OPEN JOINT STOCK COMPANY
“ACRON”

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

31 December 2006

Contents

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Acron"

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Acron" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cashflows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Basis for Qualified Opinion

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

Qualified Opinion

7 In our opinion, except for the omission of the information discussed in the Basis for Qualified Opinion paragraph 6, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

15 June 2007

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

	Note	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	14	12,471,433	10,827,333
Leasehold land	13	151,221	267,423
Goodwill	15	1,023,601	-
Other non-current assets		27,774	13,267
Investments in associates	16	422,221	300,221
Available-for-sale investments	17	4,899,386	3,171,017
Long-term loans receivable	11	125,525	57,500
Total non-current assets		**19,121,161**	**14,636,761**
Current assets			
Inventories	12	3,529,410	3,444,653
Other current assets		45,756	38,591
Short-term loans receivable	11	577,491	501,435
Accounts receivable	10	3,722,288	2,393,120
Dividends receivable		11,605	-
Cash and cash equivalents	9	1,239,287	1,338,779
Total current assets		**9,125,837**	**7,716,578**
TOTAL ASSETS		**28,246,998**	**22,353,339**
EQUITY			
Share capital	21	3,125,018	3,125,018
Treasury shares	21	(39,737)	(39,737)
Retained earnings		6,933,595	5,718,489
Revaluation reserve		3,180,513	1,927,397
Cumulative currency translation difference		3,586	14,814
Capital and reserves attributable to the Company equity holders		**13,202,975**	**10,745,981**
Minority interest		1,847,772	2,305,846
TOTAL EQUITY		**15,050,747**	**13,051,827**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	20	5,278,124	2,217,329
Other long-term liabilities		276,648	243,881
Deferred tax liability	27	1,939,748	1,733,492
Total non-current liabilities		**7,494,520**	**4,194,702**
Current liabilities			
Accounts payable	18	2,174,066	1,470,129
Notes payable		250,405	343,329
Current income tax payable		75,834	105,027
Other taxes payable	19	149,328	204,011
Short-term borrowings	20	1,764,057	1,936,976
Advances received		1,235,287	1,007,865
Other current liabilities		52,754	39,473
Total current liabilities		**5,701,731**	**5,106,810**
Total liabilities		**13,196,251**	**9,301,512**
TOTAL LIABILITIES AND EQUITY		**28,246,998**	**22,353,339**

Approved for issue and signed on behalf of the Board of Directors on 15 June 2007.

I.N. Antonov
President

N. A. Pavlova
Chief Accountant

The accompanying notes on pages 7 to 37 are an integral part of the consolidated financial statements.

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

	Note	2006	2005
Revenue	7	23,624,534	22,748,310
Cost of sales	22	(15,653,747)	(13,952,861)
Gross profit		**7,970,787**	**8,795,449**
Transportation services		(1,462,179)	(1,477,168)
Selling, general and administrative expenses	23	(2,401,716)	(2,119,363)
Taxes other than income tax		(154,428)	(146,316)
Gain on disposal of property, plant and equipment, net		63,875	762
Other operating expenses		(148,131)	(71,706)
Other income and expenses	25	(30,956)	114,083
Finance expense, net	24	(364,658)	(444,138)
Profit before taxation		**3,472,594**	**4,651,603**
Income tax expense	27	(1,009,005)	(1,268,144)
Net profit for the year		**2,463,589**	**3,383,459**
Net profit is attributable to:			
Equity holders of the Company		2,253,336	3,031,058
Minority interest		210,253	352,401
Net profit for the year		**2,463,589**	**3,383,459**
Earnings per share for profit for the year attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	26	51.66	69.49

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

	Note	2006	2005
Cash flows from operating activities			
Profit before taxation		**3,472,594**	**4,651,603**
Adjustments for:			
Depreciation and amortization	13, 14	924,334	872,856
(Reversal of) loss on impairment of accounts receivable	10	(30,568)	54,519
Increase in provision for write-down on inventory	12	30,860	21,614
Reversal of impairment loss from property, plant and equipment, net	14	(6,901)	-
Share of results of associate	16	-	2,094
Gain on disposal of property, plant and equipment		(63,875)	-
Interest expenses, net		491,996	368,431
Other income		(116,033)	(114,825)
Foreign exchange effect on non-operating balances		(22,934)	(139,822)
Operating cash flows before working capital changes		**4,679,473**	**5,716,470**
Increase in gross trade receivables		(635,677)	(44,080)
Increase in advances to suppliers		(63,505)	(438,771)
Increase in other receivables		(599,418)	(227,278)
Increase in inventories		(115,617)	(1,480,459)
(Decrease) / increase in trade payables		(92,332)	489,593
Increase / (decrease) in other payables		66,019	(270,062)
Increase / (decrease) in advances from customers		227,422	(314,802)
Increase in other current assets		(7,166)	(11,557)
Increase / (decrease) in other current liabilities		13,278	(21,333)
Net change in other non-current assets and liabilities		18,264	48,357
Cash generated from operations		**3,490,741**	**3,446,078**
Income taxes paid		(1,050,651)	(1,097,693)
Interest paid		(415,380)	(383,405)
Net cash generated from operating activities		**2,024,710**	**1,964,980**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,877,211)	(1,326,834)
Acquisition of additional interest in subsidiaries	15	(1,249,410)	-
Proceeds from sale of property, plant and equipment		18,370	9,726
Contribution to share capital of associate	16	(122,000)	-
Loans provided	11	(618,281)	(806,234)
Proceeds from loans repaid	11	474,200	908,733
Interest received		76,956	91,896
Dividends received		39,077	34,609
Purchase of available-for-sale investments		(76,194)	(126,208)
Net cash used in investing activities		**(4,334,493)**	**(1,214,312)**
Cash flows from financing activities			
Dividends paid to shareholders		(666,628)	(905,189)
Dividends paid to minority shareholders		(122,695)	(152,873)
Proceeds from borrowings	20	6,723,931	5,838,334
Repayment of borrowings	20	(3,641,996)	(5,312,965)
Net cash provided from (used in) financing activities		**2,292,612**	**(532,693)**
Effect of exchange rate changes on cash and cash equivalents		(82,321)	28,769
Net (decrease)/ increase in cash and cash equivalents		**(99,492)**	**246,744**
Cash and cash equivalents at the beginning of the year		**1,338,779**	**1,092,035**
Cash and cash equivalents at the end of the year		**1,239,287**	**1,338,779**

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

	Capital and reserves attributable to the Company equity holders						
	Share capital (Note 21)	**Treasury shares (Note 21)**	**Retained earnings**	**Revaluation reserve**	**Cumulative currency translation difference**	**Minority interest**	**Total shareholders' equity**
Balance at 1 January 2005	**3,125,018**	**(39,737)**	**4,427,459**	**332,826**	**919**	**1,625,991**	**9,472,476**
Available-for-sale investments: - Fair value gains less losses (Note 17)	-	-	-	2,098,120	-	26,553	2, 124,673
Minority interest on fair value gains from cross shareholding (Note 8)	-	-	(509,840)	-	-	509,840	-
Currency translation differences	-	-	-	-	13,895	14,869	28,764
Income tax recorded in equity (Note 27)	-	-	-	(503,549)	-	(6,373)	(509,922)
Net income recognised directly in equity	-	-	(509,840)	1,594,571	13,895	544,889	1,643,515
Profit for the year	-	-	3,031,058	-	-	352,401	3,383,459
Total recognised income for 2005	-	-	2,521,218	1,594,571	13,895	897,290	5,026,974
Dividends	-	-	(1,230,188)	-	-	(217,435)	(1,447,623)
Balance at 31 December 2005	**3,125,018**	**(39,737)**	**5,718,489**	**1,927,397**	**14,814**	**2,305,846**	**13,051,827**
Balance at 1 January 2006	**3 125 018**	**(39 737)**	**5,718,489**	**1,927,397**	**14,814**	**2,305,846**	**13,051,827**
Available-for-sale investments: - Fair value gains less losses (Note 17)	-	-	-	1,648,837	-	38,054	1,686,891
Minority interest on fair value gains from cross shareholding (Note 8)	-	-	(22,926)	-	-	22,926	-
Currency translation differences	-	-	-	-	(11,228)	(25,222)	(36,450)
Income tax recorded in equity (Note 27)	-	-	-	(395,721)	-	(9,133)	(404,854)
Net income recognised directly in equity	-	-	(22,926)	1,253,116	(11,228)	26,625	1,245,587
Profit for the year	-	-	2,253,336	-	-	210,253	2,463,589
Total recognised income for 2006	-	-	2,230,410	1,253,116	(11,228)	236,878	3,709,176
Acquisition of additional interest in subsidiaries	-	-	-	-	-	(620,450)	(620,450)
Dividends	-	-	(1,015,304)	-	-	(74,502)	(1,089,806)
Balance at 31 December 2006	**3,125,018**	**(39,737)**	**6,933,595**	**3,180,513**	**3,586**	**1,847,772**	**15,050,747**

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 2006 for Open 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), whose major asset was a 50.5% stake in Shandong Hongri Acron Chemical Joint Stock Company Ltd (People's Republic of China) (refer Note 30 for further details).

The Group's immediate major shareholders at December 31, 2006 are: ZAO Acronagroservice (19.78% of voting share capital), Qestar Holdings Limited (18.95%), Refco Holdings Limited (19.47%), Granadilla Holdings Limited (13.26%). The Group's subsidiary JSC Dorogobuzh holds 8.54% (2005: 8.54%) of the Company's shares. The remaining 14.74% is held in the name of ZAO DCC on behalf of a number of various individual stakes and 5.27% belong to shareholders each holding less than 2% of the Company's shares.

The Company's registered office is at Novgorod the Great, 173012, Russia. In 2006 the Group had an average of 13,148 employees (2005: 13,406 employees).

2 Basis of Preparation of the Financial Statements

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

Presentation currency. All amounts in these 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. 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.

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

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

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

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

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

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

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

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

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

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

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

Output value added tax related to sales is payable to tax authorities upon delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for export sales related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized 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
Other equipment and motor vehicles	5 to 20

3 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment (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.

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.

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 Summary of Significant Accounting Policies (continued)

3.9 Borrowings

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

3.10 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Corporate profit tax rate is 24% (2005:24%) for Russia, where the most significant Group subsidiaries are registered.

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

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

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

3.11 Foreign currency transactions

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

For the Company and its subsidiaries 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)

3.11 Foreign currency transactions (continued)

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

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

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

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

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

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 26.3311, US$ 1 = RMB 7.8077 (2005: US$ 1 = RR 28.7825, US$ 1 = RMB 8.0734). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 Provisions for liabilities and charges

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.14 Revenue recognition

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

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

3.15 Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include '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: available-for-sale, held to maturity and loans and receivables.

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

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

3 Summary of Significant Accounting Policies (continued)

3.17 Financial assets and liabilities. (continued)

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

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

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

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

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

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

3.18 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating 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 28.

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.

Valuation of available-for-sale investments. 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 available-for-sale investments.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2005, unless otherwise described below.

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. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

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 may now designate financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. As a result of adoption of this amendment the Group has reclassified investments at fair value through profit or loss to available-for-sale investments totalling RR 3,171,017.

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

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (e.g. 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. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment introduced 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. This amendment did not have a significant impact on these financial statements.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation did not have a significant impact on these financial statements.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2006, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised until the measurement period because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This interpretation did not have a significant impact on these financial statements.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. This standard did not have a significant impact on these financial statements.

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

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

Effect of Adoption. The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended can be summarised as follows:

	2006	2005
Increase in		
Available-for-sale investments	-	3,171,017
Revaluation reserve for investment securities available-for-sale	-	1,927,397
Decrease in		
Investments designated at Fair Value Through Profit or Loss	-	(3,171,017)
Retained earnings	-	(1,927,397)

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 2007 or later periods and which the entity has not early adopted:

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. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and 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.

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

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

6 *New Accounting Pronouncements (continued)*

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

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

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 countries.

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	2006	2005
Overseas	17,109,466	18,641,673
Russia and CIS countries	6,515,068	4,106,637
	23,624,534	**22,748,310**
Total assets		
Overseas	5,252,379	4,940,787
Russia and CIS countries	22,994,619	17,412,552
	28,246,998	**22,353,339**
Costs incurred during the period to acquire non-current segment assets		
China	580,349	736,259
Russia and CIS countries	2,359,401	857,891
	2,939,750	**1,594,150**

The Group sells to two international trading entities that account for the majority of its sales outside of Russia. In 2006, AgroNitrogen Logistics Ltd. and NPKhemical Trading Inc. purchased 23% and 26% of the Group's sales outside Russia, respectively (2005: 24% and 30%). The sales to them are included in the overseas segment as risks and returns on them are similar to other overseas sales.

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

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 2006 and 2005 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	2006	2005
Trade receivables, gross	10	140,853	171,090
Provision for impairment of trade receivables	10	(65,556)	(103,880)
Prepayments	10	98,763	78,876
Loans issued	11	327,569	249,004
Other receivables	10	10,594	3,617
Loans received		(8,000)	-
Trade payables	18	(12,963)	(7,282)
Deferred purchase consideration for acquisition of additional interest in existing subsidiaries	18	(342,573)	-
Advances from customers		(32,815)	(2,710)

ii Transactions with related parties

Income statement caption	Note	2006	2005
Sales of chemical fertilizers	7	1,147,253	1,086,318
Purchases of raw materials	22	(42,157)	(38,496)
Purchase of transportation services		(1,270,254)	(752,220)
Security services	23	(120,956)	(95,104)

iii Cross shareholding

At 31 December 2006 JSC "Dorogobuzh", a 71.57% subsidiary of the Group (2005: 55.29%), owned 4,071,600 ordinary shares or 8.54% of the ordinary share capital of the Company (2005: 4 071 600 ordinary shares or 8.54%). Shares owned by JSC "Dorogobuzh" are accounted for as treasury shares, but retain their voting rights and dividends.

Shares owned by JSC "Dorogobuzh" are accounted for as available-for-sale investments with fair value gains (losses) recorded directly in equity in the financial statements of JSC "Dorogobuzh". These fair value gains (losses) were eliminated in these consolidated financial statements. Share of minority interest on these fair value gains (losses) was recorded in the Group's equity.

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

8 Balances and Transactions with Related Parties (continued)

iv Acquisition of additional interest in subsidiary

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

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

v Loans issued

At 31 December 2006 and 2005 short-term loans denominated in RR totalled RR 263,900 and RR 191,504, respectively, at interest rates in the range of 10% to 10.5%. At 31 December 2006 and 2005 short-term loans denominated in USD totalled USD 1,672,000 and USD 0 (RR 44,026 and RR 0), respectively, at interest rates in the range of 8.5% to 9%. The loans are unsecured.

At 31 December 2006 and 2005 long-term loans denominated in RR totalled RR 0 and 57 500, respectively. At 31 December 2006 and 2005 long-term loans denominated in USD totalled USD 746,000 and USD 0 (RR 19,642 and RR 0), respectively, at interest rates of 9%. The loans are unsecured.

In 2006 the Group accrued interest income of RR 31,104 (2005: RR 42,745).

9 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2006	2005
RR denominated cash on hand and balances with banks	338,336	468,096
Foreign currency denominated balances with bank	900,951	870,683
	1,239,287	**1,338,779**

10 Accounts Receivable

	2006	2005
Trade accounts receivable (refer to Note 8)	1,043,635	407,958
Value-added tax recoverable	1,133,237	1,112,635
Settlements on claims	59,288	-
Income tax prepayments	28,313	3,715
Advances to suppliers	1,087,261	1,023,756
Other taxes receivable	19,756	28,254
Notes receivable	147,856	19,178
Other accounts receivable	396,190	21,440
	3,915,536	2,616,936
Less impairment provision for trade and other receivables	(193,248)	(223,816)
	3,722,288	**2,393,120**

As at December 31, 2006 the Group had accounts receivable of RR 213,170 (2005: RR 0) from the purchaser of leasehold land rights, which is included in other accounts receivable.

Included in notes receivable are notes receivable from Sberbank Russia for RR 107,811 (2005: RR 1,452).

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

11 Loans Receivable

	2006	2005
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	307,926	191,504
Loans issued to third parties	269,565	309,931
	577,491	**501,435**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	19,643	57,500
Loans issued to third parties	105,882	-
	125,525	**57,500**

At 31 December 2006 and 2005 short-term loans denominated in RR totalled RR 533,467 and RR 501,435, respectively, at interest rates in the range of 5.2 % to 12%. The loans were unsecured. At 31 December 2006 short-term loans denominated in USD totalled RR 44,024 (2005: nil) (refer to Note 8).

At 31 December 2006 and 2005 long-term loans denominated in RR totalled RR 105,883 and RR 57,500 at interest rate in range of 8.5% to 12%. The loans were unsecured. At 31 December 2006 long-term loans denominated in USD totalled RR 19,642 (2005: nil) (refer to Note 8).
In 2006 the Group accrued interest income of RR 76,956 (2005: RR 80,216).

12 Inventories

	2006	2005
Raw materials and spare parts	2,676,665	2,477,310
Work in progress	106,068	155,336
Finished products	746,677	812,007
	3,529,410	**3,444,653**

Included in raw materials and spare parts are catalysers of RR 288,593 (2005: 224,209), which are used in the production process over more than one year. Raw materials are shown net of impairment provision of RR 295,568 (2005: 264,708). No inventory was pledged as security at December 31, 2006 (2005:Nil).

13 Leasehold Land

	2006	2005
Cost		
Balance at 1 January	299,255	281,087
Disposals	(112,664)	-
Translation difference	(16,171)	18,168
Balance at 31 December	**170,420**	**299,255**
Accumulated amortization		
Balance at 1 January	31,832	25,046
Amortization for the year	3,982	4,998
Disposals	(14,895)	-
Translation difference	(1,720)	1,788
Balance at 31 December	**19,199**	**31,832**
Net book value		
Balance at 1 January	**267,423**	**256,041**
Balance at 31 December	**151,221**	**267,423**

At 31 December 2005, the Group's leasehold land with net book value of RR 151,221 (2005: RR 267,423) 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 2006, land use right with a net book value of RR 138,263 (2005: RR 152,290) and cost of RR 176,779 (2005: RR 186,694) had been pledged as security for long-term loans (Note 20).

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

14 Property, Plant and Equipment

	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 thousands of Russian Roubles, except for per share amounts)

14 Property, Plant and Equipment (continued)

	Buildings and constructions	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 1 January 2006	**17,012,361**	**18,992,383**	**498,573**	**1,585,576**	**38,088,893**
Acquisitions through business combinations (Note 30)	292,442	60,743	-	405	**353,590**
Additions	-	-	-	2,939,750	**2,939,750**
Transfers	281,157	1,225,467	836,862	(2,343,486)	**-**
Disposals	(319,730)	(629,713)	(44,267)	(34,890)	**(1,028,600)**
Translation difference	(36,516)	(93,520)	(7,267)	(29,420)	**(166,723)**
Balance at 31 December 2006	**17,229,714**	**19,555,360**	**1,283,901**	**2,117,935**	**40,186,910**
Accumulated Depreciation					
Balance at 1 January 2006	10,931,170	16,002,395	268,142	-	**27,201,707**
Acquisitions through business combinations (Note 30)	239,364	34,646	-	-	**274,010**
Depreciation charge	315,963	529,365	75,024	-	**920,352**
Disposals	(146,312)	(523,647)	(33,993)	-	**(703,952)**
Translation difference	(3,856)	(23,591)	(2,144)	-	**(29,591)**
Balance at 31 December 2006	**11,336,329**	**16,019,168**	**307,029**	**-**	**27,662,526**
Accumulated Impairment Loss					
Balance at 1 January 2006	36,406	18,854	3,561	1,032	**59,853**
Impairment loss	19,240	63,746	2,722	3,187	**88,895**
Disposal	(48,938)	(42,931)	(641)	-	**(92,510)**
Translation difference	(2,018)	(1,019)	(195)	(55)	**(3,287)**
Balance at 31 December 2006	**4,690**	**38,650**	**5,447**	**4,164**	**52,951**
Net Book Value					
Balance at 1 January 2006	**6,044,785**	**2,971,134**	**226,870**	**1,584,544**	**10,827,333**
Balance at 31 December 2006	**5,888,695**	**3,497,542**	**971,425**	**2,113,771**	**12,471,433**

In year 2006, borrowing cost of RR 0 has been capitalized as property, plant and equipment (2005: 15,530).

At 31 December 2006 and 31 December 2005 the gross carrying value of fully depreciated property, plant and equipment was RR 16,284,713 and RR 16,145,922, respectively.

At 31 December 2006, buildings, machinery and equipment with a net book value of RR 191 178 (cost of RR 266 252), (2005: net book value RR 250,812, cost RR 361,024) 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.

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

15 Goodwill

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

	Note	2006	2005
Carrying amount at 1 January		**-**	**-**
Acquisition of subsidiary	30	52,068	-
Acquisition of additional interest in existing subsidiary		971,533	-
Impairment loss		-	-
Carrying amount at 31 December		**1,023,601**	**-**
Gross book value at 31 December		1,023,601	-
Accumulated impairment losses at 31 December		-	-
Carrying amount at 31 December		**1,023,601**	-

In December 2006 the Group acquired 100% of the share capital of LLC Andrex from the third party for a cash consideration of RR 131,683. Management believes that no separately identifiable intangible assets exist in acquired company, which could qualify for separate accounting in accordance with IFRS 3. The goodwill for RR 52,068 is primarily attributable to the profitability of the acquired business, cost of new market entry and the significant synergies and combined costs savings expected to arise due to unique geographical location of assets of the acquired company for the Group.

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

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

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

	2006	2005
LLC “Andrex”	52,068	**-**
JSC “Dorogobuzh”	971,533	-
Total carrying amount of goodwill	**1,023,601**	**-**

The management of the Group believes that there are no signs of goodwill impairment as at the year-end.

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

16 Investments in Associates

	2006	2005
Balance at 1 January	300,221	300,221
Contribution to share capital of associate	122,000	-
Share of profit/(loss) before tax	-	-
Balance at 31 December	**422,221**	**300,221**

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

17 Available-for-sale investments

	2006	2005
Balance at 1 January	**3,171,017**	920,136
Additions	76,196	128,529
Fair value gain recognized directly in equity	1,686,891	2,124,673
Disposals	(34,718)	(2,321)
Balance at 31 December	**4,899,386**	**3,171,017**

Investments previously classified as at fair value through profit or loss were retrospectively designated by the Group as available-for-sale in line with requirements of IAS 39 (Amendment) "The Fair Value Option" effective from 01 January 2006. Respective fair value gains (losses) were recognized directly in equity. 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 EBITDA were 0.85 and 5.2 for OAO Apatite and 4.2 and 10.15 for OAO Sylvinit, respectively. Applied discounts for lack of control and lack of marketability were 15% and 35% respectively. For other investments traded in active markets, fair value 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	2006	2005
OAO Sylvinit	KCl mining	Russia	3,864,240	2,294,272
OAO Apatite	Apatite concentrate mining	Russia	672,800	689,731
OAO Sberbank	Banking	Russia	227,213	93,360
Other			135,133	93,654
			4,899,386	**3,171,017**

The share price quoted by RTS for OAO Apatite and OAO Sylvinit amounted to 86 and 280 US Dollars for 1 share at 31 December 2006 and 79 and 145 US Dollars at 31 December 2005 respectively. Subsequently the share prices changed to 84 and 255 US Dollars for 1 share at 29 May 2007.

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

18 Accounts Payable

	2006	**2005**
Trade accounts payable (refer to Note 8)	797,282	889,614
Payables to employees	330,896	258,133
Dividends payable	450,886	251,259
Deferred purchase consideration for acquisition of new subsidiaries and additional interest in existing subsidiaries (refer to Notes 15 and 30)	474,256	-
Accrued liabilities and other creditors	120,746	71,123
	2,174,066	**1,470,129**

19 Other Taxes Payable

	2006	**2005**
Value-added tax payable	48,548	90,697
Payroll taxes	53,664	61,085
Property and other taxes	47,116	52,229
	149,328	**204,011**

20 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2006	**2005**
Bonds issued	882,823	904,255
Credit lines	2,410,157	1,151,300
Term loans	3,749,201	2,098,750
	7,042,181	**4,154,305**

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

The Group's borrowings mature as follows:

	2006	**2005**
Borrowings due:		
- within 1 year	1,764,057	1,936,976
- between 1 and 5 years	5,278,124	2,217,329
- after 5 years	-	-
	7,042,181	**4,154,305**

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

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

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

	2006	**2005**
Borrowings denominated in:		
- Russian Roubles	1,822,101	912,307
- US Dollars	3,449,374	1,781,732
- RMB	1,770,706	1,460,266
	7,042,181	**4,154,305**

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

	2006	**2005**
Bonds	-	904,255
ZAO Commerzbank (Eurasia)	-	247,530
ZAO Raiffeisenbank Austria	-	287,825
Sberbank Russia	600,000	-
Construction Bank, China	236,072	249,557
Bank of China	605,186	35,651
Rosselhozbank	10,000	-
Term loans – related parties	8,000	-
Other term loans	1,278	26,557
Add current portion of long-term debt	303,521	185,601
Total short-term debt	**1,764,057**	**1,936,976**

Short-term loan from Commerzbank denominated in foreign currency totalled US$ 8,600,000 as at 31 December 2005 (2006: US$ 0) at interest rates LIBOR+3.75% (2005:LIBOR+4%). The loan was redeemed in 2006.

Short-term loan from Raiffeisenbank Austria denominated in foreign currency totalled US$ 10,000,000 as at 31 December 2005 (2006: Nil) at interest rates LIBOR+3.5%. The loan was redeemed in 2006.

Short-term loans from Sberbank-Moscow denominated in Russian roubles totalled RR 600,000 as of 31 December 2006 (2005: RR Nil) at interest rates of 7%. Under the terms of the agreement there is a number of covenants and restrictions, inclusive of restrictions on maintenance of certain export revenue flows, entered on current account opened in Sberbank.

Short-term loan from Rosselhozbank denominated in Russian roubles totalled RR 10 000 as at 31 December 2006 (2005: Nil) at interest rates 10%. The loan was obtained by a subsidiary and is secured by pledge of non-current assets and goods. Under the terms of the agreement there are a number of covenants and restrictions, inclusive of restrictions on transactions held with other banks.

Short-term loans in RMB were granted at the interest rate of 5.58% to 8.28% per annum (2005: of 5.22 to 6.14%). These loans were guaranteed by unrelated parties in return for guarantees provided by the Group for the borrowings obtained by unrelated parties.

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

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

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

	2006	2005
Bonds	882,823	-
VTB Europe	579,284	431,738
Commerzbank	789,933	-
Raiffeisenbank	566,119	-
OAO Promyshlenno-Stroitelniy bank	-	431,738
ZAO International Moscow Bank	460,794	371,313
Sberbank Russia	1,373,244	-
Construction Bank, China	472,143	641,718
Development Bank, China	457,305	526,423
Less current portion of long-term debt	(303,521)	(185,601)
Total long-term debt	**5,278,124**	**2,217,329**

Long-term loan from International Moscow Bank denominated in foreign currency totaled US$ 17,500,000 as at 31 December 2006 (2005: US$ 12,900,000) at interest rate LIBOR+2.75%. 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 totalled US$ 15,000,000 as at 31 December 2005 (2006: Nil) at interest rate LIBOR+4.51% was redeemed in 2006.

Long-term loan from VTB Europe denominated in foreign currency totaled US$ 22,000,000 as at 31 December 2006 (2005: US$ 15,000,000) 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 loan from Raiffeisenbank denominated in foreign currency totaled US$ 21,500,000 as at 31 December 2006 (2005: US$ Nil) at interest rate LIBOR+3.25%. 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 Commerzbank denominated in foreign currency totaled US$ 30,000,000 as at 31 December 2006 (2005: US$ Nil) at interest rate LIBOR+3.00%. 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 Sberbank Russia denominated in foreign currency totaled US$ 40,000,000 as at 31 December 2006 (2005: US$ Nil) at interest rate 7.9%. 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 Sberbank Russia denominated in Russian roubles totaled RR 320,000,000 as at 31 December 2006 (2005: US$ Nil) at interest rate 8.0%. 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 6.732% to 6.84% (2005: 6.12% to 6.435%) per annum. As of 31 December 2006 bank loans of RR 524,686 (2005: RR 604,641) were guaranteed by unrelated parties in return for guarantees provided by the Group for the borrowings obtained by unrelated parties. The loans obtained from China banks are secured by guarantees issued by third parties totalled RR 1,161,136 RR.

The remaining balance was collateralised by buildings, machinery and equipment with a net book value of RR 191,178 (in 2005 RR 250,812) (refer to Note 14) and land use right with a net book value of RR 138,263 (in 2005 RR 152,290) (refer to Note 13).

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

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

At December 31, 2006 unused lines of credit for short-term bank loans totalled 0 (at December 31, 2005 - US$15,000,000 in Moscow Narodniy Bank). Unused lines of credit for long-term bank loans at December 31, 2006 totalled RR 220,000, US$ 8,500,000 and US$ 12,500,000 in Sberbank, Raiffeisenbank and IMB, respectively (at December 31, 2005 - nil).

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 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**
At 31 December 2006	**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 RR 29,000. All authorised shares have been issued and fully paid. Treasury shares represent ordinary shares of the Company held by the Company's subsidiary (refer to 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.

Interim 2005 dividends were declared during 2005 in the amount of RR 102,000 per ordinary share with par value of RR 29,000.

A dividend was declared in 2006 in respect of 2005 to holders of ordinary shares of RR 11 per ordinary share (2005: RR 58 per ordinary share in respect of 2004). Interim 2006 dividends were declared during the year in the amount of RR 11 per ordinary 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 2006, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 5,908,505 (2005: RR 2,833,809). 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.

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

22 Cost of Sales

The components of cost of sales were as follows:

	2006	2005
Change in inventories of finished goods and work in progress	(49,135)	(481,455)
Staff costs	1,619,690	1,509,894
Materials and components used	6,694,726	6,234,957
Fuel and energy	2,038,437	1,798,059
Natural gas	2,936,475	2,696,273
Depreciation	915,171	879,659
Production overheads	157,638	107,975
Overhaul costs	1,122,990	933,735
Social expenditure	217,755	273,765
	15,653,747	**13,952,861**

23 Selling, General and Administrative Expenses

	2006	2005
Staff costs	1,302,795	1,129,109
Bad debts expense/(reverse)	(18,074)	53,670
Business trips expenses	201,910	160,277
Research and development costs	3,913	13,774
Marketing services	120,600	57,208
Audit, legal and consulting services	178,324	198,601
Bank services	40,196	35,435
Insurance	81,014	25,935
Buildings maintenance and rent	106,240	165,780
Commission fees	-	7,111
Security	149,699	119,000
Telecommunication costs	47,706	36,976
Representation expenses	64,802	59,082
Other expenses	122,591	57,405
	2,401,716	**2,119,363**

24 Finance Expense

	2006	2005
Interest expense	491,996	369,214
Foreign exchange loss (gain)	(127,338)	74,924
	364,658	**444,138**

25 Other income and expenses

	2006	2005
Interest income	76,956	80,216
Dividend income	39,077	33,867
Loss on disposal of investments	(50,495)	-
Charity expenses	(96,494)	-
	(30,956)	**114,083**

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

26 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:

	2006	2005
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	**2,253,336**	**3,031,058**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**51.66**	**69.49**

27 Income Taxes

	2006	2005
Income tax expense – current	1,207,603	1,411,489
Deferred tax charge/(credit) – origination and reversal of temporary differences	(198,598)	(143,345)
Income tax charge	**1,009,005**	**1,268,144**

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

	2006	2005
Profit before taxation	3,472,594	4,651,603
Theoretical tax charge at statutory rate of 24% thereon (2005: 24%)	833,423	1,116,385
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income not taxable	(39,077)	(107,198)
Other non-deductible expenses	214,659	258,957
Income tax charge	**1,009,005**	**1,268,144**

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% (2005: 24%) (except for income on state securities that is taxed at 15% (2005: 15%).

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

27 Income Taxes (continued)

	31 December 2004	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2005	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2006
Tax effects of taxable temporary differences:							
Property, plant and equipment	1,196,537	(91,995)	-	1,104,542	(150,621)	-	953,921
Investments	299,653	20,038	509,922	829,613	(10,550)	404,854	1,223,917
Other temporary differences	10,152	(20,887)	-	(10,735)	18,778	-	8,043
Tax effects of deductible temporary differences:							
Inventories	(51,999)	29,819	-	(22,180)	(5,985)	-	(28,165)
Accounts receivable	(32,526)	(34,476)	-	(67,002)	(24,885)	-	(91,887)
Accounts payable	(9,990)	(25,844)	-	(35,834)	(60,057)	-	(95,891)
Employee benefit obligation	(44,912)	(20,000)	-	(64,912)	34,722	-	(30,190)
Recognized net deferred tax liability	**1,366,915**	**(143,345)**	**509,922**	**1,733,492**	**(198,598)**	**404,854**	**1,939,748**

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.

28 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2006 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 241,692 (2005: RR 631,006).

As at December 31, 2006 and 2005, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 1,161,136 and RR 2,187,201, 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.

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

28 Contingencies, Commitments and Operating Risks (continued)

ii Taxation (continued)

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

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

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 2006 no provision for potential tax liabilities had been recorded (2005: 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 of the Group

Russian Federation

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.

People's Republic of China

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

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

28 Contingencies, Commitments and Operating Risks (continued)

v Operating environment of the Group (continued)

People's Republic of China (continued)

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

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

29 Principal Subsidiaries

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

Entity	Country of Incorpo-ration	Activity	2006 % common stock	2005 % common stock
JSC "Dorogobuzh"	Russia	Fertiliser production	85	67
JSC "Nordic Russia Holding"	Russia	Holding Co.	51	51
"Firm Proekt", ZAO	Russia	Holding Co.	100	100
LLC "Andrex"	Russia	Mixing and transhipment of fertilizers	100	-
LLC Trustservice	Russia	Holding Co.	100	100
Acronagrotrans Limited	BVI	Holding Co.	100	100
Shandong Hongri Acron Chemical JSC Ltd	China	Fertiliser production	50.5	50.5

30 Business combinations

Acquisition of subsidiaries

On 27 December 2006 the Group acquired 100% of the share capital of LLC "Andrex" from the third party for a cash consideration of RR 131,683. The acquired company holds title for facilities for transhipment, mixing, packaging and storing of bulk fertilizers located in Kaliningrad seaport. This acquisition was made consistent with Group's strategy, aiming for optimisation of fertilizer exports logistics. The acquired company is consolidated by the Group for the first time as at the effective date of obtaining control which management considers to be December 2006.

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

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

30 Business combinations (continued)

Acquisition of subsidiaries (continued)

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

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		11	11
Property, plant and equipment		12,826	79,581
Other assets		274	274
Other liabilities		(251)	(251)
Fair value of net assets of subsidiary			**79,615**
Goodwill arising from the acquisition	15		52,068
Total purchase consideration			**131,683**
Less: deferred purchase consideration	18		(131,683)
Less: cash and cash equivalents of subsidiary acquired			(11)
Inflow of cash and cash equivalents on acquisition			**11**

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 accounting the financial statements of the Acron Group are presented as if the businesses had been combined from the beginning of the earliest period presented.

31 Significant Non-Cash Transactions

Included in sales are non-cash transactions amounting to RR 295,745 (2005: RR 75,675) were settled via non-cash transactions during the years ended 31 December 2006 and 2005, respectively. The transactions primarily represent cancellation of mutual balances with customers and suppliers within the operating cycle.

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

32 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.

iii Foreign exchange risk

The Group exports 72% (2005: 82%) of its production 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, 2006 is as follows:

	US Dollar	**EURO**	**RMB**
Cash and cash equivalents	373,572	26,993	500,386
Accounts receivable	732,143	51,856	721,492
Accounts payable and other liabilities	(336,452)	(17,674)	(1,823,651)
Borrowings given	64,691	-	-
Borrowings and notes payable	(3,449,374)	-	(1,770,706)
Total	**(2,615,420)**	**61,175**	**(2,372,479)**

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 2006: USD 100,000,000 and RR 550,000; 31 December 2005: USD 15,000,000) 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.

32 Financial Risk Management (continued)

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.

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

Fair values for available-for-sale investments carried at fair value were determined by 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 available-for-sale investments (refer to Note 17).

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. At 31 December 2006 and 2005 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

34 Subsequent Events

Dividends. In May 2007 annual shareholders meeting approved annual dividends distribution for the year ended 31 December 2006 in the amount of RR 24 on each ordinary share. Considering the interim dividends for six months of 2006 declared during the year the final dividends will be paid in the amount of RR 13 on each ordinary share.

Short-term bank loans. Subsequent to 31 December 2006 and prior to the date of these financial statements, the Group has obtained additional short-term bank loans and repaid existing short-term bank loans for RR 472,133 and RR 541,891, respectively.

***Long-term bank loans*.** Subsequent to 31 December 2006 and prior to the date of these financial statements, the Group has obtained additional long-term bank loans and repaid existing long-term bank loans for RR 384,337 and RR 316,071, respectively.