash and cash equivalents on acquisition		-	615

The purchase consideration comprises cash and cash equivalents paid of RR 719, and deferred consideration of RR 143.

Fair value of assets and liabilities acquired are based on discounted cash flow models. The valuation of identifiable assets was performed by an independent professional appraiser.

11 Goodwill

	Note	June 30, 2006	December 31, 2005
Carrying amount at the beginning of the period		**366**	**-**
Acquisition of subsidiary	10	-	366
Impairment loss		-	-
Carrying amount at the end of the period		**366**	**366**
Gross book value at the end of the period		366	366
Accumulated impairment losses at the end of the period		-	-
Carrying amount at the end of the period		**366**	**366**

Goodwill Impairment Test

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

	June 30, 2006	December 31, 2005
JSC "Uralkali"	366	366
Total carrying amount of goodwill	**366**	**366**

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

Pre-tax discount rate of 13% that reflects risks relating to JSC "Uralkali" was used in the calculation of the recoverable value.

(in millions of Russian Roubles unless otherwise stated)

12 Other Intangible assets

	Software	Other	Total
Cost at January 1, 2005	238	20	**258**
Accumulated amortization	(58)	-	**(58)**
Carrying amount at January 1, 2005	**180**	**20**	**200**
Additions	32	-	32
Amortization charge	(23)	-	(23)
Cost at June 30, 2005	270	20	**290**
Accumulated amortization	(81)	-	**(81)**
Carrying amount at June 30, 2005	**189**	**20**	**209**
Cost at January 1, 2006	304	20	**324**
Accumulated amortization	(112)	-	**(112)**
Carrying amount at January 1, 2006	**192**	**20**	**212**
Additions	9	-	**9**
Amortization charge	(35)	-	**(35)**
Cost at June 30, 2006	**313**	**20**	**333**
Accumulated amortization	**(147)**	**-**	**(147)**
Carrying amount at June 30, 2006	**166**	**20**	**186**

The balances of intangible assets reported in these consolidated financial statements at June 30, 2006 and 2005 respectively mainly represent management information and accounting system costs and fees charged by an external consultant for the installation of this software. The costs of the software are amortized over the period not exceeding 5 years.

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

13 Inventories

Inventories consist of the following:

	June 30, 2006	December 31, 2005
Raw materials	1,157	959
Finished products	1,607	457
Work in progress	56	17
Total inventories	**2,820**	**1,433**

As of June 30, 2006 the value of finished goods (valued at selling price) pledged as security for bank loans was RR 1,322 (December 31, 2005: nil). The balance of finished goods as of June 30, 2006 includes Beloruskali goods (Note 25).

14 Trade and other receivables

	June 30, 2006	December 31, 2005
Trade receivables	2,767	2,406
Less: impairment loss provision	(29)	(35)
Trade debtors, net	**2,738**	**2,371**
VAT recoverable	1,222	1,277
Other taxes receivables	342	370
Advances to suppliers	331	280
Prepaid expenses	135	50
Other receivables	355	230
Less: impairment loss provision	(86)	(64)
Total trade and other receivables	**5,037**	**4,514**

As of June 30, 2006 and December 31, 2005 trade receivables of RR 3,937 and RR 1,931 net of impairment loss provision are denominated in foreign currency, mainly in US dollars and Euro.

(in millions of Russian Roubles unless otherwise stated)

15 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2006	December 31, 2005
RR denominated cash on hand and bank balances (interest rate: from 1.25 % p.a. to 5.5 % p.a. (2005: 1.25 % p.a. to 5.5 % p.a.))	315	922
USD denominated bank balances	135	975
Other currencies denominated balances	114	385
USD term deposits (interest rate: 2,46 % p.a. (2005: 4.32% p.a.))	38	1,644
RR term deposits (interest rate: 4.2 % p.a. (2005: from 7 to 7.5 % p.a.))	54	150
Total cash and cash equivalents	**656**	**4,076**

As of June 30, 2006 and December 31, 2005 interest rates on USD and other currencies denominated cash accounts (except for RR denominated) are below 1%.

Term deposits have original maturities of less than three months.

16 Shareholders' equity

Total number of common shares issued comprises:

	Number of ordinary shares	Ordinary shares	Treasury shares	Total
At January 1, 2005	**2,124**	**648**	**-**	**648**
Treasury shares purchased	-	-	-	**-**
At June 30, 2005	**2,124**	**648**	**-**	**648**
At January 1, 2006	**2,124**	**648**	**(6)**	**642**
Treasury shares purchased	-	-	(1)	**(1)**
At June 30, 2006	**2,124**	**648**	**(7)**	**641**

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

At June 30, 2006 treasury shares comprise 14,259,622 ordinary shares of the Company (December 31, 2005: 12,612,701) with a nominal value per share of 0.5 Roubles owned LLC "Kama", wholly owned subsidiary of the Group. Purchase price of shares acquired during six months ended June 30, 2006 amounted to RR 68. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the management of the Group.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six months ended June 30, 2006, the current period net statutory profit for the Company as reported in the published semi-annual statutory reporting forms was RR 2,001 (six months ended June 30, 2005: RR 3,301) and the closing balance of the accumulated profit including the current period net statutory profit totalled RR 14,113 (December 31, 2005: RR 12,112). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these financial statements.

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

(in millions of Russian Roubles unless otherwise stated)

17 Provision for earth replacement

	Note	June 30, 2006	June 30, 2005
Balance as of January 1		196	283
Reduction of reserve for cavities filled during the period		(67)	(89)
Change in estimate		(37)	55
Increase in provision as a result of passage of time	26	12	17
Balance as of June 30		**104**	**266**

During six months ended June 30, 2006 and 2005 respectively the local authorities in Berezniki and regional authorities in Perm reimbursed a part of the operating costs incurred by the Company in filling-up cavities under the city of Berezniki (Note 2.25) pursuant to the Law of the Perm Region W381-69 passed on October 25, 2002. The reimbursement amounted to RR 17 (2005: RR 13).

18 Borrowings

	June 30, 2006	December 31, 2005
Bank loans	8,336	3,484
Company loans	171	165
Finance lease payable	328	328
Total borrowings	**8,835**	**3,977**

As at June 30, 2006 and December 31, 2005 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

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

Company loans are represented by a short-term interest-free loans received from Ermina Ventures Limited in the amount of RR 126 (December 31, 2005: RR 120) and from JSC “Sea Port St. Petersburg” in the amount of RR 45 (December 31, 2005: RR 45). Company loans are unsecured.

JSC “Baltic Bulker Terminal” leases the dock from JSC “Sea Port St. Petersburg” under finance lease for 49 years. As of June 30, 2006 the leased dock was disclosed as building with a net book value of RR 289 (December 31, 2005: 293) (Note 8).

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

Short-term borrowings

	Interest rates	June 30, 2006	December 31, 2005
Bank loans in USD – fixed interest	from 5.5% to 7.6%, (2005: 5.5%)	1,520	180
Bank loans in USD – floating interest	from Libor +2.15% to Libor +3.75%	715	869
Bank loans in RR – fixed interest	9.6%	187	-
Total short-term bank loans		**2,422**	**1,049**

Long-term borrowings

	Interest rates	June 30, 2006	December 31, 2005
Bank loans in USD – floating interest	from Libor +2.25% to Libor +3.75%	5,914	2,435
Total long-term bank loans		**5,914**	**2,435**

In March 2006 the Group received several loans from Moscow International Bank for the total amount of RR 2,891 (USD 103.4 million) at interest rates from Libor + 2.15% to Libor + 3%. The purpose of these loans is working capital financing.

In March 2006 the Group received a loan from ABN Amro Bank of RR 1,385 (USD 50 million) at interest rate of Libor + 2.25%. The purpose of this loan is working capital financing.

In June 2006 the Group entered into credit line agreement with Bank of Moscow for approximately RR 5,416 (USD 200 million) at interest rate of Libor + 2.25 %. In June 2006 the Group received the first tranche of this loan in the amount of RR 2,418 (USD 90 million). The purpose of this loan is working capital financing.

In May – June 2006 the Group received several loans form Sberbank denominated in US dollars for the total amount of RR 1,506 (USD 56 million) bearing interest rate of 7.6% and a loan denominated in rubles for RR 187, bearing interest rate of 9.6%.

In January the Group repaid the loan Moscow International Bank in the amount of RR 175 (USD 6 million). In June 2006 the Group made early repayment of the EBRD loan in the amount of RR 3,082.

USD denominated bank loans bear a weighted average interest of 7.93% (December 31, 2005: 6.9%).

(in millions of Russian Roubles unless otherwise stated)

18 Borrowings (continued)

As at June 30, 2006 and December 31, 2005 loans, inclusive of short-term borrowings, are guaranteed by collateral of equipment (Note 8) and finished goods (Note 13).

The Group's bank borrowings mature as follows:

	June 30, 2006	December 31, 2005
- within 1 year	2,422	1,049
- between 2 and 5 years	5,914	2,435
Total bank loans	**8,336**	**3,484**

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

	June 30, 2006	December 31, 2005
- within 1 year	38	38
- between 2 and 5 years	152	152
- after 5 years	1,542	1,561
Minimum lease payments at the end of the period	**1,732**	**1,751**
Less future finance charges	(1,404)	(1,423)
Present value of minimum lease payments	**328**	**328**

19 Trade and other payables

	Note	June 30, 2006	December 31, 2005
Trade payables		1,120	480
Accrued liabilities		858	780
Deferred consideration of subsidiary acquisition	10	143	143
Dividends payables		52	5,237
Other payables and advances received		199	275
Total Trade and other payables		**2,372**	**6,915**

20 Revenues

	Six months ended June 30, 2006	Six months ended June 30, 2005
Export		
Potassium chloride	5,673	8,917
Potassium chloride (granular)	2,245	3,608
Domestic		
Potassium chloride	576	575
Karnalite	167	206
Other	64	54
Transportation and other revenues	200	140
Total revenues	**8,925**	**13,500**

During six months ended June 30, 2006 and 2005 respectively the Group's export sales were primarily on Cost and Freight (CFR) or Delivered At Frontier (DAF) terms. Some part of potassium chloride was exported on Free on Board (FOB) terms. All domestic sales were carried out on FCA Berezniki terms.

21 Cost of sales

	Note	Six months ended June 30, 2006	Six months ended June 30, 2005
Labour costs		843	675
Depreciation		748	652
Fuel and energy		653	715
Materials and components used		445	551
Repairs and maintenance		111	43
Transportation between mines		77	75
Utilities		13	14
Change in provision for earth replacement	17	(104)	(34)
Change in work in progress, finished goods and goods in transit	13	(401)	(46)
Other costs		14	10
Total cost of sales		**2,399**	**2,655**

(in millions of Russian Roubles unless otherwise stated)

22 Distribution costs

	Six months ended June 30, 2006	Six months ended June 30, 2005
Freight	814	2,421
Railway tariff	1,297	1,421
Transshipment	116	209
Depreciation	115	76
Transport repairs and maintenance	77	97
Travel expenses	55	30
Labor cost	43	34
Commissions	28	38
Legal and other professional fees	4	12
Rent and leasing	3	4
Other	81	156
Total selling and marketing costs	**2,633**	**4,498**

23 General and administrative expense

	Six months ended June 30, 2006	Six months ended June 30, 2005
Labour cost	330	229
Depreciation	128	88
Insurance	92	90
Communication and IS services	23	17
Mine-rescue crew	36	31
Consulting and audit services	37	17
Rent	13	12
Security	38	11
Bank charges	32	20
Research and development	11	8
Legal	2	5
Representative expenses	1	1
Other	70	37
Total General and administrative expenses	**813**	**566**

24 Labor costs

For six months ended June 30, 2006 and 2005 total labour costs composed RR 1,216 and RR 938 respectively. Labour costs are mainly represented by salaries, bonuses and compensations, employee related payments to the state budget and post retirement benefits.

25 Other operating expenses

	Six months ended June 30, 2006	Six months ended June 30, 2005
Provision for impairment of receivables	23	9
Loss on disposal of fixed assets	(16)	38
Social cost and charity	108	102
Net loss on sale of Belaruskali goods	33	-
Other expenses	100	78
Total other operating expenses	**248**	**227**

The Group entered in sales agreement with BPC (Note 9) for processing of sales of Beloruskali goods through Uralkali Trading SA in 2005 and 2006 to overcome some drawbacks in Belorussian export legislation. As such drawbacks are resolved, the volume of sales of Belorussian goods through UKT is decreasing. The Group plans to reduce the volume of these transaction to zero by the end of 2006 when all the drawbacks are expected to be eliminated. The Group considers these transactions to be agent activity and therefore they are accounted on net basis in the consolidated income statement of the Group.

(in millions of Russian Roubles unless otherwise stated)

26 Finance income and expense

The components of finance income and expenses were as follows:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Interest income	93	74
Fair value gains on investments	10	6
Foreign exchange gain	342	140
Finance income	**445**	**220**

	Six months ended June 30, 2006	Six months ended June 30, 2005
Interest expense	(229)	(87)
Change in provision as a result of passage of time	(12)	(17)
Finance lease expense	(19)	(9)
Foreign exchange loss	(181)	(231)
Fair value losses on investments	(12)	(9)
Letters of credit fees	(56)	(22)
Finance expense	**(509)**	**(375)**

27 Income tax expense

	Six months ended June 30, 2006	Six months ended June 30, 2005
Current income tax expense	594	1,187
Deferred tax	(37)	(170)
Income tax expense	**557**	**1,017**

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

	Six months ended June 30, 2006	Six months ended June 30, 2005
Profit before income tax	2,643	5,255
Theoretical tax charge at effective statutory rates*	635	1,261
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-deductible expenses	56	54
- non-taxable income	(2)	(8)
Difference in tax rates	(77)	(218)
Capital allowance benefit	(106)	-
Other	51	(72)
Consolidated tax charge	**557**	**1,017**

* Profit before taxation on Switzerland and Gibraltar operations is assessed based on effective rate of 8% (June 30, 2005: 4%).

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

In 2005 the Company had capital expenditures of more than 20% of taxable net income during six months ended June 30, 2005 that qualifies for reduced to 20% income tax rate approved by the parliament of Perm region.

As the Company qualified for the above amendments it was taxed during six months ended June 30, 2006 and 2005 respectively at a rate 20% instead of standard rate of 24%. Deferred tax has been computed in these consolidated financial statements using the standard rate applicable for future periods (i.e. 24%) as it is not certain whether the Company will meet the requirements established by the statutory law to qualify for reduced rates in future years.

(in millions of Russian Roubles unless otherwise stated)

27 Income tax expense (continued)

	December 31, 2005	Charged/ (credited) to profit or loss	June 30, 2006
Tax effects of taxable temporary differences:			
Property, plant and equipment	(909)	75	(834)
Investments	(15)	(6)	(21)
Inventories	(87)	(104)	(191)
Borrowings	(28)	2	(26)
Accounts payable	-	(44)	(44)
	(1,039)	(77)	(1,116)
Tax effects of deductible temporary differences:			
Finance lease	79	-	79
Earth replacement reserve	47	(22)	25
Accounts receivable	8	136	144
Other	30	-	30
	164	114	278
Total net deferred tax liability	**(875)**	**37**	**(838)**

	December 31, 2004	Charged/ (credited) to profit or loss	Business combination	June 30, 2005
Tax effects of taxable temporary differences:				
Property, plant and equipment	(891)	98	(266)	(1,059)
Investments	(68)	55	-	(13)
Inventories	(65)	(8)	-	(73)
Borrowings	-	12	(57)	(45)
	(1,024)	157	(323)	(1,190)
Tax effects of deductible temporary differences:				
Finance lease	-	-	79	79
Earth replacement reserve	68	(4)	-	64
Accounts receivable	17	(2)	3	18
Other	10	19	(3)	26
	95	13	79	187
Total net deferred tax liability	**(929)**	**170**	**(244)**	**(1,003)**

The Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 39 (2005: RR 39). The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

28 Earnings per share

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

	Six months ended June 30, 2006	Six months ended June 30, 2005
Net profit	2,084	4,239
Weighted average number of ordinary shares in issue (millions)	2,111	2,124
Basic and diluted earnings per share (expressed in RR per share)	**0.99**	**2.00**

29 Contingencies, commitments and operating risks

i Legal proceedings

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

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

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

ii Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at June 30, 2006 and December 31, 2005 no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.

iii Insurance policies

The Company holds an insurance policy with CJSC "AIG Russia Insurance Company", LLC "Rusinvest" and JSC "Russia Insurance Company". These agreements are covering the main risks relating to its assets situated above and under ground, risks relating to suspension of production and risks related to civil responsibility.

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

The total insurance premium related to abovementioned agreements of RR 92 was recognised as an expense for the six month ended June 30, 2006 (for the six month ended June 30, 2005: RR 90) (Note 23).

iv Environmental matters

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

29 Contingencies, commitments and operating risks (continued)

iv Environmental matters (continued)

In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements. Provision for site restoration and reclamation costs was created for the constructive obligation attributable to earth replacement activity under the town of Berezniki. No provision is recognized for cavities excavated in other areas, not located under the town of Berezniki (Note 2.25).

v Operating environment of the Group

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

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

vi Capital expenditure commitments

At of June 30, 2006 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 1,542 (December 31, 2005: RR 1,421).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

30 Financial risk management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment provision, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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

ii Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

iii Foreign exchange risk

The Group operates internationally and exports approximately 89% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Export sales are denominated in hard currency and settlements are made primary in US dollars. Starting from 2005 foreign entities' expenses mainly distribution costs are denominated in foreign currency.

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

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

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

iv Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings, whose interest rates comprise a fixed component and variable component linked to LIBOR (Note 18). The Group has no significant interest-bearing assets.

30 Financial risk management (continued)

v Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 18). Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

31 Fair Value of Financial Instruments

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

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

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

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

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

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

32 Events after balance sheet date

Export of potassium fertilizers to China

In July 2006 "Belorussian Potash Company" has signed sales contracts with Chinese importing companies "Sinochem" and "CNAMPGC". Under the contracts the price per tonne of potassium fertilizers supplied by BPC to those customers is USD 25 higher than the price determined for those customers last year. The contracts will be in force until December 31, 2006.

Endorsement of underwriting agreement

In August 2006 extraordinary shareholders meeting approved an underwriting agreement UBS Limited and other banks. The selling shareholders will be Madura Holding Limited and, possibly, LLC "Kama". The amount of ordinary shares to be sold will be limited to 616,073,100 or approximately 29% of share capital.