Joint-Stock Company "Concern Stirol"

Consolidated financial statements

31 December 2005

These consolidated financial statements contain 54 *pages*

Contents

(in thousands of Ukrainian hryvnias)	*Note*	**2005**	2004
Assets			
Non-current assets			
Property, plant and equipment	*5*	**564,554**	414,916
Prepayments for property, plant and equipment		**66,233**	31,590
Intangible assets	*6*	**16,970**	16,480
Investments in unconsolidated subsidiaries		**8,976**	1,657
Investments in associates	*30*	**4,908**	1,963
Term bank deposits	*14*	**58,732**	51,197
Available-for-sale securities	*7*	**20,367**	16,974
Long-term receivable	*8*	**15,014**	-
Deferred tax assets	*9*	**62,015**	-
Total non-current assets		**817,769**	534,777
Current assets			
Investment in associated bank not accounted for under the equity method	*10*	**-**	63,020
Inventories	*11*	**185,802**	204,224
Trade and other receivables	*12*	**99,071**	85,146
VAT receivable	*13*	**56,649**	48,970
Term bank deposits	*14*	**1,310,390**	344,076
Cash and cash equivalents	*15*	**62,934**	52,457
Total current assets		**1,714,846**	797,893
Total assets		**2,532,615**	1,332,670

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

(in thousands of Ukrainian hryvnias)	*Note*	**2005**	2004
Equity			
Issued capital	*16*	**325,503**	325,503
Additional paid-in capital	*16*	**16,318**	-
Treasury shares	*16*	**-**	(38,885)
Retained earnings		**1,019,177**	731,176
Equity attributable to equity holders of the parent		**1,360,998**	1,017,794
Minority interest		**890**	705
Total equity		**1,361,888**	1,018,499
Liabilities			
Loans and borrowings	*17*	**10,000**	10,000
Post-employment employee benefit obligations	*19*	**16,942**	-
Total non-current liabilities		**26,942**	10,000
Debt securities issued	*18*	**619,469**	-
Loans and borrowings	*17*	**111,557**	79,818
Trade and other payables	*20*	**129,288**	136,466
Advances received		**265,971**	61,780
Income tax payable		**17,500**	26,107
Total current liabilities		**1,143,785**	304,171
Total liabilities		**1,170,727**	314,171
Total equity and liabilities		**2,532,615**	1,332,670

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

(in thousands of Ukrainian hryvnias, except earnings per share data)	*Note*	**2005**	2004
Revenues	*21*	**2,284,379**	1,881,080
Cost of revenues		**(1,384,439)**	(1,173,807)
Gross profit		**899,940**	707,273
Other income		**9,784**	3,695
Distribution expenses		**(213,279)**	(171,644)
Administrative expenses	*22*	**(79,668)**	(40,725)
Other expenses	*23*	**(31,770)**	(43,200)
Financial income	*25*	**97,857**	38,640
Financial expense	*26*	**(56,682)**	(18,674)
Share of profit of associates		**2,930**	1,910
Profit before tax		**629,112**	477,275
Income tax expense	*27*	**(200,461)**	(108,932)
Net profit for the year		**428,651**	368,343
Attributable to:			
Equity holders of the parent		**428,466**	368,218
Minority interest		**185**	125
Net profit for the year		**428,651**	368,343
Weighted average number of shares *(in thousands)*		**25,929**	22,383
Basic and diluted earnings per share *(in Ukrainian hryvnias)*		**16.52**	16.45

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

(in thousands of Ukrainian hryvnias)	**2005**	2004
Operating activities		
Profit before tax and minority interest	**629,112**	477,275
Adjustments for:		
Depreciation and amortization	**90,013**	79,378
Loss on sale of property, plant and equipment	**8,593**	1,706
Impairment loss on property, plant and equipment	**-**	20,281
Share of profit of associates	**(2,930)**	(1,910)
Impairment loss on unconsolidated subsidiaries and available-for-sale securities	**2,171**	9,237
Impairment loss on investment in associated bank	**-**	2,218
Impairment loss on trade and other receivables	**728**	-
Loss on sale of available-for-sale securities	**778**	-
Interest expense	**38,876**	7,219
Interest income	**(94,704)**	(37,121)
Dividend income	**(3,153)**	(1,314)
Increase in cash restricted in use	**-**	(5,660)
Decrease (increase) in inventories	**18,422**	(59,492)
Increase in long-term receivables	**(15,014)**	-
Decrease (increase) in trade and other receivables	**(17,036)**	37,663
Increase in VAT receivable	**(7,679)**	(19,000)
Increase in trade and other payables and advances received	**160,376**	22,805
Interest income received	**97,087**	29,559
Expense on post-employment obligations	**2,294**	-
Dividends received	**3,153**	1,000
Benefits paid on post-employment employee benefit obligation	**(2,030)**	-
Interest paid	**(18,031)**	(7,219)
Income tax offset with VAT receivable	**-**	(23,965)
Income taxes paid	**(271,083)**	(57,030)
Cash flows from operating activities	**619,943**	475,630

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

(in thousands of Ukrainian hryvnias)	**2005**	2004
Investing activities		
Purchase of additional shares in consolidated subsidiary	**-**	(19,140)
Purchase of available-for-sale securities	**(9,650)**	(10,988)
Proceeds from sale of available-for-sale securities	**3,308**	909
Purchase of investment in associated bank not accounted for under the equity method	**-**	(55,020)
Proceeds from sale of investment in associated bank not accounted for under the equity method	**63,020**	-
Purchase of investments in unconsolidated subsidiaries	**(7,334)**	-
Proceeds from sale of investment in unconsolidated subsidiary	**-**	9,470
Placements less repayments of term bank deposits	**(973,849)**	(203,720)
Proceeds from sale of property, plant and equipment	**7,890**	3,392
Purchase of property, plant and equipment and other intangible assets	**(288,751)**	(149,687)
Cash flows used in investing activities	**(1,205,366)**	(424,784)
Financing activities		
Proceeds from loans and borrowings and debt securities issued	**1,306,634**	367,405
Repayment of loans and borrowings	**(653,221)**	(314,062)
Own shares acquired	**(55,020)**	(129,694)
Own shares sold	**105,504**	73,740
Dividends and distributions to shareholders paid	**(107,997)**	(2,295)
Dividends paid to minority shareholders	**-**	(456)
Cash flows from (used in) financing activities	**595,900**	(5,362)
Net increase in cash and cash equivalents	**10,477**	45,484
Cash and cash equivalents at beginning of year	**52,457**	6,973
Cash and cash equivalents at end of year	**62,934**	52,457

Supplementary cash flow information

Non-cash transactions		
Government VAT bonds received as a settlement for VAT receivable	**-**	1,696
Promissory notes received as a settlement for trade receivables	**-**	1,410
Increase in additional paid-in capital due to difference on initial recognition of the loan from shareholder	**2,203**	-

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54

(in thousands of Ukrainian hryvnias)	**Attributable to shareholders of the parent**					**Minority interest**	**Total Equity**
	Issued capital	**Additional paid-in capital**	**Treasury shares**	**Retained earnings**	**Total**		
Balances at 1 January 2004	325,503	-	(7,685)	367,958	685,776	11,113	696,889
Net profit for the year	-	-	-	368,218	368,218	125	368,343
Total recognised income and expenses	-	-	-	368,218	368,218	125	368,343
Own shares acquired	-	-	(129,694)	-	(129,694)	-	(129,694)
Own shares sold	-	-	98,494	-	98,494	-	98,494
Dividends to shareholders	-	-	-	(5,000)	(5,000)	-	(5,000)
Dividends to minority shareholders	-	-	-	-	-	(452)	(452)
Purchase of additional shares of Stirol Pack (Note 6)	-	-	-	-	-	(10,081)	(10,081)
Balances at 31 December 2004	**325,503**	**-**	**(38,885)**	**731,176**	**1,017,794**	**705**	**1,018,499**
Correction of prior period error:							
Recognition of post-employment employee benefit obligations (Note 3(w))	-	-	-	(16,678)	(16,678)	-	(16,678)
Balances at 1 January 2005 as restated	**325,503**	**-**	**(38,885)**	**714,498**	**1,001,116**	**705**	**1,001,821**
Net profit for the year	-	-	-	428,466	428,466	185	428,651
Total recognised income and expenses	-	-	-	428,466	428,466	185	428,651
Gain on loan from shareholder (note16)	-	2,203	-	-	2,203	-	2,203
Gain on sale of equipment to Stirolbiotech (note 16)	-	2,516	-	-	2,516	-	2,516
Own shares acquired	-	-	(55,020)	-	(55,020)	-	(55,020)
Own shares sold	-	11,599	93,905	-	105,504	-	105,504
Dividends	-	-	-	(97,000)	(97,000)	-	(97,000)
Distributions to a shareholder (Note 16)	-	-	-	(4,443)	(4,443)	-	(4,443)
Distribution (Note 8)	-			(22,344)	(22,344)	-	(22,344)
Balances at 31 December 2005	**325,503**	**16,318**	**-**	**1,019,177**	**1,360,998**	**890**	**1,361,888**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54

1 Organization and operations

Joint-Stock Company “Concern Stirol” (the “Company”) is a Ukrainian joint stock company. The original enterprise was established as a state owned enterprise in 1933. It was privatized on 1 September 1995, as part of the Ukrainian privatization program as a joint stock company. The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group’s principal activity is the production of ammonia, urea, ammonium nitrate, other inorganic chemicals and organic chemicals at a plant located at 10 Gorlovskaya Diviziya Street, Gorlivka, Donetsk region, Ukraine. The Group also produces pharmaceuticals as well as packaging and other products derived from chemicals. These products are sold in Ukraine and abroad.

(a) Ukrainian business environment

Ukraine has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These consolidated financial statements reflect management’s current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Historical cost basis

The consolidated financial statements are prepared on the historical cost basis except for financial assets available-for-sale. Financial assets available-for-sale are stated at their fair value, excluding those for which a reliable measure of fair value is not determinable.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (“UAH”) and the functional and reporting currency for the purposes of these consolidated financial statements is the Ukrainian hryvnia, rounded to the nearest thousand.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Name	Country of incorporation	Activity	2005 % of ownership	2004 % Of ownership
Consolidated:				
Stirol Pack JSC	Ukraine	Production of packaging and other products derived from chemicals	**95**	95
Chemo Invest Trade LLP	United Kingdom	Trading	**51**	-
Non-consolidated:				
TEC Stirol LLC	Ukraine	Utility services	**100**	25
Stirolkhimbit LLC	Ukraine	Production	**99**	99
DOZ JSC	Ukraine	Production	**93**	86
SC KSKS	Ukraine	Social	**100**	100
SC Stirol TV	Ukraine	Media	**100**	100
IC Stirolinvest	Ukraine	Financial	**100**	-
Salyami LLC	Ukraine	Production	**100**	50
SC Mriya	Ukraine	Trade	-	100

Subsidiary Mriya was liquidated in June 2005.

Management decided not to consolidate certain subsidiaries because the effect of non-consolidation is not material.

Chemo Invest Trade is Limited Liability Partnership which was established on 30 April 2005. In 2005 the Company purchased 51% interest in Chemo Invest Trade for UAH 18 thousand. Its main activity is purchasing inorganic products produced by the Group and re-selling of these products to other entities. Intra-group balances and transactions between Chemo Invest Trade and the Company have been eliminated in preparing these consolidated financial statements.

(ii) Associates

Associates are those enterprises in which the Company has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

The listing of the Company’s associates as at 31 December is as follows:

Name	**Country of incorporation**	**Activity**	**2005 % of ownership**	2004 % of Ownership
Accounted for under the equity method:				
Stirolkhimplast LLC	Ukraine	Production of polystyrenes	**49**	49
Stirolbiopharm LLC	Ukraine	Research and development	**49**	49
Stirolmash LLC	Ukraine	Metal-Working	**25**	25
Stirolelectropribor LLC	Ukraine	Equipment repair	**25**	25
Stirolautoservice LLC	Ukraine	Transportation	**25**	25
Stirolstroymontaj LLC	Ukraine	Construction	**25**	25
Stiroltrans LLC	Ukraine	Maintenance of railway facilities	**25**	25
Stirol IT LLC	Ukraine	Maintenance of computers	**25**	25
Stirolservicepribor LLC	Ukraine	Equipment repair	**25**	25
Stiroltechservice LLC	Ukraine	Equipment repair	**25**	25
Stirol Security Service LLC	Ukraine	Security services	**25**	-
Not accounted for under the equity method:				
JSB Brokbusinessbank	Ukraine	Banking	**-**	20

During 2004 and 2003, the Company established several associate companies, leased certain items of property, plant and equipment and transferred some of its employees to these companies in order to dispose of non-core activities previously performed by the Company itself. The Company incurs charges for the services provided by these associate companies.

Stirolbiopharm performs research and development for the pharmaceutical operations of the Group. Management believes these activities are consistent with the Group’s ongoing central operations which, without the existence of Stirolbiopharm, would have to be provided by the Group itself, and, therefore, Stirolbiopharm should be consolidated in accordance with SIC-12 Consolidation - Special Purpose Entities. However, management believes that the effect of non-consolidation of this entity is not significant compared to accounting for under the equity method. Therefore, this entity has been accounted for under the equity method as an associate company.

Based on an evaluation of the nature of relationships between the Group and other associates accounted for under the equity method, management determined that these other associates are not controlled by the Group and, therefore, should not be consolidated.

As at 31 December 2004 the investment in JSB Brokbusinessbank was not accounted for using the equity method because the investment in JSB Brokbusinessbank was acquired with the intent to sell it in the near future.

(iii) Jointly controlled entity

Jointly controlled entities are those enterprises over whose activities the Group has joint control. The consolidated financial statements include the Group's proportionate share of the jointly controlled entity's assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

The jointly controlled entity as at 31 December is as follows:

Name	Country of incorporation	Activity	**2005** % of ownership	2004 % of ownership
Proportionately consolidated:				
IBE Stirol JV	Ukraine	Production	**50**	50

(iv) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealized gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

(e) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of the contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

(i) Key sources of estimation uncertainty

Descriptions of key sources of uncertainty are contained in the following notes:

Note 8 – determination of carrying value of long-term receivable from a related party

Note 9 – recognition of deferred tax assets

Note 13 – valuation of VAT receivable

Note 19 – determination of long-term post-employment employee benefit obligations.

(ii) Critical accounting judgements in applying to the Group's accounting policies

Critical accounting judgements are described in the following notes:

Note 2 (d) (ii) – determination whether the substance of the relationship between associates accounted for under the equity method and the Group indicates that these associates are controlled by the Group;

Note 3 (w) – determination that the correction of a prior period error in the prior period is impracticable;

Note 10 – determination that the investment in an associated bank should not be accounted for under the equity method;

Note 16 – determination that certain transactions with shareholders acting in their capacity as shareholders should be recorded in the statement of changes in equity.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the consolidated financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. The Group's principal foreign currency is the US dollar ("USD").

The principal UAH exchange rates used in the preparation of the consolidated financial statements as at 31 December are as follows:

Currency	**2005**	2004
US dollar	**5.050**	5.305
Russian rouble	**0.175**	0.191
EURO	**5.972**	7.217

At the date of these financial statements, 15 June 2006, the exchange rate is UAH 5.05 to USD 1.00.

(b) Financial instruments

(i) Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the near term or those that the entity upon initial recognition designates as available for sale or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is classified as available for sale.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than those that the entity designates as available for sale and those that meet the definition of loans and receivables.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or held-to-maturity investments.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

(ii) Recognition

The Group recognizes financial assets in its consolidated balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Changes in fair value are recognized directly in equity.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Fair value does not take into consideration transaction costs expected to be incurred on transfer or disposal of a financial instrument. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. Items of property, plant and equipment acquired prior to 1 January 2001 are carried at indexed cost (as Ukraine was considered to be a hyperinflationary economy through that date) less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

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

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives of assets depreciated on a straight-line basis are as follows:

Buildings	20-50 years
Plant and equipment	10-20 years
Vehicles	5-10 years

(iv) Construction in progress

Construction in progress is stated at cost less impairment loss.

(d) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired.

Goodwill arising on acquisitions of minority interests is determined as the excess of the cost of the acquisition over the book values of the assets and liabilities acquired.

Goodwill arising on acquisitions that occurred prior to 31 March 2004 is stated at cost less accumulated amortization and impairment losses. This goodwill was amortized from the date of initial recognition on a straight-line basis over its estimated useful life of eight years. Beginning 1 January 2005, this goodwill is no longer amortized, but is tested annually for impairment.

Goodwill acquired in a business combination after 31 March 2004 is allocated to each of the Group’s cash generating units that are expected to benefit from the synergies of the combination. A cash generating unit to which goodwill has been allocated is tested annually for impairment by comparing the carrying amount of the unit to the recoverable amount of the unit.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(e) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(f) Trade accounts receivable

Trade accounts receivable are stated at amortized cost less impairment losses.

(g) Advances to suppliers

Advances to suppliers are stated at cost less impairment losses.

(h) Term bank deposits

Term bank deposits comprises deposits with banks with an original maturity term of longer than three months.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with banks with an original maturity term of three months or less.

(j) Impairment

The carrying amount of goodwill is tested for impairment annually at the balance sheet date. The carrying amounts of other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets’ recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

(i) Calculation of recoverable amount

The recoverable amount of trade and other receivables and VAT is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of goodwill is determined for the cash-generating unit to which goodwill belongs.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss on a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss on goodwill is not reversed.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in the consolidated income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Share capital

(i) Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital.

(ii) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(l) Promissory notes issued

Promissory notes issued are stated at amortized cost.

(m) Loans and borrowings

Loans and borrowings are recognized initially at cost, which is the fair value of the consideration received, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method.

When loans are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated income statement.

(n) Trade accounts payable

Trade accounts payable are stated at amortised cost.

(o) Advances received

Advances received are stated at cost.

(p) Employee benefits

(i) Defined contribution state pension plan

The Group makes contributions for the benefit of employees to Ukrainian's State pension fund, social security fund, security against injury fund, and unemployment fund. These amounts are expensed as incurred.

(ii) Defined benefit state pension obligations plan

The Group is obliged to compensate to the Ukrainian state pensions that are paid by the state to employees who worked a certain period of time in hazardous conditions as defined by the statutory regulations and who are eligible for early retirement, and pensions paid at the normal retirement age as defined by the statutory regulations. There are no plan assets.

The net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and that benefit is discounted to determine the present value. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

In calculating the obligation, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the present value of the defined benefit obligation, that portion is recognised in the consolidated income statement over the expected average remaining working lives of the eligible employees, otherwise, the actuarial gain or loss is not recognised.

(q) Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Revenues

Revenues from the sale of goods are recognized in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenues are recognized if there are significant uncertainties at the time of sale regarding recovery of the consideration due, associated costs or the possible return of goods.

(s) Financial income

Financial income comprises interest income, dividend income and foreign exchange gains. Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate. For investments in other companies, dividend income is recognised on the date that the Group becomes entitled to the dividend.

(t) Financial expense

Financial expenses comprise interest expense on borrowings, the accumulation of interest on long-term provisions, foreign exchange losses, impairment losses and losses on sales of available-for-sale securities.

Interest expense is recognized in the consolidated income statement on an effective interest rate basis.

(u) Changes in accounting policies as a result of new or revised standards

During the current year the Group changed a number of its accounting policies as a result of new or revised standards that are effective for periods beginning on or after 1 January 2005. The following changes resulted in material changes in classification.

(i) Goodwill

During 2004 the Group adopted in full IFRS 3 *Business Combinations*, revised IAS 36 *Impairment of Assets* and revised IAS 38 *Intangible Assets* for business combinations with an agreement date on or after 31 March 2004. In accordance with the transitional provisions of these standards:

- as at 1 January 2005 the balance of accumulated amortisation of goodwill of UAH 19,053 thousand (see note 6) was written off against the cost of that goodwill, which had no effect on the net carrying amount. All goodwill is now tested for impairment annually; see note 3 (d)

- corresponding figures are not restated

(ii) Presentation of minority interests

The following changes in presentation result from revised IAS 1 *Presentation of Financial Statements*:

- in the consolidated income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit for the year. Instead it is presented as an allocation of the Group's net profit for the year

- in the consolidated balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period

- corresponding figures are restated to reflect these changes

(iii) Related Parties

The following significant changes in presentation result from revised IAS 24 *Related Party Disclosures*:

- disclosure of ultimate controlling party

- disclosure of the compensation of key management personnel

- expanded definition of "related party" includes parties with common control over the entity, joint ventures in which the entity is a venturer and parties that are a post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of the entity

- disclosure of terms and conditions of outstanding balances with related parties

- classification of amounts payable to, and receivable from, related parties into different categories of related parties

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* effective for annual periods beginning on or after 1 January 2007. The standard will require increased disclosure in respect of financial instruments.

- amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment will require increased disclosure regarding capital and how it is measured.

- amendment to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures* effective for annual periods beginning on or after 1 January 2006. The amendment includes an option for actuarial gains and losses to be recognised in full as they arise, outside of the income statement in a statement of recognised income and expense. The Group has not yet determined whether it will elect to apply the allowed option.

- IFRIC 4 *Determining whether an Arrangement contains a Lease* effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

Management has not analyzed the likely impact of these standards and revisions on its financial position or performance.

(w) Prior period error

Management did not determine the amount of post-employment employee benefit obligations prior to 2005 relating to a defined benefit pension plan for employees who worked in hazardous conditions. In 2005 management estimated the amount of this obligation and decided to recognise it starting 1 January 2005. Management believes that correction by retrospective restatement of prior period is impracticable as such restatement requires significant assumptions and estimates and it is impossible to distinguish objectively information about those estimates and assumptions that provides evidence of circumstances that existed in prior period and would have been available when the consolidated financial statements for the prior period were authorised for issue from other information about those estimates and assumptions. The Group restated the opening balances of assets, liabilities and equity as at 1 January 2005, which is the beginning of the earliest period, for which management believes that determination of the period-specific effects is practicable.

The Group adjusted the opening balance of accumulated deficit as at 1 January 2005 by recognition of a post-employment employee benefit obligation of UAH 16,678 thousand.

4 Segment reporting

Prior to 2005, management did not present segment information because the Group's operations relating to products other than basic chemicals were not significant. In 2005 management decided to distinguish two significant business segments, both of which relate to production of basic chemicals:

Inorganic products. Production and sales of inorganic products, including ammonia, ammonium nitrate, urea.

Organic products. Production and sales of organic chemical products.

Segment income (loss), assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Inter-segment pricing is not determined on an arm's length basis.

Management determined that the dominant source of the Group's geographical risks result from the location of its production facilities, which are located in Ukraine. Therefore, geographical segment is not presented.

	Inorganic products		**Organic products**		**Other operations**		**Eliminations**		**Consolidated**	
(in thousands of Ukrainian hryvnias)	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers	**2,011,527**	1,643,027	**151,944**	135,201	**120,908**	102,852	**-**	-	**-**	-
Inter-segment revenue	**-**	-	**35,367**	30,013	**2,214**	-	**(37,581)**	(30,013)	**-**	-
Total revenue	**2,011,527**	1,643,027	**187,311**	165,214	**123,122**	102,852	**(37,581)**	(30,013)	**2,284,379**	1,881,080
Segment income (loss)	**634,048**	602,625	**10,902**	1,809	**41,711**	(68,805)	**-**	-	**686,661**	535,629
Unallocated expenses									**(111,438)**	(83,925)
Other income									**9,784**	3,695
Financial income									**97,857**	38,640
Financial expense									**(56,682)**	(18,674)
Share of profit of associates									**2,930**	1,910
Income tax expense									**(200,461)**	(108,932)
Net profit for the year									**428,651**	368,343

	Inorganic products		**Organic products**		**Other operations**		**Consolidated**	
(In thousands of Ukrainian hryvnias)	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Segment assets	**413,195**	339,953	**107,189**	80,332	**298,184**	239,025	**818,568**	659,310
Investment in associates							**4,908**	1,963
Unallocated assets							**1,709,139**	671,397
Total assets							**2,532,615**	1,332,670
Segment liabilities	**316,156**	160,272	**275**	64	**12,124**	12,148	**328,555**	172,484
Unallocated liabilities							**842,172**	141,687
Total liabilities							**1,170,727**	314,171
Depreciation	**61,085**	53,500	**5,309**	4,551	**23,202**	19,213	**89,596**	77,264
Capital expenditure	**108,306**	100,946	**67,608**	309	**77,275**	23,884	**253,189**	125,139
Impairment losses	**-**	-	**-**	1,981	**-**	18,300	**-**	20,281

5 Property, plant and equipment

Movements in property, plant and equipment for the year ended 31 December 2005 are as follows:

(in thousands of Ukrainian hryvnias)	**Buildings**	**Plant and equipment**	**Vehicles**	**Construction in progress**	**Total**
Cost					
At 1 January 2005	105,437	836,981	84,128	53,196	1,079,742
Additions	-	31,933	28,314	192,942	253,189
Disposals	(5,117)	(42,451)	(1,819)	-	(49,387)
Transfers	1,841	9,223	-	(11,064)	-
At 31 December 2005	**102,161**	**835,686**	**110,623**	**235,074**	**1,283,544**
Accumulated depreciation and impairment losses					
At 1 January 2005	39,948	558,496	66,382	-	664,826
Depreciation charge	3,895	77,902	7,799	-	89,596
Disposals	(1,131)	(32,985)	(1,316)	-	(35,432)
At 31 December 2005	**42,712**	**603,413**	**72,865**	**-**	**718,990**
Net book value					
At 31 December 2005	**59,449**	**232,273**	**37,758**	**235,074**	**564,554**

Movements in property, plant and equipment for the year ended 31 December 2004 were as follows:

(in thousands of Ukrainian hryvnias)	**Buildings**	**Plant and equipment**	**Vehicles**	**Construction in progress**	**Total**
Cost					
At 1 January 2004	100,107	804,061	78,978	15,114	998,260
Additions	-	63,698	6,139	55,302	125,139
Disposals	(932)	(41,736)	(989)	-	(43,657)
Transfers	6,262	10,958	-	(17,220)	-
At 31 December 2004	**105,437**	**836,981**	**84,128**	**53,196**	**1,079,742**
Accumulated depreciation and impairment losses					
At 1 January 2004	22,378	511,874	59,432	-	593,684
Depreciation charge	3,861	65,715	7,688	-	77,264
Impairment losses	13,832	6,449	-	-	20,281
Disposals	(123)	(25,542)	(738)	-	(26,403)
At 31 December 2004	**39,948**	**558,496**	**66,382**	**-**	**664,826**
Net book value					
At 1 January 2004	77,729	292,187	19,546	15,114	404,576
At 31 December 2004	**65,489**	**278,485**	**17,746**	**53,196**	**414,916**

As at 31 December 2005 items of property, plant and equipment with a carrying amount of UAH 21,996 thousand (2004: UAH 78,091 thousand) are pledged to secure loans and borrowings.

During 2004, the Group recognized impairment losses amounting to UAH 20,281 thousand. Impairment losses amounting to UAH 18,300 thousand relate to property, plant and equipment used in the production of pharmaceuticals following indications that the economic performance of this property, plant and equipment was worse than expected. For impairment purposes, the recoverable amount of this equipment was determined in aggregate as its value used in production of pharmaceuticals. The value in use amounting to UAH 16,251 thousand was determined by discounting the estimated future net cash flows generated from the continuing use of property, plant and equipment used in the production of pharmaceuticals using a discount rate of 20%. An increase by 1 percentage point of the discount rate would increase the impairment loss by approximately UAH 500 thousand.

6 Intangible assets

Movements in intangible assets for the year ended 31 December 2005 are as follows:

(in thousands of Ukrainian hryvnias)	**Goodwill**	**Other intangible assets**	**Total**
Cost			
At 1 January 2005	34,745	7,072	41,817
Additions	-	919	919
Write-off (note 3 (u) (i))	(19,053)	-	(19,053)
Disposals	-	(2,111)	(2,111)
At 31 December 2005	15,692	5,880	21,572
Accumulated amortization and impairment losses			
At 1 January 2005	19,053	6,284	25,337
Amortization charge	-	417	417
Write-off (note 3 (u) (i))	(19,053)	-	(19,053)
Disposals	-	(2,099)	(2,099)
At 31 December 2005	-	4,602	4,602
Net book value			
At 31 December 2005	15,692	1,278	16,970

Movements in intangible assets for the year ended 31 December 2004 are as follows:

(in thousands of Ukrainian hryvnias)	**Goodwill**	**Other intangible assets**	**Total**
Cost			
At 1 January 2004	25,686	7,041	32,727
Additions	9,059	31	9,090
At 31 December 2004	34,745	7,072	41,817
Accumulated amortization and impairment losses			
At 1 January 2004	17,726	5,497	23,223
Amortization charge	1,327	787	2,114
At 31 December 2004	19,053	6,284	25,337
Net book value			
At 1 January 2004	7,960	1,544	9,504
At 31 December 2004	**15,692**	**788**	**16,480**

In April and November 2004, the Group purchased an additional 698,934,206 shares (29% of the authorized share capital) of consolidated subsidiary Stirol Pack JSC for a purchase consideration of UAH 19,140 thousand from Stirolkhiminvest IK ltd, which is a shareholder of the Company. Additional goodwill amounting to UAH 9,059 thousand, representing the excess of the purchase consideration over the book values of the additional net assets acquired, was recorded in the consolidated financial statements in respect of this additional purchase of shares.

7 Available-for-sale securities

Available-for-sale securities as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Promissory notes	**9,512**	7,412
Shares of JSC Stirolbiotech	**3,630**	3,280
Shares of JSB Ikar bank	**1,466**	1,922
Government VAT bonds	**-**	1,696
Shares of JSC Ukrtermotransservice	**-**	1,633
Other equity investments	**659**	1,031
Shares of LLC Stiroloptpharmtorg	**5,100**	-
	20,367	16,974

The Group owns 13.49% (2004: 10%) of JSC Stirolbiotech and 10% (2004: nil) of LLC Stiroloptfarmtorg, which are entities under common control with the Group. The other equity securities available-for-sale represent ownership interests of less than 10%.

Equity investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. Therefore, these equity investments are stated at cost, including transaction costs, less impairment losses.

8 Long-term receivable

In 2005 the Group had a long-term receivable for equipment sold and services supplied by the Group to JSC Stirolbiotech, which is an entity under common control, of UAH 37,358 thousand. Management estimates the original amount of receivable to be settled in five years. There is no contractual term of settlement date and no interest is charged.

This receivable is recognized initially at fair value of UAH 15,014 thousand, which was determined by management as the present value of this receivable in five years time using discounted cash flow techniques. On initial recognition, the difference of UAH 22,344 thousand between the fair value of this receivable of UAH 15,014 thousand and the nominal amount of UAH 37,358 thousand is recognized as distribution of retained earnings in the statement of changes in equity.

To estimate the fair value on initial recognition of this long-term receivable management used a number of assumptions:

- the repayment of the original receivable amount is estimated to occur in 2010
- discount rate is 20 %
- the full amount of the long-term receivable is expected to be recovered in five years

The increase by 1 percentage point of the discount rate would decrease the fair value on initial recognition of this long-term receivable by approximately UAH 600 thousand.

9 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December are attributable to the items detailed as follows:

	Assets		Liabilities		Net	
(in thousands of Ukrainian hryvnias)	**2005**	2004	**2005**	2004	**2005**	2004
Available-for-sale securities	**1,225**	1,553	**(711)**	(1,553)	**514**	-
Inventories	**-**	1,967	**(3,388)**	(1,967)	**(3,388)**	-
Trade and other receivables	**2,494**	-	**(206)**	(9,348)	**2,288**	(9,348)
Advances received	**62,601**	9,348	**-**	-	**62,601**	9,348
Deferred tax asset (liability)	**66,320**	12,868	**(4,305)**	(12,868)	**62,015**	-

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Property, plant and equipment	**54,143**	40,725
Available-for-sale securities	**3,587**	757
Inventories	**-**	1,481
Trade and other receivables	**6,112**	1,516
Advances received	**-**	7,826
Loans and borrowings	**16,172**	-
Post-employment employee benefit obligations	**4,226**	-
	84,240	52,305

The Group recognizes deferred tax assets relating to temporary differences that are expected to reverse in the short term as management believes that it is probable that sufficient taxable income will be available to allow realization of these differences. Because of uncertainties regarding the economical, political, and regulatory environment surrounding the Group’s operations, management believes that it is not probable that sufficient taxable income will be available to allow realization of temporary differences that will be reversed in the long-term. Accordingly, the Group does not recognize deferred tax assets which will reverse in the long-term.

10 Investment in associated bank not accounted for under the equity method

In December 2004, the Group purchased 4,200,000 shares of JSB Brokbusinessbank representing 16.8% of the authorized share capital of JSB Brokbusinessbank from JSB Brokbusinessbank for UAH 55,020 thousand, thus increasing the Group's ownership in JSB Brokbusinessbank to 20%. As the additional ownership of JSB Brokbusinessbank was acquired by the Group with the intent to sell it and the other ownership of JSB Brokbusinessbank in the near future, it is not accounted for under the equity method. This 20% investment in JSB Brokbusinessbank was accounted for as an available-for-sale financial security.

In 2004, the Group recognized an impairment loss of UAH 2,218 thousand on the investment in JSB Brokbusinessbank.

In 2005, the Group sold all of its ownership (5,000,000 shares) in JSB Brokbusinessbank for UAH 63,020 thousand, which was equal to the carrying amount as at 31 December 2004.

11 Inventories

Inventories as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Raw materials and consumables	**103,836**	106,490
Work in progress	**5,415**	7,038
Finished goods and goods for resale	**76,551**	90,696
	185,802	204,224

As at 31 December 2005 inventories with a carrying amount of UAH 9,969 thousand (2004: UAH 33,990 thousand) are pledged to secure loans and borrowings.

12 Trade and other receivables

Trade and other receivables as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accounts receivable – trade	**38,874**	29,526
Prepayments to suppliers	**29,338**	10,644
Receivables for treasury shares sold	**17,626**	24,754
Interest receivable	**5,179**	7,562
Other receivables	**11,307**	15,185
Provision for bad debts	**(3,253)**	(2,525)
	99,071	85,146

13 VAT receivable

VAT receivable as at 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
VAT receivable	**63,313**	54,330
Provision for VAT receivable	**(6,664)**	(5,360)
	56,649	48,970

Management believes that the VAT receivable amounting to UAH 56,649 thousand will be collected in full through direct collections and other non-cash settlements.

The Group's ability to recover VAT receivable significantly depends on frequently changing regulations and actions of the Ukrainian government in respect of reimbursement of VAT receivables. Therefore, future actions of the Ukrainian government may impact the amount of VAT that the Group will be able to recover.

14 Term bank deposits

Term bank deposits as at 31 December 2005 can be summarized as follows:

(in thousands of Ukrainian hryvnias)	**From three months to one year**	**From one year to five years**	**Over five years**	**Total**
Non-current term bank deposits				
USD - fixed at 8.5%-10.0%	**-**	**28,432**	**30,300**	**58,732**
Current term bank deposits:				
USD – fixed at 7.0%-10.5%	**444,400**	**-**	**-**	**444,400**
UAH – fixed at 9.5%-17.%	**865,990**	**-**	**-**	**865,990**
	1,310,390	**28,432**	**30,300**	**1,369,122**

Term bank deposits as at 31 December 2004 can be summarized as follows:

(in thousands of Ukrainian hryvnias)	**From three months to one year**	**From one year to five years**	**Over five years**	**Total**
Non-current term bank deposits				
USD - fixed at 9.5%-10.0%	**-**	**31,832**	**19,365**	51,197
Current term bank deposits:				
USD – fixed at 9.0%-9.3%	**92,845**	**-**	**-**	92,845
UAH – fixed at 11.0%-16.5%	**251,231**	**-**	**-**	251,231
	344,076	**31,832**	**19,365**	**395,273**

As at 31 December 2005 no term bank deposits are pledged to secure loans and borrowings (2004: UAH 10,200 thousand).

Term bank deposits are placed in the following banks:

(in thousands of Ukrainian hryvnias)	**2005**	**%**	**2004**	**%**
JSB Brokbusinessbank	**549,965**	**40**	279,159	71
Prominvestbank	**333,000**	**24**	-	-
Raiffeisenbank Ukraine	**-**	**-**	49,000	12
First Ukrainian International Bank	**174,025**	**13**	47,749	12
Other banks	**312,132**	**23**	19,365	5
	1,369,122	**100**	**395,273**	**100**

Other term bank deposits held at JSB Brokbusinessbank as at 31 December 2004 amounting to UAH 26,259 thousand are included in cash and cash equivalents as at 31 December 2004.

15 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Bank balances	**62,025**	6,157
Short-term bank deposits	**909**	46,300
	62,934	52,457

16 Equity

(a) Issued capital

The authorized and issued share capital comprises 27,125,280 ordinary shares (2004: 27,125,280). All shares have a nominal par value of UAH 12.

The Company has accounted for its share capital in accordance with Ukrainian National Accounting Standards, using inflation indices during hyperinflation which differed from those that would have been applied had International Financial Reporting Standard IAS 29, *Financial Reporting in Hyperinflationary Economies* (IAS 29), been used. The share capital reported in these financial statements is UAH 61,044 thousand higher and retained earnings is UAH 61,044 thousand lower than they would have been under IFRS. Management believes that this departure from IAS 29 is not significant for these consolidated financial statements.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

(b) Additional Paid-in Capital

The Company received a short-term loan facility from a shareholder. The loan facility has a limit of USD 50,000 thousand and bears no interest.

This loan is recognized initially at fair value of UAH 27,090 thousand which was determined by management as the present value of the future payments for the loan discounted using the estimated market rate of interest for similar loans of 9%. On initial recognition, the difference of UAH 2,203 thousand between the fair value of the loan of UAH 27,090 thousand and total proceeds received of UAH 29,293 thousand is recognized as additional paid-in capital in the statement of changes in equity.

During 2005 the Group sold equipment to JSC Stirolbiotech, which is an entity under common control resulting in a gain amounting to UAH 2,516 thousand. The difference between sales proceeds and cost of the equipment amounting to UAH 2,516 thousand was recognized as additional paid-in capital in the statement of changes in equity.

(c) Distribution to shareholder

During 2005, the Group entered into a series of purchases and sales of equity securities with a shareholder. The difference between sales and purchase prices on these transactions amounting to UAH 1,715 thousand is shown as distribution to a shareholder.

During 2005, the Group sold in a series of transactions to Stirolkhiminvest IK ltd, which is a shareholder, unsecured bonds for UAH 40,000 thousand and repurchased them in a series of transactions for UAH 42,728 thousand. The difference between sales and purchase prices on these transactions amounting to UAH 2,728 thousand is shown as distribution to a shareholder.

(d) Treasury shares

Treasury shares comprise the cost of the Company’s shares held by the Company.

In April 2005, the Company sold 736,000 of its own shares, which represent 2.71% of the authorized share capital, to Stirolkhiminvest IK ltd, which is a shareholder, for a purchase consideration of UAH 12,519 thousand. In April 2005, the Company also sold 344,234 of its own shares, which represent 1.27% of the authorized share capital, to a shareholder.

In May 2005, the Company sold 1,763,668 of its own shares, which represent 6.50% of its own share capital, for a purchase consideration of UAH 30,000 thousand to Stirolkhiminvest IK ltd, which is a shareholder.

In July 2005, the Company sold 104,568 of it own shares which represent 0.39% of the authorized share capital for a purchase consideration of UAH 1,779 thousand to Stirolkhiminvest IK ltd.

In August 2005, Stirolkhiminvest IK ltd cancelled the contract with the Company on purchase of 104,568 of the Company’s shares. In August 104,568 of the Company’s shares were returned to the Company.

In August 2005, the Company sold 4,000 of its own shares, which represent 0.01% of the authorized share capital, for a purchase consideration of UAH 68 thousand to Stirolkhiminvest IK ltd.

In September 2005, Stirolkhiminvest IK ltd cancelled the contract with the Company on purchase of 1,763,668 of the Company’s shares. In September 1,763,668 of the Company’s shares were returned to the Company. Stirolkhiminvest IK ltd also returned 148,110 of the Company’s shares sold in April. In September 2005, the Company also sold 2,012,346 of its own shares, which represent 7.42% of the authorized share capital, for a purchase consideration of UAH 34,230 thousand to Stirolkhiminvest IK ltd.

In November 2005, the Company purchased 2,712,527 of its own shares, which represent 10.00% of the authorized share capital, for UAH 55,020 thousand from JSB Brokbusinessbank.

In December 2005, the Company sold 2,712,527 of its own shares, which represent 10.00% of the authorized share capital, for a purchase consideration of UAH 55,020 thousand to Stirolkhiminvest IK ltd.

At 31 December 2005 the Company held nil (2004: 2,948,470) of its own shares.

(e) Dividends

Maximum dividends payable are restricted to the retained earnings of the Company, which are determined according to legislation in Ukraine. At 31 December 2005 retained earnings available for distribution amounted to UAH 495,076 thousand (unaudited).

Dividends per share amounted to UAH 3.58 in 2005 (2004: UAH 0.21 per share).

17 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. Refer to note 28 for more information about the Group's exposure to interest rate and foreign currency risk.

Loans and borrowings as at 31 December can be summarized as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Non-current		
Unsecured bond issue	**10,000**	10,000
Current		
Secured bank loans	**83,453**	75,568
Unsecured bank loans	**-**	4,250
Unsecured loan from shareholder (Note 16)	**28,104**	-
	111,557	79,818
	121,557	89,818

Terms and debt repayment schedule

The terms and debt repayment schedule as at 31 December 2005 can be presented as follows:

(in thousands of Ukrainian hryvnias)	**Within six months**	**From six months to one year**	**From one to five years**	**Total**
Unsecured bond issued:				
UAH – fixed at 18.00%	-		**10,000**	**10,000**
Unsecured loan from shareholder:				
USD –nominal: 0% (effective: 9.00%)	**28,104**	-	-	**28,104**
Secured bank loans:				
USD – LIBOR + 4.00%	-	**35,058**	-	**35,058**
USD – LIBOR + 4.75%	**48,395**	-	-	**48,395**
	76,499	**35,058**	**10,000**	**121,557**

The terms and debt repayment schedule as at 31 December 2004 can be presented as follows:

(in thousands of Ukrainian hryvnias)	**Within six months**	**From six months to one year**	**From one to five years**	**Total**
Unsecured bond issue:				
UAH – fixed at 18.00%	-	-	10,000	10,000
Unsecured bank loans:				
UAH - fixed at 8.00%	-	4,250	-	4,250
Secured bank loans:				
USD – LIBOR + 6.00%	31,832	-	-	31,832
USD – LIBOR + 6.50%	-	37,138	-	37,138
USD – fixed at 14.00%	291	-	-	291
UAH – fixed at 18.00%	307	-	-	307
UAH – fixed at 20.00%	6,000	-	-	6,000
	38,430	**41,388**	**10,000**	**89,818**

A long-term loan facility agreement of USD 10,000 thousand with an interest rate of LIBOR + 4.75% was concluded in 2004 with the Black Sea Bank for Trade and Development (BSTDB) and the first installment was received in 2005. This loan facility is secured by items of property, plant and equipment with a carrying amount of UAH 4,651 thousand and by 2,073,601,862 shares (nominal value of a share UAH 0.01) of consolidated subsidiary JSC Stirol Pack, which represent 86% of the authorized share capital of this subsidiary. Net assets of Stirol Pack, which are included in these consolidated financial statements as at 31 December 2005, amounted UAH 37,309 thousand and total assets amounted to UAH 50,269 thousand.

As at 31 December 2005 the bank loans are secured by items of property, plant and equipment with a carrying amount of UAH 21,996 thousand (2004: UAH 78,091 thousand), by inventories with a carrying amount of UAH 9,969 thousand (2004: UAH 33,990 thousand) and by shares of JSC Stirol Pack. No cash deposits were pledged as collateral in 2005 (2004: UAH 10,200 thousand).

The loan agreement with BSTDB includes, amongst other, the following covenants:

- The Group may not form or acquire any subsidiaries with cumulative effect exceeding USD 500 thousand (UAH 2,525 thousand at the exchange rate as at 31 December 2005). In 2005 the Group acquired subsidiary TEC Stirol LLC for UAH 4,998 thousand.

- The Group may not enter into any transactions that are not in line with ordinary commercial terms, including agreements where the Group receives less then the full commercial price (except of normal trade discount). The Group has entered into a series of transactions with related parties involving the purchase and sale of equity securities and bonds. The difference between purchase and sales prices is recorded as a distribution to a shareholder as described in note 16.

- The Group cannot pledge any of its assets. The Group has pledged property, plant and equipment amounting to UAH 17,345 thousand as at 31 December 2005 as a security for a loan facility obtained from another bank.

- The Group must comply with terms and conditions of all other loan agreements. The Group does not comply with certain covenants of the loan agreement with Moscow Narodny Bank as described in note 18.

As at 31 December 2005 and 2004 the Group does not comply with certain covenants of the BSTDB loan agreement as described above. This gives BSTDB the right to demand immediate repayment of this loan. Therefore, the outstanding amount of the loan was classified as current liability.

On 18 April 2006, BSTDB provided its consent with respect to the acquisition of TEC Stirol LLC by the Group in relation to the covenant that the Group may not form or acquire any subsidiaries with cumulative effect exceeding USD 500 thousand. The non-compliance with other covenants was not remedied or the terms of the loan agreement renegotiated before these financial statements were authorized for issue.

The Group has no subordinated debt and no debt convertible into equity.

18 Debt securities issued

(in thousands of UAH)	Maturity	Interest rate	2005	2004
Loan participation notes issue of USD 125,000 nominal	August 2008	7.875%	**619,469**	-
			619,469	-

In August 2005, the Company received a loan from Moscow Narodny Bank (MNB), which is fully sub-participated to loan participation notes (the "Notes") issued through UkrChem Capital B.V. with a par value of USD 125,000 thousand (UAH 631,250 thousand at the exchange rate at the time of issue). The Notes carry a fixed coupon rate of 7.875% per annum, and an effective interest rate of 9.13% per annum. The Notes are listed on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

The loan agreement with MNB includes, amongst other, the following covenants:

- The Group shall ensure that at least 80 percent of its sales of ammonia, urea and ammonium nitrate in any financial year will be at, or above, the mid-point of the range of spot prices as quoted by FMB Weekly Fertilizer Report at the time of relevant sale. The Group does not sell at least 80 percent of its sales of ammonia, urea and ammonium nitrate in 2005 at, or above, the mid-point of the range of spot prices at the time of relevant sale.

- All transactions with related parties should be performed on an arms-length basis. The Group has entered into a series of transactions with related parties involving the purchase and sale of equity securities and bonds. The difference between purchase and sales prices is recorded as a distribution to a shareholder as described in note 16.

- In respect of transactions or series of transactions involving aggregate payments or value in excess of USD 10,000 thousand (UAH 50,500 thousand at the exchange rate as at 31 December 2005), the Group should deliver to MNB a written opinion from an independent appraiser regarding whether the transactions with related parties are performed on an arms-length basis. No written opinion from an independent appraiser regarding whether the series of transactions in excess of USD 10,000 thousand with related parties are performed on an arms-length basis was obtained.

- The Group or any of its subsidiaries cannot declare or pay any dividends. Dividends were paid by the Group and some of its subsidiaries during 2005.

- The Group must comply will terms and conditions of all other liabilities, in order not to make these liabilities become payable prior to their stated maturity date. The Group does not comply with certain covenants of the loan agreement with BSTDB as described in note 17.

As at 31 December 2005 the Group does not comply with certain covenants of the MNB loan agreement as described above. This gives MNB the right to demand immediate repayment of this loan. Therefore, the outstanding amount of the loan was classified as current liability.

The non-compliance with these covenants was not remedied or the terms of the loan agreement renegotiated before these financial statements were authorized for issue.

19 Post-employment employee benefit obligations

As at 31 December 2004 the Group did not account for the post-employment employee benefit obligations in respect of current and former employees working in hazardous conditions. For more information about the Group’s recognition of this obligation in respect of hazardous pensions, refer to note 3(w).

Post-employment obligations

The liability recognized in the balance sheet as at 31 December 2005 is as follows:

(in thousands of Ukrainian hryvnia)	**2005**
Present value of obligations	**16,942**
Unrecognized actuarial gain	**-**
Recognized liability for defined benefit obligations	**16,942**

Movement in the liability recognized in the balance sheet during the year ended 31 December 2005 is as follows:

(in thousands of Ukrainian hryvnias)	**2005**
At 1 January 2005	**16,678**
Benefits paid	**(2,030)**
Expense recognised in the consolidated income statement	**2,294**
Net liability at 31 December 2005	**16,942**

The amounts recognized in the consolidated income statement for the year ended 31 December 2005 are as follows:

(in thousands of Ukrainian hryvnias)	**2005**
Current service cost (included in cost of revenues)	**293**
Interest cost on benefit obligation	**2,001**
Net actuarial (gain) loss	**-**
	2,294

The principal assumptions used in determining the employee benefits obligations are presented below:

	2005
Discount rate	**12%**
Future salary increase rate	**12%**
Consumer price index increase rate	**9%**

The discount rate is estimated based on the yield at balance sheet date on high quality corporate bonds adjusted for the estimated effects of the difference in duration.

The salary increase rate is estimated based on the expected budgeted and forecasted salary increases for the Group's employees.

The Consumer Price Index increase rate is estimated based on the analysis of external forecasts and projections.

The sensitivity of the post-employment employee benefit obligations to the key assumptions described is as follows:

- A decrease by 1 percentage point of the discount rate would increase the obligation by approximately UAH 400 thousand.
- An increase by 1 percentage point of the estimated salary increase rate would increase the obligation by approximately UAH 208 thousand.

20 Trade and other payables

Trade and other payables as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accounts payable – trade	**62,584**	110,704
Dividends payable	**20,170**	4,380
Other payables and accrued expenses	**25,689**	21,382
Accrued interest payable	**20,845**	-
	129,288	136,466

21 Revenues

Revenues for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Inorganic products:		
Urea	**856,053**	698,205
Ammonia	**690,741**	599,036
Ammonium nitrate	**359,883**	267,975
Other inorganic products	**104,850**	77,811
	2,011,527	1,643,027
Organic products	**151,944**	135,201
Other operations:		
Pharmaceuticals	**46,438**	38,716
Packaging and other products derived from chemicals	**56,786**	46,493
Other revenues	**17,684**	17,643
	120,908	102,852
	2,284,379	1,881,080

22 Administrative expenses

Administrative expenses for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Salaries and related charges	**24,366**	16,078
Indirect taxes	**13,940**	3,479
Energy	**4,565**	3,038
Consumables	**3,006**	2,067
Depreciation	**2,126**	3,971
Bank services	**4,729**	1,747
Transport and communication	**5,835**	3,101
Traveling expenses	**5,698**	2,561
Insurance fees	**2,877**	392
Registration fees	**2,552**	147
Consulting fees	**5,508**	1,628
Other	**4,466**	2,516
	79,668	40,725

23 Other expenses

Other expenses for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Impairment of property, plant and equipment (note 5)	**-**	20,281
Loss on disposal of property, plant and equipment	**8,593**	1,706
Research costs	**1,379**	1,329
Sponsorship	**3,777**	4,652
Amortization of goodwill	-	1,327
Provision for VAT refundable	**1,304**	5,360
Other	**16,717**	8,545
	31,770	43,200

24 Total personnel costs

Total personnel costs, the majority of which are included in cost of revenues for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Wages and salaries	**43,568**	37,756
Current service cost in respect of defined benefit plan (Note 19)	**293**	-
Salary related charges	**16,324**	14,392
	60,185	52,148

The average number of employees of the Group in 2005 was 1,581 (2004: 2,581).

25 Financial income

Financial income for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Interest income	**94,704**	37,121
Dividend income	**3,153**	1,314
Net foreign exchange gain	**-**	205
	97,857	38,640

26 Financial expense

Financial expense for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Interest expense	**38,876**	7,219
Interest cost on benefit obligation	**2,001**	-
Impairment losses on unconsolidated subsidiaries and available-for-sale securities	**2,171**	9,237
Impairment loss on investment in associated bank not accounted for under the equity method	**-**	2,218
Net foreign exchange loss	**12,856**	-
Loss on sales of available-for sale securities	**778**	-
	56,682	18,674

27 Income tax expense

Income tax expense for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Current tax expense	**262,476**	108,932
Deferred tax (income) expense relating to origination and reversal of temporary differences	**(93,950)**	555
Deferred tax expense (income) relating to change in unrecognized deferred tax asset	**31,935**	(555)
	200,461	108,932

The statutory income tax rate is 25% for 2005 (2004: 25%).

During 2004 the Company enjoyed preferential tax treatment for some of its operations, as it is located in a free economic zone. The taxable profit from certain investment projects authorized by local authorities was fully exempt from the payment of corporate income tax during the first three years. After three years from the projects’ commencement, a corporate income tax on taxable profits of these investment projects at the rate of 50% of the statutory corporate income tax rate was applied. After six years, 100% of the statutory income tax rate was applied.

On 31 March 2005 the laws related to this preferential tax treatment were revised such that the benefits are no longer be available to the Company.

Reconciliation of effective tax rate

(in thousands of Ukrainian hryvnias)	**2005**	**%**	2004	%
Profit before tax	**629,112**		477,275	
Income tax at applicable tax rate	**157,278**	**25**	119,319	25
Change in unrecognized deferred tax asset	**31,935**	**5**	(555)	-
Effect of preferential tax treatment	-	-	(27,603)	(6)
Taxable gain on sales of treasury shares	-	-	2,817	1
Non tax-deductible items	**11,248**	**2**	14,954	3
	200,461	**32**	108,932	23

28 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit and concentration risk

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At balance sheet date there was a significant concentration of credit risk to JSB Brokbusinessbank as described in note 14. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Group has also concentration risk in respect of purchases and sales as described in note 31 (c) and 31 (d) respectively.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group's policy is to manage interest rate risk by using a mix of fixed rate and variable rate borrowings. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to notes 14, 17 and 18 for information about maturity dates and effective interest rates of fixed rate and floating rate financial instruments. Repricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Repricing of floating rate financial instruments occurs continually.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases, bank balances, bank deposits and borrowings that are denominated in a currency other than hryvnias. The currencies giving rise to this risk are primarily USD, RUR, and EUR. Ukrainian legislation restricts the Group's ability to hedge its exposure to foreign currency risk, and, accordingly, the Group does not hedge its exposure to foreign exchange risk.

(d) Fair values

Estimated fair values of the Group's financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the estimated fair values. Accordingly, the estimates of fair values are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value of the Group's equity investments is not practicable to be determined with sufficient reliability due to the lack of a developed market for those investments.

For all other financial assets and liabilities the carrying value is estimated to approximate the fair value as at 31 December 2005 and 2004.

29 Related party transactions

(a) Control relationships

The Group has a controlling relationship with all of its subsidiaries (see note 2 (d) (i) for a list of subsidiaries) and jointly controlling relationship with all of its jointly controlled entities (see note 2 (d) (iii)).

(b) Transactions with management

Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 24)

(in thousands of Ukrainian hryvnias)	**2005**	2004
Salaries and bonuses	**2,583**	1,375
Contributions to defined contributions pension plan	**83**	-
Contributions to State pension fund	**176**	105
	2,842	1,480

(c) Transactions with other related parties

During 2004 and 2005, the Group had a number of transactions and balances with related parties. Related parties also comprise the associates of the Company, the shareholders of the Company, companies which are under common control with the Company, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, key management personnel of the Company or their close family members.

(i) Revenues

Sales of goods and services to related parties for the year ended 31 December are as follows:

	2005	2004
(in thousands of Ukrainian hryvnias)		
Sale of goods:		
Associates	**940**	28
Entities with joint control or significant influence over the Company	**1,601,724**	1,015,011
Entities under common control with the Company or significantly influenced by related parties of the Group	**158,506**	491,036
Services provided:		
Unconsolidated subsidiaries	**380**	35
Associates	**1,307**	5,249
Entities under common control with entity or significantly influenced by related parties of the Group	**3,245**	1,346
Sale of property and other assets:		
Unconsolidated subsidiaries	**1,575**	639
Associates	**12,924**	2,705
Entities under common control with entity or significantly influenced by related parties of the Group	**13,742**	69,265
	1,794,343	1,585,314

(ii) Purchases

Purchases of goods and services from related parties for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Purchases of goods:		
Associates	**1,282**	391
Entities under common control with entity or significantly influenced by related parties of the Group	**1,846**	-
Services provided by:		
Unconsolidated subsidiaries	**10,707**	88
Associates	**128,022**	86,029
Entities under common control with entity or significantly influenced by related parties of the Group	**3,411**	2,188
Purchase of property and other assets from:		
Unconsolidated subsidiaries	**1,936**	1,466
Associates	**659**	332
Entities under common control with entity or significantly influenced by related parties of the Group	**121,457**	106,542
	269,320	197,036

(iii) Receivables and advances paid

Receivables and advances paid as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accounts receivable - trade:		
Unconsolidated subsidiaries	**4,089**	249
Associates	**5,304**	3,064
Entities with joint control or significant influence over the entity	**2,346**	-
Entities under common control with entity or significantly influenced by related parties of the Group	**8,319**	15,428
Prepayments to suppliers:		
Unconsolidated subsidiaries	**103**	53
Associates	**185**	243
Entities under common control with entity or significantly influenced by related parties of the Group	**13,315**	6,025
Receivables for treasury shares:		
Entities with joint control or significant influence over the entity	**-**	24,754
Entities under common control with entity or significantly influenced by related parties of the Group	**17,626**	-
	51,287	49,816

There is no contractual maturity of receivables and advances paid with related parties. Balances are unsecured. No provision for doubtful debts is created on these balances as at 31 December 2005 and 2004.

(iv) Term bank deposits and cash and cash equivalents

Term bank deposits and cash and cash equivalents as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
JSC Brokbusinessbank	-	305,418
	-	**305,418**

(v) Investment in unconsolidated subsidiaries, associates and available-for-sale securities

Available-for-sale securities and investment in unconsolidated subsidiaries as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Investment in unconsolidated subsidiaries	**8,976**	1,657
Investment in associates	**4,908**	1,963
Available-for-sale securities:		
Promissory notes of OJSC Stirolbiotech	**7,054**	5,972
Shares of OJSC Stirolbiotech	**3,630**	3,280
	24,568	12,872

(vi) Long-term receivable

Refer to note 8 for details of long-term receivable.

(vii) Current investments

Current investments as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Shares of JSB Brokbusinessbank	**-**	63,020
	-	63,020

(viii) Trade and other payables

Trade and other payables as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accounts payable – trade:		
Associates	**7,522**	2,651
Unconsolidated subsidiaries	**3,176**	-
Entities under common control with entity or significantly influenced by related parties of the Group	-	4,064
Entities with joint control or significant influence over the entity	**-**	5,756
	10,698	12,471

There is no contractual maturity of the outstanding trade payables balances with related parties. Balances are unsecured.

(ix) Advances received

Advances received as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Entities with joint control or significant influence over the entity	**62,115**	42,729
Entities under common control with entity or significantly influenced by related parties of the Group	**3,680**	1,541
	65,795	44,270

There is no contractual maturity of the advances received with related parties. Balances are unsecured.

(x) Loans and borrowings

Loans and borrowings as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
JSC Brokbusinessbank	**-**	20,250
Entities with joint control or significant influence over the entity	**28,104**	-
	28,104	20,250

In 2005, the Group received an interest free loan from a shareholder. For details refer to note 16.

(xi) Other related party transactions

During 2005, the Group entered into a series of sales and purchases of treasury shares with a shareholder. For a description of the transactions refer to note 16.

During 2005, the Group entered into a series of sales and purchases of equity securities and unsecured bonds with a shareholder. For a description of the transactions refer to note 16.

During 2005 the Group sold equipment to JSC Stirolbiotech, which is an entity under common control with the Group. For a description of the transaction refer to note 16.

During 2005, the Group's associates and entities under common control with the Group acted as agents for the sale of organic products to third parties in the amount of UAH 80,381 thousand (2004: UAH 32,203 thousand). The Gross profit margin earned by associates and entities under common control on these transactions amounted to UAH 1,371 thousand in 2005 (2004: UAH 516 thousand).

30 Summarised financial information in respect of associates

The following is summarised financial information, in aggregate, in respect of associates accounted for under the equity method as at and for the year ended 31 December:

(in thousands of Ukrainian hryvnias)	**2005 (unaudited)**	2004 (unaudited)
Balance sheet		
Assets	**47,691**	26,301
Liabilities	**(30,869)**	(17,561)
Total equity	**16,822**	8,740
Income statement		
Revenues for the year	**198,218**	137,700
Expenses for the year	**(187,232)**	(130,130)
Net profit for the year	**10,986**	7,570

31 Commitments

(a) Capital commitments

The Group has commitments for the acquisition of property, plant and equipment amounting to UAH 94,593 as at 31 December 2005 (2004: UAH 40,189 thousand).

(b) Social commitments

The Group makes contributions to mandatory and voluntary social programs. Management expects that the Group will continue to fund these social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(c) Purchase concentration

The Group purchased natural gas from one state owned gas distribution company amounting to UAH 717,864 thousand during 2005 (2004: UAH 618,602 thousand), which comprises 53% of the total amount of cost of production during 2005 (2004: 53%) and 100% of the total amount of gas purchases. Management plans to reduce the Group's dependence on this sole supplier of natural gas by entering into purchase agreements with alternative suppliers.

(d) Sales concentration

The Group sold urea, ammonia, ammonium nitrate and other products to a related party, for a total of UAH 1,601,724 thousand during 2005, which comprises 70.1% of total revenue during 2005 (2004: UAH 1,008,669 thousand or 53.6%). As at 31 December 2005, advances received from this company amounted to UAH 61,639 thousand (2004: UAH 42,456 thousand).

32 Contingencies

(a) Environmental contingency

The Company has been operating in the chemical industry in Ukraine for many years. The normal activities of the Company may have resulted in damage to the environment. The enforcement of environmental regulation in Ukraine is evolving and the enforcement stance of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. If obligations are determined, they would be recognized immediately. If no current or future benefit is discernible the related costs would be expensed. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination would be capitalized. Potential liabilities, which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that require accrual in the consolidated financial statements. The Group does not have any environmental accruals as at 31 December 2005 and 2004.

(b) Insurance

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available or economically feasible. The Group has coverage only of its plant facilities that are pledged to secure loans and borrowings. The Group does not have full coverage for its other plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains additional insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Litigation

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the Group's financial position or results of operations.

(d) Taxation contingencies

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these financial statements.

33 Subsequent events

In 2006 the Group purchased securities for UAH 580,000 thousand. Management plans to sell these securities in the near term. In 2006 the Group also purchased additional shares of JSC Stirolbiotech from an entity under common control for UAH 16,129 thousand which increased the Group’s ownership interest to 53.5%. These transactions entered into by the Group resulted to additional breaches of the covenants of BSTDB and MNB loan agreements.

Approved by the Board of Directors on 15 June 2006.

On behalf of the Board of Directors:

Verevkin V.M.	President
Salov A.N.	Finance Director
Saratov A.V	Chief Accountant

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Independent Auditors' Report

To the Board of Directors of
Joint-Stock Company "Concern Stirol"

We have audited the accompanying consolidated balance sheet of Joint-Stock Company "Concern Stirol" (the Company) and its subsidiaries (the Group) as at 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except as described in the following two paragraphs, 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 audit provides a reasonable basis for our opinion.

We did not observe the counting of inventories stated at UAH 132,576 thousand as at 31 December 2003 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of revenues, income tax expense and net profit for the year ended 31 December 2004.

We were unable to obtain sufficient documentation regarding all related party relationships. Accordingly, we were unable to determine whether any adjustments might be necessary to disclosures of related party relationships, transactions and balances as at and for the year ended 31 December 2005 and 2004.

The Group has not disclosed the name of its ultimate controlling party as at 31 December 2005 and 2004, which is required by International Financial Reporting Standard IAS 24 *Related Party Disclosures*.

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the third paragraph, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient appropriate audit evidence as described in the fourth paragraph, and except for the omission of the information described in the fifth paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC KPMG Audit

CJSC KPMG Audit
15 June 2006