URALKALI GROUP

Consolidated Financial Statements
for the years ended 31 December 1997 and 1996

Prepared in accordance with
International Accounting Standards

CONTENTS

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AUDITORS' REPORT
to the Board of Directors and Shareholders of Uralkali Group

1. We have audited the accompanying consolidated balance sheets of OAO Uralkali and its subsidiaries ("the Group") as of 31 December 1997 and 1996 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the years then ended. These consolidated financial statements, set out on pages 4 to 25, expressed in terms of the purchasing power of the Russian Rouble at 31 December 1997, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

3. We did not observe the counting of the physical inventories as of 31 December 1995, 1996 and 1997 since those dates were prior to the time we were initially engaged as auditors for the Group. Owing to the nature of the Group's records, we were unable to satisfy ourselves as to inventory quantities at those points in time by other audit procedures.

4. In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities referred in paragraph 3 above, the consolidated financial statements, expressed in the equivalent purchasing power of the Russian rouble at 31 December 1997, present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 1997 and 1996 and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended, in accordance with International Accounting Standards.

PricewaterhouseCoopers

Moscow

31 December 2001

Uralkali Group
Consolidated Balance Sheets as of 31 December 1997, 1996 and comparative figures as of 31 December 1995
(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

	Notes	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
ASSETS				
Non-Current Assets				
Intangible Assets		4	4	4
Property, plant and equipment	5	2,506	2,387	2,360
Investments in associates		4	5	5
Financial assets	4	72	94	107
Deferred tax asset	13	1,387	565	270
Total Non-Current Assets		3,973	3,055	2,746
Current Assets				
Inventories	6	146	250	256
Short-term investments	7	32	21	4
Trade and other receivables	8	423	363	386
Cash and cash equivalents	9	81	14	16
Other current assets		12	-	-
Total Current Assets		694	648	662
Total Assets		4,667	3,703	3,408

(continued on next page)

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

Uralkali Group
Consolidated Balance Sheets as of 31 December 1997, 1996 and comparative figures as of 31 December 1995 (continued)
(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

	Notes	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
SHAREHOLDERS' EQUITY				
Share capital	10	156	156	156
Treasury shares		-	-	(1)
Retained earnings		3,866	2,954	2,651
Total Shareholders' Equity		4,022	3,110	2,806
Minority interest		52	37	25
LIABILITIES				
Long-term Liabilities				
Earth replacement reserve		236	236	228
Total Long-term Liabilities		236	236	228
Current Liabilities				
Trade and other payables	11	278	207	239
Taxes payable	12	48	32	31
Short-term bank loans		31	81	79
Total Current Liabilities		357	320	349
Total Liabilities		645	593	602
Total Shareholders' Equity and Liabilities		4,667	3,703	3,408

General Director

Chief Accountant

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

Uralkali Group
Consolidated Statements of Operations for the years ended 31 December 1997, 1996
(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

	Notes	1996 Rbl'mln	1997 Rbl'mln
Revenues	14	1,794	2,095
Cost of sales	15	(1,100)	(1,009)
Gross margin		694	1 086
Selling and distribution expenses		(393)	(712)
General and administrative expenses		(80)	(71)
Russian taxes, excluding profit tax		(162)	(131)
Other operating revenues and expenses		(62)	(122)
(Loss)/Profit Before Financial Items		(3)	50
Interest income		12	7
Interest expense		(53)	(10)
Income from financial assets		5	1
Foreign exchange gain		3	7
Share of profits of associate		1	-
Loss on net monetary position		(24)	(11)
(Loss)/Profit Before Profit Tax		(59)	44
Tax charge	13	(840)	(349)
Net Loss before minority interest		(899)	(305)
Minority interest		6	8
Net Loss attributable to the Group shareholders		(893)	(297)
Dividends		(19)	(6)
Retained Loss		(912)	(303)

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

Uralkali Group
Consolidated Cash Flow Statements for the years ended 31 December 1997 and 1996
(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

	1996 Rbl'mln	1997 Rbl'mln
Cash Flows from operating activities		
Net (loss)/profit before taxation and extraordinary item	(59)	43
Adjustments for:		
Depreciation	189	174
Movement of earth replacement provision	-	(8)
Investment income	(5)	(1)
Income from associate	(1)	-
Interest expense	53	10
Monetary loss, including foreign exchange loses	21	4
Loss on disposals of assets	76	43
Operating profit before working capital changes	274	265
Increase in inventory	(104)	(6)
Increase in trade and other receivables	(11)	(56)
(Decrease)/increase in current liabilities	(32)	48
Other adjustments	29	13
Cash generated from operations	156	264
Interest paid	(53)	(10)
Taxes paid	(34)	(52)
Net cash from operating activities	69	202

(continued on next page)

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

	1996 Rbl'mln	1997 Rbl'mln
Cash Flows from investing activities		
Acquisition of investments	(40)	(25)
Proceeds from investments disposal	11	17
Purchase of property, plant and equipment	(146)	(191)
Proceeds from sale of fixed assets	-	1
Other	5	1
Net cash used in investing activities	(170)	(197)
Cash Flows from financial activities		
Proceeds from short-term borrowings	62	5
Dividends paid	(19)	(6)
Net cash generated from/(used in) financing activities	43	(1)
Effect of inflation on cash	(9)	(2)
Net (decrease)/increase in cash and cash equivalents	(67)	2
Cash and cash equivalents at the beginning of the period	81	14
Cash and cash equivalents at the end of the period	14	16

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

Uralkali Group

Consolidated Statement of Changes in Shareholders Equity for the years ended 31 December 1997 and 1996

(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

	Share capital	Treasury stock	Retained earnings and other reserves	Total Shareholders' equity
At 1 January 1996	156	-	3,866	4,022
Net profit for 1996	-	-	(893)	(893)
Dividends	-	-	(19)	(19)
At 31 December 1996	156	-	2,954	3,110
Purchase of treasury shares	-	(1)	-	(1)
Net profit for 1997	-	-	(297)	(297)
Dividends	-	-	(6)	(6)
At 31 December 1997	156	(1)	2,651	2,806

Distributable reserves

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the bases of distribution as the current year net profit. For 1997 the net income for the Company as reported in the published annual accounting forms was RR 103 mln (1996: net profit RR 41 mln). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The accompanying notes form an integral part of these consolidated financial statements.
See Independent Auditors' Report on page 3.

1. GENERAL INFORMATION

The core activities of "Uralkali" ("the Group") are the mining and production of fertilisers and salts. The head company of the Group, OAO "Uralkali" ("the Company"), was registered on 14 October 1992 as an open joint-stock company in Perm region of the Russian Federation. The Group operates facilities in Berezniki. Its registered address is 63 Pyatiletki, Berezniki, Perm region, Russian Federation.

2. ACCOUNTING POLICIES

2.1. Basis of presentation

These financial statements have been prepared in accordance with the accounting and reporting requirements of International Accounting Standards ("IAS"), promulgated by the International Accounting Standards Committee. Unless otherwise noted, the financial statements have been prepared using the historical cost convention and restated for the effects of inflation.

Management estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to realisation of inventories, investments, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

Redenomination of currency

On 1 January 1998, the currency unit of the Russian Federation was redenominated with the effect that one thousand units of the currency existing at 31 December 1997 became equivalent to one redenominated Rouble. These financial statements are presented in millions of the currency unit existing at 1 January 1998, which are equivalent to billions of non-denominated Roubles.

Exchange rates, restrictions and controls

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US dollar at December 31, 1997 was 5,96:1 (December 31, 1996 - 5,56:1; December 31, 1995 - 4,64:1). Exchange restrictions and controls exist relating to converting the Roubles into other currencies. At present, the Rouble is not a convertible currency outside of the Russian Federation. Future movements in the exchange rate between the Russian Rouble and the US dollar will effect the carrying value of the Company's Rouble denominated monetary assets and liabilities. Accordingly, any translation of Rouble amounts to US dollars should not be construed as a representation that such Rouble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

2. ACCOUNTING POLICIES (continued)

2.2. Inflationary accounting

IAS requires that financial statements reported in the currency of a hyperinflationary economy be stated in terms of current measuring units. The Russian economy experienced hyperinflation for the several years period ending 31 December 1997. Monetary and non-monetary items have been restated for changes in the general purchasing power of the Rouble using indices derived from the Russian Federation Consumer Price Index, "Indices of prices (tariffs) for food goods, non-food goods, and paid services, for the population: all goods and services", as published by the Russian State Committee on Statistics ("Goskomstat"). The indices used were as follows:

	Indices
31 December 1991	2 776.73
31 December 1992	93.56
31 December 1993	9.95
31 December 1994	3.16
31 December 1995	1.37
31 December 1996	1.12
31 December 1997	1.00

These indices have been applied to the historic cost values of transactions and balances as follows, except for fixed assets whose historical costs were revalued by independent appraisers, see note 2.5 below:

- All corresponding figures including monetary assets and liabilities, and other disclosures in respect of 1995, 1996 and 1997, were restated by applying the change in the index to 31 December 1997.
- Income statement transactions were restated by applying the change in the index from the approximate date of the transactions to 31 December 1997. The loss on net monetary position, which shows the effects of holding net monetary assets, is shown as a separate item in the income statement.
- Non-monetary assets and liabilities were restated by applying the change in the index from the date of the transaction, or if applicable from the date of their most recent revaluation, to 31 December 1997 and were reduced to net realisable value, estimated recoverable value, or market value as necessary.

2.3. Principles of consolidation

The effects of significant transactions between entities within the Group were eliminated, and accounting policies of the subsidiaries conform to those of the Group.

A subsidiary is an entity that is controlled by the Group, usually evidenced by ownership, directly or indirectly, of more than 50 percent of the voting share capital of the entity.

Associated entities over which the Group has a significant but not a controlling influence are accounted for using the equity method. Significant influence is usually evidenced by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital.

Entities in which the Group does not maintain a significant influence are recorded at the lower of cost or market value.

(In mln of Russian Roubles in terms of purchasing power of the Russian Rouble as of 31 December 1997, Note 2.2)

2. ACCOUNTING POLICIES (continued)

2.4. Acquisitions

Acquisitions are recorded by use of the purchase method of accounting. The Group's interest in the individual assets and liabilities acquired is recognised separately at the date of acquisition, and measured at their fair value as at that date.

2.5. Property, plant and equipment

Property, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at the amounts determined by an independent valuation as at 1 January 1997 less accumulated depreciation. Property, plant and equipment acquired or constructed subsequent to 1 January 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 IAS financial statements preparation, were not readily available. Therefore, this independent valuation is not a recurring feature since it was intended to determine the historical costs. The change in carrying value arising from this valuation had been recorded directly to retained earnings.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

Maintenance and repairs are charged to expense as incurred. Fixed assets are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	30 - 45
Land Improvements	10 - 30
Plant and Equipment	4 - 15
Transport	7 - 15
Other equipment	5 - 15

The carrying amount of an item or a group of identical items of property plant and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense immediately.

In determing the recoverable amounts of items of property plant and equipment expected future cash flows are discounted to their present value.

2. ACCOUNTING POLICIES (continued)

2.6. Assets in course of construction

The cost of assets in course of construction as of 31 December 1997 is stated at an estimate of historic acquisition cost determined by an independent professional appraiser. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Full provision for those assets unlikely to be completed is created.

2.7. Provisions

Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain.

Site restoration and reclamation costs are accrued specifically in relation to cavities from ore removed beneath the town of Berezniki during mining activities in previous years. In order to substantially reduce risk of subsidence within the town of Berezniki most of these cavities will be filled during next 11 years. A technical plan for filling operations is prepared for this period and its update is annually agreed with the local state bodies. This plan sets out the extent of restoration work to be carried out, and forms the basis for provisions made in these financial statements.

The provision is set equal to 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 operations in the year when it occurs.

2.8. Inventories

Inventories are valued at the lower of weighted average cost and net realisable value.

2.9. Marketable securities

Marketable securities held for the short term are stated at the lower of cost or market value determined on an individual investment basis. Unrealised losses are included in the statement of operations. Income from marketable securities is accrued during the period in which earned.

2.10. Long term investments

Investments held for the long term (other than consolidated subsidiaries and equity accounted associates) are stated at cost, unless there has been an impairment in value below cost that is other than temporary. In that case, the investment is written down to its realisable value and the decrease is charged to the statement of operations.

2. ACCOUNTING POLICIES (continued)

2.11. Treasury shares

Treasury shares are valued at weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 1997. Any gains or losses arising on the disposal of treasury shares are recorded directly to the statement of changes in shareholders' equity.

2.12. Components of cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, which are considered by the Group to have minimal risk of default.

2.13. Taxes

For the purposes of these financial statements, the Group has applied International Accounting Standard 12 (revised 1996) starting from 1 January 1996 instead of IAS 12 Accounting for taxes on income approved in 1979. Comparative amounts were restated accordingly.

IAS 12 (revised) requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2.14. Foreign currencies

Transactions denominated in foreign currencies are recorded, on initial recognition in roubles, by applying to the foreign currency amount the exchange rate between roubles and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction, and non-monetary items which are denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or reporting monetary items at rates different from those at which they were initially recorded in the period are recognised in the statement of operations of the period in which they arise.

2.15. Financial assets and fair values

The carrying amount of the following financial assets and liabilities approximate to their fair value: cash, trade receivables and payables, other receivables and payables, borrowings. Where the carrying amount of the financial assets and liabilities do not approximate to their fair value, an estimate of the fair value is disclosed in the appropriate note.

Fair values are based on quoted prices for financial assets, where available. For unquoted investments and investment securities, reported fair values are estimated on the basis of financial and other information.

2. ACCOUNTING POLICIES (continued)

2.16. Revenue recognition

Sales are reported in the period earned when the product is dispatched to the customer, is no longer under the physical control of the Group, and there is a passing of risk to the customer.

Receivables are stated at their expected net realisable value, after provision for doubtful accounts.

2.17. Dividends

Dividend liabilities are recognised in the period when proposed or declared. Dividends proposed or declared after balance sheet date are disclosed in Notes to the Financial statements.

2.18. Non cash transactions

A portion of purchases and sales are settled by mutual settlements. Mutual settlements are generally either in the form of direct settlement by books or services to the final customer, or through a chain of non-cash transactions involving several companies. In such cases, both sales and purchases are recorded upon delivery or receipt of the underlying goods or services. The mutual settlement transactions represent the extinguishment of the offsetting receivables and payables between the parties. The receivables and payables recorded in this balance sheet that are expected to be settled by mutual offsets reflect management's estimate of the value to be received or given up in non-cash settlements. Mutual settlements are estimated by management to be less than 30% of turnover and pertain only to operating activities.

2.19. Research and development

Research and development costs are expensed as incurred.

2.20. Borrowing costs

Borrowing costs are expensed as incurred except where directly related to the financing of projects under construction where such costs are capitalised up to the date of commissioning. Following commissioning, total capitalised borrowing costs are included in the project cost subject to depreciation.

2.21. Social obligations

The Group does not have pension arrangements separate from the State Pension scheme of the Russian Federation, which requires contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the profit and loss account. Discretionary and voluntary payments made to other funds and support of social programs as well as other related operations are expensed as paid.

2.22 Early adoption of IAS 37

The Group adopted IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in 1995 when the first IAS financial statements were prepared (Note 2.7).

3. GROUP STRUCTURE

The Group's subsidiaries and associates are as follows:

Name	Country of Incorporation	Industry	Ownership 1995 %	Ownership 1996 %	Ownership 1997 %
Subsidiaries					
KAMA	Russia	Chemical production	53	53	53
Associates					
International Kali Co (MKK)	Russia	Trading	25	25	25

4. FINANCIAL ASSETS

	1996 Rbl'mln	1997 Rbl'mln
Investments at 1 January	72	94
Additions	40	25
Disposals	-	-
Impairment	(18)	(12)
Investments at 31 December	94	107

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings Rbl'mln	Land Improvement Rbl'mln	Plant and Equipment Rbl'mln	Transport Rbl'mln	Other Rbl'mln	Assets under Construction Rbl'mln	Total Rbl'mln
1996							
Cost or valuation							
Cost or valuation at 1 January 1996	1,418	1,347	1,570	270	14	245	4,864
Additions	-	-	-	-	-	146	146
Transfers	24	58	82	12	-	(176)	-
Disposals	(14)	(69)	(102)	(18)	(1)	-	(204)
Cost or valuation at 31 December 1996	1,428	1,336	1 550	264	13	215	4,806
Depreciation							
Accumulated depreciation at 1 January 1996	(444)	(705)	(1,123)	(78)	(8)	-	(2,358)
Charge for the year	(39)	(54)	(81)	(14)	(1)	-	(189)
Disposals	6	28	86	7	1	-	128
Accumulated depreciation at 31 December 1996	(477)	(731)	(1,118)	(85)	(8)	-	(2,419)
Net book value at 31 December 1996	951	605	432	179	5	215	2,387

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings Rbl'mln	Land Improvement Rbl'mln	Plant and Equipment Rbl'mln	Transport Rbl'mln	Other Rbl'mln	Assets under Construction Rbl'mln	Total Rbl'mln
1997							
Cost or valuation							
Cost or valuation at 1 January 1997	1,428	1,336	1,550	264	13	215	4,806
Additions	-	-	-	-	-	191	191
Transfers	15	57	69	9	-	(150)	-
Disposals	(12)	(63)	(88)	(9)	(1)	-	(173)
Cost or valuation at 31 December 1997	1,431	1,330	1,531	264	12	256	4,824
Depreciation							
Accumulated depreciation at 1 January 1997	(477)	(731)	(1,118)	(85)	(8)	-	(2,419)
Charge for the year	(39)	(53)	(66)	(15)	(1)	-	(174)
Disposals	6	44	75	3	1	-	129
Accumulated depreciation at 31 December 1997	(510)	(740)	(1 109)	(97)	(8)	-	(2,464)
Net book value at 31 December 1997	921	590	422	167	4	256	2,360

6. INVENTORIES

	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
Consumable supplies and spare parts	80	126	171
Finished Goods	65	122	83
Other	1	2	2
	146	250	256

7. SHORT TERM INVESTMENTS

	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
Short term bank deposit	32	21	4

Major component of short-term investments are short-term bank deposits denominated in hard currency.

8. TRADE AND OTHER RECEIVABLES

	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
Accounts receivables - trade	318	303	279
Advances to suppliers	27	11	26
Input VAT	12	23	46
Other receivables	66	42	60
Provision for doubtful debts	-	(16)	(25)
	423	363	386

9. CASH AND CASH EQUIVALENTS

	1995 (unaudited)	1996	1997
Cash at bank Rbl	46	1	10
Cash at bank hard currency	35	10	4
Other monetary assets	-	3	2
	81	14	16

10. SHARE CAPITAL

	Ordinary shares		Preference shares		Total	
	Quantity	Rbl'mln	Quantity	Rbl'mln	Quantity	Rbl'mln
At 31 December 1995	1,589,688	117	529,896	39	2,119,584	156
At 31 December 1996	1,589,688	117	529,896	39	2,119,584	156
At 31 December 1997	1,589,688	117	529,896	39	2,119,584	156

Preference shareholders have the right to a fixed annual dividend. The fixed annual dividend is 10% of the profit after tax of the financial year divided by the number of preference shares. Following this, if the dividend payable to the ordinary shareholders is more than the preference dividend described above then the dividend payable to preference shareholders is to be increased to be equal to the ordinary dividend.

In case dividends on preference shares were not paid or paid at amount lower than 10% of profit after tax they becomes eligible for voting until the dividends will be fully paid. Liquidation priority of shares are set in accordance with legislation of Russian Federation.

In 1998 the Company proposed to pay dividends for the year 1997 amounting 11 mln. RR

Treasury shares(number)	Ordinary	Preference	Total
At 1 January 1996	-	-	-
Purchase of treasury shares	299	40	339
At 31 December 1996	299	40	339
Purchase of treasury shares	1,200	676	1,876
At 31 December 1997	1,499	716	2,215

11. TRADE AND OTHER PAYABLES

	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
Trade	133	187	196
Wages	9	12	12
Advances from customers	28	8	9
Accrued expenses and other creditors	108	-	22
	278	207	239

Notes payable comprises veksels issued by the Group with maturity dates of less than one year.

12. TAXES

Taxes payable consists of the following:

	1995 Rbl'mln (unaudited)	1996 Rbl'mln	1997 Rbl'mln
Profit tax	18	-	2
Personal income tax	2	2	3
Social & pension funds	11	8	7
Property tax	12	20	6
Provision	-	-	4
Other taxes and accruals	5	2	9
	48	32	31

13. PROFIT TAXES

The current charge for profit tax was determined on the basis of Russian statutory profits. The current profit tax rate applicable to the majority of income in 1997 35% (1996: 30,5%). The profit tax charge is made up as follows:

	1996 Rbl'mln	1997 Rbl'mln
Current tax expense	18	54
Deferred tax expense (income) relating to the origination and reversal of temporary differences:	895	295
Deferred tax credit – effect of change in tax rate	(73)	-
	840	349

A reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable tax rates is as follows:

13. PROFIT TAXES (CONTINUED)

	1996 Rbl'mln	1997 Rbl'mln
(Loss)/profit before tax	(59)	43
Theoretical tax charge at statutory rate	(18)	15
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses and non-taxable income	(8)	71
Non-temporary elements of monetary gains and losses	219	108
Inflation effect on deferred tax balance at beginning of year	173	36
Effect of change in tax rate	(73)	-
Temporary difference on statutory revaluation of tax base	547	119
Taxation charge for the year	840	349

Differences between IAS and Russian statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 35% in 1997 and 30,5% in 1995, 1996.

	Rbl'mln 1995 (unaudited)	Rbl'mln 1996	Rbl'mln 1997
Tax effects of future deductible amounts			
Property, plant and equipment	1 395	545	250
Earth replacement provision	72	82	79
Investments	(19)	(19)	(17)
Inventories	6	6	(1)
Other	(7)	7	17
Tax effects of future taxable amounts			
Accounts receivable: cash to accrual	(60)	(56)	(58)
Total net deferred tax assets	1 387	565	270

14. REVENUES

	1996 Rbl'mln	1997 Rbl'mln
Export		
Potassium Chloride	1 106	1 416
Complex Fertiliser	95	79
Domestic		
Potassium Chloride	148	203
Karnalite	89	69
Salt	256	237
Other services	100	91
	1 794	2 095

Other services include mainly electricity supply, transport, construction.

15. COST OF SALES

	1996 Rbl'mln	1997 Rbl'mln
Raw materials	221	287
Fuel, Electricity and Utilities	273	275
Wages	202	229
Depreciation	183	171
Transport	70	-
Other	151	47
	1 100	1 009

16. STAFF COSTS

Total staff costs are comprised of those included in cost of sales, selling and distribution expenses and general and administrative expenses.

	1996 Rbl'mln	1997 Rbl'mln
Wages and salaries	186	239
Social security and pension contributions	75	92
	261	331

The average number of employees employed by the Company in 1997 was’000’ 13 (1996: ‘000’ 12).

17. FINANCIAL INSTRUMENTS

(a) Interest rates

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

(b) Foreign exchange arrangements

Significant assets and liabilities of the Group are denominated in currencies other thar Russian Rouble. At present Rouble is not a convertible currency outside of the Russian Federation. Future movements in the exchange rate between the Russian Rouble and the other currencies will effect the carrying value assets and liabilities denominated in currencies other then Russian Rouble. Accordingly any transaction of hard currency amounts to Roubles should not be construed as a representation that such hard currency amounts have been, could be, or will in the future be converted into Russian Roubles at the exchange rate shown or at any other exchange rate.

The Group does not deal in derivatives of any nature.

(c) Fair values of financial instruments

The Group's long term investments are in companies whose shares are not traded in an active market and are carried at lower of historical cost and share of net assets.

(d) Credit risk

Management believes that it has no material concentration of credit risk.

18. CONTINGENCIES AND COMMITMENTS

(a) Russian environment

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

a currency that is not freely convertible outside of the country;

extensive currency controls;

a low level of liquidity in the public and private debt and equity markets; and

high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

(b) Insurance

The Group is assessing its policies for insuring assets and operations. At present, very few assets and operations are insured and, in the instances where assets are insured, the amounts generally are not sufficient to cover all costs associated with replacing the assets.

18. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(c) Capital commitments

The Group had the following contractual commitments for capital expenditures as at the end of appropriate period:

	1996 Rbl'mln	1997 Rbl'mln
Contractual commitments	188	43

(d) Environment

The enforcement of environmental regulation in 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 but could be material. 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 (Note 20). No provision is recognized for cavities excavated in other areas, not located under the town of Berezniki, or connected with the remaining risk of earth subsidence within the town of Berezniki (Note 2.7).

19. RELATED PARTY TRANSACTION

In 1997 and 1996 about 70% of exported Potassium Chloride was sold via ZAO "MKK" (International Potash Company). In 1997 Group's sales via MKK were equal to approximately 1 bln. Rbl. ZAO "MKK" is an associate company in which Uralkali has a 25% stake which acts as an agent for the major fertiliser producers in Russia and Belarus.

20. PROVISION FOR EARTH REPLACEMENT

	1996	1997
Balance at 31 December 1995/96	236	236
Reserve for new cavities created during the year	1	1
Reduction of reserve for cavities filled during the year	(13)	(21)
Change in the estimation of fair value of future payments	12	12
Balance at 31 December 1996/97	236	228

In determining the fair value of reserve as at 31 December 1997 a discount rate of 18.6% was used (Note 2.7).

21. POST BALANCE SHEET EVENTS

(a) Change in tax legislation

In the first quarter of year 1999 profits tax rate was decreased from current 35% to 30%.

Subsequent to December 31, 2000 the Company started to pay a new unified social tax on salaries to their employees. The new unified social tax was introduced instead of several social taxes amounting to total 38.5%, which were paid by the Company in prior years. The unified social tax has a regressive scale with a maximum rate of 35.6%. Income tax rate was again increased to 35%.

In August 2001 the State Duma, a Lower House of Parliament of Russian Federation, finally approved the Second Part of the new Tax Code. Starting from January 2002 the income tax rate is reduced to 24%, capital allowances are abolished and tax losses are allowed to be carried forward up to 10 years.

(b) Participation in alliances

In January 2001 the Group cancelled its trading relationship with International Potash Company (IPC or ZAO “MKK”), an international trader jointly controlled by potash producers in Russia and Belarus, which managed the Group’s export sales.

The majority of Group’s export sales in 2001 were done under the terms of a new international trading agreement signed in September 2000 between the Company, Canpotex Ltd (Canadian Potash Export Association), a potash marketing company owned by Canadian potash producers, and Bermont Trading S.A, a trading company incorporated in Switzerland and related to the ultimate owners of the Group. Under the terms of this agreement the Company guarantees all the obligations of Bermont Trading SA to Canpotex Ltd and other companies related to Canpotex Ltd companies which can occur as a result of sales made under this new international trading agreement.

Under the terms of this new international trading agreement the Company is required to dispose its share in IPC by December 31, 2000. However, as at the date of issuance of these financial statements the Company still had an investment in share capital of IPC. Management believes that this technical breach of the agreement will have no material impact on the Group’s operations.

At the beginning of 2001 the Group set up a new entity OOO Mineral Trading jointly with OAO Silvinite, another potash producer located in Russia. In 2001 the Group effectively transferred all its trading activity inside the Russian Federation from OOO Uralkali Trading (Note 21 (g)), a 100% owned Company’s subsidiary, to OOO Mineral Trading. The Group has a 51.49% interest in the OOO Mineral Trading, other shares are held by OAO ‘Silvinite’.

In January 2001 the Group acquired additional interest in common shares of OAO Silvinite for RR 85, bringing the Company’s share in the voting capital of Silvinite to 19.99%.

22. POST BALANCE SHEET EVENTS (CONTINUED)

(c) Construction of Baltic Bulk Port

In September 2000 the Group started the construction of Baltic Bulk Maritime Terminal (BBT) in cooperation with other interested parties. A separate legal entity was established in 2000 in which the Company acquired initially 45% of equity.

In January 2001 the Group increased its share in the equity of Baltic Bulk Port, a new transportation facility financed by the Company and other parties, from 45% to 50%. The Construction was completed in December 2001. The total investment by the Group into the facility amounted to RR 694 as at December 31, 2001 (In year 2001 prices).

(d) Borrowings

The Group substantially increased its short-term borrowings in 2001. Group short-term bank borrowings were RR 1,040 mln. as at December 31, 2001 (in year 2001 prices). The loans were secured by property, plant and equipment of the Company and finished goods in stock. The loans bear interest at LIBOR + 3.75 % for $US denominated loans and 16% for RR denominated loans.

(e) Dividends

The Company declared no dividends on both common and preference shares in 2000 and 2001. Holders of preference shares retain their voting rights until next annual general shareholder meeting in 2002. The holders of preference shares acquire voting rights when the amount of preference dividend is below the minimum amount specified in the Company's articles of incorporation.

(f) Equity conversion

In June 2001 a general shareholder's meeting approved new articles of incorporation. The new articles of incorporation specified the mechanism of conversion of existing preference shares to common shares.

In December 2001 the Board of Directors approved the conversion of preference shares into common shares of the Company. Under this conversion option each holder of preference shares can either sell preference shares back to the Company at the fixed price of 0.55 RR per share or retain preference shares, which in this case will be automatically converted into common shares. This equity conversion mechanism is subject to approval by a general shareholders' meeting in 2002.

(g) Changes in Group Structure

In the Company merged with its subsidiary ATP, a company, which effectively operated as a transportation division of the Group. In 1999 the Company founded OOO "Uralkaly Trading", an entity, which was used as a trading vehicle for domestic sales in 1999 and 2000 (Note 21 (b)).