JOINT STOCK COMPANY “ACRON”

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

31 December 2005

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AUDITORS' REPORT

To the Shareholders of Joint Stock Company "Acron"

1. We have audited the accompanying consolidated balance sheet of Joint Stock Company "Acron" and its subsidiaries (the "Group") at 31 December 2005 and the related consolidated statements of income, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements (as set out on pages 2 to 34) are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The ultimate controlling party of the Acron Group is not disclosed in these consolidated financial statements which in our opinion is not in compliance with IAS 24 "Related party disclosures" (Revised).

4. In our opinion, except for the omission of the information discussed in paragraph 3 above, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
03 July 2006

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	Note	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	14	10,827,333	10,295,289
Leasehold land	13	267,423	256,041
Negative goodwill	15	-	(1,268,182)
Other non-current assets		13,267	4,878
Investments in associates	16	300,221	300,221
Investments at fair value through profit or loss	17	3,171,017	920,136
Long-term loans receivable	11	57,500	203,200
Total non-current assets		**14,636,761**	**10,711,583**
Current assets			
Inventories	12	3,444,653	1,985,808
Other current assets		38,591	27,033
Short-term loans receivable	11	501,435	476,381
Accounts receivable	10	2,393,120	1,748,407
Cash and cash equivalents	9	1,338,779	1,092,035
Total current assets		**7,716,578**	**5,329,664**
TOTAL ASSETS		**22,353,339**	**16,041,247**
EQUITY			
Share capital	21	3,125,018	3,125,018
Treasury shares	21	(39,737)	(39,737)
Retained earnings		7,645,886	3,492,103
Cumulative currency translation difference		14,814	919
Capital and reserves attributable to the Company equity holders		**10,745,981**	**6,578,303**
Minority interest		2,305,846	1,625,991
TOTAL EQUITY		**13,051,827**	**8,204,294**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	20	2,217,329	1,299,120
Other long-term liabilities		243,881	187,132
Deferred tax liability	26	1,733,492	1,366,915
Total non-current liabilities		**4,194,702**	**2,853,167**
Current liabilities			
Accounts payable	18	1,470,129	668,809
Notes payable		343,329	30,467
Current income tax payable		105,027	84,864
Other taxes payable	19	204,011	98,641
Short-term borrowings	20	1,936,976	2,717,531
Advances received		1,007,865	1,322,667
Other current liabilities		39,473	60,807
Total current liabilities		**5,106,810**	**4,983,786**
Total liabilities		**9,301,512**	**7,836,953**
TOTAL LIABILITIES AND EQUITY		**22,353,339**	**16,041,247**

Approved for issue and signed on behalf of the Board of Directors on 26 June 2006.

______________________________	______________________________
I.N. Antonov President	N. A. Pavlova Chief Accountant

The accompanying notes on pages 6 to 34 are an integral part of the consolidated financial statements.

	Note	2005	2004
Revenue	7	22,748,310	17,342,231
Cost of sales	22	(14,003,565)	(12,581,877)
Gross profit		**8,744,745**	**4,760,354**
Transportation services		(1,525,294)	(1,377,520)
Selling, general and administrative expenses	23	(2,057,218)	(1,486,974)
Taxes other than income tax		(138,424)	(117,785)
(Loss) / gain on disposal of property, plant and equipment, net		(2,094)	85,173
Fair value gain on investments	17	2,124,673	390,885
Other operating expenses		(41,530)	(18,523)
Other income		114,825	106,731
Finance expense	24	(443,407)	(385,914)
Share of results of associate		-	19,665
Profit before taxation		**6,776,276**	**1,976,092**
Income tax expense	26	(1,778,066)	(587,478)
Profit for the year		**4,998,210**	**1,388,614**
Profit is attributable to:			
Equity holders of the Company		4,115,789	1,273,093
Minority interest		882,421	115,521
Profit for the year		4,998,210	1,388,614
Earnings per share for profit for the year attributable to the equity holders on the Company, basic and diluted (expressed in RR per share)	25	94.36	29.19

	Note	2005	2004
Cash flows from operating activities			
Profit before taxation		**6,776,276**	**1,976,092**
Adjustments for:			
Depreciation of fixed assets	14	872,856	882,099
Negative goodwill amortisation		-	(262,992)
Provision for/(reversal of) bad debts		54,519	(22,530)
Provision for write-down of inventory		21,614	62,916
Impairment loss		-	(58,330)
Share of results in associate		2,094	(19,665)
Gain on disposal of property, plant and equipment		-	(85,173)
Fair value gain on investments		(2,124,673)	(390,885)
Gain on disposal of investments		-	(54,928)
Interest expenses, net		368,431	439,286
Other income		(114,825)	(106,730)
Foreign exchange effect on non-operating balances		(139,822)	55,497
Operating cash flows before working capital changes		**5,716,470**	**2,414,657**
(Increase) / decrease in gross trade receivables		(44,080)	407,025
Increase in advances to suppliers		(438,771)	(130,037)
(Increase)/decrease in other receivables		(227,278)	(392,074)
Increase in inventories		(1,480,459)	(169,562)
(Decrease) / increase in trade payables		489,593	147,242
(Decrease) / increase in other payables		(270,062)	237,419
Increase in advances from customers		(314,802)	276,923
Increase in other current assets		(11,557)	(52,285)
Decrease in other current liabilities		(21,333)	(52,525)
Net change in other non-current assets and liabilities		48,357	88,066
Cash generated from operations		**3,446,078**	**2,774,849**
Income taxes paid		(1,097,693)	(629,478)
Interest paid		(383,405)	(430,185)
Net cash generated from operating activities		**1,964,980**	**1,715,186**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,326,834)	(769,132)
Sale of property, plant and equipment		9,726	74,685
Loans provided	11	(806,234)	(855,849)
Loans repaid	11	908,733	601,541
Interest received		91,896	93,841
Dividends received		34,609	-
Purchase of investments		(126,208)	(179,449)
Sale of investments		-	166,560
Net cash used in investing activities		**(1,214,312)**	**(867,803)**
Cash flows from financing activities			
Dividends paid to shareholders		(905,189)	(26,011)
Dividends paid to minority shareholders		(152,873)	(13,399)
Proceeds from short-term borrowings	20	2,835,693	323,877
Repayment of short-term borrowings	20	(4,388,601)	(111,623)
Proceeds from long-term borrowings	20	3,002,641	474,726
Repayment of long-term borrowings	20	(924,364)	(1,005,504)
Net cash used in financing activities		**(532,693)**	**(357,934)**
Effect of exchange rate changes on cash and cash equivalents		28,769	9,515
Net increase in cash and cash equivalents		**246,744**	**498,964**
Cash and cash equivalents at the beginning of the year		**1,092,035**	**593,071**
Cash and cash equivalents at the end of the year		**1,338,779**	**1,092,035**

	Capital and reserves attributable to the Company equity holders					
	Share capital (Note 21)	**Treasury shares (Note 21)**	**Retained earnings**	**Cumulative currency translation difference**	**Minority interest**	**Total shareholders' equity**
Balance at 1 January 2004	**3,125,018**	**(24,683)**	**2,246,985**	**557**	**1,521,550**	**6,869,427**
Profit for the year	-	-	1,273,093	-	115,521	1,388,614
Translation difference	-	-	-	362	355	717
Dividends	-	-	(27,975)	-	(11,435)	(39,410)
Acquisition of own shares	-	(15,054)	-	-	-	(15,054)
Balance at 31 December 2004	**3,125,018**	**(39,737)**	**3,492,103**	**919**	**1,625,991**	**8,204,294**
Derecognition of negative goodwill	-	-	1,268,182	-	-	1,268,182
Balance at 1 January 2005	**3,125,018**	**(39,737)**	**4,760,285**	**919**	**1,625,991**	**9,472,476**
Profit for the year	-	-	4,115,789	-	882,421	4,998,210
Dividends	-	-	(1,230,188)	-	(217,435)	(1,447,623)
Translation difference	-	-	-	13,895	14,869	28,764
Balance at 31 December 2005	**3,125,018**	**(39,737)**	**7,645,886**	**14,814**	**2,305,846**	**13,051,827**

1 Acron Group and Its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 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. In May 2005 the Group has also acquired 100 % shares in Acronagrotrans Ltd (BVI), which major asset is a 50,5% stake in Shandong Hongri Acron Chemical Joint Stock Company Ltd (China) (refer Note 29 for further details).

The Group's immediate major shareholders at December 31, 2005 are: ZAO Acronagroservice (19,78% of voting share capital), Qestar Holdings Limited (18,95%), Refco Holdings Limited (18,94%), Granadilla Holdings Limited (13,26%). The Group's subsidiary JSC Dorogobuzh holds 8,54% (2004: 8,54%) of the Company's shares. The remaining 15,68% is held in the name of ZAO DCC on behalf of a number of various individual stakes and 4,85% belong to shareholders each holding less than 2% of the Company's shares.

The Company's registered office is at Novgorod the Great, Russia. In 2005 the Group had an average of 13,406 employees (2004: 13,153).

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 revaluation of investments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations*)*.

Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated. The 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.

3 Summary of Significant Accounting Policies

3.1 Group accounting

Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

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.

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.

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.

3.4 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is a generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis [except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation]. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) 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, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

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 material, 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.

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

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

3 Summary of Significant Accounting Policies (continued)

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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical 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.

The Group applies the transitional rules of IFRS 3 "Business combinations" in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. Consequently, beginning 1 January 2005, previously recognized goodwill is no longer amortized and is be tested for impairment in accordance with IAS 36 "Impairment of assets"; previously recognized negative goodwill was derecognized, with a corresponding adjustment to the opening balance of retained earnings on that date. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. If the cost of the acquisition is less than the acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognized directly in the income statement.

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)

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 legislation enacted or substantively enacted by the balance sheet date for each country where the Groups subsidiaries are registered. 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% (2004:24%) 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 Roubles ("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 operating in Russian Federation - monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF 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 CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. 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)

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 2005 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 28.7825, US$ 1 = RMB 8.0734 (2004: US$ 1 = RR 27.7487, US$ 1 = RMB 8.2865). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles and 10% (25% prior to 27 December 2004 and 50% prior to 10 July 2003) of foreign currency receipts from transactions with foreign entities must be converted into Russian Roubles.

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.

3.13 Shareholders’ equity

Share capital. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds, net of tax. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Treasury shares. Where the Company or its subsidiaries purchases the Company’s equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders’ equity as treasury shares until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders’ equity. Treasury shares are stated at weighted average cost.

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 on sales of chemical fertilisers and related by-products are recognised when title transfers to the customer. 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 ‘veksels’ 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. Bills of exchange issued by customers or issued by third parties are carried at amortised cost using the effective interest method. 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.

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, accordingly, have been charged to cost of sales.

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.

3.17 Financial assets and liabilities.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, held to maturity and loans and receivables.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or upon initial recognition are designated by the entity as at fair value through profit or loss.

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

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

3 Summary of Significant Accounting Policies (continued)

Initial recognition of financial instruments. Financial assets at fair value through profit or loss are initially recorded at fair value. All other 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 instruments 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 instrument. 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; recognised in profit or loss for investments at fair value through profit or loss.

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.

Financial assets at fair value through profit or loss A financial asset is included in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

3.18 Earnings per share

An earnings per share is determined by dividing the net profit attributable to shareholders by the weighted average number of shares outstanding during the reporting year.

3.19 Reclassifications

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

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.

Useful lives of property, plants and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with current technical condition of assets and estimated period during which these assets will bring economic value of the Group.

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

Valuation of investment carried at fair value through profit or loss. Management uses information available from market analysts on fertiliser industry in applying valuation techniques to estimate fair value of respective investments (for further details refer to Note 17). It is reasonably possible based on existing knowledge that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments at fair value through profit or loss.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which have been adopted 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 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 17 (revised 2003) Leases. Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

IAS 27 (revised 2003) Consolidated and Separate Financial Statements. The Group's policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the parent.

5 Adoption of New or Revised Standards and Interpretations (continued)

IAS 28 (revised 2003) Investments in Associates. An investor must now consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. Previously, SIC-20 limited the recognition of the investor's share of losses to the carrying amount of its investment in the equity of the associate. Additional disclosures required by the revised standards were made in these financial statements.

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation. Additional disclosures required by the revised Standard were made in these financial statements.

IAS 36 (revised 2004) Impairment of Assets. The Group now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these financial statements.

Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 (revised 2004) Intangible Assets. The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38. No adjustment resulted from this reassessment.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans, and receivables or bills of exchange that are not quoted in an active market. The Group has designated qualifying financial instrument as ones to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. The Group has redesignated classified under "old" IAS 39 available for sale financial assets into 'at fair value through profit or loss' category as a result of application of the revised IAS 39. Please refer to Note 17.

5 Adoption of New or Revised Standards and Interpretations (continued)

IFRS 3 (issued 2004) Business Combinations. The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates. The excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss. The Group previously amortised negative goodwill over the remaining weighted average useful life of the identifiable depreciable assets acquired. Negative goodwill that existed at 1 January 2005 was offset against retained earnings on that date.

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 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group will reclassify certain financial assets from fair value through profit and loss into the available for sale category as the result of this amendment.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting. The Group is in process of assessing the effect of this amendment.

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 introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

6 New Accounting Pronouncements (continued)

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). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

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

7 Segment Information

The Group has one 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 and CIS countries, and other counties.

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 all assets and liabilities of the Group are located in the Russian Federation and China.

Revenue	**2005**	**2004**
Overseas	18,641,673	14,318,937
Russia and CIS countries	4,106,637	3,023,294
	22,748,310	**17,342,231**
Total assets		
Overseas	4,940,787	3,307,470
Russia and CIS countries	17,412,552	12,733,777
	22,353,339	**16,041,247**
Costs incurred during the period to acquire non-current segment assets		
China	736,259	17,865
Russia and CIS countries	857,891	703,250
	1,594,150	**721,115**

In 2005 55 % of Groups export sales were made to two international trading entities, registered in Belize and British Virgin Islands. In 2004 49 % of Groups export sales were made to two international trading entities, registered in Belize and Panama. The sales to them are included in the overseas segment as risks and returns on them are similar to other overseas sales.

8 Balances and Transactions with Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. 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 2005 and 2004 are detailed below. Transactions were entered into with related parties during the ordinary course of business on normal commercial terms.

The following turnovers and balances arise from transactions with parties under common control:

i Balances with related parties:

Balance sheet caption	Note	2005	2004
Trade receivables, gross	10	171,090	68,727
Provision for impairment of trade receivables	10	(103,880)	(40,979)
Prepayments	10	78,876	2,435
Short-term loans issued	11	191,504	262,079
Other receivables		3,617	49,050
Long-term loans issued	11	57,500	203,200
Long-term loans received	20	-	(108,220)
Trade payables	18	(7,282)	(32,775)
Advances from customers		(2,710)	(4,471)

ii Transactions with related parties:

Income statement caption	Note	2005	2004
Sales of chemical fertilizers	7	1,086,318	970,727
Purchases of raw materials	22	(38,496)	(63,930)
Purchase of transportation services		(752,220)	(116,620)
Security services	23	(95,104)	(94,145)

iii Cross shareholding:

At 31 December 2005 JSC “Dorogobuzh”, a 65.41% subsidiary of the Company, owned 4,071,600 (or 702 before the share split – refer to Note 21) ordinary shares or 8.54% of the ordinary share capital of the Company (2004: 702 ordinary shares or 8.54%). Shares owned by JSC “Dorogobuzh” are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 December 2005 and 2004 short-term loans denominated in RR totalled RR 191,504 and RR 262,079, respectively, at interest rates in the range of 10% to 20%. The loans are unsecured.

At 31 December 2005 and 2004 long-term loans denominated in RR totalled RR 57,500 and RR 203,200 at interest rates in the range of 12% to 14%. The loans are unsecured.

In 2005 the Group accrued interest income of RR 42,745 (2004: 48,164 RR).

9 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2005	2004
RR denominated cash on hand and balances with banks	468,096	376,306
Foreign currency denominated balances with bank	870,683	715,729
	1,338,779	**1,092,035**

10 Accounts Receivable

	2005	2004
Trade accounts receivable (refer to Note 8)	407,958	363,878
Value-added tax recoverable	1,112,635	551,072
Notes receivable	19,178	73,242
Income tax prepayments	3,715	23,078
Advances to suppliers	1,023,756	584,985
Other taxes receivable	28,254	44,145
Receivables for securities	11,021	213,344
Other accounts receivable	10,419	17,171
	2,616,936	1,870,915
Less impairment provision for trade and other receivables	(223,816)	(122,508)
	2,393,120	**1,748,407**

11 Loans Receivable

	2005	2004
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	191,504	262,079
Loans issued to third parties	309,931	214,302
	501,435	**476,381**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	57,500	203,200
	57,500	**203,200**

At 31 December 2005 and 2004 short-term loans denominated in RR totalled RR 501,435 and RR 262,079, respectively, at interest rates in the range of 10 % to 17%. The loans were unsecured.

At 31 December 2005 there were no short-term loans denominated in USD (2004: 214,302).

At 31 December 2005 and 2004 long-term loans denominated in RR totalled RR 57,500 and RR 203,200 at interest rate in range of 12% to 14%. The loans were unsecured.

In 2005 the Group accrued interest income of RR 84,038 (2004: RR 93,841).

12 Inventories

	2005	2004
Raw materials and spare parts	2,477,310	1,560,988
Work in progress	155,336	55,077
Finished products	812,007	369,743
	3,444,653	**1,985,808**

Included in raw materials and spare parts are catalysers of RR 222,343 (2004: 224,209), which are used in the production process over more than one year. Raw materials are shown net of impairment provision of RR 264,708 (2004: 243,093). Inventory pledged as security comprised RR 33,592 at December 31, 2004 (2005:Nil).

13 Leasehold Land

	2005	2004
Cost		
Balance at 1 January	281,087	301,753
Disposals	-	(21,459)
Translation difference	18,168	793
Balance at 31 December	**299,255**	**281,087**
Accumulated amortization		
Balance at 1 January	25,046	18,615
Amortization for the year	4,998	7,232
Disposals	-	(879)
Translation difference	1,788	78
Balance at 31 December	**31,832**	**25,046**
Net book value		
Balance at 1 January	**256,041**	**283,138**
Balance at 31 December	**267,423**	**256,041**

At 31 December 2005, the Group's leasehold land with net book value of RR 267,423 (2004: RR 256,041) 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 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 2005, land use right with a net book value of 152,290 (cost of RR 186,694) had been pledged as security for long-term loans (Note 20).

14 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 1 January 2004	16,915,526	18,408,768	542,494	690,320	**36,557,108**
Additions	-	-	-	721,115	**721,115**
Transfers	58,909	538,246	222,266	(819,421)	**-**
Disposals	(60,833)	(126,790)	(48,517)	-	**(236,140)**
Translation difference	(34,575)	(127,899)	(4,160)	(3,084)	**(169,718)**
Balance at 31 December 2004	**16,879,027**	**18,692,325**	**712,083**	**588,930**	**36,872,365**
Accumulated Depreciation					
Balance at 1 January 2004	10,358,586	15,237,218	229,693	-	**25,825,497**
Depreciation charge	318,712	510,295	53,092	-	**882,099**
Disposals	(38,980)	(107,625)	(11,526)	-	**(158,131)**
Translation difference	(2,180)	(27,358)	(1,181)	-	**(30,719)**
Balance at 31 December 2004	10,636,138	15,612,530	270,078	-	**26,518,746**
Accumulated Impairment Loss					
Balance at 1 January 2004	-	-	-	-	**-**
Impairment charge	36,416	18,388	3,525	1,006	**59,335**
Translation difference	(159)	(679)	(130)	(37)	**(1,005)**
Balance at 31 December 2004	36,257	17,709	3,395	969	**58,330**
Net Book Value					
Balance at 1 January 2004	6,556,940	3,171,550	312,801	690,320	10,731,611
Balance at 31 December 2004	**6,206,632**	**3,062,086**	**438,610**	**587,961**	**10,295,289**

14 Property, Plant and Equipment (continued)

	Buildings and constructions	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 1 January 2005	16,879,027	18,692,325	712,083	588 930	**36,872,365**
Additions	-	-	-	1,594,150	**1,594,150**
Transfers	156,538	374,568	85,057	(616,163)	**-**
Disposals	(61,320)	(180,886)	(302,616)	-	**(544,822)**
Translation difference	38,116	106,376	4,049	18,659	**167,200**
Balance at 31 December 2005	17,012,361	18,992,383	498,573	1,585,576	**38,088,893**
Accumulated Depreciation					
Balance at 1 January 2005	10,636,138	15,612,530	270,078	-	**26,518,746**
Depreciation charge	321,770	475,156	70,932	-	**867,858**
Disposals	(30,381)	(108,335)	(74,581)	-	**(213,297)**
Translation difference	3,643	23,044	1,713	-	**28,400**
Balance at 31 December 2005	10,931,170	16,002,395	268,142	-	**27,201,707**
Accumulated Impairment Loss					
Balance at 1 January 2005	36,257	17,709	3,395	969	**58,330**
Translation difference	149	1,145	166	63	**1,523**
Balance at 31 December 2005	36,406	18,854	3,561	1,032	**59,853**
Net Book Value					
Balance at 1 January 2005	6,206,632	3,062,086	438,610	587,961	10,295,289
Balance at 31 December 2005	**6,044,785**	**2,971,134**	**226,870**	**1,584,544**	**10,827,333**

In year 2005, borrowing cost of RR 15,530 has been capitalized as property, plant and equipment (2004: nil).

At 31 December 2005, buildings, machinery and equipment with a net book value of RR 250,812 (cost of RR 361,024), (2004: nil) had been pledged as security for long-term loans (Note 20).

In 2004 the Group adjusted the gross book values and accumulated depreciation of property, plant and equipment which were purchased and/or constructed over a long period of time (up to 8 years) for the amount of inflation. The inflation was calculated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies, for each respective part of cost of the property, plant and equipment items from the dates of their origination. The adjustment did not affect the net book values of property, plant and equipment.

15 Negative Goodwill

Net amount of negative goodwill at 1 January 2004	1,531,174
Amortisation for the year	(262,992)
Net amount of negative goodwill at 31 December 2004	1,268,182
Derecognition of negative goodwill under IFRS 3	(1,268,182)
Net amount of negative goodwill at 1 January 2005	**-**

The Group applies the transitional rules of IFRS 3 "Business combinations" in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. Consequently, beginning 1 January 2005, previously recognized negative goodwill is no longer amortized and was derecognized, with a corresponding adjustment to the opening balance of retained earnings.

16 Investments in Associates

	2005	**2004**
Balance at 1 January	300,221	280,556
Share of profit/(loss) before tax	-	19,665
Balance at 31 December	**300,221**	**300,221**

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

17 Investments at Fair Value Through Profit or Loss

	2005	**2004**
Balance at 1 January	920,136	476,188
Additions	128,529	164,695
Fair value gain	2,124,673	390,885
Disposals	(2,321)	(111,632)
Balance at 31 December	**3,171,017**	**920,136**

Investments previously classified as available-for-sale investments were designated by the Group as at fair value through profit or loss in line with requirements of IAS 39 (revised) effective from 01 January 2005. These investments comprise principally equity securities, which are listed on the RTS but which are not actively traded and hence are not considered to be quoted in an active market in line with requirements of IAS 39. For these investments, fair value is estimated by using valuation techniques based on application guidance of IAS 39 (revised). Applied multiples of enterprise value to sales and EBIT were 2,5 and 9,7 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 is determined by reference to the current market value at the close of business on 31 December.

The Group has investments in the following companies:

Name	**Activity**	**Country of registration**	**2005**	**2004**
OAO Sylvinit	KCl mining	Russia	2,294,272	465,964
OAO Apatite	Apatite concentrate mining	Russia	689,731	310,525
OAO Sberbank	Banking	Russia	93,360	33,971
Other			93,654	109,676
			3,171,017	**920,136**

17 Investments at Fair Value Throuh Profit or Loss (continued)

In 2004 the Group acquired 4.05% of OAO Sylvinit for RR 116,371 (US$ 4,201 thousand) which increased the shareholding to 6.08%. The share price quoted by RTS for OAO Apatit and OAO Sylvinit amounted to 79 and 145 US Dollars for 1 share at 31 December 2005 and 55 and 36 US Dollars at 31 December 2004 respectively. Subsequently the share prices changed to 52 and 195 US Dollars for 1 share at 26 June 2006.

18 Accounts Payable

	2005	2004
Trade accounts payable (refer Note 8)	889,614	400,030
Payables to employees	258,133	201,372
Dividends payable	251,259	5,970
Accrued liabilities and other creditors	71,123	61,437
	1,470,129	**668,809**

19 Other Taxes Payable

	2005	2004
Value-added tax payable	90,697	65,570
Payroll taxes	61,085	12,260
Property and other taxes	52,229	20,811
	204,011	**98,641**

20 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2005	2004
Bonds issued	904,255	613,062
Credit lines	1,151,300	-
Term loans	2,098,750	3,295,369
Term loans – related parties (10%, unsecured)	-	108,220
	4,154,305	**4,016,651**

In November 2003 the Group issued 600 thousand non-convertible, two year Russian Rouble denominated bonds (at par value 1,000 rubles each) totaling 600 thousand Russian Rouble with quarterly coupon payments of 13.6% per annum with the maturity date of November, 2005. Bonds were fully redeemed in 2005.

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 rubles each) totaling 900 thousand Russian Rouble 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 an option to redeem the bonds starting from December 2006.

The Group's borrowings mature as follows:

	2005	2004
Borrowings due:		
- within 1 year	1,936,976	2,717,531
- between 2 and 5 years	2,217,329	1,299,120
- after 5 years	-	-
	4,154,305	**4,016,651**

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

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

	2005	2004
Borrowings denominated in:		
- Russian Roubles	912,307	1,358,032
- US Dollars	1,781,732	1,652,011
- RMB	1,460,266	1,006,608
	4,154,305	**4,016,651**

The details of the significant short-term loan balances are summarized below (amounts denominated in US$ are presented in US$ dollars):

	2005	2004
Bonds	904,255	613,062
ZAO Commerzbank (Eurasia)	247,530	503,638
ZAO Moscow International Bank	-	346,859
ZAO Raiffaizenbank Austria	287,825	-
OAO Promyshlenno-Stroitelniy bank	-	124,346
Sberbank Russia	-	215,000
Moskovskiy Narodniy Bank Limited	-	520,172
Construction Bank, China	249,557	133,947
Bank of China	35,651	-
Other term loans	26,557	-
Add current portion of long-term debt	185,601	260,507
Total short-term debt	**1,936,976**	**2,717,531**

Short-term loan from Promstroibank-Smolensk denominated in foreign currency totaled US$ 3,400,000 as at 31 December 2004 (2005: US$ Nil) at interest rate 10,9%. The loan was repaid in 2005.

Short-term loans from Promstroibank-Smolensk denominated in Russian rubles totaled RR 30,000 as of 31 December 2004 (2005: RR Nil), at fixed interest rate of 12,5%. The loan was repaid in 2005.

Short-term loans from Moskovskiy Narodniy Bank denominated in foreign currency totaled US$ 11,280,000 at 31 December 2004 (2005: US$ Nil) at interest rates 7,26% (LIBOR+6.5% for a portion of US$ 7,280,000). The loans were repaid in 2005.

Short-term loans from Sberbank-Moscow denominated in Russian rubles totaled RR 215,000 as of 31 December 2004 (2005: RR Nil) at interest rates of 11,5%. The loan was repaid in 2005.

Short-term loan from Commerzbank denominated in foreign currency totaled US$ 8,600,000 as at 31 December 2005 (2004: US$ 18,150,000) at interest rates LIBOR+3,75% (2004:LIBOR+4%). Under the terms of the agreement there is a number of covenants, cross-default provisions and restrictions, inclusive restrictions on significant transactions with assets, maintainance of certain revenue flows, and maintenance of certain financial ratios.

Short-term loan from Moscow International Bank denominated in foreign currency totaled US$15,000,000 as at 31 December 2004 (2005: Nil) at interest rate LIBOR+4%.

Short-term loan from Raiffeisenbank Austria denominated in foreign currency totalled US$ 10,000,000 as at 31 December 2005 (2004: Nil) at interest rates LIBOR+3,5% and is secured by sales revenue of the Group. Under the terms of the agreement there are a number of covenants, cross-default provisions and restrictions, inclusive of restrictions on significant transactions with assets and maintenance of certain revenue flows.

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

Short-term loans in RMB were granted at the interest rate of 5.22% to 6.14% (2004: 5.84%) per annum. These loans were guaranteed by unrelated parties in return for guarantees provided by the Group for the borrowings obtained by unrelated parties.

The details of the significant long-term loan balances are summarized below (amounts denominated in US$ are presented in US$ dollars):

	2005	2004
Moskovskiy Narodniy Bank Limited	431,738	-
OAO Promyshlenno-Stroitelniy bank	431,738	-
ZAO Moscow International Bank	371,313	69,390
Sberbank Russia	-	500,000
Construction Bank, China	641,718	100,460
Development Bank, China	526,423	781,557
Company loans - related parties	-	108,220
Less current portion of long-term debt	(185,601)	(260,507)
Total long-term debt	**2,217,329**	**1,299,120**

Long-term loan from Moscow International Bank denominated in foreign currency totaled US$ 12,900,000 as at 31 December 2005 (2004: US$ Nil) at interest rate LIBOR+3.5%-4%. Under the terms of the agreement there were a number of covenants, cross-default provisions and restrictions, inclusive of restrictions on significant transactions with assets and maintenance of certain financial ratios.

Long-term loan from Promstroibank denominated in foreign currency totaled US$ 15,000,000 as at 31 December 2005 (2004: Nil) at interest rate LIBOR+4.51%.

Long-term loan from Moscow Narodniy Bank denominated in foreign currency totaled US$ 15,000,000 as at 31 December 2005 (2004: Nil) at interest rate LIBOR+3.45%. Under the terms of the agreement there were a number of covenants, cross-default provisions and restrictions, inclusive of restrictions on significant transactions with assets and maintenance of certain financial ratios.

Long-term bank loans in RMB were obtained at interest rates of 6.12% to 6.435% (2004: 5.76% to 6.138%) per annum. As of 31 December 2005 bank loans of RR 604,641 (2004: RR 872,662) were guaranteed by unrelated parties in return for guarantees provided by the Group for the borrowings obtained by unrelated parties. The remaining balance was collateralised by buildings, machinery and equipment with a net book value of RR 250,812 (refer to Note 14) and land use right with a net book value of RR 152,290 (refer to Note 13).

The long-term debt from Sberbank Moscow at 31 December 2004 denominated in Russian Roubles at interest rate of 11,5% (2005: Nil). The loan was repaid in 2005.

Inventories in circulation (Note 12) have been pledged as collateral on short-term debts.

Unused lines of credit for short-term bank loans in Moskovsky Narodniy Bank comprise US$15,000,000 and at December 31, 2005 (no credit lines at December 31, 2004).

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. The carrying amounts of borrowings do not materially differ from their fair values.

21 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 2003	8,222	(662)	3,125,018	(24,683)	3,100,335
Purchase of treasury shares	-	(40)	-	(15,054)	(15,054)
At 31 December 2004	**8,222**	**(702)**	**3,125,018**	**(39,737)**	**3,085,281**
Effect of share split (refer below)	47,679,378	(4,070,898)	-	-	-
At 31 December 2005	**47,687,600**	**(4,071,600)**	**3,125,018**	**(39,737)**	**3,085,281**

The authorised number of ordinary shares at 31 December 2004 were 8,222 with a nominal value per share of 29,000 RR. All authorised shares have been issued and fully paid. Treasury shares represent ordinary shares of the Company held by the Company's subsidiary (see Note 8).

In November 2005, the Company made a stock split through an conversion of each ordinary common stock with a par value of RR 29,000 into 5,800 ordinary common stock with a par value of 5 Russian Rouble each. These shares were distributed to all existing shareholders of the Company in proportion to their interest held at the date of conversion. As at December 31, 2005 the Company's share capital consisted of 47,687,600 issued common with a par value of 5 Russian Rouble each.

A dividend was declared in 2005 in respect of 2004 to holders of ordinary shares of RR 58 per ordinary share (2004: RR 4.041 per ordinary share in respect of 2003). Interim 2005 dividends were declared during the year in the amount of RR 102 on each ordinary share with a par value of RR 29,000 per share.

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 2005, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 2,833,809 (2004: RR 1,041,651). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

22 Cost of Sales

The components of cost of sales were as follows:

	2005	2004
Change in inventories of finished goods and work in progress	(481,455)	37,157
Staff costs	1,521,604	1,329,534
Materials and components used	6,416,801	5,495,827
Fuel and energy	1,712,726	1,545,782
Natural gas	2,696,273	2,189,375
Depreciation	872,856	882,099
Production overheads	111,424	115,262
Amortisation of negative goodwill	-	(262,992)
Cost of transportation services rendered	15,063	234,149
Overhaul costs	858,266	725,147
Impairment of property, plant and equipment	-	58,330
Social expenditure	280,007	232,207
	14,003,565	**12,581,877**

23 Selling, General and Administrative Expenses

	2005	2004
Staff costs	1,099,053	819,862
Bad debts expense/(reverse)	54,519	(22,530)
Business trips expenses	148,507	60,185
Research and development costs	13,774	10,436
Marketing services	57,208	14,706
Legal and consultancy costs	195,431	156,348
Bank services	35,436	29,597
Insurance	23,186	11,194
Buildings maintenance and rent	146,593	150,628
Commission fees	9	15,080
Security	117,050	103,327
Telecommunication costs	37,182	35,056
Representation expenses	56,504	22,232
Other expenses	72,766	80,853
	2,057,218	**1,486,974**

24 Finance Expense

	2005	2004
Interest expense	369,214	443,900
Foreign exchange loss (gain)	74,976	(53,372)
Interest income on cash balances	(783)	(4,614)
	443,407	**385,914**

25 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 (see Note 21). The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share. In 2005 the Company executed share split which is described in Note 21. For the purposes of earnings per share calculation the number of shares outstanding was adjusted retrospectively for all periods presented as follows:

	2005	2004
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	**4,115,789**	**1,273,093**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**94.36**	**29.19**

The share split executed in 2005 affected the earnings per share calculation for the year ended 31 December 2004 as follows:	Weighted average number of shares	Profit attributable to the equity holders of the Company
For the year ended 31 December 2004 based on number of shares prior to share split	7,520	169.29
Share split 5,800 share for 1 share (see Note 21)	43,608,480	(140.10)
As adjusted for the effect of the share split	43,616,000	29.19

26 Income Taxes

	2005	2004
Income tax expense – current	1,411,489	606,992
Deferred tax charge/(credit) – origination and reversal of temporary differences	366,577	(19,514)
Income tax charge	**1,778,066**	**587,478**

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

	2005	2004
Profit before taxation	6,776,276	1,976,092
Theoretical tax charge at statutory rate of 24% thereon (2004: 24%)	1,626,306	474,262
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income not taxable	(107,198)	(22,644)
Other non-deductible expenses	258,958	198,978
Amortisation of negative goodwill	-	(63,118)
Income tax charge	**1,778,066**	**587,478**

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% (2004: 24%) (except for income on state securities that is taxed at 15% (2004: 15%).

	31 December 2003	(Charged)/ credited to profit or loss	31 December 2004	(Charged)/ credited to profit or loss	31 December 2005
Tax effects of taxable temporary differences:					
Property, plant and equipment	1,312,107	(115,570)	1,196,537	(91,995)	1,104,542
Investments	205,633	94,020	299,653	529,960	829,613
Other temporary differences	11,654	(1,502)	10,152	(20,887)	(10,735)
Tax effects of deductible temporary differences:					
Inventories	(14,067)	(37,932)	(51,999)	29,819	(22,180)
Accounts receivable	(90,427)	57,901	(32,526)	(34,476)	(67,002)
Accounts payable	(19,440)	9,450	(9,990)	(25,844)	(35,834)
Employee benefit obligation	(19,031)	(25,881)	(44,912)	(20,000)	(64,912)
Recognised net deferred tax liability	**1,386,429**	**(19,514)**	**1,366,915**	**366,577**	**1,733,492**

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.

27 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2005 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 631,006 (2004: RR 13,263).

As at December 31, 2005 and 2004, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of 2,187,201 RR and 390,789RR , 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 Taxation

Russian tax, currency 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 regional and federal authorities. Recent events within the Russian Federation suggest that the 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. 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.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

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 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

iii Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. 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 enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

iv 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.

v Operating environment

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. 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.

28 Principal Subsidiaries

The principal subsidiaries and the degree of control exercised by the Company are as follows:

Entity	Country of Incorpo-ration	Activity	2005 % share	2004 % share
JSC "Dorogobuzh"	Russia	Fertiliser production	66	66
JSC "Nordic Russia Holding"	Russia	Holding Co.	51	51
"Firm Proekt", ZAO	Russia	Holding Co.	100	100
LLC Trustservice	Russia	Holding Co.	100	-
Acronagrotrans Limited	BVI	Holding Co.	100	-
Shandong Hongri Acron Chemical JSC	Chine	Fertiliser production	50,5	-

29 Pooling of Interest

In May 2005 the Group acquired 100% of voting shares in Acronagrotrans Limited (BVI) for a cash consideration of US$ 20 mln. Acronagrotrans Limited (BVI) is the owner of 50,5% stake in Shandong Hongri Acron Chemical Joint Stock Company Limited. This acquisition was accounted for using the pooling of interest method as described in Note 3.1 Group accounting, "Pooling of interest". Under this method of accountng the financial statements of the Acron Group are presented as if the businesses had been combined from the beginning of the earliest period presented.

The assets and liabilities arising from the acquisition and corresponding effect on the Groups financial position at 31 December 2004 are as follows:

	December 31, 2004 (prior to pooling)	Acquisition of Acronagrotrans Limited	December 31, 2004 (restated)
Non-current assets	8,711,805	1,999,778	10,711,583
Current assets	4,021,413	1,308,251	5,329,664
Total assets	**12,733,218**	**3,308,029**	**16,041,247**
Equity attributable to the Company's equity holders	6,596,969	(18,666)	6,578,303
Minority interest	927,724	698,267	1,625,991
Total equity	**7,524,693**	**679,601**	**8,204,294**
Non-current liabilities	2,075,224	777,943	2,853,167
Current liabilities	3,133,301	1,850,485	4,983,786
Total liabilities	**5,208,525**	**2,628,428**	**7,836,953**
Total equity and liabilities	**12,733,218**	**3,308,029**	**16,041,247**
Sales	13,399,186	3,943,045	17,342,231
Cost of sales	(9,120,939)	(3,460,938)	(12,581,877)
Gross profit	4,278,247	482,107	4,760,354
Profit for the year	**1,374,332**	**14,282**	**1,388,614**

29 Pooling of Interest (continued)

Condensed consolidated financial information on Acronagrotrans Limited is presented below:

	2005	2004
Non-current assets	2,629,848	1,999,778
Current assets	2,310,939	1,308,251
Total assets	**4,940.787**	**3,308,029**
Equity attributable to the Company's equity holders	724,874	(18,666)
Minority interest	883,874	698,267
Total equity	**1,608,748**	**679,601**
Non-current liabilities	1,077,560	777,943
Current liabilities	2,254,479	1,850,485
Total liabilities	**3,332,039**	**2,628,428**
Total equity and liabilities	**4 940 787**	**3,308,029**

	2005	2004
Sales	4,444,684	3,943,045
Cost of sales	(3,478,391)	(3,460,937)
Gross income	966,273	482,107
Profit for the year	**156,610**	**14,282**

30 Significant Non-Cash Transactions

Included in sales are non-cash transactions amounting to RR 75,675 (2004: RR 189,482) were settled via non-cash transactions during the years ended 31 December 2005 and 2004, respectively. The transactions primarily represent cancellation of mutual balances with customers and suppliers within the operating cycle.

31 Financial Risk Management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although 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.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31 Financial Risk Management (continued)

iii Foreign exchange risk

The Group exports 82% (2004: 83%) of its production to overseas and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The net foreign currency position as at December 31, 2005 is as follows:

	US Dollar	EURO	RMB
Cash and cash equivalents	310,633	36,046	526 683
Accounts receivable	45,578	286,052	254 639
Accounts payable and other liabilities	(393,270)	(7,238)	(1,528,444)
Borrowings	(1 680,949)	-	(1,803,595)
Total	**(1,718,008)**	**314,860**	**(2,550,717)**

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

iv Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2005: USD 15,000,000 ; 31 December 2004: RR Nil) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

v Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings majority of which are at fixed interest rates. The Group has no significant interest-bearing assets.

32 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.

Financial instruments carried at fair value. Investments at fair value through profit or loss 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 investments carried at fair value through profit or loss were determined by using valuation techniques based on application guidance of IAS 39 (revised) on the basis of financial data of the investees and application of other valuation methodologies. It is reasonably possible based on existing knowledge that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments at fair value through profit or loss. (refer to Note 17).

32 Fair Value of Financial Instruments (continued)

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 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.

33 Subsequent Events

Dividends. In May 2006 annual shareholders meeting approved annual dividends distribution for the year ended 31 December 2005 in the amount of 11 Russian rubles on each ordinary share with a par value of 5 Russian rubles per share. This dividend will be paid in addition to the interim dividends declared during the year in the amount of RR 102 on each ordinary share with a par value of RR 29 per share.

Capital expenditure. In 2005 the Group entered into a commitment for Euro 10,900 thousands to acquire equipment for the production of ammonia and carbomide. This equipment is expected to be installed in 2008-2009 and lead to a substantial increase in production capacity of the Company.