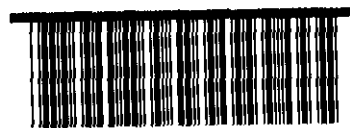


(Registered Number 915392)

CLEVELAND POTASH LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2004



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COMPANIES HOUSE 04/10/05

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 2004 and the auditor's report thereon.

ACTIVITIES

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

REVIEW OF THE BUSINESS

The profit for the year after taxation amounted to £5,076,000 (2003 - £9,288,000).

Difficult conditions underground restricted production in the second half of the year. However, strong potash prices and effective cost control enabled the company to maintain profitable trading. At the balance sheet date the company was in a satisfactory position to meet the challenges that may arise.

In January 2004 the company received £2.55 million from Lattice Energy Services Limited in compensation as a pre-condition for terminating the Utility Tolling Agreement regarding the operational management of the Combined Heat and Power plant.

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 2003. The retained profit for the year added to reserves amounts to £5,076,000 (2003: - £9,288,000).

DIRECTORS

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

Y Ariav (Chairman)
JP Carello (appointed 15 December 2004)
G Clarke (appointed 17 August 2004)
CJ Gibson (appointed 17 August 2004)
ICR Gilchrist (resigned 30 September 2004)
N Goldstein
CP Langeveld
RA Laybourne (retired 1 July 2004)
MH Marsden (resigned 31 August 2004)
R Marx
AF Pace-Bonello (resigned 11 August 2004)

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 2004 represents 28 days of purchases (2003 - 24 days).

DONATIONS

During the year the company made donations to local charitable causes amounting to £6,682 (2003 - £9,621).

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 4 to 17 they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all relevant accounting standards have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office.



J P Simpson
Secretary
23 March 2005

CLEVELAND POTASH LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLEVELAND POTASH LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 transactions is not disclosed.

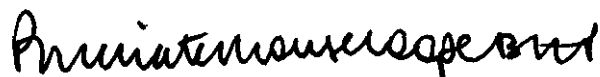
Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of affairs of the company as at 31 December 2004 and the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

23 March 2005

CLEVELAND POTASH LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £'000	2003 £'000
TURNOVER	2	94,433	98,753
Net operating expenses			
Exceptional other operating income	3	2,550	-
Other operating expenses	4	(90,596)	(88,024)
		<u>(88,046)</u>	<u>(88,024)</u>
OPERATING PROFIT		6,387	10,729
Interest receivable and similar income	7	621	502
Interest payable and similar charges	8	<u>(1,932)</u>	<u>(1,942)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	5,076	9,289
TAXATION	9	<u>-</u>	<u>(1)</u>
PROFIT FOR THE YEAR RETAINED AND ADDED TO RESERVES	17	<u><u>5,076</u></u>	<u><u>9,288</u></u>

All activities derive from continuing operations.

There are no recognised gains and losses for the current and preceding financial year other than as stated in the profit and loss account. Accordingly no separate Statement of Total Recognised Gains and Losses is presented.

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

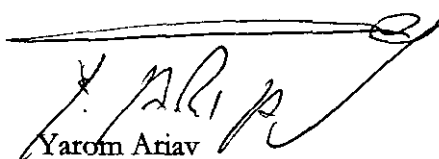
The notes on pages 6 to 17 form an integral part of these accounts.

CLEVELAND POTASH LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 £'000	2003 £'000
TANGIBLE FIXED ASSETS	10	<u>33,160</u>	<u>30,562</u>
CURRENT ASSETS			
Stocks	11	7,926	9,831
Debtors	12	30,510	35,302
Cash at bank and in hand		<u>773</u>	<u>285</u>
		39,209	45,418
CREDITORS (amounts falling due within one year)	13	<u>(19,277)</u>	<u>(26,404)</u>
NET CURRENT ASSETS		<u>19,932</u>	<u>19,014</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>53,092</u>	<u>49,576</u>
CREDITORS (amounts falling due after more than one year)	13	<u>10,260</u>	<u>11,441</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>4,333</u>	<u>4,712</u>
CAPITAL AND RESERVES			
Called up share capital	16	54,500	54,500
Share premium account	17	2,123	2,123
Profit and loss account	17	<u>(18,124)</u>	<u>(23,200)</u>
TOTAL SHAREHOLDERS' FUNDS	17	<u>38,499</u>	<u>33,423</u>
		<u>53,092</u>	<u>49,576</u>
Shareholders' funds attributable to:			
Equity shareholders		(9,001)	(14,077)
Non-Equity shareholders		47,500	47,500

The financial statements on pages 4 to 17 were approved by the Board of Directors on 23 March 2005 and are signed on its behalf by:


Yarom Ariav

The notes on pages 6 to 17 form an integral part of these accounts.

CLEVELAND POTASH LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 2004

1 ACCOUNTING POLICIES

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

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 2004 (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 so as to spread the cost of retirement benefits over the employees' remaining working lives. 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 provided in full on all timing differences arising from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements, that have originated but not reversed at the balance sheet date, calculated at the average rate at which it is expected that the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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. Amounts received from customers in respect of sold trade receivables is shown in creditors due within one year.

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:

	2004	2003
	£'000	£'000
European Union	92,027	95,775
Rest of the World	2,406	2,978
	<u>94,433</u>	<u>98,753</u>

3 EXCEPTIONAL OTHER OPERATING INCOME

	2004	2003
	£'000	£'000
Compensation to terminate CHP Utility Tolling Agreement	<u>2,550</u>	<u>-</u>

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

4 OTHER OPERATING EXPENSES

	2004	2003
	£'000	£'000
Change in stocks of finished goods	(1,960)	(1,158)
Other operating income	1,303	1,090
Raw materials and consumables	(8,636)	(8,266)
Other external charges	(49,373)	(46,816)
Staff costs (note 5)	(30,021)	(31,148)
Depreciation	(2,083)	(1,829)
Government grant release	174	103
	<u>(90,596)</u>	<u>(88,024)</u>

5 STAFF COSTS

	2004	2003
	£'000	£'000
Salaries	25,409	26,321
Social security costs	2,175	2,140
Pension costs		
Defined benefit	2,317	2,582
Defined contribution	120	105
	<u>30,021</u>	<u>31,148</u>

	Number	Number
Average number of employees		
Production	709	735
Administration, Sales and Distribution	98	111
	<u>807</u>	<u>846</u>

	£'000	£'000
Directors' emoluments		
Remuneration (excluding pension contributions)	507	375
Remuneration of the highest paid director	206	160

	Number	Number
Number of directors who are members of the company's defined benefit plan	<u>2</u>	<u>3</u>

The accrued pension of the highest paid director during the year is £Nil (2003 - £22,670).

CLEVELAND POTASH LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (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:

	2004 £'000	2003 £'000
Operating leases		
Plant and machinery	1,235	1,680
Other	788	725
Commissions payable	111	186
Hire of plant and machinery	454	477
Loss on disposal of fixed assets	4	38
Auditors' remuneration		
Audit	26	26
Non audit services	113	35
	<u>113</u>	<u>35</u>

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 £'000	2003 £'000
Bank interest	59	72
Group interest	543	357
Other interest	19	73
	<u>621</u>	<u>502</u>

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Bank overdraft	-	6
Finance leases	752	671
Securitization	650	663
Reclamation (note 14)	530	602
	<u>1,932</u>	<u>1,942</u>

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

9 TAXATION

(i) Analysis of tax charge on ordinary activities

	2004 £'000	2003 £'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	-	1
Total current tax	-	1
Deferred taxation	-	-
	-	1

(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:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	5,076	9,289
Tax @ 30% thereon	1,523	2,787
Expenses not deductible for tax purposes	15	12
Depreciation in excess of capital allowances	502	358
Other timing differences	(329)	(85)
Losses brought forward	(1,711)	(3,072)
Adjustments re prior year	-	1
	-	1

(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 (2003 - £20 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 £42 million (2003 - £47 million) to set against future profits from the same trade.

CLEVELAND POTASH LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)
10 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 2004	12,114	97,239	17,401	2,210	128,964
Additions	-	-	-	4,715	4,715
Reclassifications	-	955	617	(1,572)	-
Disposals	-	(1,211)	-	-	(1,211)
At 31 December 2004	<u>12,114</u>	<u>96,983</u>	<u>18,018</u>	<u>5,353</u>	<u>132,468</u>
Accumulated depreciation					
At 1 January 2004	11,410	69,737	17,255	-	98,402
Charge for year	44	1,955	84	-	2,083
Disposals	-	(1,177)	-	-	(1,177)
At 31 December 2004	<u>11,454</u>	<u>70,515</u>	<u>17,339</u>	<u>-</u>	<u>99,308</u>
Net book value					
At 31 December 2004	<u>660</u>	<u>26,468</u>	<u>679</u>	<u>5,353</u>	<u>33,160</u>
At 31 December 2003	<u>704</u>	<u>27,502</u>	<u>146</u>	<u>2,210</u>	<u>30,562</u>

The cost of fully depreciated assets included above under plant and machinery is £34.8 million (2003 - £35.8 million).

Depreciation is charged when assets come into use.

The net book value of plant and machinery includes £9.4 million (2003 £10.0 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 (2003 - £0.5 million).

Capital expenditure amounting to £671,000 (2003 - £108,000) has been contracted for but is not provided for in these accounts.

11 STOCKS

	2004 £'000	2003 £'000
Raw materials and consumables	4,056	4,001
Finished goods	3,870	5,830
	<u>7,926</u>	<u>9,831</u>

12 DEBTORS (amounts falling due within one year)

	2004 £'000	2003 £'000
Trade debtors	6,697	10,811
Amounts owed by fellow subsidiary undertakings	21,845	23,158
Other debtors	464	701
Prepayments and accrued income	1,504	632
	<u>30,510</u>	<u>35,302</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 2004 (CONTINUED)

13 CREDITORS

	2004	2003
	£'000	£'000
Amounts falling due within one year:		
Bank overdraft	1,133	2,093
Securitization proceeds	6,233	12,643
Obligations under finance leases	1,107	1,055
Trade creditors	4,867	3,843
Amounts owed to fellow subsidiary undertakings	688	411
Tax and social security payable	660	756
Other creditors	77	86
Accruals and deferred income	4,408	5,413
Government grants	104	104
	<u>19,277</u>	<u>26,404</u>

The company, along with several fellow subsidiary undertakings, has entered into an agreement involving the sale of trade debtors 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.

During 2004 there was an amendment to the agreement in that the sale of trade receivables was required to be shown as such. At the end of 2004 the securitization proceeds shown above represented receipts from customers where the receivable had previously been sold, whereas in 2003 the total proceeds received in respect of eligible receivables was shown. Similarly Trade debtors at the end of 2004 represents those receivables not sold under the securitization agreement whereas at the end of 2003 it is gross trade debtors that is shown.

	2004	2003
	£'000	£'000
Amounts falling due after more than one year:		
Obligations under finance leases	7,129	8,154
Government grants	3,131	3,287
	<u>10,260</u>	<u>11,441</u>

Finance leases

Obligations under finance leases are secured by the related assets.

Payable:

Within one year	1,107	1,055
Between one and two years	1,141	1,117
Between two and five years	3,858	3,716
Over five years	2,130	3,321
	<u>8,236</u>	<u>9,209</u>

Government grants:

At 1 January	3,391	2,776
Received during the year	18	718
Released during the year	(174)	(103)
At 31 December	<u>3,235</u>	<u>3,391</u>

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

14 PROVISIONS FOR LIABILITIES AND CHARGES

	Reclamation £'000	Pension £'000	Total £'000
At 1 January 2004	3,803	909	4,712
Profit and loss account charge	530	2,317	2,847
Paid in the year	-	(3,762)	(3,762)
Transferred to prepayments	-	536	536
At 31 December 2004	<u>4,333</u>	<u>-</u>	<u>4,333</u>

15 OBLIGATIONS UNDER OPERATING LEASES

At 31 December 2004 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 one year	20	-
Within two to five years	-	440
After five years	613	587
	<u>633</u>	<u>1,027</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.

16 CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'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 2004 (CONTINUED)****17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Called up Share capital £'000	Share premium £'000	Profit and loss account £'000	Total 2004 £'000	Total 2003 £'000
At 1 January	54,500	2,123	(23,200)	33,423	24,135
Profit for the year	-	-	5,076	5,076	9,288
At 31 December	<u>54,500</u>	<u>2,123</u>	<u>(18,124)</u>	<u>38,499</u>	<u>33,423</u>

18 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.

19 PENSIONS

The company operates two defined benefit pension schemes. The schemes are set up under trust and their assets are held separately from the company's resources. The schemes are subject to triennial valuations by independent actuaries, the latest completed valuations being carried out as at 30 June 2002 using the projected unit method. The following actuarial assumptions were applied:

the investment return used was 6.8% pa before retirement and 5.3% pa after retirement;

the rate of earnings increase was 4.1% pa; and

pensions in excess of the guaranteed minimum pension were assumed to increase at the rate of 2.6% pa in payment.

The most recent actuarial valuations showed the market value of the schemes' assets were approximately £97,922,000 and this valuation was sufficient to cover 97% of the combined benefits which had accrued to members, after allowing for the expected future increase in earnings. The employer's contribution rate over the average remaining service lives of the members of the schemes takes account of the deficit disclosed by the valuation.

The total paid by the company in respect of the year ended 31 December 2004 amounted to £3,762,000 (2003 - £3,672,000), while the amount charged to the profit and loss account was £2,317,000 (2003 - £2,582,000). This resulted in a balance sheet prepayment of £536,000 (2003 - provision of £909,000).

The company currently contributes at the rate of 18.2% of pensionable salary in one plan and 32.5% of pensionable salary in the other plan.

The company also operates a defined contribution scheme. The pension charge for the year amounted to £120,000 (2003 - £105,000) and there were no outstanding or prepaid contributions at the balance sheet date.

Under the transitional arrangements of FRS 17, the company is required to disclose the following information about the schemes and the figures that would have been shown in the company's balance sheet if FRS 17 applied in full at the balance sheet date.

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

19 PENSIONS (continued)

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 2004 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	At 31 December		
	2004	2003	2002
Rate of increase in salaries	3.80%	3.70%	3.85%
Rate of increase of pensions in payment	2.80%	2.70%	2.35%
Discount rate	5.30%	5.40%	5.50%
Inflation assumption	2.80%	2.70%	2.35%

The actuarial update as at 31 December 2004 showed a decrease in the deficit from £20 million to £17 million. In the year to 31 December 2004 contributions of £3.5 million were paid to the schemes. In addition to this the company paid £0.3 million in respect of investment management fees. The schemes were both closed to new entrants during 2001 and as a consequence under the projected unit method the current service cost is expected to increase as members approach retirement.

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

	At 31 December					
	2004		2003		2002	
	£'000		£'000		£'000	
Equities and property	7.5%	78,529	7.5%	87,613	7.5%	70,732
Bonds and other	5.0%	37,807	5.0%	16,092	5.0%	15,403
Total market value of assets		116,336		103,705		86,135
Actuarial value of liability		133,100		124,201		109,171
Deficit in the schemes		(16,764)		(20,496)		(23,036)
Related deferred tax asset / (liability)		-		-		-
Net pension liability		<u>(16,764)</u>		<u>(20,496)</u>		<u>(23,036)</u>

	At 31 December		
	2004	2003	2002
	£'000	£'000	£'000
Balance sheet supplementary disclosure			
Net assets per the balance sheet	38,499	33,423	24,135
SSAP 24 (prepayment) / provision (note 14)	(536)	909	1,999
FRS 17 Pension liability	<u>(16,764)</u>	<u>(20,496)</u>	<u>(23,036)</u>
Net assets including pension liability	<u>21,199</u>	<u>13,836</u>	<u>3,098</u>
Profit and loss reserve per the balance sheet	(18,124)	(23,200)	(32,488)
SSAP 24 (prepayment) / provision (note 14)	(536)	909	1,999
FRS 17 Pension deficit	<u>(16,764)</u>	<u>(20,496)</u>	<u>(23,036)</u>
Profit and loss reserve including pension liability	<u>(35,424)</u>	<u>(42,787)</u>	<u>(53,525)</u>

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

19 PENSIONS (continued)

Analysis of the movement in the scheme deficit during the year

	2004	2003
	£'000	£'000
Deficit in schemes at beginning of year	(20,496)	(23,036)
Current service cost	(3,368)	(3,205)
Contributions	3,523	3,541
Other finance income	679	93
Actuarial gain	2,898	2,111
Deficit in schemes at end of year	<u>(16,764)</u>	<u>(20,496)</u>

Amounts that would have been included within the financial statements for the year ended 31 December 2004 had FRS 17 been applied are as follows:

	2004	2003
	£'000	£'000
Amounts included within operating profit:		
Current service cost	3,368	3,205
Past service cost	-	-
Total included within operating profit	<u>3,368</u>	<u>3,205</u>

Amounts included as other finance costs:

Expected return on scheme assets	7,398	6,137
Interest on pension liabilities	<u>(6,719)</u>	<u>(6,044)</u>
Other finance income	<u>679</u>	<u>93</u>

Amounts that would have been included within the Statement of Total Recognised Gains and Losses in the year to 31 December 2004 had FRS 17 been applied are shown below.

	2004	2003
	£'000	£'000
Actual return less expected return on assets	4,915	9,668
Experience gains and losses on liabilities	998	(992)
Changes in assumptions	<u>(3,015)</u>	<u>(6,565)</u>
Actuarial gain recognised in STRGL	2,898	2,111
Adjustment due to surplus cap	-	-
Net gain recognised	<u>2,898</u>	<u>2,111</u>

History of experience gains and losses in the financial year:

	2004	2003	2002
	£'000	£'000	£'000
Difference between expected and actual return on scheme assets	4,915	9,668	(29,052)
percentage of scheme assets	4%	9%	-34%
Experience gains and losses on scheme liabilities	998	(992)	(17)
percentage of scheme liabilities	1%	-1%	0%
Total amount recognised in statement of total recognised gains and losses	2,898	2,111	(35,680)
percentage of scheme liabilities	2%	2%	33%

CLEVELAND POTASH LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 2004 (CONTINUED)

20 FINANCIAL COMMITMENTS

At the balance sheet date the sterling value of forward foreign exchange contracts, all in respect of hedging debtor receivables, amounted to £34,110,000 (2003 - £5,965,000). The latest maturity date of the contracts is 24 February 2006.

21 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.