JOINT STOCK COMPANY
“ACRON”

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2003

Contents

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (095) 967 6000
Facsimile +7 (095) 967 6001

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 2003 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2003 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
21 May 2004

(in thousands of Russian Roubles unless otherwise stated)

	Note	2003	2002
ASSETS			
Current assets:			
Cash and cash equivalents	6	164,420	165,956
Other current assets and receivables	7	805,429	885,532
Loans provided	8	212,223	34,482
Trade receivables	9	466,410	432,382
Inventories	10	1,432,416	1,407,956
Total current assets		**3,080,898**	**2,926,308**
Non-current assets:			
Property, plant and equipment, net	11	8,496,250	8,766,483
Negative goodwill	12	(1,404,911)	(1,651,997)
Investment in associated undertakings	13	280,556	211,344
Available-for-sale investments	14	476,188	278,744
Loans provided	8	213,050	-
Other non-current assets		7,728	10,026
Total non-current assets		**8,068,861**	**7,614,600**
Total assets		**11,149,759**	**10,540,908**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Current liabilities:			
Trade accounts payables		283,524	301,287
Taxes payable		17,850	18,194
Short-term debts	15	1,732,545	1,725,541
Advances from customers		429,530	373,725
Other current liabilities		57,897	35,194
Total current liabilities		**2,521,346**	**2,453,941**
Non-current liabilities:			
Long-term debts	15	965,428	317,018
Deferred tax liability	19	1,419,451	1,552,167
Total non-current liabilities		**2,384,879**	**1,869,185**
Total liabilities		**4,906,225**	**4,323,126**
Minority interest		**861,994**	**848,726**
Shareholders' equity:			
Share capital	16	3,125,018	3,125,018
Treasury shares	16	(24,683)	(24,683)
Retained earnings		2,281,205	2,268,721
Total shareholders' equity		**5,381,540**	**5,369,056**
Total liabilities, minority interest and shareholders' equity		**11,149,759**	**10,540,908**

I.N. Antonov
Chairman of the Board of Directors

N. A. Pavlova
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

	Note	2003	2002
Sales	4	10,162,996	10,103,446
Cost of sales	17	(7,706,479)	(7,305,828)
Gross income		**2,456,517**	**2,797,618**
Transportation services		(968,904)	(1,117,542)
Selling, general and administrative expenses	18	(749,378)	(845,656)
Taxes other than income tax		(104,513)	(191,870)
Impairment loss	11	(32,767)	-
Operating income		**600,955**	**642,550**
Finance expense, net	19	(359,036)	(394,576)
Share of results of associate before tax	13	9,168	(5,107)
Available-for-sales investments - loss	14	(11,483)	(99,046)
Foreign exchange gain/(loss)		16,770	(5,687)
Monetary gain		-	204,210
Other non operating losses		(58,475)	(21,225)
Income before taxation		**197,899**	**321,119**
Income tax expense	20	(140,108)	(266,858)
Income after taxation		**57,791**	**54,261**
Minority interest		(13,269)	38,219
Net income		**44,522**	**92,480**
Weighted average number of shares outstanding during the period		7,560	7,560
Basic and diluted earnings per share (in Russian Roubles)	3, 21	**5,889.1**	**12,232.8**

(in thousands of Russian Roubles unless otherwise stated)

	Note	2003	2002
Cash flows from operating activities			
Income before taxation		197,899	321,119
Adjustments for:			
Depreciation and amortization	11,12	461,184	466,802
(Reversal of)/increase in provision for bad debts		(96,544)	161,817
Increase in/(reversal of) provision for write-down on inventory		(4,022)	49,661
Share of results in associate	13	(7,983)	5,107
Impairment loss	11	32,767	-
Loss on disposal of property, plant and equipment		17,251	-
Financial expenses, net		359,036	399,039
Available-for-sales investments – loss		11,483	99,046
Foreign exchange effect on non-operating balances		2,464	1,761
Monetary effect on non-operating balances		-	(226,960)
Operating cash flows before working capital changes		**973,535**	**1,277,392**
(Increase) decrease in gross trade receivables		30,750	(217,582)
Decrease in other receivables		79,238	20,724
Increase in inventories		(20,438)	(27,717)
Decrease in trade payables		(17,763)	(125,649)
(Decrease)/increase in taxes payable other than income tax		(344)	1,374
Increase in advances from customers		55,805	136,338
Increase in other current liabilities		22,703	25,964
Net change in other non-current assets and liabilities		2,297	4,856
Cash provided from operations		**1,125,783**	**1,095,700**
Income taxes paid		(231,550)	(347,540)
Interest paid		(408,658)	(398,355)
Net cash provided from operating activities		**485,575**	**349,805**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(488,054)	(330,299)
Loans provided		(477,167)	-
Loans repaid		86,376	-
Interest received		38,700	4,463
Acquisition	23	(61,229)	(216,451)
Purchase of available-for-sale investments		(208,927)	(176,394)
Net cash used in investing activities		**(1,110,301)**	**(718,681)**
Cash flows from financing activities			
Dividends paid to shareholders		(22,938)	(38,239)
Dividends paid to minority shareholders		(9,100)	(11,167)
Proceeds from long-term borrowings		965,428	-
Repayment of long-term borrowings		(317,018)	(135,575)
Net proceeds from short-term borrowings		7,004	646,121
Net cash provided from financing activities		**623,376**	**461,140**
Effect of exchange rate changes on cash and cash equivalents		(186)	(3,741)
Effect of inflation on cash flows and cash equivalents		-	(4,980)
Net increase/(decrease) in cash and cash equivalents		**(1,536)**	**83,543**
Cash and cash equivalents at the beginning of the year		**165,956**	**82,413**
Cash and cash equivalents at the end of the year		**164,420**	**165,956**

(in thousands of Russian Roubles unless otherwise stated)

	Share capital	Treasury shares (Note 16)	Retained earnings	Total shareholders' equity
Balance at 31 December 2001	**3,125,018**	**(24,683)**	**2,214,481**	**5,314,816**
Dividends	-	-	(38,240)	(38,240)
Net income for the year	-	-	92,480	92,480
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**

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 2003 the Group had an average of 10,046 employees (2002: 10,077).

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, including International Accounting Standards and Interpretations issued by the IASB ("IFRS").

Group entities maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation and their measurement currency is the Russian Rouble ("RR").

These 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 disclosed in the accounting policies below. For example, available-for-sale investments are shown at 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

Subsidiary undertakings

Subsidiary undertakings, being those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights and / or is able to exercise control over the operations, have been 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. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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.

Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings 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 associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition.

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

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 operations 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 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 a current 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, 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 of property, plant and equipment are included in the statement of operations 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/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. 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 operations 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 operations over the remaining weighted average useful life of depreciable and amortisable assets acquired.

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 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.

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 2003, 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 2003, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1=RR 29.45 (31 December 2002: USD 1=31.78). 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 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)

3.13 Shareholders' equity (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 services given up.

3.15 Mutual cancellations, barter transactions

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 operations, however, separate disclosures are not provided as these costs are not material.

3.17 Earnings per share

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

(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	2003	2002
Overseas	7,923,407	8,483,075
Russia and CIS countries	2,239,589	1,620,371
	10,162,996	**10,103,446**

In 2003 and 2002, 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 Company entered into significant transactions or had significant balances outstanding at 31 December 2003 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 2003 and 2002 consist of the following:

i Balances with related parties:

Balance sheet caption	Relationships	2003	2002
Available for sale investments:	Unconsolidated subsidiary	294,951	164,656
Trade receivables, gross	Minority shareholders	-	34,383
	Unconsolidated subsidiaries	127,603	108,980
Provision for impairment of trade receivables:	Unconsolidated subsidiary	(11,595)	(67,123)
Prepayments:	Unconsolidated subsidiary	35,445	72
	Minority shareholders	-	17,784
Short-term loans	Unconsolidated subsidiary	80,321	4,770
Long-term loans	Unconsolidated subsidiary	213,050	-
Trade payables	Unconsolidated subsidiary	35,696	20,987
Advances from customers:	Unconsolidated subsidiary	8,959	28,305

(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	2003	2002
Sales of chemical fertilizers	Unconsolidated subsidiary	68,672	120,357
Purchases of raw materials	Unconsolidated subsidiary	(10,790)	(4,253)
Security services	Unconsolidated subsidiary	(96,186)	(70,974)
Commission fees	Unconsolidated subsidiary	(5,567)	(6,622)

iii Cross shareholding:

At 31 December 2003 JSC "Dorogobuzh", a 65.41% subsidiary of the Company, owned 662 ordinary shares or 8.05% of the ordinary share capital of the Company (2002: 662 ordinary shares). Shares of JSC "Dorogobuzh" are accounted for as treasury shares, but retain their voting rights.

iv Loans issued:

At 31 December 2003 and 2002 short-term loans denominated in RR totalled RR 80,321 and RR 4,770, respectively, at interest rates in the range from12% to 20%. The loans are unsecured.

At 31 December 2003 long-term loans denominated in RR totalled RR 213,050 at interest rates in the range from 12% to 20%. The loans are unsecured.

In 2003 the Group accrued interest income of RR 21,930 (2002: RR 267).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2003	2002
RR denominated cash on hand and balances with banks	96,706	75,566
Foreign currency denominated balances with bank	67,714	90,390
	164,420	**165,956**

7. OTHER CURRENT ASSETS AND RECEIVABLES

	2003	2002
Bills of exchange	10,113	6,767
Prepayments	305,653	340,256
VAT recoverable	534,416	498,558
Income tax prepaid	5,989	34,136
Other current assets and receivables	28,665	116,988
Provision for impairment	(79,407)	(111,173)
	805,429	**885,532**

(in thousands of Russian Roubles unless otherwise stated)

8. LOANS PROVIDED

	2003	2002
Short-term loans		
Loans to related parties (see Note 5)	80,321	4,770
Loans to third parties	131,902	29,712
	212,223	**34,482**
Long-term loans		
Loans to related parties (see Note 5)	213,050	-
	213,050	-

At 31 December 2003 and 2002 short-term and long-term loans denominated in RR at interest rates in the range from 12% to 20% and from 10% to 20%, respectively. The loans are unsecured.

9. TRADE RECEIVABLES

	2003	2002
Trade receivables	571,815	602,565
Allowances for doubtful accounts	(105,405)	(170,183)
	466,410	**432,382**

RR 171,592 and RR 131,447 of net trade receivables are denominated in USD at 31 December 2003 and 2002, respectively.

10. INVENTORIES

Inventories consist of the following:

	2003	2002
Raw materials	1,172,583	1,172,259
Work in progress	27,619	19,304
Finished products	232,214	216,393
	1,432,416	**1,407,956**

Inventories of RR 1,172,583 (2002: RR 1,172,259) are recorded at net realisable value, net of obsolescence provision of RR 176,521 at the year ended 31 December 2003 (2002: RR 180,543). Inventories of RR 464,191 (2002: RR 965,355) 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 31 December 2002	15,480,737	15,313,984	290,871	438,824	31,524,416
Additions	-	-	-	488,054	488,054
Transfers	98,306	175,380	18,866	(292,552)	-
Impairment charges	-	-	-	(32,767)	(32,767)
Disposals	(55,933)	(190,147)	(80,351)	(605)	(327,036)
Balance at 31 December 2003	15,523,110	15,299,217	229,386	600,954	31,652,667
Accumulated Depreciation					
Balance at 31 December 2002	(9,271,776)	(13,393,072)	(93,085)	-	(22,757,933)
Depreciation charge for 2003	(366,456)	(311,934)	(29,880)	-	(708,270)
Disposals	50,964	185,496	73,324	-	309,784
Balance at 31 December 2003	(9,587,268)	(13,519,510)	(49,639)	-	(23,156,417)
Net Book Value					
Balance at 31 December 2002	6,208,961	1,920,912	197,786	438,824	8,766,483
Balance at 31 December 2003	**5,935,842**	**1,779,707**	**179,747**	**600,954**	**8,496,250**

12. NEGATIVE GOODWILL

	2003	2002
Gross amount of negative goodwill at 1 January	3,706,312	3,614,226
Acquisition of additional shares of JSC "Dorogobuzh" (Note 23)	-	92,086
Gross amount of negative goodwill at 31 December	3,706,312	3,706,312
Accumulated amortisation		
Balance at 1 January	(2,054,315)	(1,807,229)
Amortisation for the year	(247,086)	(247,087)
Balance at 31 December	(2,301,401)	(2,054,315)
Net amount of negative goodwill	**1,404,911**	**1,651,997**

13. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	2003	2002
Balance at 1 January	211,344	-
Acquisition (Note 23)	61,229	216,451
Share of profit/(loss) before tax	7,983	(5,107)
Balance at 31 December	**280,556**	**211,344**

(in thousands of Russian Roubles unless otherwise stated)

14. AVAILABLE-FOR-SALE INVESTMENTS

	2003	2002
Balance at 1 January	278,744	201,396
Additions	208,927	176,394
Available-for-sale investments - loss	(11,483)	(99,046)
Disposals	-	-
Balance at 31 December	**476,188**	**278,744**

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 investment. For other investments traded in active markets, fair value is determined by reference the current market value at the close of business on 31 December.

15. SHORT-TERM AND LONG-TERM DEBTS

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

	2003	2002
Short-term debts		
Promstroibank	789,818	801,891
Sberbank	766,000	731,891
Mosnarbank	176,727	191,759
	1,732,545	**1,725,541**

Short-term debts denominated in RR totalled RR 1,735,217 and RR 1,533,782 as of 31 December 2003 and 2002, respectively, at interest rates in the range from 11.5% to 19.6% and from 17.1% to 22.5% respectively.

Short-term debts denominated in US dollars totalled US$ 13,400 thousand (RR 394,690) and US$ 6,000 thousand (RR 191,759) as of 31 December 2003 and 2002, respectively, at fixed interest rates in the range from 7.3% to 10% and 7.3% (fixed), respectively.

Inventories in circulation (Note 10) have been pledged as collateral on short-term debts.

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

Long-term debts	2003	2002
Menatep – St. Petersburg	-	317,018
Bonds issued	600,000	-
Sberbank RF	265,283	-
Promstroibank	100,145	-
	965,428	**317,018**

In 2003 long-term loan received from Menatep – St. Petersburg denominated in Russian roubles at interest rate of 24% was repaid ahead of maturity (in 2002 this loan was secured by means of export transactions passports in the amount of US$ 20,000 thousand and the repayment of was made also ahead of maturity).

Long-term debts are repayable as follows:

	2003	2002
1 to 2 years	965,428	317,018
	965,428	**317,018**

(in thousands of Russian Roubles unless otherwise stated)

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

In November 2003 the Group issued 600 thousand non-convertible, two year rouble denominated bonds (at par value 1,000 roubles each) totalling 600,000 thousand roubles with quarterly coupon payments of 13.6% per annum during the first year and with the maturity date of November 1, 2005. The rate of the quarterly coupon yield which will be paid during the second year will be determined by the Company's Board of Directors fifteen days prior to the beginning of the fifth coupon period.

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 2001	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
At 31 December 2002	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2003	8,222	(662)	3,125,018	(24,683)	3,100,335

The authorised number of ordinary shares is 8,222 (2002: 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 2003 in respect of 2002 to holders of ordinary shares of RR 4,041 per ordinary share (2002: 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 2003, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 191,171. 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:

	2003	2002
Change in inventories of finished goods and work in progress	(23,543)	84,919
Labour costs	1,238,107	1,125,552
Materials and components used	3,355,527	3,640,887
Fuel and energy	1,254,425	1,019,678
Natural gas	764,272	521,153
Depreciation	708,270	713,889
Production overheads	51,914	92,190
Amortisation of negative goodwill	(247,086)	(247,087)
Overhaul costs	301,228	164,293
Social expenditure	223,763	145,540
Works performed by third parties	79,602	44,814
	7,706,479	**7,305,828**

(in thousands of Russian Roubles unless otherwise stated)

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002
Wages and salaries expense	311,296	283,903
Bad debts expense/(reverse of the provision)	(96,544)	161,817
Business trips expenses	67,832	79,064
Research and development costs	2,596	3,375
Marketing services	9,658	14,290
Legal and consultancy costs	124,986	55,829
Bank services	28,470	20,132
Insurance	15,473	17,217
Buildings maintenance and rent	69,394	72,568
Commission fees	72,674	50,435
Security	96,186	70,974
Telecommunication costs	30,196	8,453
Representation expenses	9,308	4,620
Other expenses	7,853	2,979
	749,378	**845,656**

19. FINANCE EXPENSE, NET

	2003	2002
Interest expense	408,658	399,039
Interest income	(49,622)	(4,463)
	359,036	**394,576**

20. INCOME TAXES

	2003	2002
Income tax expense – current	272,824	308,427
Deferred tax charge – statutory revaluation of tax base	-	15,343
Deferred tax credit – origination and reversal of temporary differences	(132,716)	(56,912)
Income tax charge	**140,108**	**266,858**

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

	2003	2002
Income before taxation	**197,899**	**321,119**
Theoretical tax charge at statutory rate of 24% thereon (2002: 24%)	47,496	77,069
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-temporary elements of monetary loss	-	214,590
Tax penalties and interest	10,741	-
Income taxes at different rates	(2,553)	-
Other non-deductible expenses	143,725	202,926
Amortisation of negative goodwill	(59,301)	(59,301)
Inflation effect on deferred tax balance at beginning of the year	-	(183,769)
Statutory revaluation of tax base	-	15,343
Income tax charge	**140,108**	**266,858**

Group’s companies were subject to tax rates of 24% on taxable profits for 2003. Deferred tax asset/ liabilities are measured at the rate of 24% as at 31 December 2003 (24% as at 31 December 2002).

(in thousands of Russian Roubles unless otherwise stated)

20. INCOME TAXES (continued)

	31 December 2002	Differences recognition and reversals	31 December 2003
Tax effects of taxable temporary differences:			
Property, plant and equipment	(1,480,327)	142,574	(1,337,753)
Investments	(156,752)	(48,881)	(205,633)
Inventories	(27,051)	41,118	14,067
Tax effects of deductible temporary differences:			
Account payable	44,438	(24,997)	19,441
Accounts receivable	67,525	22,902	90,427
Total net deferred tax liability	**(1,552,167)**	**132,716**	**(1,419,451)**

The Company has not recognised deferred tax liability in respect of RR 140,606 (2002: RR 151,868) 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 16).

	2003	2002
Weighted average number of shares outstanding	8,222	8,222
Adjusted for weighted average number of treasury shares	(662)	(662)
Weighted average number of shares outstanding	7,560	7,560
Net income	**44,522**	**92,480**
Basic and diluted earnings per share (in Russian roubles)	**5,889.1**	**12,232.8**

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 2003 and 2002 for amount of RR 30,384 and RR 39,507 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 its interpretation of the legislation and assessments. 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)

ii Taxation (continued)

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that 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 no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering export shipments.

iv Environmental matters

The enforcement of environmental regulation in 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

The Russian Federation continues to display some 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.

Whilst there have been improvements in the economic trends, 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 April 2002, the Company acquired 74 percent of Closed Joint Stock Company "Firma Proekt" for RR 216,451 (US$ 6,400 thousand). The JSC Firma Proekt owns 21% of JSC Sibirskaya Neftegazovaya Kompanya. JSC "Sibirskaya Neftegazovaya Kompanya" is a development stage enterprise performing the geological explorations and developing the gas fields.

In July 2003, the Company 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 thousands of Russian Roubles unless otherwise stated)

23. ACQUISITIONS (continued)

In April 2002, JSC "Dorogobuzh" issued an additional 140 mln ordinary shares of 0.25 Russian Rouble par value each. These new issued ordinary shares were purchased by the Company for RR 132,875. As a result of this additional share issuance, the minority interest in net assets of JSC "Dorogobuzh" has decreased by RR 92,086.

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.

24. PRINCIPAL SUBSIDIARIES

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

Entity	Country of Incorporation	Activity	2003 % share	2002 % share
JSC "Dorogobuzh"	Russia	Fertiliser production	66	66
JSC "Nordic Russia Holding"	Russia	Holding Co.	51	51

25. SIGNIFICANT NON-CASH TRANSACTIONS

Included in sales are non-cash transactions amounting to RR 44,667 (2002: RR 52,078), or approximately 1.2% and 1.7% of accounts receivable, and 1.5 % and 1.5% of accounts payable were settled via non-cash transactions during the years ended 31 December 2003 and 2002, respectively. The transactions represent 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 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 78% (2002: 87%) of its production to overseas and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 9) and liabilities (see Note 15) 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 15).

26. FINANCIAL RISKS (continued)

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 2003 and 2002.