JOINT STOCK COMPANY
“DOROGOBUZH”

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR’S REPORT

31 DECEMBER 2008

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Moscow, Russian Federation
27 May 2009

Joint Stock Company "Dorogobuzh"
Consolidated Balance Sheet at 31 December 2008
(in thousands of Russian Roubles)

	Note	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	13	4,390,089	3,355,216
Goodwill	14	52,068	52,068
Other non-current assets		259,998	227,439
Available-for-sale investments	15	1,266,534	5,266,912
Long-term loans receivable	11	366,300	55,000
Total non-current assets		**6,334,989**	**8,956,635**
Current assets			
Inventories	12	1,094,630	804,839
Other current assets		15,433	21,560
Short-term loans receivable	11	100,354	130,000
Accounts receivable	10	797,565	1,011,305
Dividends receivable		-	47,925
Cash and cash equivalents	9	706,828	350,760
Total current assets		**2,714,810**	**2,366,389**
TOTAL ASSETS		**9,049,799**	**11,323,024**
EQUITY			
Share capital	19	1,735,359	1,735,359
Share premium	19	93,794	93,794
Retained earnings		3,530,754	2,220,311
Revaluation reserve		989,452	3,970,103
Share capital and reserves attributable to the Company's equity holders		**6,349,359**	**8,019,567**
Minority interest		**-**	**2,819**
TOTAL EQUITY		**6,349,359**	**8,022,386**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	18	440,706	76,429
Other long-term liabilities		102,504	45,112
Deferred tax liability	24	457,059	1,479,120
Total non-current liabilities		**1,000,269**	**1,600,661**
Current liabilities			
Accounts payable	16	530,928	286,859
Current income tax payable		597	30,338
Other taxes payable	17	59,044	130,335
Short-term borrowings	18	881,412	932,480
Advances received		228,190	319,965
Total current liabilities		**1,700,171**	**1,699,977**
TOTAL LIABILITIES		**2,700,440**	**3,300,638**
TOTAL LIABILITIES AND EQUITY		**9,049,799**	**11,323,024**

Approved for issue and signed on behalf of the Board of Directors on 27 May 2009.

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I.N. Antonov
President

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A.V. Milenkov
Finance Director

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

	Note	2008	2007
Revenue	7	9,730,454	7,664,633
Cost of sales	20	(4,667,244)	(4,658,821)
Gross profit		**5,063,210**	**3,005,812**
Transportation expenses		(708,130)	(524,660)
Selling, general and administrative expenses	21	(807,239)	(644,671)
Gain/(loss) on disposal of property, plant and equipment, net		3,077	(11,873)
Other operating expenses, net	23	(21,778)	(98,643)
Operating profit		**3,529,140**	**1,725,965**
Finance income, net	22	296,767	187,745
Interest expense		(76,221)	(117,502)
Profit before taxation		**3,749,686**	**1,796,208**
Income tax expense	24	(787,416)	(433,398)
Net profit for the year		**2,962,270**	**1,362,810**
Net profit is attributable to:			
Equity holders of the Company		2,962,270	1,359,991
Minority interest		-	2,819
Net profit for the year		**2,962,270**	**1,362,810**
Earnings per ordinary share, basic and diluted (expressed in RR per share)	25	**3.38**	**1.55**
Earnings per preference share, basic and diluted (expressed in RR per share)	25	**3.38**	**1.55**

	Note	2008	2007
Cash flows from operating activities			
Profit before taxation		3,749,686	1,796,208
Adjustments for:			
Depreciation	13	259,604	248,442
Release of provision for impairment of accounts receivable		(8,789)	(46,435)
(Decrease) / Increase in provision for write-down of inventory		4,983	(757)
Loss on disposal of property, plant and equipment, net		(3,077)	59,178
Interest expense		76,221	96,650
Interest income		(81,345)	(19,746)
Dividend income		(463,432)	(149,045)
Foreign exchange effect on non-operating balances		243,065	42,924
Operating cash flows before working capital changes		**3,776,916**	**2,027,419**
(Increase) / decrease in gross trade receivables		(174,580)	315,345
(Increase) / decrease in advances to suppliers		284,913	(213,782)
(Increase) / decrease in other receivables		67,874	(93,984)
Increase in inventories		(294,774)	(204,387)
(Decrease) / increase in trade payables		196,966	(11,627)
Decrease in advances from customers		(91,775)	(51,048)
Increase in other payables		(85,778)	12,038
Decrease in other current assets		6,127	28,969
Net change in other non-current assets and liabilities		24,831	307
Cash provided from operations		**3,710,720**	**1,809,250**
Income taxes paid		(837,758)	(395,559)
Interest paid		(82,163)	(115,915)
Net cash generated from operating activities		**2,790,799**	**1,297,776**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,408,139)	(577,304)
Acquisition of subsidiaries		-	(131,683)
Loans originated		(1,093,654)	(620,000)
Proceeds from loans repaid		812,000	688,000
Purchase of available-for-sale investments		(2,075)	(10,177)
Proceeds from sale of available-for-sale investments		103,338	3,750
Interest received		35,978	19,746
Dividends received		511,338	149,045
Proceeds from sale of property, plant and equipment		116,739	45,972
Net cash used in investing activities		**(924,475)**	**(432,651)**
Cash flows from financing activities			
Dividends paid		(1,580,400)	(80)
Proceeds from borrowings		2,026,546	616,080
Repayment of borrowings		(1,956,402)	(1,589,220)
Net cash provided from (used in) financing activities		**(1,510,256)**	**(973,220)**
Net (decrease) / increase in cash and cash equivalents		**356,068**	**(108,095)**
Cash and cash equivalents at the beginning of the year	9	**350,760**	**458,855**
Cash and cash equivalents at the end of the year	9	**706,828**	**350,760**

	Share capital and reserves attributable to the Company's equity holders					
	Share capital (Note 19)	**Share premium**	**Retained earnings**	**Revaluation reserve**	**Minority interest**	**Total equity**
Balance at 1 January 2007	**1,735,359**	**93,794**	**860,320**	**2,092,624**	**-**	**4,782,097**
Fair value gains on available-for-sale investments (Note 15)	-	-	-	2,470,367	-	2,470,367
Income tax recorded in equity (Note 24)	-	-	-	(592,888)	-	(592,888)
Net income recognised directly in equity	-	-	-	1,877,479	-	1,877,479
Profit for the year	-	-	1,359,991	-	2,819	1,362,810
Total recognised income for 2007	-	-	1,359,991	1,877,479	2,819	3,240,289
Balance at 31 December 2007	**1,735,359**	**93,794**	**2,220,311**	**3,970,103**	**2,819**	**8,022,386**
Balance at 1 January 2008	**1,735,359**	**93,794**	**2,220,311**	**3,970,103**	**2,819**	**8,022,386**
Fair value loss on available-for-sale investments (Note 15)	-	-	-	(3,986,562)	-	(3,986,562)
Income tax recorded in equity (Note 24)	-	-	-	1,005,911	-	1,005,911
Net income recognised directly in equity	-	-	-	(2,980,651)	-	(2,980,651)
Profit for the year	-	-	2,962,270	-	-	2,962,270
Total recognised income for 2008	-	-	2,962,270	(2,980,651)	-	(18,381)
Dividends declared (Note 19)	-	-	(1,651,827)	-	(2,819)	(1,654,646)
Balance at 31 December 2008	**1,735,359**	**93,794**	**3,530,754**	**989,452**	**-**	**6,349,359**

1 Dorogobuzh Group and Its Operations

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

The Group's principal activities include the manufacture, distribution and sales of chemical fertilisers and related by-products. The Group's manufacturing facilities are primarily based in the Smolenskaya oblast of Russia. Dorogobuzh was incorporated as a joint stock company on 27 July 1994. On that date the majority of assets and liabilities previously managed by the state were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

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

The Company's registered office is Verkhnedneprovsky, Smolenskaya oblast, 215753, Russia.

2 Basis of Preparation of the Financial Statements

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

Presentation currency. All amounts in these 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 bought as part of business combinations under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

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

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

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

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

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

3.2 Cash and cash equivalents

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

3.3 Trade and other receivables

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

- Any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

3 Summary of Significant Accounting Policies (continued)

3.3 Trade and other receivables (continued)

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3.4 Value added tax

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

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within non-current assets in the amount of RR 259,997 (2007: RR 227,439). Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.6 Property, plant and equipment

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

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

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

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

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

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 Summary of Significant Accounting Policies (continued)

3.7 Intangible assets

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

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

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

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences. Acquired computer software licenses, patents and trademarks 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.

3.8 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.

3.9 Income taxes

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.10 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 Group’s functional currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

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

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

3.11 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 pre-tax discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each balance sheet date.

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

3.12 Shareholders’ equity

Share capital. Ordinary and non-cumulative non redeemable preference shares are classified as equity. External costs directly attributable to the issue of new shares 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.

3.13 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.

3 Summary of Significant Accounting Policies (continued)

3.13 Revenue recognition (continued)

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.

3.14 Mutual cancellations

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

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. Bills of exchange issued by customers or third parties are reported at amortised cost using an 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.

3.15 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognized contributions of RR 159,743 as part of labour costs in 2008 (2007: RR 157,074).

3.16 Financial assets and liabilities

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

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

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

Initial recognition of financial instruments. Financial assets 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.

3 Summary of Significant Accounting Policies (continued)

3.16 Financial assets and liabilities (continued)

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 are recognised when the entity becomes a party to the contractual provisions of the instrument.

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.

3.17 Earnings per share

Earnings per share is determined by dividing the net profit attributable to shareholders of the parent by the weighted average number of shares outstanding during the reporting year. Preference shares are not redeemable and are considered to be participating shares. Preference shares participate in the calculation because dividends attributable to preference shares cannot be less then dividends on ordinary shares.

3.18 Segment reporting

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

3.19 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:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 14. At 31 December 2008 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 5% lower than management estimates at 31 December 2008. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 3% higher than management estimates, the goodwill would still have not been impaired.

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

Valuation and impairment of available-for-sale investments. As of 31 December 2008 and 2007 the investments in OJSC Acron and OJSC Sberbank were determined by reference to the current market value in line with requirements of IAS 39. Market quotations of these companies are readily available and regularly updated by the stock exchange. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology. At 31 December 2008 no impairment was required due to significant excess of fair values over carrying values. Refer to Note 15.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

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. The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected useful life of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. Depreciation of property, plant and equipment for the period would increase by RR 4,071 or decrease by RR 3,974 should their estimated useful lives differ by 10% from management's estimates.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

6 New Accounting Pronouncements

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

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

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

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

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

6 New Accounting Pronouncements (continued)

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

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

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

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

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

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

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

6 New Accounting Pronouncements (continued)

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

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

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

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

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

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

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

6 New Accounting Pronouncements (continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity’s own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

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

7 Segment Information

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

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

In 2007 the Group’s management changed the presentation of reportable geographical segments, to more appropriately report distinguishable components of an entity that are engaged in providing products or services within a particular economic environment and that are subject to risks and returns that are different from those of components operating in other economic environments. Sales in other countries represent export sales of Group’s entities located in the Russian Federation including sales to CIS 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 assets of the Group are located in the Russian Federation.

	2008	**2007**
Revenue		
Russia	5,401,642	3,667,219
Other countries	4,328,812	3,997,414
	9,730,454	**7,664,633**

During 2008 the Group sold its products to two international trading entities that account for the majority of segment “Other countries”. In 2008 AgroNitrogen Logistics Ltd. and NPKhemical Trading Inc. purchased 19% and 21% of the sales of segment “Other countries”, respectively (2007: 22% and 16%). The sales to them are included in the segment “Other countries” as risks and returns on them are similar to other overseas sales. The rest of sales in segment “Other countries” is widely spread between a number of less significant customers. Starting from May 2008 the substantial part of the Group’s worldwide exports are effected through Agronova International Inc., a related party, incorporated in the United States of America, which was set up in line with the strategy of parent company Acron to obtain better control over export sales and further enhance its presence in core markets.

8 Balances and Transactions with Related Parties

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

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

i Balances with related parties

Balance sheet caption	Notes	Relationship	2008	2007
Trade receivables, gross	10	Parent company	6,963	3,322
		Parties under common control	206,152	60,801
Provision for impairment of trade receivables	10	Parties under common control	(40)	(19,807)
Prepayments, gross		Parties under common control	24,511	156,844
Provision for impairment of prepayments		Parties under common control	-	(5,068)
Dividends receivable		Parent company	-	47,925
Loans provided	11	Parties under common control	412,654	55,000
		Parent company	-	130,000
Loans received	18	Parent company	-	36,995
Trade payables	16	Parties under common control	4,802	8,912
		Parent company	51,174	52,296
Advances from customers		Party under common control	136,250	77

ii Transactions with related parties

Income statement caption	Notes	Relationship	2008	2007
Sales of chemical fertilizers	7	Parent company	99,007	52,753
		Parties under common control	4,239,535	1,999,044
Income from participation in other companies		Parent company	460,872	151,238
Purchases of raw materials	20	Parent company	(91,906)	(125,642)
		Parties under common control	(16,962)	(10,961)
Purchase of transportation services		Parties under common control	(159,244)	(153,510)
Security services	21	Parties under common control	(67,838)	(64,112)
Statement of changes in equity caption				
Dividends accrued		Parent company	908,964	-
		Parties under common control	374,840	-

iii Loans issued to related parties

At 31 December 2008 and 2007 short-term loans to parent company and parties under common control denominated in RR totalled RR 90,354 and RR 130,000, respectively, at interest rates in the range of 10.5% to 14.2%. The loans are unsecured.

At 31 December 2008 long-term loans to parties under common control totalled RR 322,300 (2007: RR 55,000), at interest rates in the range of 9.5% to 11.3%. The loans are unsecured.

In 2008 the Group accrued interest income of RR 55,243 (2007: RR 19,746).

iv Key management personnel compensation

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

Total key management personnel compensation included in general and administrative expenses in the income statement for the year ended 31 December 2008 amounted to RR 78,736 (31 December 2007: RR 82,098).

Related state pension and social security costs for the year ended 31 December 2008 amounted to RR 2,326 (31 December 2007: RR 2,414).

9 Cash and Cash Equivalents

	2008	2007
Cash on hand and bank balances denominated in RR	539,178	284,735
Bank balances denominated in US$	114,749	65,342
Bank balances denominated in Euro	52,901	683
Total cash and cash equivalents	**706,828**	**350,760**

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

	2008	2007
A to AAA* rated	265,190	10,268
BB- to BBB+* rated	441,561	340,474
Unrated	77	18
Total	**706,828**	**350,760**

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

10 Accounts Receivable

	2008	2007
Trade accounts receivable	312,881	138,301
Other accounts receivable	37,719	-
Less: impairment provision	(46,503)	(54,596)
Total financial assets	**304,097**	**83,705**
Advances to suppliers	261,833	546,746
Value-added tax recoverable	211,778	374,629
Income tax prepayments	25,454	10,992
Other taxes receivable	1,370	2,896
Less: impairment provision	(6,967)	(7,663)
Total accounts receivable	**797,565**	**1,011,305**

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

As of 31 December 2008, trade and other accounts receivable of RR 53,470 (2007: RR 62,259) were individually impaired and an impairment provision was recognized. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The ageing of these receivables is as follows:

	2008	2007
Less than 3 months	-	-
From 3 to 9 months	(2,933)	(2,736)
From 9 to 12 months	(3,624)	(5,460)
Over 12 months	(46,913)	(54,063)
Total gross amount of impaired accounts receivable	**(53,470)**	**(62,259)**

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

	2008		2007	
	Trade receivables	Other debtors	Trade receivables	Other debtors
Provision for impairment at 1 January	**(54,596)**	**(7,663)**	**(101,023)**	**(6,670)**
Provision for impairment	(12,502)	(6,351)	(9,736)	(5,674)
Provision used	20,595	6,977	50,743	4,208
Provision reversed	-	70	5,420	473
Provision for impairment at 31 December	**(46,503)**	**(6,967)**	**(54,596)**	**(7,663)**

10 Accounts Receivable (continued)

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

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

As of 31 December 2008, trade receivables of RR 2,642 (2007: RR 23,404) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2008	2007
Less than 3 months	432	-
From 3 to 9 months	1,710	21,980
From 9 to 12 months	500	510
Over 12 months	-	914
Trade accounts receivable past due but not impaired	**2,642**	**23,404**

Analysis by credit quality of trade receivables is as follows:

	2008	2007
Current and not impaired – exposure to:		
- Foreign customers	60,207	11,033
- Small individual Russian companies and farms	243,890	72,672
Total current and not impaired	**304,097**	**83,705**

11 Loans Receivable

	2008	2007
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	90,354	-
Loans issued to parent company (refer to Note 8)	-	130,000
Loans issued to third parties	10,000	-
	100,354	**130,000**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	322,300	55,000
Loans issued to third parties	44,000	-
	366,300	**55,000**

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

At 31 December 2008 and 2007 short-term loans totalled RR 100,354 and RR 130,000, respectively, at interest rates in the range of 10.5 % to 14.2% (2007: 8.5% to 10.0%). The loans were unsecured.

At 31 December 2008 and 2007 long-term loans totalled RR 366,300 and RR 55,000, respectively, at interest rates in the range of 9.5% to 11.3% (2007: 8.5%). The loans were unsecured.

In 2008 the Group accrued interest income of RR 59,089 (2007: RR 19,746).

12 Inventory

	2008	2007
Raw materials and spare parts	687,320	507,303
Work in progress	48,709	99,219
Finished products	358,601	198,317
	1,094,630	**804,839**

Raw materials are shown net of impairment provision of RR 44,106 (2007: 39,123). No inventory was pledged as security at 31 December 2008 and 2007.

13 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2008	**5,800,211**	**4,505,210**	**62,346**	**62,224**	994,145	**11,424,136**
Additions	-	-	-	-	1,408,139	**1,408,139**
Transfers	760	755,648	691,265	37,269	(1,484,942)	**-**
Disposals	(24,213)	(126,986)	(15,940)	(63,978)	-	**(231,117)**
Balance at 31 December 2008	**5,776,758**	**5,133,872**	**737,671**	**35,515**	**917,342**	**12,601,158**
Accumulated Depreciation						
Balance at 1 January 2008	**3,928,496**	**4,089,354**	**40,493**	**10,577**	**-**	**8,068,920**
Depreciation charge	122,392	109,381	24,499	3,332	-	**259,604**
Disposals	(11,276)	(92,379)	(12,514)	(1,286)	-	**(117,455)**
Balance at 31 December 2008	**4,039,612**	**4,106,356**	**52,478**	**12,623**	**-**	**8,211,069**
Net Book Value						
Balance at 1 January 2008	**1,871,715**	**415,856**	**21,853**	**51,647**	**994,145**	**3,355,216**
Balance at 31 December 2008	**1,737,146**	**1,027,516**	**685,193**	**22,892**	**917,342**	**4,390,089**

Non-current assets impairment test. Due to impairment indicators occurred in the end of 2008 impairment test was performed for determined cash-generating units (CGUs).

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

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs.

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

	LLC Andrex (terminal for mixing and transhipment of fertilizers)	OAO Dorogobuzh
Growth rates beyond 5-year period	0%	0%
Discount rate	21.5%	21.5%

Management determined budgeted gross margin based on past performance and its realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. Discount rates used are pre-tax rates reflecting specific risks inherent to relevant segments and valued based on the weighted average cost of capital.

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2007	**5,863,035**	**4,342,302**	**67,599**	**15,112**	**782,124**	**11,070,172**
Additions	-	-	-	-	577,304	**577,304**
Transfers	59,135	251,171	5,249	49,728	(365,283)	**-**
Disposals	(121,959)	(88,263)	(10,502)	(2,616)	-	**(223,340)**
Balance at 31 December 2007	**5,800,211**	**4,505,210**	**62,346**	**62,224**	**994,145**	**11,424,136**
Accumulated Depreciation						
Balance at 1 January 2007	**3,854,909**	**4,087,164**	**35,201**	**7,366**	**-**	**7,984,640**
Depreciation charge	139,071	89,283	14,877	5,211	-	**248,442**
Disposals	(65,484)	(87,093)	(9,585)	(2,000)	-	**(164,162)**
Balance at 31 December 2007	**3,928,496**	**4,089,354**	**40,493**	**10,577**	**-**	**8,068,920**
Net Book Value						
Balance at 1 January 2007	**2,008,126**	**255,138**	**32,398**	**7,746**	**782,124**	**3,085,532**
Balance at 31 December 2007	**1,871,715**	**415,856**	**21,853**	**51,647**	**994,145**	**3,355,216**

13 Property, Plant and Equipment (continued)

The assets transferred to the Group upon privatisation did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is the end of 2008. At 31 December 2008 major subsidiaries of the Group exercised the option and purchased the land under production plants.

At 31 December 2008, buildings, machinery and equipment with a net book value of RR 0 had been pledged as security for long-term loans (2007: RR 21,790) (refer to Note 18).

14 Goodwill

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:

	2008	2007
LLC Andrex	52,068	52,068
Total carrying amount of goodwill	**52,068**	**52,068**

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

Based on the results of these calculations the Group concluded that no impairment charge was required.

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

	LLC Andrex
Growth rate beyond five years	0%
Discount rate	21.5%

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

15 Available-for-sale Investments

	2008	2007
Balance at 1 January	5,266,912	2,790,118
Additions	2,075	50,000
Fair value gain / (loss) recognized directly in equity	(3,986,562)	2,470,367
Disposals	(15,891)	(43,573)
Balance at 31 December	**1,266,534**	**5,266,912**

The Group has investments in the following companies:

Name	Activity	Country of registration	2008	2007
JSC Acron	Fertilizers manufacture	Russia	1,192,999	4,981,767
JSC Sberbank	Banking	Russia	56,455	254,405
Other			17,080	30,740
			1,266,534	**5,266,912**

The fair value of investments was determined by reference to the current market value at the close of business on 31 December 2008. The share price quoted by MICEX for JSC Acron shares amounted to RR 295.18 per share at 31 December 2008 (31 December 2007: RR 1,223.54 per share).

16 Accounts Payable

	2008	2007
Trade accounts payable (refer to Note 8)	329,216	132,250
Dividends payable	11,247	1,929
Total financial payables	**340,463**	**134,179**
Payables to employees	184,584	137,618
Accrued liabilities and other creditors	5,881	15,062
Total accounts payable and accrued expenses	**530,928**	**286,859**

17 Other Taxes Payable

	2008	2007
Value-added tax payable	1,767	85,929
Payroll taxes	42,386	36,396
Property and other taxes payable	14,891	8,010
	59,044	**130,335**

18 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2008	2007
Bonds issued	-	882,823
Credit lines	1,322,118	68,729
Term loans	-	57,357
	1,322,118	**1,008,909**

The Group’s borrowings mature as follows:

	2008	2007
Borrowings due:		
- within 1 year	881,412	932,480
- between 1 and 5 years	440,706	76,429
	1,322,118	**1,008,909**

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

	2008	2007
Borrowings denominated in:		
- Russian Roubles	-	940,180
- US Dollars	1,322,118	68,729
	1,322,118	**1,008,909**

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

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

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

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

	2008	2007
Short-term borrowings		
Russian rubles		
Loans with fixed interest rates of 7% to 14% per annum	-	49,657
Bonds with coupon payments of 8.6% per annum	-	882,823
US$		
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 3.75% per annum	881,412	-
Total short-term borrowings	**881,412**	**932,480**

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

	2008	2007
Long-term borrowings		
US$		
Loans with fixed interest rates of 14% per annum	-	7,700
Loans with floating interest rates of LIBOR + 3.6% to LIBOR + 5.0% per annum	440,706	68,729
Total long-term borrowings	**440,706**	**76,429**

The loan agreements for a total of RR 1,322,118 (2007: RR 68,729) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate subjective acceleration clauses in case of the borrower's failure to fulfill or appropriately fulfill its obligations to the bank.

19 Shareholders' Equity

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

	Ordinary shares			Preferred shares	
	Number of shares authorised issued and paid	Share Capital	Share premium	Number of shares authorised issued and paid	Share Capital
At 31 December 2007	**721,182,860**	**1,379,569**	**93,794**	**154,256,400**	**355,790**
At 31 December 2008	**721,182,860**	**1,379,569**	**93,794**	**154,256,400**	**355,790**

The Shareholders' of the Company has two classes of shares, Class A preferred and ordinary. The nominal value for both classes of share capital is RR 0.25 per share.

Class A preferred shares carry no voting rights and are entitled to a minimum annual dividend of 10% of the Company's net statutory profit after taxes. Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganisation of the Company, changes to dividend levels of preferred shares, or the issuance of additional preferred shares. Such resolutions require approval by two thirds of preferred shareholders. The preferred shares have no rights of redemption or conversion. The share capital is shown in the amount of the historical contribution adjusted for inflation since the date of privatisation until 31 December 2002.

19 Shareholders' Equity (continued)

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2008, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 8,516 (2007: RR 2,891,764) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 4,845,594 (2007: RR 6,496,195). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

In 2008 dividends were declared in respect of 2007 financial year in the amount of RR 1.88 per ordinary share and RR 1.88 per preferred share (in 2007 no dividends were declared in respect of 2006). No interim dividends for 2008 were declared during the year.

20 Cost of Sales

The components of cost of sales were as follows:

	2008	**2007**
Change in inventories of finished goods and work in progress	(182,535)	(65,806)
Staff costs	615,826	529,787
Materials and components used	1,503,244	1,726,897
Fuel and energy	497,725	504,537
Natural gas	1,395,663	1,308,270
Depreciation and amortization	259,604	248,442
Production overheads	9,520	16,477
Repairs and maintenance	500,888	322,503
Social expenditure	67,309	67,714
	4,667,244	**4,658,821**

21 Selling, General and Administrative Expenses

	2008	**2007**
Staff costs	472,545	402,154
Reversal of bad debt provision	(5,978)	(30,942)
Business trips expenses	17,176	15,145
Audit, legal and consulting services	21,431	4,538
Taxes other than income tax	56,292	36,592
Bank services	27,453	22,101
Insurance	4,164	6,168
Buildings maintenance and rent	68,694	70,166
Security	74,863	86,544
Telecommunication costs	10,596	9,600
Representation expenses	6,473	5,136
Other expenses	53,530	17,469
	807,239	**644,671**

22 Finance Income, net

	2008	**2007**
Interest income from loans issued	81,345	19,746
Dividend income	463,432	149,045
Foreign exchange gain	16,294	25,547
Foreign exchange loss	(264,304)	(6,593)
	296,767	**187,745**

23 Other Operating Expenses, net

	2008	2007
Other expenses	33,405	100,541
Foreign exchange gain	(124,587)	(49,386)
Foreign exchange loss	112,960	47,488
	21,778	**98,643**

24 Income Taxes

	2008	2007
Income tax expense – current	803,566	449,279
Deferred tax credit – origination and reversal of temporary differences	(16,150)	(15,881)
Income tax charge	**787,416**	**433,398**

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2008	2007
Profit before taxation	3,749,686	1,796,208
Theoretical tax charge at statutory rate of 24% (2007: 24%)	899,925	431,090
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(111,224)	(35,771)
Other non-deductible expenses	48,703	38,079
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(49,988)	-
Income tax charge	**787,416**	**433,398**

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 tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their profit tax basis. The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24 %).

	31 December 2006	Differences recognition and reversal in Income statement	Differences recognition and reversal directly in equity	31 December 2007
Tax effects of taxable temporary differences:				
Property, plant and equipment	309,161	(24,531)	-	284,630
Investments available for sale	659,211	(10,523)	592,888	1,241,576
Inventories	4,395	9,638	-	14,033
Other temporary differences	2,177	(953)	-	1,224
Tax effects of deductible temporary differences:				
Accounts receivable	(41,701)	10,905	-	(30,796)
Accounts payable	(20,317)	(402)	-	(20,719)
Other liabilities	(10,813)	(15)	-	(10,828)
Total net deferred tax liability	**902,113**	**(15,881)**	**592,888**	**1,479,120**

24 Income Taxes (continued)

	31 December 2007	Differences recognition and reversal in Income statement	Differences recognition and reversal directly in equity	31 December 2008
Tax effects of taxable temporary differences:				
Property, plant and equipment	284,630	(461)	-	284,169
Investments available for sale	1,241,576	(17,977)	(1,005,911)	217,688
Inventories	14,033	18,099	-	32,132
Other temporary differences	1,224	2,321	-	3,545
Tax effects of deductible temporary differences:				
Accounts receivable	(30,796)	6,890	-	(23,906)
Accounts payable	(20,719)	(15,350)	-	(36,069)
Other liabilities	(10,828)	(9,672)	-	(20,500)
Total net deferred tax liability	**1,479,120**	**(16,150)**	**(1,005,911)**	**457,059**

The tax effect of the changing from 24% to 20% of the statutory income tax rate from January 1, 2009 on taxable temporary differences on available-for-sale investments amounted to RR 206,929 and was recorded in equity.

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

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

25 Earnings per Share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares outstanding during the period, excluding the average number of ordinary shares purchased by the Company or its subsidiaries and held as treasury shares (see Note 19).

	2008	2007
Weighted average number of ordinary shares outstanding	721,182,860	721,182,860
Weighted average number of preference shares outstanding	154,256,400	154,256,400
Dividends to ordinary shareholders	1,361,825	-
Dividends to preference shareholders	290,002	-
Total dividends for the year	**1,651,827**	**-**
Profit attributable to ordinary shareholders	2,440,305	1,120,355
Profit attributable to preference shareholders	521,965	239,636
Profit for the year	**2,962,270**	**1,359,991**
Basic and diluted earnings per ordinary share (in Russian roubles)	**3.38**	**1.55**
Basic and diluted earnings per preference share (in Russian roubles)	**3.38**	**1.55**

26 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2008 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 100,112 (2007: RR 327,726).

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

As at December 31, 2008 and 2007, the Group has not issued any financial guarantees to third parties in respect of borrowings from non-group companies.

ii Legal proceedings

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

iii Operating environment of the Group

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

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

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

Lower liquidity situation in the fourth quarter 2008 led to reduction in demand on fertilizers from ultimate customers and resulted in such negative impact as increase in provision for obsolescence in inventories (Note 12).

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the RR has depreciated significantly against some major currencies. The official US$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 31.14 at date of issuance of these consolidated financial statements. International reserves of the Russian Federation decreased from US$ 556,813,000 thousand at 30 September 2008 to US$ 427,080,000 thousand at 31 December 2008 and to US$ 383,905,000 thousand at 1 May 2009. Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. It believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

26 Contingencies, Commitments and Operating Risks (continued)

iv Taxation

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

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

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

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

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

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

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

v Environmental matters

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

27 Significant Non-Cash Transactions

Included in sales are non-cash transactions amounting to RR 14,082 (2007: RR 8,310) that were conducted via non-cash settlements during the years ended 31 December 2008 and 2007, respectively. These transactions primarily represent cancellation of mutual balances with customers and suppliers within the operating cycle.

28 Financial and Capital Risk Management

28.1 Financial risk management

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

(a) Market risk

(i) Foreign currency risk

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

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

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

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

At 31 December 2008	**US Dollar**	**Euro**
Monetary financial assets:		
Cash and cash equivalents	114,749	52,901
Accounts receivable	37,372	22,834
	152,121	75,735
Monetary financial liabilities:		
Accounts payable and other liabilities	-	(6,382)
Borrowings and notes payable	(1,322,118)	-
	(1,322,118)	(6,382)
Net balance sheet position	**(1,169,997)**	**69,353**

At 31 December 2007	**US Dollar**	**Euro**
Monetary financial assets:		
Cash and cash equivalents	65,342	683
Accounts receivable	11,193	20,985
	76,535	21,668
Monetary financial liabilities:		
Accounts payable and other liabilities	(1,178)	(7,187)
Borrowings and notes payable	(68,729)	-
	(69,907)	(7,187)
Net balance sheet position	**6,628**	**14,481**

The above analysis includes only monetary assets and liabilities.

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

	2008	**2007**
Impact on post-tax profit and on equity of:		
US Dollar strengthening by 25%	(292,499)	1,657
US Dollar weakening by 25%	292,499	(1,657)
Euro strengthening by 25%	17,338	3,620
Euro weakening by 25%	(17,338)	(3,620)

28 Financial and Capital Risk Management (continued)

28.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

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

(ii) Interest rate risk

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

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

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

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

The Group interest rate risk arises from various long-term debt facilities. Borrowings at variable rates expose the Group’s cash flow to an interest rate risk. At 31 December 2008 and 2007 borrowings at variable rates amounted to RR 1,322,118 and RR 68,729 respectively (Note 18).

At 31 December 2008, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RR 945 (2007: RR 945) lower, mainly as a result of higher interest expense on variable interest liabilities.

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

(iii) Price risk

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

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

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

28 Financial and Capital Risk Management (continued)

28.1 Financial risk management (continued)

(b) Credit risk

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

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group’s financial assets. The Group has no significant concentrations of credit risk.

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

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

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

Management monitors and discloses credit risks by obtaining reports listing counterparty risks along with aggregated balances in excess of 10% of the Group’s gross accounts receivable balances. At 31 December 2008 and 31 December 2007 the Group had no counterparties with aggregated receivable balances in excess of 10% of the Group’s gross accounts receivable balances, except for trade receivables from Agronova Int as of 31 December 2008 in the amount of RR 60,207.

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

(c) Liquidity risk

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

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

The table below analyses the Group’s financial liabilities into the relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date.

28 Financial and Capital Risk Management (continued)

28.1 Financial risk management (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2008						
Bonds issued * (Note 18)	-	-	-	-	-	**-**
Credit lines * (Note 18)	13,091	902,408	442,747	-	-	**1,358,246**
Term loans * (Note 18)	-	-	-	-	-	**-**
Trade payables (Note 16)	329,216	-	-	-	-	**329,216**
Dividends and other distributions to shareholders (Note 16)	-	11,247	-	-	-	**11,247**
Total future payments, including future principal and interest payments	**342,307**	**913,655**	**442,747**	**-**	**-**	**1,698,709**
As of 31 December 2007						
Bonds issued * (Note 18)	18,876	897,759	-	-	-	**916,635**
Credit lines * (Note 18)	1,324	4,002	2,422	68,729	-	**76,477**
Term loans * (Note 18)	1,667	2,053	57,400	-	-	**61,120**
Trade payables (Note 16)	119,079	13,171	-	-	-	**132,250**
Dividends and other distributions to shareholders (Note 16)	1,929	-	-	-	-	**1,929**
Total future payments, including future principal and interest payments	**142,875**	**916,985**	**59,822**	**68,729**	**-**	**1,188,411**

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

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

28.2 Capital risk management

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

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

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

	2008	2007
Long-term borrowings	440,706	76,429
Short-term borrowings	881,412	932,480
Total debt	**1,322,118**	**1,008,909**
Shareholders’ equity	**6,349,359**	**8,022,386**
Gearing ratio, %	**20.8%**	**12.6%**

28 Financial and Capital Risk Management (continued)

28.2 Capital risk management (continued)

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio. In 2008, the Group’s strategy, which was unchanged from 2007, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 18).

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

	2008	2007
Operating profit	3,529,140	1,725,965
Add: depreciation and amortization (Note 13)	259,604	248,442
EBITDA	**3,788,744**	**1,974,407**
Net interest expense	(5,124)	97,756
EBITDA/Net interest expense	**739:1**	**20:1**

29 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 reference to the current market value at active markets (refer to Note 15).

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 2008 and 2007 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

30 Subsequent Events

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

Dividends. At the annual shareholders meeting held in May 2009 the shareholders decided not to pay any dividends out of net profit earned for the year ended 31 December 2008.