JOINT STOCK COMPANY
“ACRON”

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2004

Contents

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AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheet of Joint Stock Company "Acron" and its subsidiaries (the "Group") at 31 December 2004 and the related consolidated statements of operations, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
30 May 2005

(in thousands of Russian Roubles unless otherwise stated)

	Note	2004	2003
ASSETS			
Current assets:			
Cash and cash equivalents	6	444,036	164,420
Other current assets and receivables	7	1,380,648	854,100
Loans issued	5	476,381	212,223
Trade receivables	9	207,408	417,739
Inventories	10	1,512,940	1,432,416
Total current assets		**4,021,413**	**3,080,898**
Non-current assets:			
Property, plant and equipment, net	11	8,442,947	8,496,250
Negative goodwill	12	(1,157,825)	(1,404,911)
Investment in associated undertakings	13	300,221	280,556
Available-for-sale investments	14	920,136	476,188
Loans to related parties	5	203,200	213,050
Other non-current assets		3,126	7,728
Total non-current assets		**8,711,805**	**8,068,861**
Total assets		**12,733,218**	**11,149,759**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Current liabilities:			
Trade accounts payable		379,476	283,524
Taxes payable		125,232	17,850
Short-term debts	15	1,916,769	1,732,545
Advances from customers		706,453	429,530
Other current liabilities		5,371	57,897
Total current liabilities		**3,133,301**	**2,521,346**
Non-current liabilities:			
Long-term debts	15	569,390	965,428
Deferred tax liability	18	1,423,879	1,419,451
Total non-current liabilities		**1,993,269**	**2,384,879**
Total liabilities		**5,126,570**	**4,906,225**
Minority interest		**950,036**	**861,994**
Shareholders' equity:			
Share capital	16	3,125,018	3,125,018
Treasury shares	16	(39,737)	(24,683)
Retained earnings		3,571,331	2,281,205
Total shareholders' equity		**6,656,612**	**5,381,540**
Total liabilities, minority interest and shareholders' equity		**12,733,218**	**11,149,759**

I.N. Antonov
Chairman of the Board of Directors

N. A. Pavlova
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

	Note	2004	2003
Sales	4	13,399,186	10,162,996
Cost of sales	17	(9,046,889)	(7,706,479)
Gross income		**4,352,297**	**2,456,517**
Transportation services		(1,250,187)	(968,904)
Selling, general and administrative expenses	18	(1,211,032)	(749,378)
Taxes other than income tax		(110,455)	(104,513)
Impairment loss	10	-	(32,767)
Profit from operations		**1,780,623**	**600,955**
Finance expense, net	19	(210,024)	(359,036)
Share of results of associate before tax	12	19,665	9,168
Gain/(loss) on available-for-sales investments	13	390,885	(11,483)
Foreign exchange gain		53,372	16,770
			-
Other non operating losses		1,897	(58,475)
Profit before taxation		**2,036,418**	**197,899**
Income tax expense	20	(618,840)	(140,108)
Profit after taxation		**1,417,578**	**57,791**
Minority interest		**(88,042)**	**(13,269)**
Net profit		**1,329,536**	**44,522**
Weighted average number of shares outstanding during the period		7,520	7,560
Basic and diluted earnings per share (in Russian Roubles)	3, 21	**176,800.0**	**5,889.1**

(in thousands of Russian Roubles unless otherwise stated)

	Note	2004	2003
Cash flows from operating activities			
Profit before taxation		**2,036,418**	**197,899**
Adjustments for:			
Depreciation of fixed assets		690,635	708,270
Negative goodwill amortisation		(247,086)	(247,086)
Provision for/(reverse of) bad debts		(40,388)	(96,544)
Provision for write-down/(reverse) of inventory		62,916	(4,022)
Share of results in associate	12	(19,665)	(7,983)
Impairment loss	10	-	32,767
Income on disposal of property, plant and equipment		(17,188)	17,251
Income on disposal of investments		(54,928)	-
Financial expenses, net		211,978	359,036
(Gain)/loss on available-for-sales investments		(390,885)	11,483
Foreign exchange effect on non-operating balances		5,384	2,464
Operating cash flows before working capital changes		**2,236,891**	**973,535**
Decrease in gross trade receivables		224,839	30,750
(Increase)/decrease in other receivables		(483,129)	79,238
Increase in inventories		(143,440)	(20,438)
Decrease in trade payables		95,952	(17,763)
Increase//(decrease) in taxes payable other than income tax		107,382	(344)
Increase in advances from customers		276,923	55,805
Increase in other current liabilities		(52,525)	22,703
Net change in other non-current assets and liabilities		4,602	2,297
Cash generated from operations		**2,267,046**	**1,125,783**
Income taxes paid		(631,501)	(231,550)
Interest paid		(305,819)	(408,658)
Net cash generated from operating activities		**1,329,726**	**485,575**
Cash flows from investing activities			
Purchase of property, plant and equipment		(703,250)	(488,054)
Sale of property, plant and equipment		68,204	
Loans provided	5	(855,849)	(477,167)
Loans repaid		601,541	86,376
Interest received		93,841	38,700
Acquisition	23	-	(61,229)
Purchase of available-for-sale investments		(179,449)	(208,927)
Sale of available-for-sale investments		166,560	
Net cash used in investing activities		**(808,402)**	**(1,110,301)**
Cash flows from financing activities			
Dividends paid to shareholders		(26,011)	(22,938)
Dividends paid to minority shareholders		(13,399)	(9,100)
Proceeds from long-term borrowings		1,149,372	965,428
Repayment of long-term borrowings		(795,145)	(317,018)
Net proceeds from short-term borrowings		142,414	7,004
Net cash provided from financing activities		**(251,223)**	**623,376**
Effect of exchange rate changes on cash and cash equivalents		9,515	(186)
Net increase/(decrease) in cash and cash equivalents		**279,616**	**(1,536)**
Cash and cash equivalents at the beginning of the year		**164,420**	**165,956**
Cash and cash equivalents at the end of the year		**444,036**	**164,420**

(in thousands of Russian Roubles unless otherwise stated)

	Share Capital (Note 16)	**Treasury shares (Note 16)**	**Retained earnings**	**Total shareholders' equity**
Balance at 31 December 2002	**3,125,018**	**(24,683)**	**2,268,721**	**5,369,056**
Dividends	-	-	(32,038)	(32,038)
Net income for the year	-	-	44,522	44,522
Balance at 31 December 2003	**3,125,018**	**(24,683)**	**2,281,205**	**5,381,540**
Dividends	-	-	(39,410)	(39,410)
Acquisition of own shares		(15,054)	-	(15,054)
Net income for the year	-	-	1,329,536	1,329,536
Balance at 31 December 2004	**3,125,018**	**(39,737)**	**3,571,331**	**6,656,612**

1. JSC "ACRON" AND ITS OPERATIONS

Joint Stock Company "Acron" and its subsidiaries' ("the Group") 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 Novgorodskaya and Smolenskaya oblasts of Russia. The ultimate parent company is JSC "Acron" ("the Company" or "Acron"). Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Company's registered office is at Novgorod the Great, Russia. In 2004 the Group had an average of 9,847 employees (2003: 10,046).

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with, and comply with, in accordance with International Financial Reporting Standards ("IFRS").

The Group entities maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting of the Russian Federation dated 29 July 1998 N 34n. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of available-for-sale investments to fair value.The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, the impairment provisions, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

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

Subsidiaries

Subsidiaries which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. See note 3.8 for the accounting policy on goodwill. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity. Where the losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the equity of the subsidiary, the excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good for the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. 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. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

3.2 Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the statement of income in the period in which they arise.

3.3 Cash and cash equivalents

Cash comprises cash in hand and cash held on demand with banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes value added taxes. A provision for impairment of trade 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 expected cash flows, discounted at the market rate of interest for similar borrowers.

3.5 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is a generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.6 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. 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 net selling price 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 statement of operations. 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.

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

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

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.

Interest costs on borrowings to finance the construction of property, plant and equipment 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)

3.8 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is amortised using the straight-line method over its estimated useful life of ten years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the disposed entity.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the statement of income when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of income over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the statement of income immediately.

The Group applies the transitional rules of IFRS 3 "Business combinations" in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. Consequently, beginning 1 January 2005, previously recognized goodwill will no longer be amortized and will be tested for impairment in accordance with IAS 36 "Impairment of assets"; previously recognized negative goodwill will be derecognized, with a corresponding adjustment to the opening balance of retained earnings.

Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years.

Other intangible assets

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

3.9 Borrowings

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, 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. Interest costs on borrowings to finance the construction of property, plant and equipment 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)

3.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.11 Foreign currency transactions

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at 31 December 2004, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1=RR 27.75 (31 December 2003: USD 1=29.45). The official Euro to RR exchange rate at 31 December 2004, as determined by the Central Bank of the Russian Federation, was 37.81 (31 December 2003 - 36.82). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3.12 Provisions

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

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

3.13 Shareholders’ equity

Share capital

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

Treasury shares

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.14 Revenue recognition

Revenues on sales of chemical fertilisers and related by-products are recognised when title transfers to the customer. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

3.15 Mutual cancellations, Barter transactions

A portion of sales and purchases are settled by mutual settlements, barter or non-cash settlements. These transactions are generally in the form of direct settlements by dissimilar goods and services from the final customer (barter), cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements include 'veksels' or 'bills of exchange', which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on the management's 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.

3.16 Employee benefits

Social costs

The Group incurs significant costs on social activities, principally within the cities of Novgorod and Dorogobuzh. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and, accordingly, have been charged to cost of sales.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income, however, separate disclosures are not provided as these costs and present obligations are not material.

3.17 Earnings per share

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

3.18 Reclassifications

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

(in thousands of Russian Roubles unless otherwise stated)

4. SEGMENT INFORMATION

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

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

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

Revenue	2004	2003
Overseas	10,375,892	7,923,407
Russia and CIS countries	3,023,294	2,239,589
	13,399,186	**10,162,996**

In 2004 and 2003, the majority of overseas sales were to two trading companies.

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2004 and 2003 are detailed below. Transactions were entered into with related parties during the ordinary course of business on normal commercial terms.

Balances and transactions with related parties of the Group as at and for the years ended 31 December 2004 and 2003 consist of the following:

i Balances with related parties:

Balance sheet caption	Relationships	2004	2003
Available for sale investments:	Unconsolidated subsidiary	67,459	294,951
Trade receivables, gross	Unconsolidated subsidiaries	68,727	127,603
Provision for impairment of trade receivables:	Unconsolidated subsidiary	(40,979)	(11,595)
Prepayments:	Shareholder	-	35,445
	Unconsolidated subsidiary	2,435	-
Short-term loans	Unconsolidated subsidiary	37,574	80,321
	Entity under common control	224,505	-
Other receivables	Unconsolidated subsidiary	49,050	-
Long-term loans	Unconsolidated subsidiary	203,200	213,050
Trade payables:	Unconsolidated subsidiary	(32,775)	35,696
Advances from customers:	Unconsolidated subsidiary	(4,471)	8,959

(in thousands of Russian Roubles unless otherwise stated)

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

ii Transactions with related parties:

Statement of operations caption	Relationship	2004	2003
Sales of chemical fertilizers:	Minority shareholder	99,774	68,672
	Unconsolidated subsidiary	195,453	-
Purchases of raw materials	Unconsolidated subsidiary	(63,930)	(10,790)
Purchase of transportation services	Unconsolidated subsidiary	(15,329)	-
Security services	Unconsolidated subsidiary	(94,145)	(99,727)
Interests receivable	Entity under common control	48,164	21,930
Commission fees	Unconsolidated subsidiary	-	(5,567)

iii Cross shareholding:

At 31 December 2004 JSC "Dorogobuzh", a 65.41% subsidiary of the Company, owned 702 ordinary shares or 8.54% of the ordinary share capital of the Company (2003: 662 ordinary shares or 8.05%). Shares owned by JSC "Dorogobuzh" are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 December 2004 and 2003 short-term loans denominated in RR totalled RR 262,079 and RR 80,321, respectively, at interest rates in the range of 10% to 20%. The loans are unsecured.

At 31 December 2004 and 2003 long-term loans denominated in RR totalled RR 203 200 and RR 213,050 at interest rates in the range of 12% to 14%. The loans are unsecured.

In 2004 the Group accrued interest income of RR 48,164 (2003: 21,930 RR).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2004	2003
RR denominated cash on hand and balances with banks	376,306	96,706
Foreign currency denominated balances with bank	67,730	67,714
	444,036	**164,420**

7. OTHER CURRENT ASSETS AND RECEIVABLES

	2004	2003
Bills of exchange	61,565	10,113
Prepayments	462,020	305,653
VAT recoverable	551,072	534,416
Income tax prepaid	23,078	5,989
Receivables for securities	213,344	48,671
Other current assets and receivables	106 831	28,665
Provision for impairment	(37,262)	(79,407)
	1,380,648	**854,100**

(in thousands of Russian Roubles unless otherwise stated)

8. LOANS ISSUED

	2004	2003
Current loas originated		
Loans issued to related parties (Note 5)	262,079	80,321
Loans issued to third parties	214,302	131,902
	476,381	**212,223**
Non-current loans		
Loans issued to related parties (Note 5)	203,200	213,050
	203,200	**213,050**

At 31 December 2004 and 2003 short-term loans denominated in RR totalled RR 262 079 and RR 212,223, respectively, at interest rates in the range of 10 % to 20%. The loans are unsecured.

At 31 December 2004 short-term loans denominated in USD totalled RR 214 302 (2003: nil). Interest rate is equal to 10%. The loans are unsecured.

At 31 December 2004 and 2003 long-term loans denominated in RR totalled RR 203 200 and RR 213,050 at interest rate of in range of 12% to 14%. The loans are unsecured.

In 2004 the Group accrued interest income of RR 93 841 (2003: 49,622 RR).

9. TRADE RECEIVABLES

	2004	2003
Trade receivables	314,570	523,144
Allowances for doubtful accounts	(107,162)	(105,405)
	207,408	**417,739**

RR 53,481 and RR 131,447 of net trade receivables are denominated in USD at 31 December 2004 and 2003, respectively.

RR 32,530 of net trade receivables are denominated in EUR at 31 December 2004 (2003: nil).

10. INVENTORIES

Inventories consist of the following:

	2004	2003
Raw materials	1,253,407	1,172,583
Work in progress	39,010	27,619
Finished products	220,523	232,214
	1,512,940	**1,432,416**

Inventories of RR 1253 407 (2003: RR 1,172,583) are recorded at net realisable value, net of obsolescence provision of RR 239 437 at the year ended 31 December 2004 (2003: RR 176,521). Inventories of RR 33,592 (2003: RR 464,191) have been pledged as security for borrowings (Note 15).

(in thousands of Russian Roubles unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and construction	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 1 January 2004	16,319,809	16,736,105	472,127	600,955	34,128,996
Additions	-	-	-	703,250	703,250
Transfers	41,597	481,743	218,959	(742,299)	-
Disposals	(60,092)	(116,429)	(45,454)	-	(221,975)
Balance at 31 December 2004	16,301,314	17,101,418	645,633	561,906	34,610,271
Accumulated Depreciation					
Balance at 1 January 2004	(10,332,931)	(15,078,193)	(221,623)	-	(25,632,747)
Depreciation charge	(298,165)	(359,165)	(33,305)	-	(690,635)
Disposals	38,880	106,341	10,837	-	156,058
Balance at 31 December 2004	(10,592,216)	(15,331,017)	(244,091)	-	(26,167,324)
Net Book Value					
Balance at 1 January 2004	5,986,878	1,657,912	250,505	600,955	8,496,250
Balance at 31 December 2004	**5,709,098**	**1,770,401**	**401,542**	**561,906**	**8,442,947**

At 31 December 2004 and 31 December 2003 the gross carrying value of fully depreciated property, plant and equipment was RR 12,409,529 and RR 12,281,173, respectively.

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

12. NEGATIVE GOODWILL

	2004	2003
Gross amount of negative goodwill at 1 January	3,706,312	3,706,312
Accumulated amortisation		
Balance at 1 January	(2,301,401)	(2,054,315)
Amortisation for the year	(247,086)	(247,086)
Balance at 31 December	2,548,487	(2,301,401)
Net amount of negative goodwill at 31 December	**(1,157,825)**	**1,404,911**

(in thousands of Russian Roubles unless otherwise stated)

13. INVESTMENTS IN ASSOCIATES

	2004	2003
Balance at 1 January	280,556	211,344
Acquisition (Note 22)	-	61,229
Share of profit/(loss) before tax	19,665	7,983
Balance at 31 December	**300,221**	**280,556**

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

14. AVAILABLE-FOR-SALE INVESTMENTS

	2004	2003
Balance at 1 January	476,188	278,744
Additions	164,695	208,927
Gain/(loss) on available-for-sale investments	390 885	(11,483)
Disposals	(111,632)	-
Balance at 31 December	**920,136**	**476,188**

Available-for-sale investments comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted cash flows of the investee. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

The Group has investments in the following companies:

Name of associate	Activity	Country of registration	2004	2003
OAO Apatite	Apatite concentrate mining	Russia	310,525	12,990
OAO Sylvinit	KCl mining	Russia	465,964	287,250
OAO Sberbank	Banking		33,971	18,990
Other			109,676	156,958
			920,136	**476,188**

In April 2004 the investment to ZAO Holding Company Horse Park was disposed of for a consideration of RR 166,560.

15. SHORT-TERM AND LONG-TERM DEBTS

Short-term debts by principal lender consist of the following:

	2004	2003
<u>Short-term debts</u>		
Bonds issued	613,062	-
Commerzbank	503,638	-
International bank of Moscow	346,859	-
Promstroibank	124,346	789,818
Sberbank	215,000	766,000
Mosnarbank	110,995	176,727
	1,916,769	**1,732,545**

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

Short-term debts denominated in RR totalled RR 858,062 and RR 1,533,782 as of 31 December 2004 and 2003, respectively, at interest rates in the range of 11.5% to 12.5% and of 11.5% to 19.6% respectively.

(in thousands of Russian Roubles unless otherwise stated)

15. SHORT-TERM AND LONG-TERM DEBTS (Continued)

Short-term debts denominated in US dollars totalled US$ 38,050 thousand (RR 1,058,707) and US$ 13,400 thousand (RR 394,690) as of 31 December 2004 and 2003, respectively, at fixed interest rates in the range of 5.56% to 10.9% and 7.3% to 10%, respectively.

As at 31 December 2004 and 2003 short-term loans amounting to RR 33,592 and RR 464,191 respectively are guaranteed by collateral of inventories.

As at 31 December 2004 and 2003 short-term loans totalling to RR 339,346 and RR 883,818 are secured by own promissory notes with nominal value RR 472,599 and RR 1,363,493 respectively.

Long-term debts by principal lender may be analyzed as follows:

Long-term debts	**2004**	**2003**
International bank of Moscow	69,390	-
Bonds issued	-	600,000
Sberbank RF	500,000	265,283
Promstroibank	-	100,145
	569,390	**965,428**

Long-term debt by category of loan consists of the following:

Currency	**2004**: weighted average interest rate	**2003:** weighted average interest rate	**2004**	**2003**
USD	5,125 %	10,9 %	69,390	100,145
RR	11,5 %	11,8 %	569 390	265,283
Total loans from financial institutions			**569,390**	**365,428**

Long-term debts are repayable as follows:

	2004	**2003**
1 to 2 years	569,390	965,428
2 to 3 years	-	-
	569,390	**965,428**

As at 31 December 2004 and 2003 long-term loans received from Sberbank in amount RR 500,000 and RR respectively are secured by promissory notes of the Company in amount of 725,377 thousand roubles (2003: 351,673).

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

(in thousands of Russian Roubles unless otherwise stated)

16. SHAREHOLDERS' EQUITY

Total number of outstanding shares comprises:

	No. of outstanding shares (ordinary shares)	No. of treasury shares	Total share capital	Less: Treasury share capital	Outstanding share capital
At 31 December 2002	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
At 31 December 2003	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
Purchase of treasury shares	-	(40)	-	(15,054)	(15,054)
At 31 December 2004	**8,222**	**(702)**	**3,125,018**	**(39,737)**	**3,085,281**

The authorised number of ordinary shares are 8,222 (2003: 8,222), with a nominal value per share of 29 RR. All authorised shares have been issued and fully paid. Treasury shares represent ordinary shares of the Company held by the Company's subsidiary (see Note 5).

A dividend was declared in 2004 in respect of 2003 to holders of ordinary shares of RR 4,041 per ordinary share (2003: RR 4,040 per ordinary share).

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2004, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 1,381,613. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

17. COST OF SALES

The components of cost of sales were as follows:

	2004	2003
Change in inventories of finished goods and work in progress	(6,021)	(23,543)
Labour costs	1,198,012	1,238,107
Materials and components used	4,380,236	3,355,527
Fuel and energy	1,333,286	1,254,425
Natural gas	909,570	764,272
Depreciation	690,635	708,270
Production overheads	40,530	51,914
Amortisation of negative goodwill	(247,086)	(247,086)
Overhaul costs	449,948	301,228
Social expenditure	232,207	223,763
Works performed by third parties	65,572	79,602
	9,046,889	**7,706,479**

(in thousands of Russian Roubles unless otherwise stated)

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
Wages and salaries expense	596,182	311,296
Bad debts expense/(reverse)	(40,388)	(96,544)
Business trips expenses	58,670	67,832
Research and development costs	7,741	2,596
Marketing services	193	9,658
Legal and consultancy costs	147,728	124,986
Bank services	29,448	28,470
Insurance	9,491	15,473
Buildings maintenance and rent	186,863	69,394
Commission fees	15,080	72,674
Security	99,158	96,186
Telecommunication costs	30,376	30,196
Representation expenses	7,420	9,308
Other expenses	63,070	7,853
	1,211,032	**749,378**

19. FINANCE EXPENSE, NET

	2004	2003
Interest expense	305,819	408,658
Interest income	(95,795)	(49,622)
	210,024	**359,036**

20. INCOME TAXES

	2004	2003
Income tax expense – current	614,412	272,824
Deferred tax charge/(credit) – origination and reversal of temporary differences	4,428	(132,716)
Income tax charge	**618,840**	**140,108**

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

	2004	2003
Profit before taxation	2,036,418	197,899
Theoretical tax charge at statutory rate of 24% thereon (2003: 24%)	488,740	47,496
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	-	10,741
Income taxes at different rates	-	(2,553)
Income not taxable	(9,577)	(3,260)
Other non-deductible expenses	198,978	143,725
Amortisation of negative goodwill	(59,301)	(59,301)
Inflation effect on deferred tax balance at beginning of the year	-	-
Income tax charge	**618,840**	**140,108**

Most companies of the Group were subject to tax rates of 24% on taxable profits for 2004. Deferred tax asset/ liabilities are measured at the rate of 24% as at 31 December 2004 (24% as at 31 December 2003). The net effect of the change on deferred tax balances recognised as at 31 December 2004 is reflected in the statement of income for the year ended 31 December 2004.

(in thousands of Russian Roubles unless otherwise stated)

20. INCOME TAXES (continued)

	31 December 2003	Differences recognition and reversals	31 December 2004
Tax effects of taxable temporary differences:			
Property, plant and equipment	(1,337,753)	115,569	(1,222,184)
Inventories	14,067	37,932	51,999
Tax effects of deductible temporary differences:			
Other current assets	-	3,442	3,442
Accounts payable	19,441	(9,450)	9,991
Investments	(205,633)	(94,020)	(299,653)
Accounts receivable	90,427	(57,901)	32,526
Total net deferred tax liability	**(1,419,451)**	**(4,428)**	**(1,423,879)**

The Company has not recognised deferred tax liability in respect of RR 159,326 (2003: RR 140,606) temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

21. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of shares in issue during the period, excluding the average number of shares purchased by the Company and held as treasury shares (see Note 15).

	2004	2003
Weighted average number of shares outstanding	8,222	8,222
Adjusted for weighted average number of treasury shares	(702)	(662)
Weighted average number of shares outstanding	7,520	7,560
Net profit	**1,329,536**	**44,522**
Basic and diluted earnings per share (in Russian roubles)	**176,800.0**	**5,889.1**

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

i Contractual commitments and guarantees

The Group has capital commitments in relation to property, plant and equipment contracted for but not recognised in the financial statements at the 31 December 2004 and 2003 for amount of RR 4,021 and RR 30,384 respectively.

ii Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (continued)

As at 31 December 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

iii Insurance policies

The Group holds insures main items of property, plant and equipment, platinum catalysts and export shipments.

iv Environmental matters

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

v Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

vi Operating environment

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

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

23. ACQUISITIONS

In July 2003, the Group acquired an additional 26 percent of Closed Joint Stock Company Firma Proekt for RR 61,229 (US$ 2,022 thousand), which increased the shareholding to 100%.

In 2004 the Group acquired 4.05% of OAO Sylvinit for RR 116,371 (US$ 4,201 thousand) which increased the shareholding to 6.08%.

The Group has acquired OOO Deloit for RR 23,255 (USD 830 thousand) which controls 19 companies – leaders of the mineral fertilisers whole sale in the domestic market.

The Group has set up a company OOO Hotel Acron with charter capital of RR 25,000 in 2005.

These transactions were accounted for as an acquisition in accordance with IAS 22 (revised), *Business Combinations,* using the allowed alternative treatment. Under this treatment the identifiable assets and liabilities were recognised at their fair values as at the acquisition date and minority interests were stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised.

(in thousands of Russian Roubles unless otherwise stated)

24. PRINCIPAL SUBSIDIARIES

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

Entity	Country of Incorporation	Activity	2004 % share	2003 % share
JSC "Dorogobuzh"	Russia	Fertiliser production	66	66
JSC "Nordic Russia Holding"	Russia	Holding Co.	51	51
"Firm Proekt", ZAO	Russia	Holding Co.	100	100

25. SIGNIFICANT NON-CASH TRANSACTIONS

Included in sales are non-cash transactions amounting to RR 189,482 (2003: RR 44,467) representing approximately, 1.4% and 1.3% of accounts receivable and 2,2 % and 1.7% of accounts payable were settled via non-cash transactions during the years ended 31 December 2004 and 2003, respectively. The transactions primarily represent the sale of products in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

26. FINANCIAL RISKS

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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

ii Foreign exchange risk

The Group exports 79% (2003: 78%) of its production to overseas and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 8) and liabilities (see Note 14) give rise to foreign exchange exposure.

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

iii Interest rate risk

The majority of interest rates on long-term borrowings are fixed (Note 14). The Group has no significant interest-bearing assets.

iv Fair values

The fair value of publicly available-for-sale securities is based on quoted market prices at the balance sheet date. In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

The estimated fair value of financial assets and liabilities carried at amortized costs is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. Fair value of these financial assets and liabilities did not materially differ from their carrying amount at 31 December 2004 and 2003.

27. SUBSEQUENT EVENTS

In April 2005 the shareholders of the Wetech Limited (13.26 %), MMB Center Limited (18.95 %) and SK Enterprises Limited (18.94 %) have changed to Refco Holdings Limited (18,94%); Granadilla Holdings Limited (13,26%) and Questar Holdings Limited (18,95%).

In May 2005 the Group has set up single owned subsidiary OOO Trust Service, which acquired 100% stake in AcronAgrontrans Ltd which controls 50.5% Shandong Hongri Acron Chemical Ltd.