JOINT STOCK COMPANY
“ACRON”

International Financial Reporting Standards
Consolidated Financial Statements and
Auditor’s Report

31 December 2008

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company "Acron":

1 We have audited the accompanying consolidated financial statements of Joint Stock Company "Acron" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of cashflows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
28 April 2009

(in thousands of Russian Roubles)

	Note	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	14	18,053,913	13,726,062
Exploration rights	15	19,624,441	237,843
Leasehold land	13	458,991	147,414
Goodwill	16	1,271,673	1,023,601
Other non-current assets		1,143,099	814,463
Investments in associates	17	571,010	362,568
Available-for-sale investments	18	6,659,501	17,306,627
Long-term loans receivable	11	58,607	3,606
Deferred tax assets	29	620,085	143,496
Total non-current assets		**48,461,320**	**33,765,680**
Current assets			
Inventories	12	5,538,401	3,573,806
Short-term loans receivable	11	920,353	643,718
Accounts receivable	10	3,958,728	4,036,616
Dividends receivable		-	114,454
Cash and cash equivalents	9	4,008,768	1,335,275
Other current assets		143,406	29,942
Total current assets		**14,569,656**	**9,733,811**
TOTAL ASSETS		**63,030,976**	**43,499,491**
EQUITY			
Share capital	23	3,125,018	3,125,018
Treasury shares	23	(46,326)	(39,737)
Retained earnings		15,391,110	11,247,092
Revaluation reserve		3,953,534	11,207,376
Other reserves	23	(248,466)	-
Cumulative currency translation difference		189,984	(78,531)
Share capital and reserves attributable to the Company's equity holders		**22,364,854**	**25,461,218**
Minority interest		2,810,532	2,835,506
TOTAL EQUITY		**25,175,386**	**28,296,724**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	21	10,413,584	3,081,023
Finance lease liability	22	69,514	110,744
Other long-term liabilities		306,714	193,593
Deferred tax liability	29	2,299,726	4,923,091
Total non-current liabilities		**13,089,538**	**8,308,451**
Current liabilities			
Accounts payable	19	2,291,645	2,428,901
Notes payable		1,466,581	134,415
Current income tax payable		22,465	290,236
Other taxes payable	20	216,849	308,608
Short-term borrowings	21	18,409,629	2,418,101
Advances received		2,223,679	1,153,898
Finance lease liability	22	30,557	31,965
Other current liabilities		104,647	128,192
Total current liabilities		**24,766,052**	**6,894,316**
TOTAL LIABILITIES		**37,855,590**	**15,202,767**
TOTAL LIABILITIES AND EQUITY		**63,030,976**	**43,499,491**

Approved for issue and signed on behalf of the Board of Directors on 28 April 2009.

I.N. Antonov
President

A.V. Milenkov
Finance Director

(in thousands of Russian Roubles, except for per share amounts)

	Note	2008	2007
Revenue	7	43,131,614	31,105,184
Cost of sales	24	(19,771,160)	(18,943,506)
Gross profit		**23,360,454**	**12,161,678**
Transportation expenses		(3,669,792)	(1,725,445)
Selling, general and administrative expenses	25	(3,387,539)	(2,595,093)
Gain (loss) on disposal of property, plant and equipment, net		74,741	(12,083)
Other operating expenses, net	27	(238,805)	(252,840)
Operating profit		**16,139,059**	**7,576,217**
Finance income (loss)	26	(2,415,480)	539,219
Interest expense		(361,731)	(509,582)
Share of result of associates	17	208,442	(59,653)
Profit before taxation		**13,570,290**	**7,546,201**
Income tax expense	29	(3,678,874)	(1,877,875)
Net profit for the year		**9,891,416**	**5,668,326**
Net profit is attributable to:			
Equity holders of the Company		9,340,443	5,063,864
Minority interest		550,973	604,462
Net profit for the year		**9,891,416**	**5,668,326**
Earnings per share for profit for the year attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	28	214.41	116.10

(in thousands of Russian Roubles)

	Note	2008	2007
Cash flows from operating activities			
Profit before taxation		**13,570,290**	**7,546,201**
Adjustments for:			
Depreciation and amortization	13, 14	1,335,913	1,009,580
Provision / (reversal of impairment) of accounts receivable		40,170	(47,125)
Increase/(decrease) in provision for write-down on inventory	24	463,679	(11,535)
Impairment (reversal) of property, plant and equipment, net	24	506,468	(2,349)
Share of results of associate	17	(208,442)	59,653
Loss (gain) on disposal of property, plant and equipment		(74,741)	12,083
Interest expense		361,731	509,582
Interest income		(235,119)	(73,826)
Dividend income		(257,800)	(267,383)
Foreign exchange effect on non-operating balances		2,761,268	(148,545)
Operating cash flows before working capital changes		**18,263,417**	**8,586,336**
(Increase)/Decrease in gross trade receivables		(605,255)	523,569
Decrease/(Increase) in advances to suppliers		603,762	(1,155,693)
Decrease in other receivables		119,592	57,011
Increase in inventories		(2,428,274)	(631,471)
(Decrease)/Increase in trade payables		(403,054)	630,516
Decrease in other payables		(522,347)	(251,834)
(Decrease)/Increase in advances from customers		1,069,781	(81,389)
(Decrease)/Increase in other current assets		(113,464)	15,814
Increase in other current liabilities		(27,641)	75,438
Net change in other non-current assets and liabilities		(258,153)	(271,134)
Cash generated from operations		**15,698,364**	**7,497,163**
Income taxes paid		(4,079,643)	(1,368,133)
Interest paid		(1,451,379)	(544,783)
Net cash generated from operating activities		**10,167,342**	**5,584,247**
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,314,883)	(2,524,434)
Purchase of exploration rights		(18,285,630)	-
Acquisition of subsidiaries and additional interest in subsidiaries, net of cash acquired	31	(290,025)	(474,256)
Proceeds from sale of property, plant and equipment		158,013	162,408
Loans provided		(897,250)	(397,956)
Proceeds from loans repaid		565,614	453,648
Interest received		235,119	74,777
Dividends received		257,218	164,534
Proceeds from sale of leasehold land rights		-	213,170
Purchase of leasehold land rights		(273,000)	-
Proceeds from sale of available-for-sale investments		99,360	-
Purchase of available-for-sale investments		(6,875)	(99,272)
Net cash used in investing activities		**(23,752,339)**	**(2,427,381)**
Cash flows from financing activities			
Dividends paid to shareholders		(4,921,996)	(1,624,067)
Dividends paid to minority shareholders		(324,801)	(80)
Acquisition of treasury shares	23	(210,236)	-
Proceeds from disposal of treasury shares	23	65,000	-
Proceeds from borrowings		37,434,553	5,007,494
Repayment of borrowings		(15,961,088)	(6,410,964)
Net cash provided from (used in) financing activities		**16,081,432**	**(3,027,617)**
Effect of exchange rate changes on cash and cash equivalents		177,058	(33,261)
Net increase in cash and cash equivalents		**2,673,493**	**95,988**
Cash and cash equivalents at the beginning of the year		**1,335,275**	**1,239,287**
Cash and cash equivalents at the end of the year		**4,008,768**	**1,335,275**

(in thousands of Russian Roubles)

	Capital and reserves attributable to the Company's equity holders							
	Share capital (Note 23)	**Treasury shares (Note 23)**	**Retained earnings**	**Revaluation reserve**	**Other reserves (Note 23)**	**Cumulative currency translation difference**	**Minority interest**	**Total equity**
Balance at 1 January 2007	**3,125,018**	**(39,737)**	**7,840,636**	**3,180,513**	**-**	**3,586**	**1,258,965**	**15,368,981**
Fair value gains on available-for-sale investments (Note 18)	-	-	-	10,561,662	-	-	1,377,151	11,938,813
Currency translation differences	-	-	-	-		(82,117)	(66,959)	(149,076)
Income tax recorded in equity (Note 29)	-	-	-	(2,534,799)	-	-	(330,516)	(2,865,315)
Net income recognised directly in equity	-	-	-	8,026,863	-	(82,117)	979,676	8,924,422
Profit for the year	-	-	5,063,864	-	-	-	604,462	5,668,326
Total recognised income for 2007	-	-	5,063,864	8,026,863	-	(82,117)	1,584,138	14,592,748
Dividends declared (Note 23)	-	-	(1,657,408)	-	-	-	(7,597)	(1,665,005)
Balance at 31 December 2007	**3,125,018**	**(39,737)**	**11,247,092**	**11,207,376**	**-**	**(78,531)**	**2,835,506**	**28,296,724**
Balance at 1 January 2008	**3,125,018**	**(39,737)**	**11,247,092**	**11,207,376**	**-**	**(78,531)**	**2,835,506**	**28,296,724**
Fair value losses on available-for-sale investments (Note 18)	-	-	-	(9,815,630)	-	-	(779,405)	(10,595,035)
Currency translation differences	-	-	-	-	-	268,515	112,095	380,610
Income tax recorded in equity (Note 29)	-	-	-	2,561,788	-	-	227,015	2,788,803
Net income recognised directly in equity	-	-	-	(7,253,842)	-	268,515	(440,295)	(7,425,622)
Profit for the year	-	-	9,340,443	-	-	-	550,973	9,891,416
Total recognised income for 2008	-	-	9,340,443	(7,253,842)	-	268,515	110,678	2,465,794
Dividends declared (Note 23)	-	-	(5,196,425)	-	-	-	(455,400)	(5,651,825)
Business combinations (Note 31)	-	-	-	-	-	-	319,748	319,748
Share offering expenses (Note 23)	-	-	-	-	(109,819)	-	-	(109,819)
Acquisition of treasury shares (Note 23)	-	(6,924)	-	-	(203,312)	-	-	(210,236)
Disposal of treasury shares (Note 23)	-	335	-	-	64,665	-	-	65,000
Balance at 31 December 2008	**3,125,018**	**(46,326)**	**15,391,110**	**3,953,534**	**(248,466)**	**189,984**	**2,810,532**	**25,175,386**

1 Acron Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group").

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2007: Subero Associates Inc). As at 31 December 2008 and 2007 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

The Company's registered office is at Novgorod the Great, 173012, Russia.

2 Basis of Preparation of the Financial Statements

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as modified by the fair value revaluation of available-for-sale investments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations*).*

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

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

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

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

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases of minority interests. Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill.

Pooling of interest. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

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

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

3.2 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet. Restricted balances are excluded from cash and cash equivalents for the purposes of the cashflow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

3.3 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

(in thousands of Russian Roubles)

3 Summary of Significant Accounting Policies (continued)

3.3 Trade and other receivables (continued)

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3.4 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within non-current assets in the amount of RR 624,451 (2007: RR 545,165). Inventories are recorded at the lower of cost and net realisable value. Cost of inventories is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.6 Property, plant and equipment

Property, plant and equipment are recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Depreciation is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

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

3 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment (continued) (continued)

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the statement of income as incurred.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.7 Investment property

Investment property is property held by the Group to earn rental income of for capital appreciation and which is not occupied by the Group.
Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognized in prior years is reversed if there has been a subsequent change in the estimates used ot determine the asset's recoverable amount.

3.8 Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortized over the lease period of 30 years on a straight-line basis.

3.9 Intangible assets

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange.

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

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

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

3.10 Borrowings

Borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3 Summary of Significant Accounting Policies (continued)

3.11 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Corporate profit tax rate is 24% (2007: 24%) for Russia, where the most significant Group subsidiaries are registered. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 15.5% to 20%, depending on applicable rates set by regional authorities.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

3.12 Foreign currency transactions

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RR"). The functional currency of the Company's subsidiary Shandong Hongri Acron Chemical Joint Stock Company Limited (China) is Renminbi (RMB).

For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was US$ 1 = 29.3804, US$ 1 = 6.8346 RMB (2007: US$ 1 = 24.5462 RR , US$ 1 = 7.3046 RMB). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3 Summary of Significant Accounting Policies (continued)

3.13 Provisions for liabilities and charges

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

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each balance sheet date.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

3.14 Shareholders' equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

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

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

3.15 Revenue recognition

Revenues from sales of chemical fertilisers and related by-products are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

3.16 Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3 Summary of Significant Accounting Policies (continued)

3.17 Employee benefits

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

Social costs. The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognized contributions of RR 453,021 as part of labour costs in 2008 (2007: RR 462,065).

3.18 Financial assets and liabilities

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

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

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; and recognised in equity for assets classified as available for sale.

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

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

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

Held to maturity investments. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

3 Summary of Significant Accounting Policies (continued)

3.19 Finance lease liabilities

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

3.20 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting year.

3.21 Segment reporting.

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3.22 Exploration assets

Expenditures incurred in exploration activities (acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) are capitalized. In accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources,* exploration assets are measured applying the cost model described in IAS 16, *Property, Plant and Equipment,* after initial recognition. Exploration assets are not depreciated until the production phase. The Group tests exploration assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

3.23 Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 16. At 31 December 2008 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 5% lower than management estimates at 31 December 2008. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 3% higher than management estimates, the goodwill would still have not been impaired (Note 16).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Impairment of property, plant and equipment. At 31 December 2008 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period and the expected market prices for key fertilizers for the same period according to the leading industry publications, which are broadly in line with 2007 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs.

Valuation and impairment of available-for-sale investments. As of 31 December 2008 and 2007 the investments in JSC Apatite and JSC Sylvinit were determined by reference to the current market value in line with requirements of IAS 39. Although the free float and volume of trades of investments may be not significant, their quoted prices are readily and regularly available from exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology. At 31 December 2008 no impairment was required due to significant excess of fair values over the cost. Refer to Note 18.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Useful lives of property, plants and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. The impact on depreciation for the period would be to increase it by RR 41,305 or decrease it by RR 62,260 were the estimated useful lives to differ by 10% from management's estimates.

Consolidation of subsidiaries. Although the Company has only 50% interest in ZAO "Acron-Trans" and AS DBT, it has the power to cast the majority of votes at meetings of the board of directors. Accordingly, the Company has consolidated these entities in these financial statements.

Going concern. As of 31 December 2008 the Group's current liabilities exceeded its current assets by RR 10,196,396 and the Group's short term borrowings amounted to RR 18,409,629 (Note 21). During 2009 the management of the Group undertook the following actions:

- The Group signed a three year US$ loan agreement for equivalent of RR 5,141,500;
- The Group refinanced existing US$ short term loan agreements for equivalent of RR 3,760,640;
- The Group reached preliminary agreements to refinance existing short term loan agreements for RR 5,002,011;
- The Group reached preliminary agreements to syndicate long term US$ loan for equivalent of RR 4,407,000.

In the view of the actions discussed above, management is confident that the Group will continue as a going concern. Therefore, management prepared these financial statements on a going concern basis and did not record adjustments relating to recoverability and classification of assets and classification of liabilities that would be necessary if the Group was unable to continue as a going concern. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Group.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008);
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008) and

These interpretations did not have any significant effect on the Group’s consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group’s financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

6 New Accounting Pronouncements (continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements;

6 New Accounting Pronouncements (continued)

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Improving Disclosures about Financial Instruments—Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Other new standards or interpretations. The Group has not currently adopted the following other new standards or interpretations:

- IFRIC 15 – *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008);
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009);
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).
- IFRIC 9, IAS 39 – Embedded Derivatives (effective for annual periods ending on or after 30 June 2009; not yet adopted by the EU).

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

7 Segment Information

The Group has one primary reportable segment, which is manufacturing and sale of chemical fertilizers which have similar risks and rewards. The Group evaluates performance and makes investment and strategic decisions based upon review of profitability for the Group as a whole.

Its secondary reporting format is determined to be the geographical segments: Russia, China and other countries.

In 2007 the Group's management changed the presentation of reportable geographical segments, to more appropriately report distinguishable components of an entity that are engaged in providing products or services within a particular economic environment and that are subject to risks and returns that are different from those of components operating in other economic environments. In this regard, sales in China were separated from Overseas' sales as they represent domestic sales of the Group's subsidiary in the People's Republic of China. Sales in other countries represent export sales of Group including sales to CIS countries.

(in thousands of Russian Roubles)

7 Segment Information (continued)

Sales are based on the geographical area in which the customer is located. There are no sales or other transactions between the segments. Production and majority of assets and liabilities of the Group are located in the Russian Federation, Estonia and China.

	2008	2007
Revenue		
Russia	12,795,048	8,050,652
China	5,725,913	6,847,401
Other countries	24,610,653	16,207,131
	43,131,614	**31,105,184**
Total assets		
Russia	53,286,105	36,952,516
China	6,207,793	5,928,087
Other countries	3,537,078	618,888
	63,030,976	**43,499,491**
Costs incurred during the period to acquire non-current segment assets		
Russia	4,329,747	1,882,813
China	151,561	149,530
Other countries	866,875	502,000
	5,348,183	**2,534,343**

During 2008 the Group sold its products to two international trading entities that account for the majority of segment "Other countries". In 2008 AgroNitrogen Logistics Ltd. and NPKhemical Trading Inc. purchased 16% and 23% of the sales of segment "Other countries", respectively (2007: 34% and 26%). The sales to them are included in the segment "Other countries" as risks and returns on them are similar to other overseas sales. The rest of sales in segment "Other countries" is widely spread between a number of less significant customers. Starting from May 2008 the substantial part of the Group's worldwide exports are effected through the newly established subsidiary Agronova International Inc., incorporated in the United States of America, which was set up in line with the Group's strategy to obtain better control over export sales and further enhance its presence in core markets.

8 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 and 2007 are detailed below.

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Balance sheet caption	Note	Relationship	2008	2007
Trade receivables, gross	10	Parties under common control	54,651	48,610
Provision for impairment of trade receivables	10	Parties under common control	(40)	(18,214)
Prepayments	10	Parties under common control	5,000	5,000
Loans issued	11	Parties under common control	213,200	200,583
Other receivables	10	Parties under common control	669	27,894
Loans received		Parties under common control	(8,000)	(9,714)
Trade payables	19	Parties under common control	(17,138)	(20,932)
Advances from customers		Parties under common control	-	(7)

(in thousands of Russian Roubles)

8 Balances and Transactions with Related Parties (continued)

ii Transactions with related parties

Income statement caption	Note	Relationship	2008	2007
Sales of chemical fertilizers	7	Parties under common control	81,707	293,029
Purchases of raw materials	24	Parties under common control	(62,876)	(85,398)
Security services	25	Parties under common control	(132,951)	(128,637)

iii Cross shareholding

At 31 December 2008 JSC Dorogobuzh, a 72.33% subsidiary of the Group (2007: 71.83%), owned 4,041,600 ordinary shares or 8.48% of the ordinary share capital of the Company (2007: 4,071,600 ordinary shares or 8.54%). Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 December 2008 short-term loans to parties under common control totalled RR 202,200 (2007: RR 200,583) at interest rates in the range of 10% to 14.2% . The loans were unsecured.

At 31 December 2008 long-term loans to parties under common control totalled RR 11,000 (2007: RR Nil), at interest rate of 11.3%. The loans are unsecured.

In 2008 the Group accrued interest income of RR 21 790 (2007: RR 20,153).

At 31 December 2008 loans issued to key management personnel totalled of RR 17 673 at interest rate of 8% (2007: RR Nil).

v Key management personnel compensation

Compensation of key management personnel consists of remunerations paid to the members of the Management Boards of the Group’s main subsidiaries and to members of Boards of Directors of the Company and its main subsidiaries. Compensation is made up of an annual remuneration and a performance bonus depending on operating results.

9 Cash and Cash Equivalents

	2008	2007
Cash on hand and bank balances denominated in RR	931,031	642,278
Bank balances denominated in US$	1,493,181	170,978
Bank balances denominated in Euro	178,335	16,565
Bank balances denominated in Canadian dollars	31,597	-
Bank balances denominated in Estonian krone	12,859	-
Bank balances denominated in RMB	1,361,765	505,454
Total cash and cash equivalents	**4,008,768**	**1,335,275**

The fair value of cash and cash equivalents are equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2008	2007
A to AAA* rated	1,637,812	115,434
BB- to BBB+* rated	842,844	674,368
Chinese banks with top internal credit ratings	1,361,765	505,454
Unrated	166,347	40,019
Total	**4,008,768**	**1,335,275**

* Based on the credit ratings of independent rating agency Fitch.

(in thousands of Russian Roubles)

10 Accounts receivable

	2008	2007
Trade accounts receivable	1,133,373	528,118
Notes receivable	7,131	435,870
Other accounts receivable	232,296	186,961
Less: impairment provision	(210,153)	(129,753)
Total financial assets	**1,162,647**	**1,021,196**
Advances to suppliers	1,639,192	2,242,954
Value-added tax recoverable	931,229	772,477
Income tax prepayments	203,877	10,992
Other taxes receivable	32,578	5,367
Less: impairment provision	(10,795)	(16,370)
Total accounts receivable	**3,958,728**	**4,036,616**

Included in notes receivable are notes receivable from Sberbank Russia for RR 0 (2007: RR 100,750) and notes receivable from Chinese banks for RR 7,131 (2007: RR 335,120).

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As of 31 December 2008, trade and other accounts receivable of RR 210,153 (2007: RR 129,753) were individually impaired and an impairment provision was recognized. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The ageing of these receivables is as follows:

	2008	2007
Less than 3 months	-	-
From 3 to 9 months	62,552	4,659
From 9 to 12 months	3,672	6,879
Over 12 months	143,929	118,215
Total gross amount of impaired accounts receivable	**210,153**	**129,753**

The movements in the provision for impairment of financial accounts receivable are as follows:

	2008		2007	
	Trade receivables	Other debtors	Trade receivables	Other debtors
Provision for impairment at 1 January	**(129,753)**	**-**	**(160,664)**	**(7,089)**
Provision for impairment	(101,696)	-	(33,273)	-
Provision used	21,266	-	56,684	7,089
Provision reversed	30	-	7,500	-
Provision for impairment at 31 December	**(210,153)**	**-**	**(129,753)**	**-**

The Group does not hold any collateral as security.

The other classes within accounts receivable do not contain impaired assets.

As of 31 December 2008, trade receivables of RR 30,732 (2007: RR 32,453) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2008	2007
Less than 3 months	3,188	1,965
From 3 to 9 months	20,417	26,456
From 9 to 12 months	2,716	3,116
Over 12 months	4,411	916
Trade accounts receivable past due not impaired	**30,732**	**32,453**

(in thousands of Russian Roubles)

10 Accounts receivable (continued)

Analysis by credit quality of trade and other receivables is as follows:

	2008		2007	
	Trade receivables	Notes receivable	Trade receivables	Notes receivable
Current and not impaired – exposure to:				
- Notes receivable from top Russian and foreign banks	-	7,131	-	435,870
- Foreign traders and customers	793,366	-	230,500	-
- Small individual Russian companies and farms	315,816	-	118,182	-
- Chinese customers	46,334	-	36,262	-
Total current and not impaired	**1,155,516**	**7,131**	**384,944**	**435,870**

11 Loans Receivable

	2008	2007
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	202,200	200,583
Loans issued to third parties	718,153	443,135
	920,353	**643,718**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	11,000	-
Loans issued to third parties	47,607	3,606
	58,607	**3,606**

Loans receivable contain neither impaired nor overdue assets as of 31 December 2008 and 31 December 2007. No provision for impairment was recognised for loans receivable as of the respective dates.

At 31 December 2008 and 2007 short-term loans totalled RR 920,353 and RR 643,718, respectively, at interest rates in the range of 10 % to 14.2% (2007: 10% to 10,.5%). The loans were unsecured.

At 31 December 2008 and 2007 long-term loans totalled RR 58,607 and RR 3,606, respectively, at interest rates in the range of 11.3% to 14.2% (2007: 9% to 10.5%). The loans were unsecured.

In 2008 the Group accrued interest income of RR 68,116 (2007: RR 73,826).

At 31 December 2008 and at 31 December 2007 the Group had two counterparties with aggregated loans receivable balances in excess of 62% and 80% of the Group's loans receivable balances, respectively. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group's primary activity.

12 Inventories

	2008	2007
Raw materials and spare parts	2,768,312	2,723,595
Work in progress	269,475	167,551
Finished products	2,500,614	682,660
	5,538,401	**3,573,806**

Raw materials are shown net of impairment provision of RR 480,039 (2007: 284,033). Finished products are shown net of impairment provision of RR 267,673. (2007: RR Nil). No inventory was pledged as security at 31 December 2008 and 2007.

(in thousands of Russian Roubles)

13 Leasehold Land

	2008	2007
Cost		
Balance at 1 January	169,810	170,420
Additions	273,000	
Disposals	-	-
Translation difference	47,420	(610)
Balance at 31 December	**490,230**	**169,810**
Accumulated amortization		
Balance at 1 January	22,396	19,199
Amortization for the year	2,590	3,266
Disposals	-	-
Translation difference	6,253	(69)
Balance at 31 December	**31,239**	**22,396**
Net book value		
Balance at 1 January	**147,414**	**151,221**
Balance at 31 December	**458,991**	**147,414**

At 31 December 2008, the Group's leasehold land with net book value of RR 185,990 (2007: RR 147,414) was held under prepayments for land use rights with terms of 27 to 30 years expiring from March 2023 to November 2028. The leasehold land related to location of buildings and production facilities of Shandong Hongri Acron Chemical Joint Stock Company Ltd., the Group's subsidiary in the People's Republic of China.

At 31 December 2008, land use right with a net book value of RR 153,170 (2007: RR 123,712) had been pledged as security for long-term loans (Note 21).

14 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2008	**17,133,948**	**18,901,464**	**1,368,948**	**660,330**	**2,966,257**	**41,030,947**
Acquisitions through business combinations	251,296	123,154	-	3,077	1,457	**378,984**
Additions	-	-	-	-	5,348,183	**5,348,183**
Transfers	378,741	1,588,177	975,347	436,700	(3,378,965)	**-**
Disposals	(114,343)	(286,665)	(54,832)	(83,033)	(1,616)	**(540,489)**
Translation difference	234,690	641,930	20,173	18,818	21,008	**936,619**
Balance at 31 December 2008	**17,884,332**	**20,968,060**	**2,309,636**	**1,035,892**	**4,956,324**	**47,154,244**
Accumulated Depreciation						
Balance at 1 January 2008	11,178,081	15,146,054	632,822	297,518	-	**27,254,475**
Depreciation charge	422,163	656,326	111,531	145,893	-	**1,335,913**
Disposals	(47,836)	(189,660)	(42,974)	(11,900)	-	**(292,370)**
Translation difference	27,868	185,701	5,529	11,974	-	**231,072**
Balance at 31 December 2008	**11,580,276**	**15,798,421**	**706,908**	**443,485**	**-**	**28,529,090**
Accumulated Impairment Loss						
Balance at 1 January 2008	4,670	36,163	-	5,428	4,149	**50,410**
Additions	89,758	416,710	-	-	-	**506,468**
Reversal	-	-	-	-	-	**-**
Translation difference	1,565	10,098	-	1,542	1,158	**14,363**
Balance at 31 December 2008	**95,993**	**462,971**	**-**	**6,970**	**5,307**	**571,241**
Net Book Value						
Balance at 1 January 2008	**5,951,197**	**3,719,247**	**736,126**	**357,384**	**2,962,108**	**13,726,062**
Balance at 31 December 2008	**6,208,063**	**4,706,668**	**1,602,728**	**585,437**	**4,951,017**	**18,053,913**

(in thousands of Russian Roubles)

14 Property, Plant and Equipment (continued)

Impairment losses were recognised as a result of the impairment test described below.

Non-current assets impairment test. Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections, prepared in nominal terms, based on financial budgets approved by management covering a five year period. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs, except for Methanol CGU in Shandong Hongri Acron Chemical Joint Stock Company Limited (China).

The impairment charge arose in a Methanol CGU in Shandong Hongri Acron Chemical Joint Stock Company Limited (included in China operating segment) following a decision in early 2008 to reduce the manufacturing output allocated to these operations. This was a result of a redefinition of the Group's allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives would not be affected. The pre-tax discount rate used in the previous years for the Methanol CGU in Hongri Acron was 12.0%.

The key assumptions used for value-in-use calculations at 31 December 2008 are as follows:

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	**Shandong Hongri Acron Chemical JSC Limited**
Growth rate beyond five years	0%	2.5%
Discount rate	21.5%	8.9%

Management determined budgeted gross margin based on past performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

	Buildings and constructions	**Plant and equipment**	**Transport**	**Other**	**Assets under construction**	**Total**
Cost						
Balance at 1 January 2007	**16,949,060**	**18,878,072**	**1,202,795**	**545,876**	**2,117,935**	**39,693,738**
Additions	-	-	146,000	-	2,534,343	**2,680,343**
Transfers	548,393	915,560	61,665	160,147	(1,685,765)	**-**
Disposals	(360,560)	(884,233)	(41,220)	(45,455)	-	**(1,331,468)**
Translation difference	(2,945)	(7,935)	(292)	(238)	(256)	**(11,666)**
Balance at 31 December 2007	17,133,948	18,901,464	1,368,948	660,330	2,966,257	**41,030,947**
Accumulated Depreciation						
Balance at 1 January 2007	11,073,714	15,459,751	581,859	291,873	-	**27,407,197**
Depreciation charge	346 875	544 589	81,167	33,683	-	**1,006,314**
Disposals	(242,234)	(856,489)	(30,142)	(28,112)	-	**(1,156,977)**
Translation difference	(274)	(1,797)	(62)	74	-	**(2,059)**
Balance at 31 December 2007	**11,178,081**	**15,146,054**	**632,822**	**297,518**	**-**	**27,254,475**
Accumulated Impairment Loss						
Balance at 1 January 2007	4,690	38,650	-	5,447	4,164	52,951
Additions	-	-	-	-	-	**-**
Reversal	-	(2,349)	-	-	-	**(2,349)**
Translation difference	(20)	(138)	-	(19)	(15)	**(192)**
Balance at 31 December 2007	**4,670**	**36,163**	**-**	**5,428**	**4,149**	**50,410**
Net Book Value						
Balance at 1 January 2007	**5,870,656**	**3,379,671**	**620,936**	**248,556**	**2,113,771**	**12,233,590**
Balance at 31 December 2007	**5,951,197**	**3,719,247**	**736,126**	**357,384**	**2,962,108**	**13,726,062**

(in thousands of Russian Roubles)

14 Property, Plant and Equipment (continued)

The assets transferred to the Group upon privatisation did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is the end of 2008. At 31 December 2008 major subsidiaries of the Group exercised the option and purchased the land under production plants.
At 31 December 2008, buildings, machinery and equipment with a net book value of RR 1,969,649 (2007: RR 196,623) had been pledged as security for long-term loans (Note 21).

Leased assets

The following amounts were included in the financial statements in respect of property, plant and equipment where the Group is a lessee under a finance lease:

	2008	**2007**
Cost of transport	146,000	146,000
Accumulated depreciation	(24,147)	(3,291)
Carrying amount of transport	**121,853**	**142,709**

15 Exploration Rights

In November 2006 the Group's subsidiary, CJSC Severo-Zapadnaya Phosphornaya Kompaniya, following an auction process, acquired a license for the exploration and development of Partomchorr and Oleny Ruchey apatite-nepheline deposits, located in Murmansk region, Russian Federation.

The Group accounted for the license at cost including a one-off payment of RR 237,843 to the Russian state.

In May 2008 the Group's subsidiary, LLC Verkhnekamskaya Kaliyanaya Kompaniya, following an auction process, acquired a license for the exploration and development of the Talitsky section of the Verkhnekamskoye potash deposit, located in Perm region, Russian Federation. The license expires in April 2028.

In accordance with the conditions of the license, the Group has the following commitments:

- to commence the geological exploration by 15 April 2009;
- to commence the extraction of potash salt by 15 June 2014.

The Group accounted for the license at cost of RR 16,828,767, and additionally capitalized interest of RR 1,100,968 at 11.25%.

During 2008 the Group's subsidiary (101109718 Saskatchewan Ltd) acquired 26 permits to explore for potash deposits in the Canadian province of Saskatchewan for RR 1,456,863. Duration of the permits is 5 years. Following exploration results the Group will have preferential right for purchase of exploitation licenses.

During 2008 the Group incurred expenses of RR 309,155 thousand (2007: RR 150,685) directly related to the development of deposits. These expenses were capitalized in accordance with the Group accounting policy and included within assets under construction.

(in thousands of Russian Roubles)

15 Exploration Rights (continued)

	2008	2007
Cost		
Balance at 1 January	**237,843**	**237,843**
Additions	19,386,598	-
Disposals	-	-
Balance at 31 December	**19,624,441**	**237,843**
Accumulated Amortization		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	**-**	**-**
Net Book Value		
Balance at 1 January	**237,843**	**237,843**
Balance at 31 December	**19,624,441**	**237,843**

Exploration rights comprise of:

	2008	2007
Apatite-nepheline deposits	237,843	237,843
Potash deposits	17,929,735	-
Permits for exploration	1,456,863	-
	19,624,441	**237,843**

Exploration rights impairment test

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections, prepared in nominal terms, based on financial budgets approved by management covering a five year period, beginning from projected start of operating activities. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs. The key assumptions used for value-in-use calculations at 31 December 2008 are as follows:

	101109718 Saskatchewan Ltd	CJSC Severo-Zapadnaya Phosphornaya Kompaniya	LLC Verkhnekamskaya Kaliyanaya Kompaniya
Growth rate beyond five years	0%	0%	0%
Discount rate	15%	21.5%	21.5%

Management determined budgeted gross margin based on peers performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

(in thousands of Russian Roubles)

16 Goodwill

	Note	2008	2007
Carrying amount at 1 January		**1,023,601**	**1,023,601**
Acquisition of subsidiary	31	248,072	-
Carrying amount at 31 December		**1,271,673**	**1,023,601**
Gross book value at 31 December		1,271,673	1,023,601
Carrying amount at 31 December		**1,271,673**	**1,023,601**

In August 2008 the Group acquired 50% of the voting shares of AS DBT for a cash consideration of RR 546,846. The Group concluded that there are no separately identifiable intangible assets in the acquired company, which could qualify for separate accounting in accordance with IFRS 3, *Business Combinations.* The goodwill of RR 248,072 is primarily attributable to the profitability of the acquired business, cost of new market entry and the significant synergies and combined costs savings expected to arise due to unique geographical location of assets of the acquired company for the Group. The Group did not recognise any goodwill impairment at 31 December 2008.

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	2008	2007
LLC Andrex	52,068	52,068
JSC Dorogobuzh	971,533	971,533
AS DBT	248,072	-
Total carrying amount of goodwill	**1,271,673**	**1,023,601**

17 Investments in Associates

	2008	2007
Balance at 1 January	362,568	422,221
Share of profit / (loss) before tax	208,442	(59,653)
Balance at 31 December	**571,010**	**362,568**

The amount above is represented by the investment of the Group into JSC Sibir Oil and Gas Company (21% of interest held).

At 31 December 2008, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
JSC Sibir Oil and Gas Company	22,268,467	21,009,196	4,413,091	992,583	21%	Russia

At 31 December 2007, the Group's interests in its principal associates and their summarized financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
JSC Sibir Oil and Gas Company	18,211,812	17,945,124	876,051	(284,062)	21%	Russia

(in thousands of Russian Roubles)

18 Available-for-Sale Investments

	2008	2007
Balance at 1 January	**17,306,627**	**5,318,115**
Additions	6,875	99,272
Fair value (loss)/gain recognized directly in equity	(10,595,035)	11,938,813
Disposals	(58,966)	(49,573)
Balance at 31 December	**6,659,501**	**17,306,627**

The Group has investments in the following companies:

Name	Activity	Country of registration	2008	2007
JSC Sylvinit	Potash mining	Russia	4,311,200	13,229,443
JSC Apatite	Apatite concentrate mining	Russia	2,159,105	3,637,946
JSC Sberbank	Banking	Russia	56,454	254,405
Other			132,742	184,833
			6,659,501	**17,306,627**

Fair value of the investments was determined by reference to the current market value at the close of business on 31 December 2008. At 31 December 2008 the share price quoted by RTS and MICEX for JSC Apatite and JCS Sylvinit amounted to 114 and 231 US Dollars for 1 share, respectively.

19 Accounts Payable

	2008	2007
Trade accounts payable (refer to Note 8)	1,054,053	1,427,798
Dividends payable	445,596	504,869
Total financial payables	**1,499,649**	**1,932,667**
Payables to employees	472,630	432,469
Accrued liabilities and other creditors	319,366	63,765
Total accounts payable and accrued expenses	**2,291,645**	**2,428,901**

20 Other Taxes Payable

	2008	2007
Value-added tax payable	1,767	90,504
Payroll taxes	83,613	69,239
Property and other taxes payable	131,469	148,865
	216,849	**308,608**

21 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2008	2007
Bonds issued	-	882,823
Credit lines	22,181,695	2,209,686
Term loans	6,641,518	2,406,615
	28,823,213	**5,499,124**

(in thousands of Russian Roubles)

21 Short-Term and Long-Term Borrowings (continued)

The Group's borrowings mature as follows:

	2008	2007
Borrowings due:		
- within 1 year	18,409,629	2,418,101
- between 1 and 5 years	5,946,869	2,462,135
- after 5 years	4,466,715	618,888
	28,823,213	**5,499,124**

The Group's borrowings are denominated in currencies as follows:

	2008	2007
Borrowings denominated in:		
- Russian Roubles	8,559,300	1,626,868
- Euro	1,586,615	618,888
- US Dollars	17,231,605	1,688,778
- RMB	1,445,693	1,564,590
	28,823,213	**5,499,124**

Bank loans denominated in RMB were collateralised by buildings, machinery and equipment with a net book value of RR 223,795 (2007: RR 174,834) (Note 14) and land use right with a net book value of RR 35,463 (2007: RR 123,713) (Note 13). The loans obtained from Chinese banks are secured by guarantees issued by third parties totalled RR 862,334 (2007: RR 1,094,138).

The Group's loan agreements are collateralized by property, plant and equipment for a total of RR 1,745,854 (2007: RR 21,790) (Note 14).

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

At 31 December 2008 and 31 December 2007 the fair value of borrowings was not materially different from their carrying amounts.

The loan agreements for a total of RR 4,271,600 (2007: RR Nil) were secured by pledge of 100% shares of subsidiary CJSC "Verkhnekamskaya Kaliyanaya Kompaniya" with net assets of RR 16,574,144 (Note 15).

At 31 December 2008 unused credit lines available under the long-term loan facilities were RR 1,304,739 (31 December 2007: RR 1,791,320).

The details of the significant short-term loan balances are summarized below:

	2008	2007
Short-term borrowings		
Russian roubles		
Loans with fixed interest rates of 7% to 14% per annum	4,287,700	144,663
Bonds with coupon payments of 8.6% per annum	-	882,823
US$		
Loans with fixed interest rate of 8.75% per annum	1,175,215	-
Loans with floating interest rates of LIBOR + 2.5% to LIBOR + 5.1% per annum	11,737,470	147,277
RMB		
Loans with fixed interest rates of 5.55% to 8.22% per annum	884,257	940,905
Add: current portion of long-term debt	324,987	302,433
Total short-term borrowings	**18,409,629**	**2,418,101**

(in thousands of Russian Roubles)

21 Short-Term and Long-Term Borrowings (continued)

The details of the significant long-term loan balances are summarized below:

	2008	2007
Long-term borrowings		
Russian roubles		
Loans with fixed interest rates of 8% to 11% per annum	4,271,600	599,382
Euro		
Loans with floating interest rates of EURIBOR + 1.3%	1,586,616	618,888
US$		
Loans with fixed interest rates of 7.9% per annum	-	981,848
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 4.13% per annum	4,318,919	559,653
RMB		
Loans with fixed interest rates of 6.2% to 7.8% per annum	561,436	623,685
Less: current portion of long-term debt	(324,987)	(302,433)
Total long-term borrowings	**10,413,584**	**3,081,023**

The loan agreements for a total of RR 12,064,352 (2007: RR 1,325,818) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate subjective acceleration clauses in case of the borrower's failure to fulfill or appropriately fulfill its obligations to the bank.

The loan agreements for a total of RR 1,985,216 (2007: RR 1,551,848) were secured by a pledge of the Company's promissory notes with certain restrictions on their collateral value. These agreements contain subjective acceleration clauses in relation to events triggered by borrower's failure to fulfill the contractual obligations. Also, these covenants permit the lending banks to directly debit the accounts opened by the borrower with the banks to ensure repayment of the overdue debt.

The loan agreements for a total of around RR 2,970,000 (2007: RR 110,000) contain a covenant, that requires the borrower to maintain a required level of cash flows through the accounts opened with the lending bank. The loan agreement also contains a number of covenants and a subjective acceleration clause in case of the borrower's failure to fulfill its obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

Due to the breach of certain restrictive covenants for several short-term loans for RR 5,288,060, they are considered to be upon notice and as a result of this breach the lender can request payment immediately.

None of the bank loans where the breach of loan's covenants existed at 31 December 2008 has been called by the lender either at 31 December 2008 or during the subsequent period through to the date of these consolidated financial statements.

Subsequent to the year end, these loans were partially repaid in the amount of RR 2,644,236. The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

(in thousands of Russian Roubles)

22 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 15.95% and are effectively collateralized by the leased assets, as the assets revert to the lessor in the event of default.

Finance lease liabilities minimum lease payments:

	2008	2007
Not later than 1 year	32,622	35,954
Later than 1 year and not later than 5 years	93,300	108,522
More than 5 years	11,902	33,571
Future finance charges on finance lease	(37,753)	(35,338)
Present value of finance lease liabilities	**100,071**	**142,709**

The present value of finance lease liabilities matures as follows:

	2008	2007
Not later than 1 year	30,557	31,965
Later than 1 year and not later than 5 years	63,893	86,948
More than 5 years	5,621	23,796
	100,071	**142,709**

23 Shareholders' Equity

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 31 December 2007	**47,687,600**	**(4,071,600)**	**3,125,018**	**(39,737)**	**3,085,281**
Acquisition of treasury shares	-	(105,656)	-	(6,924)	(6,924)
Disposal of treasury shares	-	30,000	-	335	335
At 31 December 2008	**47,687,600**	**(4,147,256)**	**3,125,018**	**(46,326)**	**3,078,692**

In May 2008 the Group acquired 105,646 shares of the Company for RR 210,236 paid in cash.

In August 2008 the Group disposed of 30,000 shares of the Company for a cash consideration of RR 65,000. This transaction was effected in connection with the offering of shares in the form of shares and Global Depositary Receipts ("GDRs"), the proposed admission of the GDRs to the Official List maintained by the Financial Services Authority and the proposed admission to trading of the GDRs on the London Stock Exchange's Regulated Market.

A dividend was declared in 2008 in respect of 2007 to holders of ordinary shares of RR 65 per ordinary share (2007: RR 24 per ordinary share in respect of 2006). Interim 2008 dividends were declared during the year in the amount of RR 80 per ordinary share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2008, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 986,769 (2007: RR 13,609,523) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 16,590,862 (2007: RR 21,220,774). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

(in thousands of Russian Roubles)

24 Cost of Sales

	2008	2007
Change in inventories of finished goods and work in progress	(1,346,744)	141,077
Staff costs	1,829,950	1,628,162
Materials and components used	8,570,401	8,817,216
Fuel and energy	2,378,994	2,285,275
Natural gas	4,402,137	3,906,635
Depreciation and amortization	1,335,913	1,009,580
Net realizable value of inventories provision	463,679	-
Impairment loss	506,468	-
Production overheads	69,673	172,256
Repairs and maintenance	1,281,303	748,092
Social expenditure	279,386	235,213
	19,771,160	**18,943,506**

25 Selling, General and Administrative Expenses

	2008	2007
Staff costs	1,499,949	1,288,647
Provision / (reversal of provision) for bad debts	40,170	(31,575)
Business trips expenses	226,026	194,064
Research and development costs	16,490	6,595
Taxes other than income tax	318,374	195,563
Marketing services	54,843	164,891
Audit, legal and consulting services	206,731	74,441
Bank services	156,082	45,220
Insurance	30,664	35,952
Buildings maintenance and rent	140,114	119,321
Security	146,813	148,161
Telecommunication costs	44,834	41,303
Representation expenses	84,926	100,759
Commission fees	89,658	-
Other expenses	331,865	211,751
	3,387,539	**2,595,093**

26 Finance Income, net

	2008	2007
Interest income from loans provided	235,119	73,826
Dividend income	257,800	267,383
Foreign exchange gain	225,267	267,792
Foreign exchange loss	(3,133,666)	(69,782)
	(2,415,480)	**539,219**

27 Other Operating Expenses, net

	2008	2007
Loss on disposal of investments	(169,765)	(45,963)
Charity expenses	(129,150)	(75,169)
Other expenses	(138,537)	(58,898)
Foreign exchange gain	893,429	136,138
Foreign exchange loss	(694,782)	(208,948)
	(238,805)	**(252,840)**

(in thousands of Russian Roubles)

28 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 23). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share.

	2008	**2007**
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,123,227)	(4,071,600)
Weighted average number of shares outstanding	43,564,373	43,616,000
Profit attributable to the equity holders of the Company	**9,340,443**	**5,063,864**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**214.41**	**116.10**

29 Income Taxes

	2008	**2007**
Income tax expense – current	3,990,026	2,003,838
Deferred tax credit – origination and reversal of temporary differences	(311,152)	(125,963)
Income tax charge	**3,678,874**	**1,877,875**

Profit before taxation for financial reporting purposes is reconciled to tax expense/(credit) as follows:

	2008	**2007**
Profit before taxation	13,570,290	7,546,201
Theoretical tax charge at statutory rate of 24% thereon (2007: 24%)	3,256,870	1,811,088
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income not taxable	(7,389)	(64,172)
Other non-deductible expenses	295,181	130,959
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(56,416)	-
Unrecognised tax loss carry forwards for the year	190,628	-
Income tax charge	**3,678,874**	**1,877,875**

In the context of the Group’s current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2007: 24%).

(in thousands of Russian Roubles)

29 Income Taxes (continued)

	31 December 2006	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2007	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2008
Tax effects of taxable temporary differences:							
Property, plant and equipment	953,921	(148,794)	-	805,127	(189,138)		615,989
Investments	1,324,412	(18,629)	2,865,315	4,171,098	(16,726)	(2,788,803)	1,365,569
Exploration rights	-	-	-	-	321,015	-	321,015
Tax effects of deductible temporary differences:							
Other temporary differences	8,043	(11,562)	-	(3,519)	(294,520)	-	(298,039)
Inventories	(28,165)	1,320	-	(26,845)	(64,802)	-	(91,647)
Accounts receivable	(91,887)	32,594	-	(59,293)	(22,320)	-	(81,613)
Accounts payable	(95,891)	10,823	-	(85,068)	(36,833)	-	(121,901)
Staff costs payable	(30,190)	8,285	-	(21,905)	(7,827)	-	(29,732)
Recognized net deferred tax liability	**2,040,243**	**(125,963)**	**2,865,315**	**4,779,595**	**(311,152)**	**(2,788,803)**	**1,679,641**

The Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 8,208,641(2007: 7,141,234). The Group controls timing of the reversal of those temporary differences.

The tax effect of the changing from 24% to 20% of the statutory income tax rate from January 1, 2009 on taxable temporary differences on available-for-sale investments amounted to RR 695,183 and was recorded in equity.

Substantially all deferred tax liabilities presented in the balance sheet are expected to be realised within a period exceeding 12 months from the balance sheet date.

Substantially all deferred tax assets presented in the balance sheet are expected to be realised within a period of 12 months from the balance sheet date.

30 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2008 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 572,548 (2007: RR 904,199).

In accordance with the conditions of the exploration licenses the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by license agreements (Note 15).

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

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at December 31, 2008 and 2007, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 1,022,678 and RR 1,094,138, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

ii Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

30 Contingencies, Commitments and Operating Risks (continued)

iii Operating environment of the Group

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Following a sharp deterioration in global economic environment in the fourth quarter of 2008, prices for nitrogen and complex fertilizers, as predominantly manufactured and sold by the Group have declined significantly from the peak levels of 2008 and average levels for 2008, while remaining broadly in line with 2007 average prices, and above 2006 average prices. Average prices for key fertilizers according to the leading industry publications for the first ten weeks of 2009 ranged for nitrogen fertilizers from 24% to 42% of the maximum 2008 price, 40% to 60% of 2008 average price, 77% to 94% of the 2007 average price, and 85% to 135% of the 2006 average price. For complex fertilizers prices ranged from 31% to 44% of the maximum 2008 price, 40% to 55% of the 2008 average price, 90% to 120% of the 2007 average price, and 150% to 165% of the 2006 average price for complex fertilizers. Wholesale financing has become much less available since August 2008. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flow and assess of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

Lower liquidity situation in the fourth quarter 2008 led to reduction in demand on fertilizers from ultimate customers and resulted in negative impact on the debtors' ability to timely repay their amounts owed. These circumstances aggregated with downturn in fertilizer prices led to increase in allowance for doubtful debts (Note 10), increase in provision for obsolescence in inventories and decline in value of certain inventories classes to market value (Note 12).

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the RR has depreciated significantly against some major currencies. The official US$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.39 at date of issuance of these consolidated financial statements. International reserves of the Russian Federation decreased from US$ 556,813,000 thousand at 30 September 2008 to US$ 427,080,000 thousand at 31 December 2008 and to US$ 338,889,000 thousand at 1 April 2009. Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. It believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

People's Republic of China

The Group's major subsidiary, Shandong Hongri Acron Chemical Joint Stock Company Ltd., is located in the People's Republic of China. The People's Republic of China (the "PRC") economic and legal system is not fully developed and has inherent uncertainties. The economy of PRC differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange, and allocation of resources.

Since 1978, the PRC Government has promulgated various reforms of its economic system and government structure. These reforms have resulted in significant economic growth and social progress for PRC in the last two decades. Many of the reforms are unprecedented or experimental and are expected to be modified from time to time.

30 Contingencies, Commitments and Operating Risks (continued)

Iii Operating environment of the Group (continued)

People's Republic of China (continued)

The business and operations of the Group in PRC are governed by the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of a dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit legal protections available to the Group. In addition, any litigation in PRC may be protracted and result in substantial costs and diversion of resources and management attention.

Russian Federation

iv Taxation

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

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

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future.

Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks of RR 51,526 (2007: RR 64,750). These exposures primarily relate to recoverability of VAT.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for potential tax liabilities had been recorded (2007: no provision).

(in thousands of Russian Roubles)

30 Contingencies, Commitments and Operating Risks (continued)

v Environmental matters

The environmental regulation in the Russian Federation is at evolving stage. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

31 Business Combinations

Acquisition of subsidiaries

On 07 August 2008 the Group acquired 50% voting shares of AS DBT for a cash consideration of RR 546,846. The acquired company holds title for facilities for shipment of fertilizers at the port Muuga (Estonia). This acquisition was made consistent with Group's strategy, aiming for optimisation of fertilizer exports logistics. The acquired company is consolidated by the Group for the first time as at the effective date of obtaining control which is August 2008.

The acquired company contributed revenue of RR 63,130 thousand and net loss of RR 124,094 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, effect on Group revenue for 2008 would have been RR 245,074, and effect in the amount of net loss for 2008 would have been RR 124,445. The estimated fair value of the Group's share of net assets acquired was RR 298,774, as was provisionally determined by management. The purchase price allocation will be finalized within 12 months from the acquisition date. As a result the Group has provisionally recognized goodwill of RR 248,072.

The details of the assets acquired and liabilities assumed and goodwill arising on acquisition are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		256,821	256,821
Property, plant and equipment		329,517	378,984
Other assets		8,083	16,122
Accounts payable		(29,309)	(29,309)
Other liabilities		(4,096)	(4,096)
Fair value of net assets of subsidiary			**618,522**
Less: minority interest			(319,748)
Fair value of acquired interest in net assets of subsidiary			**298,774**
Goodwill arising from the acquisition	16		248,072
Total purchase consideration			**546,846**
Less: cash and cash equivalents of subsidiary acquired			(256,821)
Outflow of cash and cash equivalents on acquisition			**290,025**

32 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RR 13,381 (2007: RR 133,479), which were settled via non-cash transactions during the years ended 31 December 2008 and 2007, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

(in thousands of Russian Roubles)

33 Financial and Capital Risk Management

33.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimize potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities. The Group does not currently hedge foreign exchange exposure using financial instruments. Group entities are prohibited from borrowing and investing in foreign currencies on a speculative basis.

Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimize foreign currency exposure.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

At 31 December 2008	**US Dollar**	**EURO**
Monetary financial assets:		
Cash and cash equivalents	1,493,181	178,335
Accounts receivable	577,942	622
Loans receivable	-	-
	2,071,123	178,957
Monetary financial liabilities:		
Accounts payable and other liabilities	(715,383)	(24,948)
Borrowings and notes payable	(17,231,605)	(1,586,615)
	(17,946,988)	(1,611,563)
Net balance sheet position	**(15,875,865)**	**(1,432,606)**

At 31 December 2007	**US Dollar**	**EURO**
Monetary financial assets:		
Cash and cash equivalents	170,978	16,565
Accounts receivable	206,851	23,860
Loans receivable	171,112	-
	548,941	40,425
Monetary financial liabilities:		
Accounts payable and other liabilities	(11,144)	(18,641)
Borrowings and notes payable	(1,688,778)	(618,888)
	(1,699,922)	(637,529)
Net balance sheet position	**(1,150,981)**	**(597,104)**

(in thousands of Russian Roubles)

33 Financial and Capital Risk Management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The above analysis includes only monetary assets and liabilities.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from US dollar denominated trade receivables, cash and cash equivalents, borrowings and accounts payable.

	2008	**2007**
Impact on post-tax profit and on equity of:		
US Dollar strengthening by 25%	(3,968,391)	(115,098)
US Dollar weakening by 25%	3,968,391	115,098
Euro strengthening by 25%	(358,151)	(59,710)
Euro weakening by 25%	358,151	59,710

The Group relies on export sales to generate foreign currency earnings. As the Group sales outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk arising primarily on volatility of US dollar rate, in which major export sales are denominated.

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group has no interest-bearing assets at floating rates, and the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group interest rate risk arises from various long-term debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2008 and 2007 borrowings at variable rates amounted to RR 17,643,004 and RR 1,325,818, respectively (Note 21).

At 31 December 2008, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RR 282,955 (2007: RR 80,200) lower, mainly as a result of higher interest expense on variable interest liabilities.

The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(a) Market risk (continued)

(iii) Price risk

The Group is exposed to an equity securities price risk, since it has an investment in equity stakes of JSC Sylvinit and JSC Apatite, which are classified on the consolidated balance sheet as available-for-sale as of 31 December 2008 and 31 December 2007, respectively (Note 18). Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments were recognized as of 31 December 2008 and 31 December 2007.

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits and loans receivable. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk of RR 2,141,607 (2007: RR 1,668,520) resulting from financial assets is equal to the carrying amount of the Group’s financial assets, including loans receivable, not including equity investments. The Group has no significant concentrations of credit risk.

Cash and cash equivalents. Cash and short-term deposits are placed in major multinational, Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 9.

Trade receivables and loans receivable. Trade receivables and loans receivable are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is analyzed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analyzed before the Group provides it with the loan. The Group gives preference to customers with an independent credit rating. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group’s gross accounts receivable balances. At 31 December 2008 and 31 December 2007 the Group had no counterparties with aggregated receivables balances of in excess of 10% of the Group’s gross accounts receivable balances, except for advances issued to Novgorodregiongas as of 31 December 2008 in the amount of RR 259,616.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

(in thousands of Russian Roubles)

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date (Refer also Note 4 for Going Concern Critical Judgement).

	Demand and less than 3 months	**From 3 to 12 months**	**From 12 months to 2 years**	**From 2 years to 5 years**	**Over 5 years**	**Total**
As of 31 December 2008						
Bonds issued * (Note 21)	-	-	-	-	-	**-**
Credit lines * (Note 21)	1,838,230	11,307,094	5,126,705	2,614,231	5,133,226	**26,019,486**
Term loans * (Note 21)	1,935,556	4,629,037	246,743	11,065	-	**6,822,401**
Trade payables (Note 19)	319,686	729,009	4,293	1,065	-	**1,054,053**
Dividends and other distributions to shareholders (Note 19)	-	445,596	-	-	-	**445,596**
Finance lease minimum lease payments (Note 22)	8,469	24,153	28,373	64,927	11,902	**137,824**
Total future payments, including future principal and interest payments	**4,101,941**	**17,134,889**	**5,406,114**	**2,691,288**	**5,145,128**	**34,479,360**
As of 31 December 2007						
Bonds issued * (Note 21)	18,876	897,759	-	-	-	**916,635**
Credit lines * (Note 21)	44,153	278,702	1,958,594	166,913	-	**2,448,362**
Term loans * (Note 21)	404,350	1,096,824	343,967	675,883	112,294	**2,633,318**
Trade payables (Note 19)	1,392,060	35,738	-	-	-	**1,427,798**
Dividends and other distributions to shareholders (Note 19)	2,901	501,968	-	-	-	**504,869**
Finance lease minimum lease payments (Note 22)	8,788	27,166	31,192	77,330	33,571	**178,047**
Total future payments, including future principal and interest payments	**1,871,128**	**2,838,157**	**2,333,753**	**920,126**	**145,865**	**8,109,029**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2008 and 31 December 2007, respectively.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts and bank deposits. Group's policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

Unused credit lines available under long-term loan facilities were RR 1,598,543(31 December 2007: RR 1,791,320).

(in thousands of Russian Roubles)

33 Financial and Capital Risk Management (continued)

33.2 Capital risk management

The Group’s objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated balance sheet. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company’s statutory financial (accounting) reports. In 2007, the Group’s strategy, which was unchanged from 2006, was to maintain the gearing ratio at the level not exceeding 80%. In 2008 the Group changed its target gearing ratio towards its maintenance on the level not exceeding 150%.

The gearing ratio as of 31 December 2008 and 31 December 2007 is shown in the table below:

	2008	**2007**
Long-term borrowings	10,413,584	3,081,023
Short-term borrowings	18,409,629	2,418,101
Total debt	**28,823,213**	**5,499,124**
Shareholders’ equity	**25,175,386**	**28,296,724**
Gearing ratio, %	**115%**	**19.4%**

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio. In 2008, the Group’s strategy, which was unchanged from 2007, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 21).

The ratio of EBITDA/net interest expense as of 31 December 2008 and 31 December 2007 is shown in the table below:

	2008	**2007**
Operating profit	16,139,059	7,576,217
Add: depreciation and amortization (Note 24)	1,335,913	1,009,580
EBITDA	**17,474,972**	**8,585,797**
Net interest expense	126,612	435,756
EBITDA/Net interest expense	**138:1**	**20:1**

The Group’s capital management includes compliance with the externally imposed minimum capital requirements arising from the Group’s borrowings (Note 21) and imposed by the statutory legislation of the Russian Federation, the People’s Republic of China and Estonia. Since EBITDA is not standard IFRS measure Acron Group’s definition of EBITDA may differ from that of other companies.

34 Fair Value of Financial Instruments

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

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

34 Fair Value of Financial Instruments (continued)

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

Fair values for available-for-sale investments carried at fair value were determined by reference to the current market value at active markets (refer to Note 18).

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

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2008 and 2007 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

35 Subsequent Events

Export duties

Effective from 1 February 2009 the Government of the Russian Federation cancelled the duties on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties introduced in April 2008 were equal to 8.5% and 6.5% of the declared customs value of nitrogen and complex fertilizers and apatite, respectively.

Bank loans

Subsequent to 31 December 2008 and prior to the date of these consolidated financial statements, the Group has obtained additional bank loans of RR 8,447,481 (secured by the pledge of shares of JSC Sylvinite (Note 18)) and repaid existing loans of RR 8,213,935.