

**JOINT STOCK COMPANY
“ACRON”**

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

31 December 2007

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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 2007 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 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

- 7 Without qualifying our report, we draw your attention to Note 2 to the consolidated financial statements. Management has withdrawn the previously issued consolidated financial statements due to an error identified by management related to valuation of available for sale investments attributable to minority interest. The consolidated financial statements as previously reported by the Group have been revised to adjust for this matter. Consequently, our auditor's report dated 24 June 2008 which we have issued on those consolidated financial statements should no longer be relied upon.

ZAO PricewaterhouseCoopers Audit


Moscow, Russian Federation
16 July 2008

Joint Stock Company "Acron"
Consolidated Balance Sheet at 31 December 2007
(in thousands of Russian Roubles)



	Note	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	14	13,726,062	12,233,590
Exploration rights	15	237,843	237,843
Leasehold land	13	147,414	151,221
Goodwill	16	1,023,601	1,023,601
Other non-current assets		504,446	316,367
Investments in associates	17	362,568	422,221
Available-for-sale investments	18	17,306,627	5,318,115
Long-term loans receivable	11	3,606	125,525
Total non-current assets		33,312,167	19,828,483
Current assets			
Inventories	12	3,883,823	3,240,817
Other current assets		29,942	45,756
Short-term loans receivable	11	643,718	577,491
Accounts receivable	10	4,036,616	3,722,288
Dividends receivable		114,454	11,605
Cash and cash equivalents	9	1,335,275	1,239,287
Total current assets		10,043,828	8,837,244
TOTAL ASSETS		43,355,995	28,665,727
EQUITY			
Share capital	23	3,125,018	3,125,018
Treasury shares	23	(39,737)	(39,737)
Retained earnings		11,247,092	7,840,636
Revaluation reserve		11,207,376	3,180,513
Cumulative currency translation difference		(78,531)	3,586
Share capital and reserves attributable to the Company's equity holders		25,461,218	14,110,016
Minority interest		2,835,506	1,258,965
TOTAL EQUITY		28,296,724	15,368,981
LIABILITIES			
Non-current liabilities			
Long-term borrowings	21	3,081,023	5,278,124
Finance lease liability	22	110,744	-
Other long-term liabilities		193,593	276,648
Deferred tax liability	29	4,779,595	2,040,243
Total non-current liabilities		8,164,955	7,595,015
Current liabilities			
Accounts payable	19	2,428,901	2,165,109
Notes payable		134,415	250,405
Current income tax payable		290,236	44,637
Other taxes payable	20	308,608	189,482
Short-term borrowings	21	2,418,101	1,764,057
Advances received		1,153,898	1,235,287
Finance lease liability	22	31,965	-
Other current liabilities		128,192	52,754
Total current liabilities		6,894,316	5,701,731
TOTAL LIABILITIES		15,059,271	13,296,746
TOTAL LIABILITIES AND EQUITY		43,355,995	28,665,727

Approved for issue and signed on behalf of the Board of Directors on 16 July 2008.


 I. N. Antonov
 President


 A. V. Milenkov
 Finance Director

Joint Stock Company "Acron"
Consolidated Income Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, except for per share amounts)



	Note	2007	2006
Revenue	7	31,105,184	23,624,534
Cost of sales	24	(18,943,506)	(15,653,747)
Gross profit		12,161,678	7,970,787
Transportation services		(1,725,442)	(1,462,179)
Selling, general and administrative expenses	25	(2,595,093)	(2,556,144)
Gain (loss) on disposal of property, plant and equipment, net		(12,083)	63,875
Other operating expenses	27	(180,030)	(295,120)
Operating profit		7,649,030	3,721,219
Finance income	26	466,406	243,371
Interest expense		(509,582)	(491,996)
Share of result of associates	17	(59,653)	-
Profit before taxation		7,546,201	3,472,594
Income tax expense	29	(1,877,875)	(1,009,005)
Net profit for the year		5,668,326	2,463,589
Net profit is attributable to:			
Equity holders of the Company		5,063,864	2,253,336
Minority interest		604,462	210,253
Net profit for the year		5,668,326	2,463,589
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	116.10	51.66

The accompanying notes on pages 6 to 45 are an integral part of these consolidated financial statements.

Joint Stock Company "Acron"
Consolidated Statement of Cash Flows for the year ended 31 December 2007
(in thousands of Russian Roubles)



	Note	2007	2006
Cash flows from operating activities			
Profit before taxation		7,546,201	3,472,594
<i>Adjustments for:</i>			
Depreciation and amortization	13, 14	1,009,580	924,334
Reversal of impairment of accounts receivable	10	(47,125)	(30,568)
(Decrease)/Increase in provision for write-down on inventory	12	(11,535)	30,860
Reversal of impairment of property, plant and equipment, net	14	(2,349)	(6,901)
Share of results of associate	17	59,653	-
Loss/(gain) on disposal of property, plant and equipment		12,083	(63,875)
Interest expense		509,582	491,996
Interest income		(73,826)	(76,956)
Dividend income		(267,383)	(39,077)
Foreign exchange effect on non-operating balances		(148,545)	(22,934)
Operating cash flows before working capital changes		8,586,336	4,679,473
Decrease/(Increase) in gross trade receivables		523,569	(635,677)
Increase in advances to suppliers		(1,155,693)	(63,505)
Decrease/(Increase) in other receivables		57,011	(599,418)
Increase in inventories		(631,471)	(115,617)
Increase/(decrease) in trade payables		630,516	(92,332)
(Decrease)/Increase in other payables		(251,834)	66,019
(Decrease)/Increase in advances from customers		(81,389)	227,422
(Decrease)/Increase in other current assets		15,814	(7,166)
Increase in other current liabilities		75,438	13,278
Net change in other non-current assets and liabilities		(271,134)	18,264
Cash generated from operations		7,497,163	3,490,741
Income taxes paid		(1,368,133)	(1,050,651)
Interest paid		(544,783)	(415,380)
Net cash generated from operating activities		5,584,247	2,024,710
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,524,434)	(2,818,313)
Purchase of exploration rights		-	(237,843)
Acquisition of additional interest in subsidiaries	16	(474,256)	(1,249,410)
Proceeds from sale of property, plant and equipment		162,408	197,315
Contribution to share capital of associate	17	-	(122,000)
Loans provided	11	(397,956)	(618,281)
Proceeds from loans repaid	11	453,648	474,200
Interest received		74,777	76,956
Dividends received		164,534	39,077
Proceeds from sale of leasehold land rights		213,170	-
Purchase of available-for-sale investments		(99,272)	(76,194)
Net cash used in investing activities		(2,427,381)	(4,334,493)
Cash flows from financing activities			
Dividends paid to shareholders		(1,624,067)	(666,628)
Dividends paid to minority shareholders		(80)	(122,695)
Proceeds from borrowings	21	5,007,494	6,723,931
Repayment of borrowings	21	(6,410,964)	(3,641,996)
Net cash provided from (used in) financing activities		(3,027,617)	2,292,612
Effect of exchange rate changes on cash and cash equivalents		(33,261)	(82,321)
Net increase (decrease) in cash and cash equivalents		95,988	(99,492)
Cash and cash equivalents at the beginning of the year		1,239,287	1,338,779
Cash and cash equivalents at the end of the year		1,335,275	1,239,287

The accompanying notes on pages 6 to 45 are an integral part of these consolidated financial statements.

Joint Stock Company "Acron"
Consolidated Statement of Changes in Equity for the year ended 31 December 2007
(in thousands of Russian Roubles)



	Capital and reserves attributable to the Company's equity holders					Minority interest	Total equity
	Share capital (Note 23)	Treasury shares (Note 23)	Retained earnings	Revaluation reserve	Cumulative currency translation difference		
Balance at 31 December 2005 (as previously reported)	3,125,018	(39,737)	5,745,477	1,927,397	14,814	2,278,858	13,051,827
Accounting change (Note 8 (iii), Note 2)	-	-	801,375	-	-	(297,736)	503,639
Balance at 1 January 2006 (as restated)	3,125,018	(39,737)	6,546,852	1,927,397	14,814	1,981,122	13,555,466
Fair value gains on available-for-sale investments (Note 18)	-	-	-	1,648,837	-	(205,900)	1,442,937
Currency translation differences	-	-	-	-	(11,228)	(80,974)	(92,202)
Income tax recorded in equity (Note 29)	-	-	-	(395,721)	-	49,416	(346,305)
Net income recognised directly in equity	-	-	-	1,253,116	(11,228)	(237,458)	1,004,430
Profit for the year	-	-	2,253,336	-	-	210,253	2,463,589
Total recognised income for 2006	-	-	2,253,336	1,253,116	(11,228)	(27,205)	3,468,019
Acquisition of additional interest in subsidiaries	-	-	-	-	-	(620,450)	(620,450)
Dividends declared (Note 23)	-	-	(959,552)	-	-	(74,502)	(1,034,054)
Balance at 31 December 2006 (as restated)	3,125,018	(39,737)	7,840,636	3,180,513	3,586	1,258,965	15,368,981
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

The accompanying notes on pages 6 to 45 are an integral part of the consolidated financial statements.



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 2007 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) (2006: Subero Associates Inc). As at 31 December 2007 and 2006 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).

Re-issuance of financial statements. Management has withdrawn the previously issued consolidated financial statements which were issued on 24 June 2008 in order to correct the valuation of available for sale investments attributable to minority interest. In the originally issued consolidated financial statements the fair value gains or losses, net of income tax effect, on available for sale investments attributable to minority interest were not recorded in the statement of changes in equity. Management has concluded that IFRS require minority interest in the net assets of consolidated subsidiaries to include the share of fair value gains or losses attributable to minority interest. As a result of this adjustment, at 31 December 2007 and 31 December 2006, the carrying values of available for sale investments were increased by RR 1,788,220 and RR 418,729, respectively, with corresponding increase in minority interest by RR 1,359,047 and RR 318,254, respectively, and deferred tax liabilities by RR 429,173 and RR 100,495, respectively.

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.

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 Summary of Significant Accounting Policies (continued)

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:

- 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 are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead (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.



3 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment (continued)

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:

	<u>Number of years</u>
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.

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 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.

3.8 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.

Research and development. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, on average over a period not exceeding 5 years.



3 Summary of Significant Accounting Policies (continued)

3.8 Intangible assets (continued)

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.

3.9 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.

3.10 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% (2006: 24%) for Russia, where the most significant Group subsidiaries are registered.

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.

3.11 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.



3 Summary of Significant Accounting Policies (continued)

3.11 Foreign currency transactions (continued)

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 2007 the principal rate of exchange used for translating foreign currency balances was US\$ 1 = 24,5462 RR, US\$ 1 = 7,3046 RMB (2006: US\$ 1 = RR 26.3311, US\$ 1 = RMB 7.8098). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 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.

3.13 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 Summary of Significant Accounting Policies (continued)

3.14 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.

3.15 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.

3.16 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 462,065 as part of labour costs in 2007 (2006: RR 448,949).

3.17 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.



3 Summary of Significant Accounting Policies (continued)

3.17 Financial assets and liabilities (continued)

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.

3.18 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 Summary of Significant Accounting Policies (continued)

3.19 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.

3.20 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.

3.21 Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation (Note 7, Note 8 (iii)).

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 2007 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 2007. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 1% higher than management estimates, the goodwill would still have not been impaired.

Impairment of available-for-sale equity investments. 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.

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

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Refer to Note 8.



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

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 26,106 or decrease it by RR 27,778 were the estimated useful lives to differ by 10% from management's estimates.

Valuation of available-for-sale investments. As of 31 December 2006 the investments in JSC Apatite and in JSC Sylvinit had no active market in line with requirements of IAS 39. For these investments, fair value was estimated by using valuation techniques based on application guidance of IAS 39 (revised). As of 31 December 2007 the Group concluded that the investments in JSC Apatite and in JSC Sylvinit were traded in active market in line with requirements of IAS 39, and fair value was determined by reference to the current market value at the close of business on 31 December 2007. 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. Refer to Note 18.

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

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information regarding financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including analysis of sensitivity to market risk. IFRS 7 replaced some of the requirements of IAS 32, Financial Instruments: Disclosure and Presentation. A complementary Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006, that is from 1 January 2007);
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006, that is from 1 January 2007).

These interpretations did not have a significant impact on these consolidated financial statements.



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 2008 or later periods and which the entity 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 and specifies how an entity should report such information.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued on March 2007. The main change in IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group expects the revised IAS 23 has no impact on the financial statements as the Group's accounting policies historically complied with it.

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.

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 consolidated financial statements.

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 on the same basis as US GAAP (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, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. 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 consolidated financial statements.



6 New Accounting Pronouncements (continued)

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.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; 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 applicable to the Group as the Group companies do not currently operate any loyalty programmes.

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 issued in May 2008 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. Most of the amendments are effective annual periods beginning on or after 1 January 2009. The Group is currently assessing what impact the amendments will have on its consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

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

- 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).
- IFRIC 15, IAS 11, IAS 18 – *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, IAS 39 – *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

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's entities located in the Russian Federation including sales to CIS countries (previously reported within "Russia and CIS countries" in the amount of RR 1,277,003).

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 and China.

	2007	2006
Revenue		
Russia	8,050,652	5,238,065
China	6,847,401	4,842,904
Other countries	16,207,131	13,543,565
	31,105,184	23,624,534
Total assets		
Russia	36,952,516	23,413,348
China	5,784,591	5,252,379
Other countries	618,888	-
	43,355,995	28,665,727
Costs incurred during the period to acquire non-current segment assets		
Russia	1,882,813	2,359,402
China	149,530	580,349
Other countries	502,000	-
	2,534,343	2,939,751

The Group sells to two international trading entities that account for the majority of segment "Other countries". In 2007, AgroNitrogen Logistics Ltd. and NPChemical Trading Inc. purchased 34% and 26% of the sales of segment "Other countries", respectively (2006: 29% and 33%). 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.

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 2007 and 2006 are detailed below.



8 Balances and Transactions with Related Parties (continued)

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

i Balances with related parties

Balance sheet caption	Note	Relationship	2007	2006
Trade receivables, gross	10	Parties under common control	48,610	140,853
Provision for impairment of trade receivables	10	Parties under common control	(18,214)	(65,556)
Prepayments	10	Parties under common control	5,000	98,763
Loans issued	11	Parties under common control	200,583	327,569
Other receivables	10	Parties under common control	27,894	10,594
Loans received		Parties under common control	(9,714)	(8,000)
Trade payables	19	Parties under common control	(20,932)	(12,963)
Deferred purchase consideration for acquisition of additional interest in existing subsidiaries	19	Parties under common control	-	(342,573)
Advances from customers		Parties under common control	(7)	(32,815)

ii Transactions with related parties

Income statement caption	Note	Relationship	2007	2006
Sales of chemical fertilizers	7	Parties under common control	293,029	1,147,253
Purchases of raw materials	24	Parties under common control	(85,398)	(42,157)
Purchase of transportation services	17	Parties under common control	-	(266,347)
Security services	25	Parties under common control	(128,637)	(120,956)

iii Cross shareholding

At 31 December 2007 JSC Dorogobuzh, a 71.83% subsidiary of the Group (2006: 71.57%), owned 4,071,600 ordinary shares or 8.54% of the ordinary share capital of the Company (2006: 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.

Shares owned by JSC Dorogobuzh are accounted for as available-for-sale investments with fair value gains (losses) recorded directly in equity in the financial statements of JSC Dorogobuzh. In 2006 and 2005 the fair value gains attributable to the Company were eliminated on consolidation while the proportional share of unrealized gains attributable to the minority interest was recorded within minority interest. In 2007 the Group changed the accounting treatment it applied for calculation of minority interest. In accordance with the revised accounting treatment, the fair value gains (losses) attributable to the treasury shares of the Company are eliminated entirely on consolidation. The effect of this change was to reduce minority interest by RR 824,301 and RR 801,375 for the years ended 31 December 2006 and 2005, respectively.

iv Acquisitions of interest in subsidiaries

In July 2006 the Group acquired 47,720,394 of common shares (6.60% of common shares or 5.45% of total share capital) of its subsidiary, JSC Dorogobuzh, from a party under common control for a cash consideration of RR 592,163.

In October 2006 the Group acquired 100% of the share capital of CJSC Granit from a party under common control for a cash consideration of RR 999,820. CJSC Granit is a holding company, which owned 78,315,600 of common shares and 16,523,017 of preferred shares of JSC Dorogobuzh (10.86% of common shares or 10.83% of total share capital) as of date of acquisition and as of 31 December 2006.



8 Balances and Transactions with Related Parties (continued)

v Loans issued

At 31 December 2007 and 2006 short-term loans to parties under common control totalled RR 200,583 and RR 307,926, respectively, at interest rates in the range of 10% to 10.5% (2006: 8.5% to 12%). The loans are unsecured.

At 31 December 2006 long-term loans to parties under common control totalled RR 19,642, at interest rates of 9%. The loans are unsecured.

In 2007 the Group accrued interest income of RR 20,153 (2006: RR 31,104).

vi 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. Refer to Note 35.

Total key management personnel compensation included in general and administrative expenses in the income statement for the year ended 31 December 2007 amounted to RR 164,010 (31 December 2006: RR 130 059). Related state pension and social security costs for the year ended 31 December 2007 amounted to RR 4,822 (31 December 2006: RR 4,134).

9 Cash and Cash Equivalents

	2007	2006
Cash on hand and bank balances denominated in RR	642,278	339,797
Bank balances denominated in US\$	170,978	372,111
Bank balances denominated in Euro	16,565	26,993
Bank balances denominated in RMB	505,454	500,386
Total cash and cash equivalents	1,335,275	1,239,287

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:

	2007	2006
A to AAA* rated	115,434	202,971
BB- to BBB+* rated	674,368	524,523
Chinese banks with top internal credit ratings	505,454	500,386
Unrated	40,019	11,407
Total	1,335,275	1,239,287

* Based on the credit ratings of independent rating agency Standard & Poor's.



10 Accounts Receivable

	2007	2006
Trade accounts receivable	528,118	1,051,687
Notes receivable	435,870	139,804
Other accounts receivable	186,961	396,190
Less: impairment provision	(129,753)	(167,753)
Total financial assets	1,021,196	1,419,928
Advances to suppliers	2,242,954	1,087,261
Value-added tax recoverable	772,477	1,133,237
Income tax prepayments	10,992	28,313
Other taxes receivable	5,367	19,756
Settlements on claims	-	59,288
Less: impairment provision	(16,370)	(25,495)
Total accounts receivable	4,036,616	3,722,288

As at 31 December 2007 the Group had accounts receivable of RR 0 (2006: 213,170) from the purchaser of leasehold land rights, which is included in other accounts receivable.

Included in notes receivable are notes receivable from Sberbank Russia for RR 100,750 (2006: RR 107,811) and notes receivable from Chinese banks for RR 335,120 (2006: RR 31,893).

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

As of 31 December 2007, trade and other accounts receivable of RR 129,753 (2006: RR 167,753) 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:

	2007	2006
Less than 3 months	-	(150)
From 3 to 9 months	(4,659)	(8,877)
From 9 to 12 months	(6,879)	(8,430)
Over 12 months	(118,215)	(150,296)
Total gross amount of impaired accounts receivable	(129,753)	(167,753)

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

	2007		2006	
	Trade receivables	Other debtors	Trade receivables	Other debtors
Provision for impairment at 1 January	(160,664)	(7,089)	(185,248)	-
Provision for impairment	(33,273)	-	(16,624)	(7,089)
Provision used	56,684	7,089	31,531	-
Provision reversed	7,500	-	9,677	-
Provision for impairment at 31 December	(129,753)	-	(160,664)	(7,089)

The maximum exposure to credit risk on the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

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

Financial assets which are potentially subject to credit risk, consist principally of trade receivables.



10 Accounts Receivable (continued)

As of 31 December 2007, trade receivables of RR 32,453 thousand (2006: RR 43,251) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2007	2006
Less than 3 months	-	-
From 3 to 9 months	28,421	30,851
From 9 to 12 months	3,116	12,400
Over 12 months	916	-
Trade accounts receivable past due not impaired	32,453	43,251

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

	2007		2006	
	Trade receivables	Notes receivable	Trade receivables	Notes receivable
<i>Current and not impaired – exposure to:</i>				
- Notes receivable from top Russian and foreign banks		435,870		139,804
- Foreign traders and customers	230,500		733,664	
- Small individual Russian companies and farms	118,182		101,061	
- Chinese customers	36,262		45,771	
Total current and not impaired	384,944	435,870	880,496	139,804

11 Loans Receivable

	2007	2006
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	200,583	307,926
Loans issued to third parties	443,135	269,565
	643,718	577,491
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	-	19,643
Loans issued to third parties	3,606	105,882
	3,606	125,525

Loans receivable contain neither impaired nor overdue assets as of 31 December 2007 and 31 December 2006. No provision for impairment was created for loans receivable as of the respective dates.

At 31 December 2007 and 2006 short-term loans totalled RR 643,718 and RR 577,491, respectively, at interest rates in the range of 10 % to 10.5% (2006: 10% to 12%). The loans were unsecured.

At 31 December 2007 and 2006 long-term loans totalled RR 3,606 and RR 125,525, respectively, at interest rates in the range of 9 % to 10.5% (2006: 9% to 10.5%). The loans were unsecured.

In 2007 the Group accrued interest income of RR 73,826 (2006: RR 76,956).

At 31 December 2007 and at 31 December 2006 the Group had two counterparties with aggregated loans receivable balances in excess of 80% and 60% 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

	2007	2006
Raw materials and spare parts	3,033,612	2,388,072
Work in progress	167,551	106,068
Finished products	682,660	746,677
	3,883,823	3,240,817

Raw materials are shown net of impairment provision of RR 284,033 (2006: 295,568). No inventory was pledged as security at December 31, 2007 and 2006.

13 Leasehold Land

	2007	2006
<u>Cost</u>		
Balance at 1 January	170,420	299,255
Disposals	-	(112,664)
Translation difference	(610)	(16,171)
Balance at 31 December	169,810	170,420
<u>Accumulated amortization</u>		
Balance at 1 January	19,199	31,832
Amortization for the year	3,266	3,982
Disposals	-	(14,895)
Translation difference	(69)	(1,720)
Balance at 31 December	22,396	19,199
<u>Net book value</u>		
Balance at 1 January	151,221	267,423
Balance at 31 December	147,414	151,221

At 31 December 2007, the Group's leasehold land with net book value of RR 147,414 (2006: RR 151,221) 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 2007, land use right with a net book value of RR 123,712 (2006: RR 138,263) 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 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



14 Property, Plant and Equipment (continued)

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2006	16,971,071	18,349,741	703,365	497,821	1,585,576	38,107,574
Acquisitions through business combinations	53,078	26,097	-	-	405	79,580
Additions	-	-	-	-	2,701,908	2,701,908
Transfers	281,157	1,225,467	520,458	78,562	(2,105,644)	-
Disposals	(309,517)	(609,602)	(17,176)	(27,091)	(34,890)	(998,276)
Translation difference	(46,729)	(113,631)	(3,852)	(3,416)	(29,420)	(197,048)
Balance at 31 December 2006	16,949,060	18,878,072	1,202,795	545,876	2,117,935	39,693,738
Accumulated Depreciation						
Balance at 1 January 2006	10,907,919	15,477,624	556,249	278,596	-	27,220,388
Depreciation charge	315,963	529,365	38,566	36,458	-	920,352
Disposals	(146,312)	(523,647)	(12,363)	(21,630)	-	(703,952)
Translation difference	(3,856)	(23,591)	(593)	(1,551)	-	(29,591)
Balance at 31 December 2006	11,073,714	15,459,751	581,859	291,873	-	27,407,197
Accumulated Impairment Loss						
Balance at 1 January 2006	36,406	18,854	-	3,561	1,032	59,853
Impairment loss	-	-	-	-	-	-
Additions	19,240	63,746	-	2,722	3,187	88,895
Reversal	(48,938)	(42,931)	-	(641)	-	(92,510)
Translation difference	(2,018)	(1,019)	-	(195)	(55)	(3,287)
Balance at 31 December 2006	4,690	38,650	-	5,447	4,164	52,951
Net Book Value						
Balance at 1 January 2006	6,026,746	2,853,263	147,116	215,664	1,584,544	10,827,333
Balance at 31 December 2006	5,870,656	3,379,671	620,936	248,556	2,113,771	12,233,590

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 2007 major subsidiaries of the Group exercised the option and purchased the land under production plants.

At 31 December 2007, buildings, machinery and equipment with a net book value of RR 196,623 (2006: RR 191,178) had been pledged as security for long-term loans (Note 21).



14 Property, Plant and Equipment (continued)

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:

	31 December 2007
Cost of transport	146,000
Accumulated depreciation	(3,291)
Carrying amount of transport	142,709

15 Exploration Rights

On 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 license expires in 20 years.

In December 2006 the Group made a one-off payment of RR 237,843 to the Russian State for the right to explore the Partomchorr and Oleny Ruchey apatite-nepheline deposits. In accordance with the conditions of the license, the Group has the following commitments:

- to commence construction of an exploration complex by 1 May 2009;
- to commence extraction of apatite-nepheline ore by 1 May 2012.

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

The Group commenced geological exploration in February 2007. During 2007 the Group incurred expenses of RR 150,685 thousand (2006: RR nil) directly related to the development of deposits. These expenses were capitalized in accordance with the Group accounting policy and included within assets under construction.

	2007	2006
Cost		
Balance at 1 January	237,843	-
Additions	-	237,843
Disposals	-	-
Balance at 31 December	237,843	237,843
Accumulated Amortization		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	-	-
Net Book Value		
Balance at 1 January	237,843	-
Balance at 31 December	237,843	237,843



16 Goodwill

Movements in goodwill arising on the acquisition of new subsidiaries and acquisition of additional interest in existing subsidiaries are:

	Note	2007	2006
Carrying amount at 1 January		1,023,601	-
Acquisition of subsidiary	31	-	52,068
Acquisition of additional interest in existing subsidiary		-	971,533
Carrying amount at 31 December		1,023,601	1,023,601
Gross book value at 31 December		1,023,601	1,023,601
Carrying amount at 31 December		1,023,601	1,023,601

In December 2006 the Group acquired 100% of the share capital of LLC Andrex for a cash consideration of RR 131,683. 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 52,068 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.

In July 2006 the Group acquired 47,720,394 of common shares (6.60% of common shares or 5.45% of total share capital) of JSC Dorogobuzh from a party under common control for a cash consideration of RR 592,163. Goodwill on acquisition amounted to RR 387,939.

In October 2006 the Group acquired 100% of the share capital of CJSC Granit from a party under common control for a cash consideration of RR 999,820. CJSC Granit is a holding company, which owned 78,315,600 of common shares and 16,523,017 of preferred shares of JSC Dorogobuzh (10.86% of common shares or 10.83% of total share capital) as of date of acquisition and as of 31 December 2006. Goodwill on acquisition amounted to RR 583,594.

Goodwill Impairment Test. 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:

	2007	2006
LLC Andrex	52,068	52,068
JSC Dorogobuzh	971,533	971,533
Total carrying amount of goodwill	1,023,601	1,023,601

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections 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.

The key assumptions used for value-in-use at 31 December 2007 are as follows:

	LLC Andrex	JSC Dorogobuzh
Growth rate beyond five years	0%	0%
Discount rate	8%	8%

Management determined budgeted gross margin based on past performance and its 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 and reflect specific risks relating to the relevant segments.



17 Investments in Associates

	2007	2006
Balance at 1 January	422,221	300,221
Contribution to share capital of associate	-	122,000
Share of loss before tax	(59,653)	-
Balance at 31 December	362,568	422,221

The amount above is represented by the investment of the Group into JSC Sibir Oil and Gas Company (21% of interest held). In 2006 the Group made a contribution of RR 122,000 to share capital of JSC Sibir Oil and Gas Company to maintain its investment share.

At 31 December 2007, 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	18,211,812	17,945,124	876,051	(284,062)	21%	Russia

At 31 December 2006, 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	14,591,496	14,104,406	-	48,408	21%	Russia

18 Available-for-Sale Investments

	2007	2006
Balance at 1 January	5,318,115	3,833,699
Additions	99,272	76,196
Fair value gain recognized directly in equity	11,938,813	1,442,937
Disposals	(49,573)	(34,717)
Balance at 31 December	17,306,627	5,318,115

The Group has investments in the following companies:

Name	Activity	Country of registration	2007	2006
JSC Sylvinit	Potash mining	Russia	13,229,443	3,864,240
JSC Apatite	Apatite concentrate mining	Russia	3,637,946	1,091,529
JSC Sberbank	Banking	Russia	254,405	227,213
Other			184,833	135,133
			17,306,627	5,318,115

Investments previously classified as at fair value through profit or loss were retrospectively designated by the Group as available-for-sale in line with requirements of IAS 39 (Amendment) "The Fair Value Option" effective from 1 January 2006. Respective fair value gains were recognized directly in equity. These investments comprise principally equity securities, which are listed on the Russian Trading System.



18 Available-for-Sale Investments (continued)

As of 31 December 2006 the investments in JSC Apatite and in JSC Sylvinit had no active market in line with requirements of IAS 39. For these investments, fair value was estimated by using valuation techniques based on application guidance of IAS 39 (revised). Applied multiples of enterprise value to sales and EBITDA were 0.85 and 5.2 for JSC Apatite and 4.2 and 10.15 for JSC Sylvinit, respectively. Applied discounts for lack of control and lack of marketability were 15% and 35%, respectively. For other investments traded in active markets, fair value was determined by reference to the current market value at the close of business on 31 December 2006.

As at 31 December 2007 the Group concluded that the investments in JSC Apatite and in JSC Sylvinit were traded in active market in line with the requirements of IAS 39, and fair value was determined by reference to the current market value at the close of business on 31 December 2007. The share price quoted by RTS for JSC Apatite and JCS Sylvinit amounted to 230 and 850 US Dollars for 1 share at 31 December 2007.

19 Accounts Payable

	2007	2006
Trade accounts payable (refer to Note 8)	1,427,798	797,282
Deferred purchase consideration for acquisition of new subsidiaries and additional interest in existing subsidiaries (refer to Notes 16 and 31)	-	474,256
Dividends payable	504,869	450,886
Total financial payables	1,932,667	1,722,424
Payables to employees	432,469	366,482
Accrued liabilities and other creditors	63,765	76,203
Total accounts payable and accrued expenses	2,428,901	2,165,109

20 Other Taxes Payable

	2007	2006
Value-added tax payable	90,504	48,548
Payroll taxes	69,239	53,664
Property and other taxes payable	148,865	87,270
	308,608	189,482

21 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2007	2006
Bonds issued	882,823	882,823
Credit lines	2,209,686	2,979,411
Term loans	2,406,615	3,179,947
	5,499,124	7,042,181

In June 2005 the Group's subsidiary JSC Dorogobuzh issued 900 thousand non-convertible three year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 900,000 with quarterly coupon payments of 9.9% per annum with an early redemption option. In June 2005 Board of Directors of JSC Dorogobuzh approved the decision to grant to the holders of the bonds a one off option to redeem the bonds in December 2006. Bonds for RR 17,177 were redeemed and not placed as at 31 December 2007 (2006: RR 17,177). In December 2006 Board of Directors of JSC Dorogobuzh approved the decision to reduce quarterly coupon payments to 8.6% per annum. The bonds are guaranteed by a parent company.



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

The Group's borrowings mature as follows:

	2007	2006
Borrowings due:		
- within 1 year	2,418,101	1,764,057
- between 2 and 5 years	2,462,135	5,278,124
- after 5 years	618,888	-
	5,499,124	7,042,181

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

	2007	2006
Borrowings denominated in:		
- Russian Roubles	1,626,868	1,822,101
- Euro	618,888	-
- US Dollars	1,688,778	3,449,374
- RMB	1,564,590	1,770,706
	5,499,124	7,042,181

Bank loans denominated in RMB were collateralised by buildings, machinery and equipment with a net book value of RR 174 834 (2006: RR 191,178) (refer to Note 14) and land use right with a net book value of RR 123 713 (2006: RR 138,263) (refer to Note 13). The loans obtained from Chinese banks are secured by guarantees issued by third parties totalled RR 1,094,138 (2006: RR 1,366,012).

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 2007 and 31 December 2006 the fair value of borrowings was not materially different from their carrying amounts.

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

	2007	2006
Short-term borrowings		
Russian roubles		
Loans with fixed interest rates of 7% to 14% per annum	144,663	619,278
Bonds with coupon payments of 8.6% per annum	882,823	-
US\$		
Loans with floating interest rates of LIBOR + 3.45% per annum	147,277	-
RMB		
Loans with fixed interest rates of 5.58% to 8.28% per annum	940,905	841,258
Add: current portion of long-term debt	302,433	303,521
Total short-term borrowings	2,418,101	1,764,057



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

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

	2007	2006
Long-term borrowings		
Russian roubles		
Loans with fixed interest rates of 8% to 14% per annum	599,382	320,000
Bonds with coupon payments of 8.6% to 9.9% per annum	-	882,823
Euro		
Loans with floating interest rates of EURIBOR + 1.3%	618,888	-
US\$		
Loans with fixed interest rates of 7.9% per annum	981,848	1,053,244
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 3.45% per annum	559,653	2,396,130
RMB		
Loans with fixed interest rates of 6.732% to 7.83% per annum	623,685	929,448
Less: current portion of long-term debt	(302,433)	(303,521)
Total long-term borrowings	3,081,023	5,278,124

The loan agreements for a total of RR 1,325,818 (2006: RR 2,372,432) contain certain covenants including those which require the Group to maintain a minimum level of net assets of at least USD 190 million, and impose restrictions on total debt which should not exceed 60% of the net assets, and EBITDA/net interest expense ratio which should be no less than 4 to 1. The loan agreements also provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks. The loan agreements also provide for subjective acceleration clauses in case of the borrower's failure to fulfill or appropriately fulfill his obligations to the bank.

The loan agreements for a total of RR 1,551,848 (2006: RR 1,373,244) were secured by a pledge of the Company's promissory notes. The collateral value of the notes remaining in pledge should not be less than the borrower's liability, including principal and interest accrued for no less than three months of the credit term. In addition, 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 110,000 (2006: RR 600,000) 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 his 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.

The loan agreements for a total of RR 56,045 (2006: nil) contain a covenant to maintain the required level of cash flows through the accounts opened with the lender. Also, they allow the bank to directly debit the borrower's accounts with the lending banks to ensure repayment of his debt. These loan agreements are collateralized by property for a total of RR 21,790 (see Note 14).

Unused credit lines available under long-term loan facilities were RR 1,791,320 (31 December 2006: RR 983,602).



22 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 10.64% 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:

	2007	2006
Not later than 1 year	35,954	-
Later than 1 year and not later than 5 years	108,522	-
More than 5 years	33,571	-
Future finance charges on finance lease	(35,338)	-
Present value of finance lease liabilities	142,709	-

The present value of finance lease liabilities matures as follows:

	2007	2006
Not later than 1 year	31,965	-
Later than 1 year and not later than 5 years	86,948	-
More than 5 years	23,796	-
	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 2006	47,687,600	(4,071,600)	3,125,018	(39,737)	3,085,281
At 31 December 2007	47,687,600	(4,071,600)	3,125,018	(39,737)	3,085,281

A dividend was declared in 2007 in respect of 2006 to holders of ordinary shares of RR 24 per ordinary share (2006: RR 22 per ordinary share in respect of 2005). Interim 2007 dividends were declared during the year in the amount of RR 25 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 2007, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 13,609,523 (2006: RR 5,908,505) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 21,220,774 (2006: RR 9,423,380). 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.



24 Cost of Sales

The components of cost of sales were as follows:

	2007	2006
Change in inventories of finished goods and work in progress	141,077	(49,135)
Staff costs	1,628,162	1,619,690
Materials and components used	8,817,216	6,694,726
Fuel and energy	2,285,275	2,038,437
Natural gas	3,906,635	2,936,475
Depreciation and amortization	1,009,580	924,334
Production overheads	172,256	157,638
Repairs and maintenance	748,092	1,122,990
Social expenditure	235,213	208,592
	18,943,506	15,653,747

25 Selling, General and Administrative Expenses

	2007	2006
Staff costs	1,288,647	1,302,795
Reversal of provision for bad debts	(31,575)	(18,074)
Business trips expenses	194,064	201,910
Research and development costs	6,595	3,913
Taxes other than income tax	195,563	154,428
Marketing services	164,891	120,600
Audit, legal and consulting services	74,441	178,324
Bank services	45,220	40,196
Insurance	35,952	81,014
Buildings maintenance and rent	119,321	106,240
Security	148,161	149,699
Telecommunication costs	41,303	47,706
Representation expenses	100,759	64,802
Other expenses	211,751	122,591
	2,595,093	2,556,144

26 Finance Income

	2007	2006
Interest income from loans provided	73,826	76,956
Dividend income	267,383	39,077
Foreign exchange gains	125,197	127,338
	466,406	243,371

27 Other Operating Expenses

	2007	2006
Loss on disposal of investments	45,963	50,495
Charity expenses	75,169	96,494
Other expenses	58,898	148,131
	180,030	295,120



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. For the purposes of earnings per share calculation the number of shares outstanding was adjusted retrospectively for all periods presented as follows:

	2007	2006
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,071,600)	(4,071,600)
Weighted average number of shares outstanding	43,616,000	43,616,000
Profit attributable to the equity holders of the Company	5,063,864	2,253,336
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	116.10	51.66

29 Income Taxes

	2007	2006
Income tax expense – current	2,003,838	1,207,603
Deferred tax credit – origination and reversal of temporary differences	(125,963)	(198,598)
Income tax charge	1,877,875	1,009,005

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

	2007	2006
Profit before taxation	7,546,201	3,472,594
Theoretical tax charge at statutory rate of 24% thereon (2006: 24%)	1,811,088	833,422
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income not taxable	(64,172)	(39,077)
Other non-deductible expenses	130,959	214,660
Income tax charge	1,877,875	1,009,005

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 24% (2006: 24%).



29 Income Taxes (continued)

	31 December 2005	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2006	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2007
Tax effects of taxable temporary differences:							
Property, plant and equipment	1,104,542	(150,621)	-	953,921	(148,794)	-	805,127
Investments	988,656	(10,550)	346,306	1,324,412	(18,629)	2,865,315	4,171,098
Other temporary differences	(10,735)	18,778	-	8,043	(11,562)		(3,519)
Tax effects of deductible temporary differences:							
Inventories	(22,180)	(5,985)	-	(28,165)	1,320	-	(26,845)
Accounts receivable	(67,002)	(24,885)	-	(91,887)	32,594	-	(59,293)
Accounts payable	(35,834)	(60,057)	-	(95,891)	10,823	-	(85,068)
Staff costs payable	(64,912)	34,722	-	(30,190)	8,285	-	(21,905)
Recognized net deferred tax liability	1,892,535	(198,598)	346,306	2,040,243	(125,963)	2,865,315	4,779,595

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 2007 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 904,199 (2006: RR 241,692).

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, 2007 and 2006, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 1,094,138 and RR 1,161,136, 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.

iii Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.



30 Contingencies, Commitments and Operating Risks (continued)

iv Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

Russian Federation

v 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 64,750 (2006: RR 83,050). 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 2007 no provision for potential tax liabilities had been recorded (2006: no provision).



30 Contingencies, Commitments and Operating Risks (continued)

Russian Federation (continued)

vi 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.

vii Operating environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

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.

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.

31 Business Combinations

Acquisition of subsidiaries

On 27 December 2006 the Group acquired 100% of the share capital of LLC "Andrex" for a cash consideration of RR 131,683. The acquired company holds title for facilities for transshipment, mixing, packaging and storing of bulk fertilizers located in Kaliningrad seaport. 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 December 2006.



31 Business Combinations (continued)

Acquisition of subsidiaries (continued)

The acquired company contributed revenue of RR 0 thousand and profit of RR 0 to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, effect on Group revenue for 2006 would have been RR 0, and effect on profit for 2006 would have been RR 0. Prior to acquisition LLC Andrex leased out its primary assets to JSC Kaliningrad Seaport on a free of charge basis under non-cancellable lease agreements. Starting from date of acquisition the Group concluded new lease contracts at current market rates.

The Group has completed the process of the purchase price allocation and the following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with IFRS 3, *Business Combinations*. The fair values of property, plant and equipment were based on estimates of independent professional appraiser.

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		11	11
Property, plant and equipment		12,826	79,581
Other assets		274	274
Other liabilities		(251)	(251)
Fair value of net assets of subsidiary			79,615
Goodwill arising from the acquisition	16		52,068
Total purchase consideration			131,683
Less: deferred purchase consideration	19		(131,683)
Less: cash and cash equivalents of subsidiary acquired			(11)
Inflow of cash and cash equivalents on Acquisition			11

32 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RR 133,479 (2006: RR 295,745), which were settled via non-cash transactions during the years ended 31 December 2007 and 2006, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.



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 2007	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	170,979	16,565
Accounts receivable	206,851	23,860
Loans receivable	171,112	-
	548,942	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	(1,150,980)	(597,104)
At 31 December 2006	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	372,111	26,994
Accounts receivable	731,056	4,198
Loans receivable	63,669	-
	1,166,836	31,192
Monetary financial liabilities:		
Accounts payable and other liabilities	(6,536)	(17,418)
Borrowings and notes payable	(3,449,374)	-
	(3,455,910)	(17,418)
Net balance sheet position	(2,289,074)	13,774

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.



33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

	2007	2006
<i>Impact on post-tax profit and on equity of:</i>		
US Dollar strengthening by 10%	(115,098)	(228,907)
US Dollar weakening by 10%	115,098	228,907
Euro strengthening by 10%	(59,710)	1,377
Euro weakening by 10%	59,710	(1,377)

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 2007 and 2006 borrowings at variable rates amounted to RR 1,325,818 and RR 2,396,130, respectively (Note 21).

At 31 December 2007, if interest rates at that date had been 1% higher with all other variables held constant, profit for the year would have been RR 16,040 (2006: RR 23,896) 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 OJSC Sylvinit and OJSC Apatite, which are classified on the consolidated balance sheet as available-for-sale as of 31 December 2007 and 31 December 2006, respectively. 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 2007 and 31 December 2006.

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 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 2007 and 31 December 2006 the Group had no counterparties with aggregated receivables balances of in excess of 10% of the Group's gross accounts receivable balances, except for trade receivables from NPKChemical Trading Inc. as of 31 December 2006 in the amount of RR 691,306.

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).



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.

	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 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
As of 31 December 2006						
Bonds issued * (Note 21)	18,721	57,202	917,199	-	-	993,122
Credit lines * (Note 21)	53,080	478,161	461,133	2,455,973	-	3,448,347
Term loans * (Note 21)	44,264	1,871,738	399,277	1,145,111	-	3,460,390
Trade payables (Note 19)	745,406	46,454	5,422	-	-	797,282
Deferred purchase consideration for acquisition of new subsidiaries and additional interest in existing subsidiaries (Notes 16 and 31)	-	474,256	-	-	-	474,256
Dividends and other distributions to shareholders (Note 19)	450,886	-	-	-	-	450,886
Total future payments, including future principal and interest payments	1,312,357	2,927,811	1,783,031	3,601,084	-	9,624,283

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2007 and 31 December 2006, 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 1,791,320 (31 December 2006: RR 983,602).



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%.

The gearing ratio as of 31 December 2007 and 31 December 2006 is shown in the table below:

	2007	2006
Long-term borrowings	3,081,023	5,278,124
Short-term borrowings	2,418,101	1,764,057
Total debt	5,499,124	7,042,181
Shareholders' equity	28,296,724	15,368,981
Gearing ratio, %	19.4%	45.8%

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 2007, the Group's strategy, which was unchanged from 2006, 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 2007 and 31 December 2006 is shown in the table below:

	2007	2006
Operating profit	7,649,030	3,721,219
Add: depreciation and amortization (Note 24)	1,009,580	924,334
EBITDA	8,658,610	4,645,553
Net interest expense	435,756	415,040
EBITDA/Net interest expense	20:1	11:1

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 and the People's Republic of China.

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 2007 and 2006 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

35 Subsequent Events

Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties applicable to the Group's products are 8.5% and 6% of the declared customs value of nitrogen and complex fertilizers and apatite, respectively. Management is currently assessing the impact of these duties on the Group's future financial results. Currently, export sales represent 52% (2006: 57%) of Group's revenues.

Acquisition of the right to develop Verkhnekamskoye potash deposit

In May 2008, the Group, 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. The cost of the license amounted to RR 16,802,000, which was paid in cash to the Russian State. This acquisition was financed by credit line committed by JSC Sberbank for RR 13,441,600 payable in 7 years and bearing 11.25% interest. Available for sale investment in JSC Sylvinit (Note 8) and 100% shares in the Group's subsidiary, LLC Verkhnekamskaya Kaliyanaya Kompaniya, the legal owner of the license, had been pledged as security for this long-term loan facility. 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.

Management is in the process of estimation of the probable expenditure required to comply with terms of the license. At the date of these consolidated financial statements, no significant purchase commitments or contracts were outstanding in connection with such exploratory expenditure.

Dividends declared by the Company

In May 2008 the annual shareholders meeting approved an annual dividends distribution for the year ended 31 December 2007 in the amount of 65 Russian roubles per each ordinary share. This dividend will be paid in addition to the interim dividends declared during the year in the amount of 25 Russian roubles per each ordinary share.

In June 2008 the extraordinary shareholders meeting of the Company approved an interim dividends distribution for the three months ended 31 March 2008 in the amount of 40 Russian roubles per each ordinary share.



35 Subsequent Events (continued)

Dividends declared by the Group's subsidiary

In May 2008 the annual shareholders meeting of the Group's subsidiary, JSC Dorogobuzh, approved an annual dividends distribution for the year ended 31 December 2007 in the amount of RR 1,645,826 (1.88 Russian roubles per each ordinary share and preferred share).

Loans to key management personnel

In January 2008, the Company entered into the loan agreements with certain members of its key management. The loans were originally drawn down for the aggregate principal amount of RR 87,500, payable in 2 years and bearing 8% interest. Loans receivable in the amount of RR 42,500 remain outstanding as at the date of these consolidated financial statements.

New subsidiaries

In June 2008 the Group established the 100% subsidiary, trading house Agronova International Inc. in the United States of America.

In May 2008 the Group contributed RR 734,700 (\$CDN 31 million) to the share capital of 101109718 Saskatchewan Ltd (Canada) in exchange for the new shares issued comprising 98% of the share capital of the company. The cash contributed was used to acquire exploration licenses. As at the date of these consolidated financial statements the acquired entity obtained 26 licenses to explore for potash deposits in the Canadian province of Saskatchewan.

Bank loans and bonds

Subsequent to 31 December 2007 and prior to the date of these consolidated financial statements, the Group has obtained additional bank loans of RR 7,459,277, excluding Sberbank loan described above, and repaid existing bank loans and bonds of RR 5,071,766.