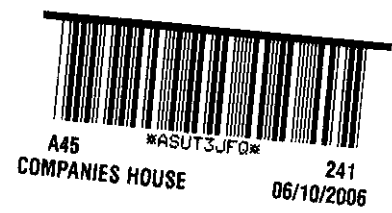


(Registered Number 915392)

CLEVELAND POTASH LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2005



CLEVELAND POTASH LIMITED

DIRECTORS' REPORT

The directors of Cleveland Potash Limited submit their report together with the accounts of the company for the year ended 31 December 2005 and the auditors' report thereon.

ACTIVITIES

Mining, processing and marketing of potash and road salt continued to be the company's principal activity.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The loss for the year after taxation amounted to £3,568,000 (2004 - restated profit £4,704,000).

Production levels fell due to underground production difficulties and a reduction in grade quality of the hoist ore. These problems have been addressed or compensated for by the adoption of new operating methods designed to increase the number of hours that the underground panels are manned. The company continued to benefit from good potash prices and effective cost control, but steep increases in energy input costs had an adverse effect on profitability. The directors are confident that the adoption of the new operating methods and new mining machinery will enhance production.

No dividends have been paid during the year nor are any proposed to be paid in respect of the year. No dividends were paid in respect of 2004. The loss for the year deducted from reserves amounts to £3,568,000 (2004: - retained profit added to reserves of £4,704,000 as restated).

DIRECTORS

The directors who held office during the year were as follows:

Y Ariav (Chairman)

JP Carello (resigned 30 June 2005)

G Clarke

CJ Gibson

N Goldstein (resigned 30 June 2005)

CP Langeveld

R Marx

AMS van Schie (appointed 1 July 2005)

There are no directors' interests required to be disclosed by the Companies Act 1985.

EMPLOYEES

The company is an equal opportunity employer and opposes all forms of discrimination. It is company policy that no employee, trainee or job applicant is discriminated against on any grounds including sex, race, colour, religious beliefs, ethnic or national origin, sexual orientation, disability or age.

Over many years the company has introduced, developed and maintained various methods of communication aimed at achieving greater employee involvement and awareness. Regular consultative meetings are held on business and financial performance as well as general matters including safety and health, employment conditions and pensions.

CLEVELAND POTASH LIMITED
DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

It is the policy of the company to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by the creditors' terms of payment. There are no creditors subject to special arrangements outside of suppliers' terms and conditions. Trade creditors at 31 December 2005 represents 26 days of purchases (2004 - 28 days).

DONATIONS

During the year the company made donations to local charitable causes amounting to £7,918 (2004 - £6,682).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the company elected to terminate the finance lease in respect of the combined heat and power plant. The lessor was fully paid on 31 January 2006.



J P Simpson
Secretary
10 April 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CLEVELAND POTASH LIMITED

We have audited the financial statements of Cleveland Potash Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- * give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- * have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
10 April 2006

CLEVELAND POTASH LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

| | | as restated | |
|--|------|-----------------|-----------------|
| | | 2005 | 2004 |
| | Note | £'000 | £'000 |
| TURNOVER | 2 | 86,040 | 94,433 |
| Net operating expenses | | | |
| Exceptional other operating income | 3 | - | 2,550 |
| Other operating expenses | 4 | (89,178) | (91,647) |
| | | <u>(89,178)</u> | <u>(89,097)</u> |
| OPERATING (LOSS) / PROFIT | | (3,138) | 5,336 |
| Interest receivable and similar income | 7 | 399 | 621 |
| Interest payable and similar charges | 8 | (899) | (1,402) |
| Other finance income | 9 | <u>70</u> | <u>149</u> |
| (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | (3,568) | 4,704 |
| TAXATION | 10 | <u>-</u> | <u>-</u> |
| (LOSS) / PROFIT FOR THE YEAR RETAINED AND ADDED TO RESERVES | 18 | <u>(3,568)</u> | <u>4,704</u> |

All activities derive from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit stated above and the historical cost equivalent.

| | as restated | |
|---|-----------------|--------------|
| | 2005 | 2004 |
| | £'000 | £'000 |
| Statement of total recognised gains and losses | | |
| Loss / (profit) for the financial year | (3,568) | 4,704 |
| Actuarial (loss) / gain recognised in the schemes (note 20) | <u>(323)</u> | <u>2,659</u> |
| Total recognised (losses) / gains for the year | (3,891) | 7,363 |
| Prior year adjustment - FRS 17 (note 1) | <u>(17,300)</u> | |
| Total losses recognised since the last annual report | <u>(21,191)</u> | |

The notes on pages 6 to 16 form an integral part of these accounts.

CLEVELAND POTASH LIMITED

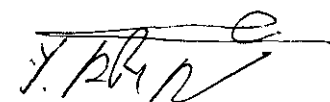
BALANCE SHEET AS AT 31 DECEMBER 2005

| | | | as restated |
|---|------|----------------------|----------------------|
| | | 2005 | 2004 |
| | Note | £'000 | £'000 |
| TANGIBLE FIXED ASSETS | 11 | <u>35,190</u> | <u>33,160</u> |
| CURRENT ASSETS | | | |
| Stocks | 12 | 12,298 | 7,926 |
| Debtors | 13 | 26,025 | 29,974 |
| Cash at bank and in hand | | <u>635</u> | <u>773</u> |
| | | 38,958 | 38,673 |
| CREDITORS (amounts falling due within one year) | 14 | <u>(27,863)</u> | <u>(19,277)</u> |
| NET CURRENT ASSETS | | <u>11,095</u> | <u>19,396</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 46,285 | 52,556 |
| CREDITORS (amounts falling due after more than one year) | 14 | (8,944) | (10,260) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (4,674) | (4,333) |
| PENSION LIABILITY | 20 | (15,359) | (16,764) |
| NET ASSETS | | <u><u>17,308</u></u> | <u><u>21,199</u></u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 54,500 | 54,500 |
| Share premium account | 18 | 2,123 | 2,123 |
| Profit and loss account | 18 | <u>(39,315)</u> | <u>(35,424)</u> |
| TOTAL SHAREHOLDERS' FUNDS | 18 | <u><u>17,308</u></u> | <u><u>21,199</u></u> |

Shareholders' funds attributable to:

| | | |
|-------------------------|----------|----------|
| Equity shareholders | (30,192) | (26,301) |
| Non-Equity shareholders | 47,500 | 47,500 |

The financial statements on pages 4 to 16 were approved by the Board of Directors on 10 April 2006 and are signed on its behalf by:


Yarom Ariav

The notes on pages 6 to 16 form an integral part of these accounts.

CLEVELAND POTASH LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 2005

1 ACCOUNTING POLICIES

The following statements indicate the main accounting policies on which the annual accounts have been based.

Change in accounting policy

The company has adopted FRS 17, "Retirement benefits" in these financial statements. The effect of this change was to increase staff costs by £707,000 (2004: £1,051,000), increase other financial income by £411,000 (2004: £679,000) and decrease the profit for the year by £296,000 (2004: £372,000). The adoption has also resulted in a decrease in net assets of £17,919,000 (2004: £17,300,000).

The adoption of FRS 17 has introduced a new balance sheet heading in respect of the Pension Liability. The directors have considered the impact on the balance sheet disclosure and have decided that it is more appropriate to equate net assets with the aggregate of share capital and reserves rather than equating total assets less current liabilities with the aggregate of creditors falling due after more than one year, provisions for liabilities, pension liability and capital and reserves as previously. This change does not constitute a change of format as Format 1 is still applicable.

1 Accounting convention

These accounts are prepared on a going concern basis in accordance with applicable United Kingdom accounting standards under the historical cost convention.

2 Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Assets and liabilities denominated in foreign currency are translated at rates of exchange ruling at the balance sheet date except when forward exchange contracts have been entered into as a hedge, in which case the hedge rate has been used. Gains and losses on settled transactions are recorded in the profit and loss account.

3 Turnover

Turnover represents the invoiced value of sales to customers excluding value added tax and is recognised on despatch of the product to the customer.

4 Other operating income

Other operating income represents rents and fees receivable.

5 Depreciation

Assets with finite lives are depreciated on a straight line basis at a rate determined by their remaining estimated useful working lives; buildings and plant estimated to have lives equivalent to the life of the ore body are depreciated over the life of the mine based on the expected recoverable ore reserves. Other plant and machinery is depreciated over periods of 5 to 15 years.

6 Government grants

In line with the charges for depreciation, grants in respect of capital expenditure have been credited to the profit and loss account over the estimated useful working lives of the related assets.

7 Reclamation

A provision is made for the eventual reclamation of the company's Boulby site based on the estimated cost at the balance sheet date as discounted in recognition of the estimated future settlement of this obligation. The profit and loss account charges build the provision to the estimated discounted future settlement obligation. The estimated date of settlement is based on a geological estimate of reserves.

8 Stock valuation

Stocks are valued at the lower of cost or net realisable value. Cost includes materials, direct labour and production overheads where relevant. Net realisable value is based on estimated selling price less all further costs to completion and all relevant selling and distribution costs.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

9 Leases

Assets acquired under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to the profit and loss account over the period benefiting from the use of the related asset.

10 Pensions

The company operates both defined benefit and defined contribution plans. The pension cost charged to the profit and loss account in respect of the defined benefit plans is calculated by a qualified actuary. The company has adopted FRS 17 for the first time this year and the effects of adoption are given in Note 20. Contributions under the defined contribution plan are charged to the profit and loss account as they become payable in accordance with the rules of the plan.

11 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

12 Securitization of trade receivables

The consideration in respect of trade receivables sold under the group securitization agreement is accounted for as a sale of the trade receivable and the related trade receivables are derecognised. Amounts received from customers in respect of sold trade receivables is shown in creditors due within one year until such time as the monies are paid over to the provider of the securitization agreement.

13 Emission rights

Carbon emission allowances are recorded at their acquisition cost. Obligations to deliver allowances are recorded at the average carrying value of the allowances held to meet such obligations. Where the obligation to deliver a number of allowances exceeds the number of allowances held then provision is made at the prevailing market rate. Where surplus allowances are sold the difference between the sale proceeds and the carrying value is taken to the profit and loss account.

13 Cash flow statement

A cash flow statement has not been provided as the company is a wholly owned subsidiary undertaking of a group that produces publicly available consolidated financial statements, in which the company's financial statements are included.

2 TURNOVER

Substantially all of the turnover and operating profit arose from the principal activity of the company. Geographical analysis of turnover by destination:

| | 2005 | 2004 |
|-----------------------------|---------------|---------------|
| | £'000 | £'000 |
| United Kingdom | 49,295 | 48,602 |
| European Union excluding UK | 36,114 | 43,425 |
| Rest of the World | 631 | 2,406 |
| | <u>86,040</u> | <u>94,433</u> |

CLEVELAND POTASH LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

3 EXCEPTIONAL OTHER OPERATING INCOME

| | 2005 | 2004 |
|---|-------|-------|
| | £'000 | £'000 |
| Compensation to terminate CHP Utility Tolling Agreement | - | 2,550 |

4 OTHER OPERATING EXPENSES

| | 2005 | as restated 2004 |
|------------------------------------|-----------------|---------------------|
| | £'000 | £'000 |
| Change in stocks of finished goods | 3,694 | (1,960) |
| Other operating income | 1,424 | 1,303 |
| Raw materials and consumables | (9,979) | (8,636) |
| Other external charges | (49,910) | (49,373) |
| Staff costs (note 5) | (32,040) | (31,072) |
| Depreciation | (2,550) | (2,083) |
| Government grant release | 183 | 174 |
| | <u>(89,178)</u> | <u>(91,647)</u> |

5 STAFF COSTS

| | 2005 | as restated 2004 |
|---------------------------|---------------|---------------------|
| | £'000 | £'000 |
| Salaries | 26,447 | 25,409 |
| Social security costs | 2,222 | 2,175 |
| Pension costs | | |
| Defined benefit (note 20) | 3,197 | 3,368 |
| Defined contribution | 174 | 120 |
| | <u>32,040</u> | <u>31,072</u> |

| | Number | Number |
|--|------------|------------|
| Average number of employees | | |
| Production | 704 | 709 |
| Administration, Sales and Distribution | 96 | 98 |
| | <u>800</u> | <u>807</u> |

| | £'000 | £'000 |
|--|-------|-------|
| Directors' emoluments | | |
| Remuneration (excluding pension contributions) | 191 | 507 |
| Remuneration of the highest paid director | 113 | 206 |

| | Number | Number |
|---|----------|----------|
| Number of directors who are members of the company's defined benefit plan | <u>2</u> | <u>2</u> |

The accrued pension of the highest paid director during the year is £27,391 (2004 - £Nil).

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after the following amounts have been charged to the profit and loss account:

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Operating leases | | |
| Plant and machinery | 1,027 | 1,235 |
| Other | 811 | 788 |
| Commissions payable | 163 | 111 |
| Hire of plant and machinery | 422 | 454 |
| (Profit) / loss on disposal of fixed assets | (3) | 4 |
| Auditors' remuneration | | |
| Audit | 32 | 26 |
| Non audit services | 4 | 113 |

7 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2005 £'000 | 2004 £'000 |
|----------------|---------------|---------------|
| Bank interest | 17 | 59 |
| Group interest | 377 | 543 |
| Other interest | 5 | 19 |
| | <u>399</u> | <u>621</u> |

8 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2005 £'000 | as restated 2004 £'000 |
|----------------|---------------|------------------------------|
| Bank overdraft | - | - |
| Finance leases | 449 | 752 |
| Securitization | 450 | 650 |
| | <u>899</u> | <u>1,402</u> |

9 OTHER FINANCE INCOME / (COSTS)

| | 2005 £'000 | as restated 2004 £'000 |
|---|---------------|------------------------------|
| Net return on pension scheme assets (note 20) | 411 | 679 |
| Reclamation provision discount unwind (note 15) | (341) | (530) |
| | <u>70</u> | <u>149</u> |

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

10 TAXATION

(i) Analysis of tax charge on ordinary activities

| | 2005 £'000 | 2004 £'000 |
|--|---------------|---------------|
| United Kingdom corporation tax at 30% (2003 - 30%) based on the profit for the year | - | - |
| Group relief - current year | - | - |
| Group relief - adjustment re prior year | - | - |
| Total current tax | - | - |
| Deferred taxation | - | - |
| | - | - |

(ii) Factors affecting tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK - 30% (2003 - 30%). The differences are explained below:

| | 2005 £'000 | as restated 2004 £'000 |
|---|---------------|------------------------------|
| (Loss) / profit on ordinary activities before tax | (3,568) | 4,704 |
| Tax @ 30% thereon | (1,070) | 1,411 |
| Expenses not deductible for tax purposes | 15 | 15 |
| Depreciation in excess of capital allowances | 532 | 502 |
| Other timing differences | (439) | (329) |
| Losses for which no relief available | 962 | - |
| Losses brought forward | - | (1,711) |
| Adjustments re prior year | - | 112 |
| | 0 | 0 |

(iii) Factors that may effect future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to tax losses, accelerated capital allowances and other timing differences carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £18 million (2004 - £18 million). The asset would be recovered if the company's profits in future years are sufficient to utilise tax losses and allowances carried forward. The company has tax losses, subject to the agreement of the Inland Revenue, of £50 million (2004 - £42 million) to set against future profits from the same trade.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

11 TANGIBLE FIXED ASSETS

| | Freehold land and buildings £'000 | Plant and machinery £'000 | Mining works £'000 | Assets under construction £'000 | Total £'000 |
|---------------------------------|--|---------------------------------|--------------------------|--|----------------|
| Cost | | | | | |
| At 1 January 2005 | 12,114 | 96,983 | 18,018 | 5,353 | 132,468 |
| Additions | - | - | - | 4,580 | 4,580 |
| Reclassifications | 220 | 4,503 | - | (4,723) | - |
| Disposals | - | (45) | - | - | (45) |
| At 31 December 2005 | <u>12,334</u> | <u>101,441</u> | <u>18,018</u> | <u>5,210</u> | <u>137,003</u> |
| Accumulated depreciation | | | | | |
| At 1 January 2005 | 11,454 | 70,515 | 17,339 | - | 99,308 |
| Charge for year | 52 | 2,363 | 135 | - | 2,550 |
| Disposals | - | (45) | - | - | (45) |
| At 31 December 2005 | <u>11,506</u> | <u>72,833</u> | <u>17,474</u> | <u>-</u> | <u>101,813</u> |
| Net book value | | | | | |
| At 31 December 2005 | <u>828</u> | <u>28,608</u> | <u>544</u> | <u>5,210</u> | <u>35,190</u> |
| At 31 December 2004 | <u>660</u> | <u>26,468</u> | <u>679</u> | <u>5,353</u> | <u>33,160</u> |

The cost of fully depreciated assets included above under plant and machinery is £34.8 million (2004 - £34.8 million).

Depreciation is charged when assets come into use.

The net book value of plant and machinery includes £8.8 million (2004 £9.4 million) in respect of assets held under finance leases and hire purchase contracts. The depreciation charge on these assets during the year was £0.6 million (2004 - £0.6 million).

Capital expenditure amounting to £513,000 (2004 - £671,000) has been contracted for but is not provided for in these accounts.

12 STOCKS

| | 2005 £'000 | 2004 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 4,734 | 4,056 |
| Finished goods | 7,564 | 3,870 |
| | <u>12,298</u> | <u>7,926</u> |

13 DEBTORS (amounts falling due within one year)

| | 2005 £'000 | 2004 £'000 |
|--|---------------|---------------|
| Trade debtors | 5,768 | 6,697 |
| Amounts owed by fellow subsidiary undertakings | 18,280 | 21,845 |
| Other debtors | 530 | 464 |
| Prepayments and accrued income | 1,447 | 968 |
| | <u>26,025</u> | <u>29,974</u> |

Amounts owed by fellow subsidiary undertakings includes short-term deposits placed with the group treasury function and trade receivables under normal commercial terms.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

14 CREDITORS

| | 2005 £'000 | 2004 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year: | | |
| Bank overdraft | 3,650 | 1,133 |
| Securitization proceeds | 7,723 | 6,233 |
| Obligations under finance leases | 1,140 | 1,107 |
| Trade creditors | 4,552 | 4,867 |
| Amounts owed to fellow subsidiary undertakings | 5,507 | 688 |
| Tax and social security payable | 788 | 660 |
| Other creditors | 74 | 77 |
| Accruals and deferred income | 4,325 | 4,408 |
| Government grants | 104 | 104 |
| | <u>27,863</u> | <u>19,277</u> |

The company, along with several fellow subsidiary undertakings, has entered into an agreement involving the sale of trade debtors, on a non recourse basis, under a securitization transaction. The agreement allows the company to receive cash on a revolving basis from the sale of eligible receivables to a bankruptcy remote special purpose entity ("SPE"), whilst still servicing the sold receivables. The consideration for the sold receivables allows for the discount to receipt from the customer.

| | 2005 £'000 | 2004 £'000 |
|--|---------------|---------------|
| Amounts falling due after more than one year: | | |
| Obligations under finance leases | 5,996 | 7,129 |
| Government grants | 2,948 | 3,131 |
| | <u>8,944</u> | <u>10,260</u> |

Finance leases

Obligations under finance leases are secured by the related assets.

Payable:

| | | |
|----------------------------|--------------|--------------|
| Within one year | 1,140 | 1,107 |
| Between one and two years | 1,215 | 1,141 |
| Between two and five years | 3,751 | 3,858 |
| Over five years | 1,030 | 2,130 |
| | <u>7,136</u> | <u>8,236</u> |

On 31 January 2006 the company terminated the finance lease by paying the lessor an amount for full and final settlement.

Government grants:

| | | |
|--------------------------|--------------|--------------|
| At 1 January | 3,235 | 3,391 |
| Received during the year | - | 18 |
| Released during the year | (183) | (174) |
| At 31 December | <u>3,052</u> | <u>3,235</u> |

CLEVELAND POTASH LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)****15 PROVISIONS FOR LIABILITIES AND CHARGES**

| | |
|--------------------------------|--------------|
| | £'000 |
| Reclamation: | |
| At 1 January 2005 | 4,333 |
| Unwinding of discount (note 9) | 341 |
| Paid in the year | - |
| At 31 December 2005 | <u>4,674</u> |

16 OBLIGATIONS UNDER OPERATING LEASES

At 31 December 2005 the company was committed to making the following payments during the next year in respect of operating leases.

| | Land and buildings £'000 | Other £'000 |
|--------------------------|--------------------------------|----------------|
| Leases which expire: | | |
| Within two to five years | - | 440 |
| After five years | 613 | 576 |
| | <u>613</u> | <u>1,016</u> |

The operating lease rentals in respect of land and buildings which expire after five years are subject to review every five years. The next such review is due with effect from 1 April 2009.

17 CALLED UP SHARE CAPITAL

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Authorised, issued, allotted and fully paid: | | |
| Ordinary shares of £1 each | 7,000 | 7,000 |
| 10% redeemable participating preference shares of £1 each | 47,500 | 47,500 |
| | <u>54,500</u> | <u>54,500</u> |

The Preference shares have the right to a non-cumulative preference dividend of 10%, the right to preferential return of capital and thereafter to participate on a winding-up rateably with the Ordinary shares in any surplus, and to attend and vote on resolutions at General Meetings only if proposed resolutions would vary or abrogate the rights of Preferential shareholders.

The Preference shares are redeemable in whole or part with the consent in writing of the holders of three-fourths of the Preference shares in issue or with the sanction of an Extraordinary Resolution of Preference shareholders.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Called up Share capital £'000 | Share premium £'000 | Profit and loss account £'000 | Total 2005 £'000 | Total 2004 £'000 |
|--|--|---------------------------|--|------------------------|------------------------|
| At 1 January | | | | | |
| As previously stated | 54,500 | 2,123 | (18,124) | 38,499 | 33,423 |
| Prior year adjustment - FRS 17 | | | (17,300) | (17,300) | (19,587) |
| As restated | 54,500 | 2,123 | (35,424) | 21,199 | 13,836 |
| Profit for the year | - | - | (3,568) | (3,568) | 4,704 |
| Actuarial (loss) / gain recognised in the pension scheme | | | (323) | (323) | 2,659 |
| At 31 December | <u>54,500</u> | <u>2,123</u> | <u>(39,315)</u> | <u>17,308</u> | <u>21,199</u> |

| | |
|---|-----------------|
| | £'000 |
| Profit and loss account as stated above | (39,315) |
| Pension liability | (15,359) |
| Profit and loss account excluding pension liability | <u>(23,956)</u> |

19 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in FRS 8 (Related Party Transactions) which allows it not to disclose transactions with group entities or investees of the group qualifying as related parties.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

20 PENSIONS

The company operates two defined benefit pension schemes in the UK. Both schemes are closed to new members, who are instead eligible for a defined contribution arrangement to which the company contributes. A full actuarial valuation of the defined benefit schemes was carried out at 30 June 2002 and updated to 31 December 2005 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

| | At 31 December | | |
|---|----------------|-------|-------|
| | 2005 | 2004 | 2003 |
| Rate of increase in salaries | 3.85% | 3.80% | 3.70% |
| Rate of increase of pensions in payment | | | |
| - service pre 1 September 2005 | 2.85% | 2.80% | 2.70% |
| - service post 1 September 2005 | 2.35% | 2.30% | n/a |
| Rate of increase of pensions in deferment | 2.85% | 2.80% | 2.70% |
| Discount rate | 4.75% | 5.30% | 5.40% |
| Inflation assumption | 2.85% | 2.80% | 2.70% |

The assets in the defined benefit pension schemes and the expected rates of return were:

| | At 31 December | | | | | |
|------------------------------|----------------|-----------------|-------|-----------------|-------|-----------------|
| | 2005 | | 2004 | | 2003 | |
| | £'000 | | £'000 | | £'000 | |
| Equities and property | 6.7% | 95,596 | 7.2% | 78,529 | 7.5% | 87,613 |
| Bonds and other | 4.4% | 43,045 | 4.7% | 37,807 | 5.0% | 16,092 |
| Total market value of assets | | 138,641 | | 116,336 | | 103,705 |
| Actuarial value of liability | | 154,000 | | 133,100 | | 124,201 |
| Deficit in the schemes | | (15,359) | | (16,764) | | (20,496) |
| Related deferred tax asset | | - | | - | | - |
| Net pension liability | | <u>(15,359)</u> | | <u>(16,764)</u> | | <u>(20,496)</u> |

| | 2005 | 2004 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Analysis of the amount charged to operating profit: | | |
| Service cost | 3,197 | 3,368 |
| Past service cost | - | - |
| Total operating charge | <u>3,197</u> | <u>3,368</u> |

Amounts included as other finance costs:

| | 2005 | 2004 |
|----------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Expected return on scheme assets | 7,472 | 7,398 |
| Interest on pension liabilities | <u>(7,061)</u> | <u>(6,719)</u> |
| Net return | <u>411</u> | <u>679</u> |

CLEVELAND POTASH LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 2005 (CONTINUED)

20 PENSIONS (continued)

| | 2005 £'000 | 2004 £'000 |
|--|-----------------|-----------------|
| Analysis of amount recognised in statement of total recognised gains and losses: | | |
| Actual return less expected return on assets | 13,551 | 4,915 |
| Experience gains and losses on liabilities | 3,236 | 998 |
| Changes in assumptions | (17,110) | (3,254) |
| Actuarial (loss) / gain recognised in STRGL | (323) | 2,659 |
| Adjustment due to surplus cap | - | - |
| Net gain recognised | <u>(323)</u> | <u>2,659</u> |
| Movement in the deficit during the year: | | |
| Deficit in schemes at beginning of year | (16,764) | (20,496) |
| Current service cost | (3,197) | (3,368) |
| Contributions | 4,514 | 3,762 |
| Other finance income | 411 | 679 |
| Actuarial (loss) / gain | (323) | 2,659 |
| Deficit in schemes at end of year | <u>(15,359)</u> | <u>(16,764)</u> |

History of experience gains and losses in the financial year:

| | 2005 £'000 | 2004 £'000 | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|---------------|---------------|
| Difference between expected and actual return on scheme assets | 13,551 | 4,915 | 9,668 | (29,052) |
| percentage of scheme assets | 10% | 4% | 9% | -34% |
| Experience gains and losses on scheme liabilities | 3,236 | 998 | (992) | (17) |
| percentage of scheme liabilities | 2% | 1% | -1% | 0% |
| Total amount recognised in statement of total recognised gains and losses | (323) | 2,659 | 2,111 | (35,680) |
| percentage of scheme liabilities | 0% | 2% | 2% | 33% |

Effect of full adoption of FRS 17

The adoption of FRS 17 has resulted in an increase in staff costs of £707,000 (2004: £1,051,000), an increase in other financial income of £411,000 (2004: £679,000) and a decrease in the profit for the year of £296,000 (2004: £372,000). The adoption has also resulted in a decrease in net assets of £17,919,000 (2004: £17,300,000).

21 FINANCIAL COMMITMENTS

At the balance sheet date the sterling value of forward foreign exchange contracts, all in respect of hedging debtor receivables, amounted to £2,859,000 (2004 - £34,110,000). The latest maturity date of the contracts is 24 February 2006.

22 ULTIMATE PARENT UNDERTAKING

Israel Chemicals Limited, a company incorporated in Israel whose registered office is Millennium Tower, 23 Aranha St, Tel-Aviv 61202, Israel, is the ultimate parent undertaking. The immediate parent company is Dead Sea Works Limited, a company incorporated in Israel.